

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

CONSOLIDATED FINANCIAL STATEMENTS (CONSOLIDATED
ANNUAL ACCOUNTS) AND MANAGEMENT REPORT FOR THE
YEAR ENDED DECEMBER 31, 2005

AUDIT REPORT

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**TELEFÓNICA MÓVILES, S.A. AND
COMPANIES COMPOSING THE TELEFÓNICA MÓVILES GROUP
Consolidated Annual Accounts and
Consolidated Management Report
for the year ended
December 31, 2005**

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

"Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails" (See Note 20)

To the Shareholders of
Telefónica Móviles, S.A.

1. We have audited the consolidated annual accounts of Telefónica Móviles, S.A. and companies composing the Telefónica Móviles Group (the Group), which comprise the consolidated balance sheet at December 31, 2005, the consolidated income statement, consolidated cash flow statement and consolidated statement of recognized income and expense and the notes to the consolidated financial statements for the year then ended, the preparation of which is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the aforementioned consolidated annual accounts taken as a whole, based upon work performed in accordance with auditing standards generally accepted in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the annual accounts, and the evaluation of their presentation, of the accounting principles applied, and of the estimates made.

2. The accompanying 2005 consolidated annual accounts are the first ones which the Group has prepared by applying the international financial reporting standards adopted by the European Union (IFRS-EU), which in general require that comparative information be included in the financial statements presented. Thus, in accordance with mercantile law, for comparative purposes the Parent Company's directors have included for each of the captions included in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of recognized income and expense and the notes to the consolidated financial statements, in addition to the figures of 2005, those of 2004, which have been obtained by applying IFRS-EU in effect at December 31, 2005. Consequently, the 2004 figures differ from those set forth in the approved consolidated 2004 annual accounts which were prepared in keeping with the accounting principles and criteria in effect at the time. The principal differences arising as a result of applying IFRS-EU to consolidated equity at January 1 and December 31, 2004 and to the 2004 consolidated income statement of the Group are set forth in Note 2.c) to the accompanying consolidated financial statements. Our opinion refers only to the consolidated annual accounts for 2005. On March 4, 2005 other auditors issued their audit report on the 2004 consolidated annual accounts prepared in conformity with accounting principles and criteria in effect said year, in which they expressed an unqualified opinion.

3. In our opinion, the accompanying 2005 consolidated annual accounts give a true and fair view, in all material respects of the equity and financial position of Telefónica Móviles, S.A. and companies composing the Telefónica Móviles Group at December 31, 2005 and the consolidated results of its operations, consolidated cash flow and the consolidated recognized income and expense for the year then ended and contain the required information necessary for their adequate interpretation and comprehension, in conformity with the international financial reporting standards adopted by the European Union which are consistent with those applied to the figures and information corresponding to 2004 consolidated financial statements which have been included in the 2005 annual accounts for comparative purposes.

4. The accompanying consolidated management report for the year ended December 31, 2005 contains such explanations as the Parent Company's directors consider appropriate concerning the situation of Telefónica Móviles, S.A. and companies composing the Telefónica Móviles Group, the evolution of their business and other matters, and is not an integral part of the consolidated annual accounts. We have checked that the accounting information included in the consolidated management report mentioned above agrees with the consolidated annual accounts for the year ended December 31, 2005. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of the Parent Company and the companies comprising its Group.

ERNST & YOUNG, S.L.



José Luis Perelli Alonso

February 28, 2006

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

ASSETS (Thousands of euros)	2005	2004
NON-CURRENT ASSETS	18,831,511	17,017,360
Intangible assets (Note 4)	4,134,448	3,509,655
Goodwill (Note 5)	4,706,817	3,288,565
Property, plant and equipment (Note 6)	6,749,101	5,643,740
Investments in associates (Note 8)	53,560	76,715
Non-current financial assets (Note 7)	1,369,153	3,033,225
Deferred tax assets (Note 14)	1,818,432	1,465,460
CURRENT ASSETS	8,130,829	6,173,182
Inventories	518,391	411,998
Trade and other receivables	3,304,790	2,373,505
Receivables from Telefónica Group companies (Note 11)	290,995	377,261
Current financial assets (Note 7)	904,057	1,095,321
Current income tax receivables (Note 14)	136,501	216,646
Cash and cash equivalents (Note 7)	2,976,095	1,698,451
TOTAL ASSETS	26,962,340	23,190,542
LIABILITIES	2005	2004
EQUITY (Note 9)	6,246,455	3,820,056
Equity attributable to equity holders of the parent	5,746,052	3,543,453
Minority interests	500,403	276,603
NON-CURRENT LIABILITIES	9,265,501	10,221,485
Interest-bearing loans and borrowings (Note 12)	1,531,434	668,151
Loans from Telefónica Group companies (Note 11)	6,455,667	7,837,452
Trade and other payables	214,561	285,019
Deferred tax liabilities (Note 14)	854,472	611,414
Provisions (Note 10)	209,367	819,449
CURRENT LIABILITIES	11,450,384	9,149,001
Interest-bearing loans and borrowings (Note 12)	1,055,710	896,484
Loans from Telefónica Group companies (Note 11)	5,528,746	4,224,117
Trade and other payables	4,372,598	3,683,083
Income tax payables (Note 14)	362,338	290,858
Provisions	130,992	54,459
TOTAL EQUITY AND LIABILITIES	26,962,340	23,190,542

The accompanying Notes 1 to 20 and Appendices I to III are an integral part of these consolidated balance sheets.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31

INCOME STATEMENT (Thousands of euros)	2005	2004
Net sales and rendering of services (Note 15)	16,513,502	11,753,875
Other income (Note 16)	269,755	198,557
Supplies (Note 15)	(5,365,453)	(3,594,914)
Personnel expenses	(799,666)	(541,504)
Other expenses (Notes 15 and 16)	(4,801,137)	(3,228,123)
I. OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	5,817,001	4,587,891
Depreciation and amortization	(2,374,010)	(1,522,941)
II. OPERATING INCOME	3,442,991	3,064,950
Share of profit (loss) of associates (Note 8)	(154,206)	(38,134)
Net financial expenses (Note 16)	(584,578)	(406,002)
Net exchange differences	125,499	(75,869)
Net financial income (expense)	(459,079)	(481,871)
III. PROFIT BEFORE TAXES	2,829,706	2,544,945
Corporate income tax (Note 14)	(946,039)	(868,504)
IV. PROFIT FOR THE YEAR	1,883,667	1,676,441
Minority interests (Note 9)	35,241	15,242
V. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	1,918,908	1,691,683
Basic earnings per share attributable to equity holders of the parent (euros) (Note 16)	0.445	0.393
Diluted earnings per share attributable to equity holders of the parent (euros) (Note 16)	0.445	0.392

The accompanying Notes 1 to 20 and Appendices I to III are an integral part of these consolidated income statements.

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31

CASH FLOW STATEMENTS (Thousands of euros)	2005	2004
Cash flows from operating activities		
Cash receipts from customers	18,668,263	13,741,250
Cash paid to suppliers and employees	(13,120,060)	(9,322,275)
Net interest and other financial expenses paid	(508,507)	(411,211)
Taxes paid	(560,284)	(93,135)
Net cash from operating activities	4,479,412	3,914,629
Cash flows from investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	10	33
Payments on investments in property, plant and equipment and intangible assets	(1,863,977)	(1,385,718)
Proceeds on disposals of companies, net of cash and cash equivalents disposed	13,640	6,746
Payments on investments in companies, net of cash and cash equivalents acquired	(924,853)	(4,683,878)
Proceeds from financial investments not included under cash equivalents	442,421	371,711
Payments made on financial investments not included under cash equivalents	(726,851)	(992)
Interest received on excess cash not included under cash equivalents	526,567	12,685
Net cash used in investing activities	(2,533,043)	(5,679,413)
Cash flows from financing activities		
Dividends paid (Note 9)	(835,797)	(795,956)
Shareholder contributions	31,178	92,314
Proceeds on issue of debentures and bonds	538,459	-
Proceeds on loans, credits and promissory notes	3,327,476	5,748,828
Repayments of loans, credits and promissory notes	(3,795,978)	(2,589,934)
Net cash used in financing activities	(734,662)	2,455,252
Effect of foreign exchange rate changes on receivables and payables	65,940	(22,009)
Effect of changes in consolidation methods and other non-monetary effects	(3)	(37,039)
Net increase (decrease) in cash and cash equivalents during the year	1,277,644	631,420
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note 7)	1, 698,451	1,067,031
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 7)	2,976,095	1,698,451

The accompanying Notes 1 to 20 and Appendices I to III are an integral part of these consolidated cash flow statements.

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE FOR THE YEARS ENDED DECEMBER 31

	Thousands of euros	
	2005	2004
Gain (loss) on cash flow hedges	24,423	(23,309)
Translation differences	1,180,243	(188,149)
Tax effect of items recognized directly in equity	(8,548)	8,158
Net income (loss) recognized directly in equity	1,196,118	(203,300)
Profit for the year	1,883,667	1,676,441
Total income and expense recognized for the year	3,079,785	1,473,141
Attributable to:		
Equity holders of the parent	3,038,396	1,480,391
Minority interests	41,389	(7,250)
	3,079,785	1,473,141

The accompanying Notes 1 to 19 and Appendices I to III are an integral part of these statements of recognized income and expense.

TELEFÓNICA MÓVILES, S.A. AND SUBSIDIARIES COMPOSING THE TELEFÓNICA MÓVILES GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONSOLIDATED ANNUAL ACCOUNTS) FOR THE YEAR ENDED DECEMBER 31, 2005

1) INTRODUCTION AND GENERAL INFORMATION

Telefónica Móviles, S.A. was incorporated as a joint stock company on February 14, 2000. Its registered office is at Calle Goya, 24, Madrid (Spain).

Telefónica Móviles, S.A. (the “Company”, the “parent company” or “Telefónica Móviles”) and its subsidiaries and investees make up an integrated group of companies (the “Telefónica Móviles Group”, the “Móviles Group” or the “Group”) operating mainly in telecommunications.

Telefónica Móviles’ basic corporate purpose, per Article 2 of its bylaws, is the provision of all manner of telecommunications services, and all manner of ancillary or complementary telecommunications and related value added services in the broadest sense of the term. All the business activities that constitute this stated corporate purpose may be carried out either directly by the Company, or through shareholdings in other companies with an identical or a similar corporate purpose.

On October 26, 2000, Telefónica Móviles’ shareholders approved an initial public offering (IPO) via a capital increase. In November 2000, Telefónica Móviles, S.A. solicited admission for trading of its shares on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADS) and on the official stock exchanges of Madrid, Valencia, Barcelona and Bilbao, as well as quotation on the Spanish continuous market. The IPO was fully subscribed.

The Company’s main assets are its shareholdings in various telecommunications operators in different countries. Appendix I lists the companies making up the Group at December 31, 2005, as well as the direct, indirect and total shareholdings held by Telefónica Móviles, S.A. in each company.

The Móviles Group operators providing telecommunications services at December 31, 2005 are subject to specific regulatory regimes, and in certain instances their tariffs are also regulated. In addition, some of these companies have made commitments to the corresponding regulatory authorities to fulfill certain installation and service quality criteria over a fixed period of time.

At December 31, 2005 all the operators were in compliance with these commitments.

A more detailed breakdown of the activities carried out by the Group is provided in Note 15.

2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) *Accounting policies*

The accompanying consolidated financial statements were prepared from the accounting records of Telefónica Móviles, S.A. and of each of the companies composing the Telefónica Móviles Group, prepared in accordance with the International Financial Reporting Standards (“IFRS”) endorsed by the European Union. The financial statements are presented in accordance with the provisions of IFRS for the preparation of consolidated financial statements and give a true and fair view of the equity, financial position, results and funds generated and used in 2005.

The accompanying consolidated financial statements for the year ended December 31, 2005 were prepared by the Company’s Board of Directors in its meeting on February 27, 2006, for approval at the General Shareholders’ Meeting. The Board expects the financial statements to be approved without any modification.

The figures included in the documents composing the consolidated financial statements are expressed in thousands of euros, unless otherwise stated.

b) *Consolidation principles*

The consolidation methods applied are as follows:

- The companies over which the Company exercises effective control, or which it controls by virtue of agreements with the other shareholders, were fully consolidated.
- Companies which are jointly controlled with third parties (joint ventures) were proportionally consolidated. Similar line items are grouped together so that the corresponding proportion of these companies’ overall assets, liabilities, expenses and revenues are integrated line by line into the consolidated financial statements.
- The companies in which there is significant influence, but not control or joint control with third parties are accounted for by the equity method.
- The remaining investees which are not included in the previous categories are recorded at fair value, or at cost in instances where their fair value cannot be reliably estimated.

In certain circumstances, some Group’s investees may require a qualified majority to adopt certain resolutions. This, together with other factors, is taken into account when selecting the consolidation method.

All significant intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions that are recognized in assets are eliminated in full.

The financial statements for the consolidated subsidiaries have the same financial year end as the parent company’s individual financial statements and are prepared using the same accounting policies.

The consolidated income statement includes the revenues and expenses of divested companies up to the date on which the related holding is sold or the company is liquidated, and those of the new companies included in the Group from the date on which the holding is acquired or the company is incorporated until year-end.

The value of stakes held by minority investors in the equity and earnings of the fully consolidated subsidiaries is consolidated and presented under "Minority interests" on the consolidated balance sheet and income statement (see Note 9).

c) *Comparative information and first-time adoption of International Financial Reporting Standards*

Comparative information

The consolidated financial statements for the year ended December 31, 2004, approved at Telefónica Móviles, S.A.'s Ordinary Shareholders' Meeting on May 6, 2005, were prepared in accordance with Spain's generally accepted accounting principles (the Spanish General Chart of Accounts or "Spanish GAAP"). Pursuant to European Parliament regulation no. 1606/2002, of July 19, 2002, Telefónica Móviles is obliged to apply the International Financial Reporting Standards (IFRS) endorsed by the European Union for preparing and presenting its consolidated financial information as from January 1, 2005. Accordingly, the consolidated financial statements for the year ended December 31, 2005 have been prepared under IFRS, and the 2004 consolidated financial information included for comparative purposes has been prepared in accordance with the same accounting standards.

Note 3 contains a detailed description of the most significant accounting policies used to prepare the consolidated financial statements.

First-time adoption of IFRS

– Exceptions to the complete retroactive application of IFRS

IFRS 1 *First-time Adoption of IFRS* details the rules for preparing consolidated financial statements under IFRS for the first time.

The starting point for IFRS accounting is the preparation of an opening balance sheet under IFRS on the *IFRS transition date*. This date is the beginning of the first period for which full comparative financial statements are presented under IFRS, i.e., January 1, 2004 in the case of the Telefónica Móviles Group. As a general rule, the accounting policies in force on December 31, 2005 must be applied retroactively to prepare an opening balance sheet for the transition date and all following years. Notwithstanding the above, IFRS 1 provides for certain exceptions to the complete retroactive restatement of the opening balance sheet under IFRS. The most relevant to the Móviles Group are:

IFRS 3 – Business Combinations	The Telefónica Móviles Group has elected to apply IFRS 3 <i>Business Combinations</i> prospectively from the transition date, i.e., it has not restated business combinations occurring prior to January 1, 2004.
IAS 16 – Fair value or revaluation as deemed cost	The Telefónica Móviles Group has chosen to continue to carry its property, plant and equipment and intangible assets at their respective carrying amounts under former Spanish GAAP, without restating any of these items at their fair value as of January 1, 2004.
IAS 21 – Accumulated translation differences	The Telefónica Móviles Group has elected to reset the accumulated translation adjustments up to the IFRS transition date to zero.
IAS 32 and IAS 39 – Financial instruments	The Telefónica Móviles Group has chosen not to apply the exception permitting the application of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IAS 32 <i>Financial Instruments: Presentation and Disclosure</i> from January 1, 2005, applying these standards as from the IFRS transition date, i.e., January 1, 2004.
IFRS 2 – Share based Payment	The Telefónica Móviles Group has elected not to apply IFRS 2 <i>Share-based Payments</i> to measure share-based payment schemes to be settled in shares and granted prior to November 7, 2002.

– Description of the main adjustments

The preparation of the consolidated financial statements under IFRS requires a series of modifications to the recognition, presentation and measurement standards applied by the Company until January 1, 2005, as certain IFRS principles and requirements are substantially different from their Spanish GAAP equivalents.

The main differences between the accounting principles used to prepare the consolidated financial statements for the year ended December 31, 2005 (IFRS adopted by the European Union effective as of that date) and those used in the preparation of the consolidated financial statements for the prior financial year (Spanish GAAP), are described below, with disclosure of the impact of IFRS adoption on the Company's equity at December 31 and January 1, 2004 and on consolidated net profit for 2004.

Millions of euros	Consolidated equity 1/1/04	Consolidated equity 12/31/04	Consolidated net profit 12/31/04
Amount under Spanish GAAP	4,040	4,720	1,634
Goodwill and concessions	(586)	(714)	52
Capitalized expenses	(235)	(198)	53
Corporate income tax	(175)	(102)	27
Inflation adjustments	(60)	(99)	(60)
Revenue recognition	(29)	(31)	3
Financial instruments and changes in exchange rates	(90)	(30)	(17)
Other	(6)	(2)	-
Total adjustments	(1,181)	(1,176)	58
Amount under IFRS (*)	2,859	3,544	1,692

(*) This amount does not include equity attributable to minority interests.

Goodwill and concessions

Telefónica Móviles has elected to apply the exemption provided for under IFRS 1 *First-time Adoption of IFRS*, providing for the prospective application of IFRS 3 *Business Combinations* from the IFRS transition date. Accordingly, business combinations occurring before January 1, 2004 have not been restated.

Under Spanish GAAP, goodwill and fair value adjustments in business combinations involving foreign companies may be translated at the historic exchange rate. Under IFRS, these items should be translated at the prevailing exchange rates at the balance sheet closing date and calculated from the date the companies are effectively incorporated into the Móviles Group.

Under IFRS, goodwill and intangible assets of indefinite useful life are no longer amortized, although they are subject to an annual impairment test to determine their recoverability. Under Spanish GAAP, goodwill and all intangible assets are systematically amortized on a straight-line basis over their estimated useful lives which cannot exceed certain limits.

Under IFRS, the cost of administrative concessions is amortized on a straight-line basis over their useful lives. Under Spanish GAAP, Telefónica Móviles systematically depreciated these concessions over their useful lives using methods based on revenues generated in each financial year.

These adjustments have a net negative impact on equity of 714 and 586 million euros at December 31, and January 1, 2004, respectively. The positive impact on net income at December 31, 2004 is 52 million euros.

The impact of translating these items at the closing exchange rate is a decrease in “Goodwill” of 353 million and a decrease in “Intangible assets” of 345 million euros. The positive impact on net profit at December 31, 2004 is a reduction in amortization of 37 million euros.

The change in the license amortization method (from progressive to straight line) results in a decrease of 76 million euros in “Intangible assets” on the closing balance sheet for 2004, of which 55 million euros correspond to the impact of higher amortization in 2004.

These reductions are partially offset by the 92 million euros reversal of goodwill amortization for 2004 recorded under “Goodwill.”

Capitalized expenses

Under Spanish GAAP, start-up and pre-operating expenses can be capitalized and are amortized over a period of no more than five years. Under IFRS, outlays that do not meet the requirements for being considered qualifying assets must be expensed when incurred.

Costs associated with share capital increases are also capitalized and amortized over a period of no more than five years under Spanish GAAP. Under IFRS, these costs are taken to equity and are deducted from “Reserves”.

Spanish GAAP provides for the capitalization of certain research and development costs as intangible assets which are generally amortized over a three-year period from when the R&D project is completed. Under IFRS, all research related costs must be expensed as incurred.

The net negative impact of this change on equity is 198 million and 235 million euros at December 31, and January 1, 2004, respectively. The net positive impact on net profit in 2004 amounts to 53 million euros.

Corporate income tax

Under Spanish GAAP, the accounting treatment of corporate income tax is income statement oriented, taking into consideration temporary differences between accounting income and the taxable income. Under IFRS, deferred taxes are recognized based on balance sheet analysis and the temporary differences considered are those generated as a result of the difference between the fiscal value of assets and liabilities and their respective carrying amounts.

Thus, at January 1, 2004 and December 31, 2004, the Company recorded certain deferred tax assets and liabilities from temporary differences under IFRS, in addition to those arising on the other reconciliation adjustments, of 18 million and 471 million euros, respectively. A portion of these deferred tax liabilities was generated by business combinations taking place in 2004 (362 million euros), and the corresponding offsetting entry was recognized in “Goodwill”. The net negative impact on equity is 102 million and 175 million euros at December 31, and January 1, 2004, respectively. The positive impact on net income in 2004 amounts to 27 million euros.

Inflation adjustments

Under Spanish GAAP, monetary adjustment of the financial statements of consolidated foreign subsidiaries is permitted when local accounting standards require inflation accounting.

Under IFRS, certain qualitative and quantitative indicators must be analyzed to determine whether hyperinflation exists and whether it is therefore necessary to restate financial statements for inflation in terms of current purchasing power at the balance sheet closing date.

The negative impact under IFRS on equity and net profit of eliminating monetary adjustments at December 31, 2004 is 99 million and 60 million euros, respectively. The impact on equity at January 1, 2004 is 60 million euros.

Revenue recognition

Under Spanish GAAP, connection fees generated when customers connect to our network are recognized as revenues when a customer contracts our services, as are the related expenses. In addition, revenues from handset sales are recorded when the handset is delivered physically.

Under IFRS, connections fees are recognized in income together with the corresponding revenues from handset and other equipment sales, provided there are no amounts contingent on pending delivery of other devices or provision of services to the customer. Connection revenues not recognized together with revenues from equipment sales are deferred and recognized in income throughout the average estimated customer relationship period. Under IFRS, revenues from handset and equipment sales are recognized when delivered to the end customer.

These adjustments have a net negative impact on equity of 31 and 29 million euros at December 31, and January 1, 2004, respectively. The positive impact on net income in 2004 was 3 million euros. These differences in revenue recognition policies result in the recognition of "Deferred income" of €48 million on the liability side of the 2004 closing balance sheet under IFRS. This heading is taken to the income statement over the course of the average estimated length of the customer relationship.

Financial instruments and exchange rate movements

Under Spanish GAAP, financial assets, including derivatives, are carried at the lower of cost or market value, while financial liabilities are carried at repayment value. Financial assets are removed from the balance sheet when they are sold, transferred or at maturity.

Under IFRS, financial assets and liabilities are classified according to a series of categories that determine whether they are carried at fair value or amortized cost. Similarly, certain gains and losses on financial instruments are taken directly to equity until the instrument is taken off the balance sheet or is written down in the event of impairment. In addition, IFRS establish very strict criteria for derecognizing financial assets from the balance sheet, based on an analysis of the risks and rewards of ownership of the assets transferred.

The application of hedge accounting criteria under IFRS requires fulfilling very specific requirements. As a result, certain hedging transactions that meet hedge accounting criteria under Spanish GAAP do not meet the equivalent IFRS criteria. Furthermore, under Spanish GAAP, share capital increases undertaken to cover share option commitments are recognized in equity, while under IFRS these are treated as financial liabilities.

Under Spanish GAAP, the difference between unrealized exchange rate gains in excess of unrealized exchange rate losses taken to income for the period, or in prior periods, are capitalized. Under IFRS, all exchange-rate gains and losses must be taken to the income statement.

The impact of these new accounting policies for financial assets and liabilities is a decrease in equity and net profit at December 31, 2004 of 30 million and 17 million euros, respectively. The negative adjustment at January 1, 2004 was 90 million euros.

These adjustments, other reclassifications and presentation differences, mainly relating to options granted to minority shareholders, result in higher non-current and current borrowings on the liability side of the balance sheet at December 31, 2004 of 345 million and 52 million euros, respectively. Non-current and current financial assets at December 31, 2004 were 81 million and 51 million euros higher.

Finally, under Spanish GAAP, exchange rate gains and losses generated on intra-group foreign currency loans (mainly dollar-denominated) are eliminated from the income statement on consolidation. Under IFRS, exchange rate gains and losses from intra-group loans are not eliminated on consolidation unless the loan can be considered part of the net investment in the foreign operation. The policy change has no impact on equity at December 31, 2004 or at January 1, 2004.

d) Changes in consolidation scope

The main changes in the consolidation scope in 2005 and 2004 were as follows:

2005

The acquisitions of 100% of BellSouth's Chilean and Argentine operators were completed on January 7 and January 11, 2005, respectively, thereby completing the purchase of the Latin American operators from BellSouth.

The acquisition of BellSouth's Chilean operators was completed on January 7, 2005. The value assigned to these companies in the share purchase agreement dated March 5, 2004 was 532 million dollars. The acquisition cost for Telefónica Móviles, adjusted for the outstanding net debt, was 317,561 thousand euros.

The acquisition of BellSouth's Argentine subsidiaries was completed on January 11, 2005. The agreed-upon enterprise value for these companies was 988,355 thousand dollars. The acquisition cost for Telefónica Móviles, adjusted for the outstanding net debt, was 519,394 thousand euros.

The cost of acquiring shareholdings from the BellSouth Group in 2004 and 2005 includes the costs associated with hedging the exchange rate risk arising from the transactions. Under IFRS these amounts are not considered part of the acquisition cost and must be taken directly to equity (Note 3 r).

The net carrying amounts of the assets and liabilities acquired from the BellSouth operators in Chile and Argentina and the goodwill generated, after the purchase price allocation to the fair value of all assets assumed in the acquisition, are as follows:

Millions of euros	January 2005	
	Carrying amount	Fair value
ASSETS		
Intangible assets	127	212
Property, plant and equipment	322	155
Non-current financial assets	3	3
Deferred taxes	128	128
Current assets	330	287
LIABILITIES		
Non-current trade payables	110	110
Deferred taxes	121	112
Current trade payables	421	421
Current provisions	71	71
Net asset value	187	71
Acquisition cost		837
Goodwill		766

The approximately 2,054 million Brazilian real capital increase carried out by Telesp Celular Participações, S.A. on January 4, 2005 was fully subscribed. Brasilcel, N.V. now owns 65.7% of Telesp Celular Participações, S.A.

On April 20, 2005, TES Holding, S.A., a 100%-owned Telefónica Móviles, S.A. subsidiary, acquired an additional 4.44% interest in Telefónica Móviles El Salvador, S.A. The acquisition raised TES Holding, S.A.'s stake to 96.16%. This transaction entailed an outlay of 5,064 thousand dollars.

Also in April 2005, Telcel, C.A increased its capital by 26,791 thousand dollars (20,988 thousand euros). The new shares were subscribed in full by Telefónica Móviles, S.A., thus bringing its stake in Telcel to 91.63%. This transaction had no impact on the consolidated financial statements.

The takeover bid launched by TES Holding, S.A., a Salvadoran company, 100%-owned by Telefónica Móviles, S.A., for Telefónica Móviles El Salvador, S.A. was completed in June 2005. 2.7% of the share capital was acquired for 3,096 thousand dollars. Following this and subsequent transactions, TES Holding, S.A.'s stake in Telefónica Móviles El Salvador, S.A. stands at 99.03%.

In June 2005, the Group acquired an additional 0.38% of Telefónica Móviles Panamá for a total outlay of 2,196 thousand euros. Following this and subsequent acquisitions, Telefónica Móviles controls 99.98% of the company.

In June 2005, the merger between Comunicaciones Móviles del Perú, S.A. and Telefónica Móviles S.A.C. concluded. The resulting company is Telefónica Móviles Perú, S.A., in which the Telefónica Móviles Group has a shareholding of 98.03%. This transaction had no impact on the consolidated financial statements.

In July 2005, the Group capitalized the tax credits arising from the tax incentives related to goodwill of various companies comprising the Brasilcel Group as well as of several acquisitions made during the year. The Group's new holding in these companies is as follows:

Brasilcel, N.V.	Shareholding at 12/31/04	Shareholding at 12/31/05
Tele Sudeste Celular Participações, S.A.	91.03%	91.03%
Tele Leste Celular Participações, S.A.	50.59%	50.67%
Celular CRT Participações, S.A.	65.94%	66.36%
Telesp Celular Participações, S.A.	65.12%	66.09%
Tele Centro Oeste Participações, S.A.	32.98%	34.68%

In September 2005, Telefónica Móviles approved the merger by absorption of Telefónica Móviles Interacciona, S.A. This transaction had no impact on the consolidated financial statements.

In October 2005, the Venezuelan companies Telcel, C.A., Servicios Telcel, C.A. and Telecomunicaciones BBS, C.A. merged, subsisting after the merger only Telcel, C.A. This transaction had no impact on the consolidated financial statements.

In November 2005, Telefónica Móviles acquired 2.07% of Telefónica Móviles Argentina, S.A. for 1,987 thousand euros, bringing its stake in this subsidiary to 100%.

In December 2005, Telefónica Móviles, S.A. reached an agreement to acquire 8% of Telefónica Móviles México, S.A. de C.V in exchange for shares in Telefónica, S.A. The operation is valued in 177,274 thousand euros. Telefónica Móviles now owns 100% of the Mexican subsidiary.

In December 2005, Telefónica Móviles Guatemala, S.A. and Tele-Escucha, S.A., were merged by absorption into TEM Guatemala y Cia. S.C.A. The resulting entity adopted the business name, Telefónica Móviles Guatemala, S.A. This transaction had no impact on the consolidated financial statements.

2004

On June 10, 2004, the Company acquired an additional 13.95% in Mobipay Internacional, bringing its shareholding to 50%. As a result of this acquisition, this company was no longer consolidated under the equity method and is now proportionally consolidated.

On July 23, 2004, Telefónica Móviles, S.A. acquired 100% of Telefónica Móvil de Chile, S.A., a wireless telecommunications provider in Chile, for 1,058 million dollars and assumed a debt of 168,000 million Chilean pesos. As of that date, Telefónica Móvil de Chile, S.A. is fully consolidated by the Móviles Group. The acquisition cost for Telefónica Móviles was 870 million euros.

The net carrying amounts of the assets and liabilities acquired from Telefónica Móvil de Chile, S.A. and the goodwill generated, after the purchase price allocation of fair value of all assets assumed in the acquisition, are as follows:

Millions of euros	July 2004	
	Carrying amount	Fair value
ASSETS		
Intangible assets	36	216
Property, plant and equipment	391	391
Non-current financial assets	9	9
Current assets	123	123
LIABILITIES		
Non-current trade payables	157	157
Deferred tax liabilities	-	63
Current trade payables	161	161
Net asset value	241	358
Acquisition cost		870
Goodwill		512

At the end of June 2004, Brasilcel N.V. acquired from NTT DoCoMo, Inc. and Itochu Corporation their shareholdings in Sudestecel Participações, S.A., a holding company controlling a bloc of shares in the operator Tele Sudeste Celular Participações, S.A., representing 10.5% of its capital stock, for 20,839 thousand euros. This transaction gave Brasilcel, N.V. 100% control of Sudestecel Participações, S.A.

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

Brasilcel, N.V.	Pre-offer shareholding	Post-offer shareholding
Tele Sudeste Celular Participações, S.A.	86.7%	90.9%
Tele Leste Celular Participações, S.A.	27.9%	50.6%
Celular CRT Participações, S.A.	51.5%	67.0%
Tele Centro Oeste Celular Participações, S.A.	18.8%	32.9%

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

On October 8, 2004, Telesp Celular Participações, S.A. approved a share capital increase of 2,054 million reais. This share capital increase was fully subscribed and closed on January 4, 2005. Brasilcel, N.V.'s shareholding in Telesp Celular Participações, S.A. went from 65.12% to 65.70% as a result.

On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth to acquire 100% of its holdings in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama.

The effective transfer of the shares of these companies was conditional upon obtaining the required regulatory authorizations in each country and on the acceptance of bids to buy out minority shareholders. The shares were effectively transferred in the last quarter of 2004. BellSouth's holdings in Ecuador, Guatemala and Panama were transferred on October 14, 2004 and those in Colombia, Nicaragua, Peru, Uruguay and Venezuela were transferred on October 28, 2004. BellSouth's holdings in Chile and Argentina were transferred on January 7 and January 11, respectively.

In addition to acquiring the BellSouth's shareholdings in the wireless operators in Latin America, in compliance with the commitments assumed under the share purchase agreement, Telefónica Móviles launched an offer to buy out the minority shareholders in these companies, the purchase price in each case being equal to the price agreed with BellSouth.

This agreement valued 100% of the assets of these operators at 4,330 million dollars (5,850 million dollars if we include the Argentine and Chilean acquisitions completed in January 2005). The total acquisition cost for Telefónica Móviles, adjusted by the net debt of all the companies at the transfer date, amounted to 3,252,539 thousand euros (excluding Chile and Argentina).

The values assigned to each transaction and the acquisition cost for Telefónica Móviles are as follows:

- Acquisition of 100% of Otecel, S.A. (Ecuador) for a total enterprise value of 833 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 663,428 thousand euros.
- Acquisition of 100% of Telefónica Móviles y Compañía, S.C.A. (Guatemala) for a total enterprise value of 175 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 92,538 thousand euros.
- Acquisition of 99.57% of BellSouth Panamá, S.A. for a total enterprise value of 657 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 549,275 thousand euros.

- Acquisition of 100% of Telcel, S.A. (Venezuela) for a total enterprise value of 1,195 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 1,223,984 thousand euros.

-Acquisition of 100% of Telefónica Móviles Colombia, S.A. for a total enterprise value of 1,050 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 517,456 thousand euros.

- Acquisition of 99.85% of Comunicaciones Móviles del Perú, S.A. for a total enterprise value of 210 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 7,697 thousand euros.

- Acquisition of 100% of Telefonía Celular de Nicaragua, S.A. for a total enterprise value of 150 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 148,742 thousand euros.

- Acquisition of 100% of Abiatar, S.A. for a total enterprise value of 60 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 49,419 thousand euros.

The net carrying amounts of the assets and liabilities acquired from BellSouth and the goodwill generated, after the purchase price allocation to fair value of all assets assumed in the acquisition of these operators, are as follows:

Millions of euros	October 2004	
	Carrying amount	Fair value
ASSETS		
Intangible assets	246	1,105
Goodwill	719	719
Property, plant and equipment	818	701
Non-current financial assets	32	32
Current assets	962	926
LIABILITIES		
Non-current trade payables	390	390
Deferred tax liabilities	-	299
Current trade payables	739	739
Net asset value	1,648	2,055
Acquisition cost		3,252
Goodwill		1,197

The unaudited pro forma information provided below summarizes the impact on the Company's consolidated net income had the acquisitions taken place on January 1, 2005 and 2004.

	Millions of euros	
	Year ended December 31, 2005	Year ended December 31, 2004
Revenues	-	2,385
Net income	(34)	(51)
Basic earnings per share (euros)	-	-

These unaudited pro forma results were prepared exclusively for comparison purposes. They are not meant to be indicative of the results that would actually have been obtained had these transactions taken place on January 1, 2005 and 2004, or of the future results of the consolidated entities.

e) Publicly listed subsidiaries

The Group's publicly listed subsidiaries at December 31, 2005 are:

Companies	Securities markets
Telefónica Móviles, S.A.	Official stock exchanges in Spain and NYSE
Tele Sudeste Celular Participações, S.A.	Bovespa - Sao Paulo (Brazil) and NYSE
Tele Leste Celular Participações, S.A.	Bovespa - Sao Paulo (Brazil) and NYSE
Celular CRT Participações, S.A.	Bovespa - Sao Paulo (Brazil)
Telesp Celular Participações, S.A.	Bovespa - Sao Paulo (Brazil) and NYSE
Tele Centro Oeste Celular Participações, S.A.	Bovespa - Sao Paulo (Brazil) and NYSE
Telefónica Móviles Perú Holding, S.A.A.	Lima, Peru
Telefónica Móviles Perú, S.A	Lima, Peru
Multiholding Corporation, S.A.	Panama

3) VALUATION CRITERIA

As indicated in Note 2 c, pursuant to European Parliament regulation no. 1606/2002, of July 19, 2002, Telefónica Móviles is obliged to apply the International Financial Reporting Standards (IFRS) endorsed by the European Union for preparing and presenting its consolidated financial information as from January 1, 2005. Accordingly, the consolidated financial statements for the year ended December 31, 2005 have been prepared under IFRS, and the 2004 consolidated financial information included for comparative purposes has been presented in keeping with the same accounting standards.

The main valuation criteria used in preparing the consolidated financial statements are as follows:

a) Business combinations and goodwill

A business combination is the bringing together of independent entities under a single financial reporting entity as a result of a merger between the entities or when one company takes control of the net assets and operations of another.

A business combination of entities under common control occurs when control of the combining entities is held by the same entity or entities, both before and after the business combination, and this control is not transitory.

An acquisition is a business combination in which one of the companies (the acquirer) acquires control of the net assets and activities of the other (the acquiree).

The acquisition date is the date on which control of the acquired entity passes to the acquirer, regardless of when the acquisition is legally completed.

Acquisitions are accounted for using the purchase method, which entails the following steps:

- Identification of the acquirer, the combining entity taking control of the other combined entities or businesses.
- Determination of acquisition cost. The cost of acquisition is the total fair value, at the transfer date, of assets transferred, liabilities incurred or assumed by and equity instruments issued by the acquirer in exchange for control of the acquiree, plus any direct costs incurred in connection with the business combination.
- Assignment, at the acquisition date, of fair values to the assets and liabilities acquired and the contingent liabilities assumed.

In business combinations taking place in several stages, each exchange is treated independently.

Telefónica Móviles has elected to apply the exemption provided for in first-time adoption of IFRS permitting it not to restate business combinations taking place before January 1, 2004 (see Note 2 c). As a result, the accompanying consolidated balance sheets include consolidation goodwill, net of amortization deducted until December 31, 2003, originated before the IFRS transition date, arising from the positive difference in consolidation between the amounts paid to acquire the shares of the subsidiaries fully consolidated or accounted for by the equity method and their underlying carrying amounts plus fair value amounts allocable to the assets of the acquirees on the acquisition date, net of any amounts effectively allocated as greater value of said assets.

For acquisitions taking place after January 1, 2004, the IFRS transition date, goodwill represents the excess of the acquisition cost over the acquirer's interest, at the acquisition date, in the fair values of identifiable assets, liabilities and contingent liabilities acquired of a subsidiary, associate or joint venture. After the initial measurement, goodwill is carried at cost, adjusted for any potential accumulated impairment.

In all cases, goodwill is recognized as an asset denominated in the currency of the company acquired.

Goodwill is tested for impairment annually or more frequently in the event of certain events or changes indicating the possibility that the net carrying amount is not recoverable.

Impairment is determined based on analysis of the recoverable amount of the cash-generating unit (or group of cash generating units) to which goodwill is allocated upon acquisition date. If this recoverable amount does not exceed the net carrying amount, an irreversible impairment loss is recognized in the income statement (see Note 3 g).

b) Translation methodology

The annual financial statements of the Group's foreign subsidiaries were translated to euros at the year-end exchange rates, except for:

1. Capital and reserves, which were translated at historical exchange rates.
2. Income statements, which were translated at the average exchange rates for the year.

The goodwill and balance sheet restatements to fair value arising when a stake is acquired in a foreign operation are recognized as assets and liabilities of the acquiree and, therefore, translated at the year-end exchange rate.

The exchange differences arising from application of this method are included in "Translation Differences" under "Equity" in the accompanying consolidated balance sheets, net of the portion of said differences attributable to minority interests, which is recorded under "Equity attributable to equity holders of the parent." When a foreign operation is sold, totally or partially, translation differences in relation to said entity accumulated since January 1, 2004 -the IFRS transition date recognized directly equity are taken proportionally to the income statement as part of the gain or loss generated by the disposal.

c) Foreign currency transactions

Monetary transactions denominated in foreign currencies are translated to euros at the exchange rate prevailing on the transaction date, and are adjusted at year end to the prevailing exchange rates.

All realized and unrealized exchange gains or losses are taken to profit for the year, with the exception of gains or losses arising from specific-purpose financing of foreign currency investments in investees to hedge the exchange risk to which these investments are exposed, that are recorded under "Translation differences" in the consolidated balance sheet (see Note 3 r).

When a foreign operation is sold, totally or partially, the corresponding portion of associated translation differences recognized directly equity are taken to the consolidated income statement as part of the gain or loss generated by the disposal.

d) Intangible assets

"Intangible assets" are recorded at their acquisition or production cost, less accumulated amortization or any impairment losses.

The useful economic life of an intangible asset is analyzed on a case-by-case basis to assess if it is indefinite or finite. Intangible assets with a finite useful life are amortized on a straight-line basis over the course of their useful lives and are tested for impairment in the event of indications that the net carrying amount may not be recoverable. Intangible assets with an indefinite useful life are not amortized, but are subject to impairment tests on at least an annual basis, and more frequently in the event of indicators that their net carrying amount may not be recoverable (see Note 3 g).

In all cases, amortization methods and schedules are revised annually and, where appropriate, adjusted prospectively.

Research and development expenses

Research expenses are expensed as incurred. Costs incurred in developing new products to be marketed or used for the Group's own network, and whose future economic viability is reasonably certain, are capitalized and amortized using the straight-line method over the period during which the project in question is estimated to generate economic benefits, starting upon its completion.

As long as intangible assets developed internally are not in use, the associated capitalized development costs are subject to impairment tests on at least an annual basis, and more frequently if there are indicators that their net carrying amount may not be recoverable. Costs incurred in connection with projects that are not economically viable are charged to the consolidated income statement for the year in which this circumstance becomes known.

Administrative concessions

These relate to the acquisition cost of the licenses to operate of telephony services granted to the Telefónica Móviles Group by various public authorities and to the value assigned to licenses held by certain companies at the time they were included in the Telefónica Móviles Group.

These concessions are amortized on a straight-line basis from the date the related commercial activities begin and over the term of the related licenses.

Software and others

These items are recorded at cost and are amortized on a straight-line basis over their useful lives, generally estimated at three years.

This heading also includes the portion of the cost of acquisition allocated to customers portfolios acquired in business combinations, amortized over the estimated customer relationship life, up to a maximum of five years.

e) *Property, plant and equipment*

Property, plant and equipment are recorded at acquisition or production cost less accumulated depreciation and any impairment losses. Land is not depreciated.

Cost includes external and internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as income under "Other income". Cost includes, where appropriate, the estimate of decommissioning, withdrawal and site reconditioning costs when they correspond to obligations arising as a result of the use of related assets.

Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized. Qualifying assets at the Telefónica Móviles Group are those assets that require preparation of at least 18 months for their intended use or sale. The Group did not capitalize any financial costs in 2004 or 2005.

The costs of expansion, modernization or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalized when recognition requirements are met.

Upkeep and maintenance expenses are expensed as incurred.

The Telefónica Móviles Group assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount at each year end, whenever indicators exist that the assets' net carrying amount may not be recoverable through the generation of sufficient revenues to cover all costs and expenses. Asset impairments are reversed when there is a positive change in estimated recoverable amount up to a limit of the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized. The write-up is credited to the income statement (See Note 3 g).

The Group's subsidiaries depreciate their property, plant and equipment once they are in full working condition by using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

	Years of estimated useful life
Buildings	5 – 50
Plant and machinery	5 – 10
Data processing equipment	3 – 5
Furniture, tools and other items	2 – 10

Estimated residual values and the depreciation methods and schedules are revised at each balance sheet date and adjusted prospectively, where appropriate.

f) Leases

The determination of whether a contract represents a lease arrangement depends on an analysis of the nature of the agreement; specifically whether the terms of the contract refer to the use of a specific asset and whether the agreement grants the Telefónica Móviles Group the right to use of said asset.

Leases in which the lessor preserves substantially all the risks and rewards associated with the ownership of the leased assets, are considered operating leases. Payments made pursuant to such operating leases are expensed on a straight-line basis over the life of the lease.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. These are recognized at the inception of the lease, classified accordingly, along with the associated debt, at the lower of the present value of the minimum lease payments and the fair value of the leased asset. Lease payments are apportioned between reduction of the lease principal, interest expense and financial charges, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement over the lease term.

If it is not reasonably certain that the Group will acquire ownership of the asset at the end of the lease, finance lease assets are amortized at the shorter of their useful life or the lease term.

g) Impairment of non-current assets

Non-current assets, including goodwill and intangible assets, are evaluated at each balance sheet date for indications of impairment losses. Wherever such indications exist, or in the case of assets which are subject to an annual impairment test, the Group estimates the recoverable amount as the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and risks specific to the asset. An asset is considered to be impaired when its recoverable amount is less than its carrying amount. In this case, the net carrying amount is restated to recoverable amount and the resulting loss is taken to income. Future depreciation charges are adjusted for the new carrying amount for the asset's remaining useful life. The Group carries out asset impairment tests on an individual basis, except when the cash flows generated by the asset are not independent of those generated by other assets (cash-generating units).

When indications of an impairment reversal exist, the corresponding asset's recoverable amount is recalculated. Impairment losses are only reversed in the event of a change in the assumptions used to calculate the recoverable amount since the most recent impairment loss was recognized. In this case, the asset's carrying amount is increased to the revised estimate of its recoverable amount, but may not exceed the carrying amount that would have been recorded had no impairment loss been recognized for the cash-generating unit in prior years. The reversal is recognized in the income statement and future depreciation charges are adjusted to reflect the new carrying amount. Goodwill impairment losses may not be reversed in subsequent years.

The Group's operating countries represent the cash generating units considered for non-current assets. When determining goodwill recoverability, in line with the Group's internal regional management model, Telefónica Móviles analyzes the following cash generating units:

- ☐ Spain
- ☐ Brazil
- ☐ Northern region (Mexico, Guatemala, El Salvador, Panama and Nicaragua)
- ☐ Andean region (Venezuela, Colombia, Ecuador and Peru)
- ☐ Southern cone (Chile, Argentina and Uruguay)
- ☐ Mediterranean basin (Morocco).

h) Investments in associates

The Telefónica Móviles Group's investments in companies in which it has significant influence, but which are neither a subsidiary nor a joint venture, are accounted for by the equity method. The carrying amount of investments in associates includes related goodwill and the consolidated income statement reflects the share in the income or loss on operations of the associate. If the associate recognizes any gains or losses directly in equity, the Group also recognizes the corresponding portion of these gains or losses directly in its own equity.

i) Financial assets

All conventional financial asset purchases and sales are recognized on the balance sheet on the transaction date, i.e., when the Group assumes the commitment to purchase or sell such assets. The Telefónica Móviles Group classifies its financial assets into four categories for initial recognition purposes: (i) financial assets measured at fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity investments and (iv) available-for-sale financial assets. Classification is reviewed annually, where appropriate.

Financial assets held for trading, i.e., investments made with the aim of realizing short-term returns as a result of price changes, are classified as financial assets measured at fair value through profit or loss and are presented as current assets. All derivatives fall under this category, with the exception of those qualifying as hedging instruments. The Group also classifies certain financial instruments under this category when doing so eliminates or mitigates measurement or recognition inconsistencies that could arise from the application of other criteria for recording assets and liabilities or for recognizing gains and losses on different bases, thereby providing more meaningful information. Financial instruments included in this category are recorded at fair value and are measured again at subsequent reporting dates for fair value, with any realized or unrealized losses or gains taken to the income statement.

When the Group has the positive intention and ability (legal and financial) to hold financial assets to maturity, these are classified as held-to-maturity and are recorded under “Current assets” and “Non-current assets,” depending on the time left until maturity. Financial assets falling into this category are carried at amortized cost using the effective interest rate method, with gains and losses recognized in the income statement at settlement or upon impairment, as well as due to scheduled amortization.

Financial assets which the Group intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest-rate movements are classified as available-for-sale. These instruments are recorded as “Non-current assets,” unless it is probable or feasible that they will be sold within 12 months. Available-for-sale investments are carried at fair value. Gains or losses arising from changes in fair value are recognized in equity at each closing date until the asset is disposed of or is determined to be impaired, at which time they are taken to the income statement. Dividends from available-for-sale assets are taken to the income statement once the Company’s right to receive said dividend is recognized.

Fair value is determined in accordance with the following criteria:

1. Listed securities on active markets: Fair value is considered to be the market value on the closing date.
2. Unlisted securities on active markets: Fair value is determined using valuation techniques such as discounted cash flow analysis, option valuation models, or by referring to comparable transactions. When fair value cannot be determined reliably, these investments are carried at cost.

Loans and receivables include financial assets that are not traded on organized markets and do not fall into any of the previous categories. These assets are carried at amortized cost using the effective interest-rate method. Gains and losses are taken to the income statement when the assets are disposed of or impaired, as well as due to scheduled amortization.

Financial instruments are subject to impairment testing at each closing date. If there is objective evidence of impairment of a financial asset recognized at amortized cost, the excess of the carrying amount over the estimated recoverable amount is recorded as an impairment loss in the income statement. The estimated recoverable amount is the net present value of the asset’s estimated future cash flows (excluding potential future losses), discounted using the original effective interest rate of the asset. If there is objective evidence that an available-for-sale financial instrument is impaired, the loss recognized in equity is taken to the income statement. This loss is calculated as the difference between the original cost (net of any principal repayments) and its fair value at that date, net of any impairment losses taken in prior periods.

Financial assets are only derecognized from the balance sheet in the following circumstances:

- ✓ The rights to receive the cash flows associated with the asset have expired.
- ✓ The Company has contracted to pay all the cash flows received from the asset to a third party.
- ✓ The Company has transferred the rights to receive the cash flows from the asset to a third party, transferring substantially all the risks and rewards associated with the asset.

j) Inventories

Inventories are carried at the lower of weighted average cost and net realizable value.

When the cash flows associated with the purchase of inventory are effectively hedged, the corresponding gains and losses accumulated in equity become part of the cost of purchased inventories.

Obsolete, defective or slow-moving inventories have been reduced to estimated net realizable value. The write-down of inventory is calculated based on inventory age and turnover.

k) Trade receivables

Trade receivables are carried at their face value, subject to restatement if there is objective evidence of default risk on the part of the debtor. The allowance recognized is measured as the difference between the carrying amount of the doubtful trade receivables and their recoverable amount. As a general rule, the cash flows from short-term commercial bills are not discounted.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, demand deposits and other highly liquid investments with maturity of less than three months. These items are stated at historical cost, which does not differ significantly from the realizable amount.

For the purposes of the consolidated cash flow statement, cash and cash equivalents are stated net of any bank overdrafts.

m) Treasury shares

Treasury shares are stated at cost and netted from shareholders' equity. Any gain or loss arising on the acquisition, sale, issuance or cancellation of treasury shares is recognized directly in equity.

n) Capital grants received

Capital grants received are recorded under "Trade and other payables" on the balance sheet once there is reasonable certainty that they will be collected and the related conditions met. They are brought to the income statement on a straight-line basis over the course of the useful life of the assets financed with said grants. Operating grants are brought to income in line with the expenses they cover.

o) Provisions

Provisions are made when a past event gives rise to a present obligation (legal or constructive) on the part of the Group, the settlement of which requires an outflow of resources embodying economic benefits that is considered probable and can be estimated reliably. If the impact of the time value of money is significant, the provision is discounted, and the corresponding increase in the provision is recorded as a financial expense.

p) Share-based payments

As described in Note 2c, IFRS 2 is applied to compensation schemes linked to the share price granted after November 7, 2002. The policy applied to employee stock option compensation schemes granted before that date consists of recording a provision evenly throughout the duration of the plan based on the best estimate of the net expenditure required to settle the plans in the future, in accordance with the terms and conditions of each plan.

q) Interest-bearing loans and borrowings

These debts are recognized initially at fair value of the consideration received, net of directly attributable transaction costs. In subsequent periods, the financial liabilities are carried at amortized cost using the effective interest rate method. Any difference between the cash received (net of transaction costs) and the repayment value is recognized in the income statement over the life of the debt. Financial debts are considered non-current when their maturity is over 12 months or the Telefónica Móviles Group has full discretion to defer settlement for at least another 12 months from the closing date.

Financial liabilities are derecognized from the balance sheet when the corresponding obligation is settled, cancelled or matures. When a financial liability is replaced with another on substantially different terms, this is accounted for as a derecognition of the original liability and the recognition of a new one and the difference between their respective fair values is taken to profit or loss.

r) Derivatives financial instruments and hedge accounting

Risk management policies

The Group's subsidiaries are exposed to a range of market risks, the most important of which are:

- Exchange rate risk, arising mainly from the Telefónica Móviles Group's international presence, with investments and businesses in countries outside the Euro zone, and foreign currency-denominated debt in its countries of operations.
- Interest rate risk: on the one hand, the impact on the cost of floating-rate debt financing of interest rate movements and on the other hand on the value of long-term liabilities at fixed rates (market value moves in the opposite direction to rates).

In addition, the Group has liquidity risk given the potential for temporary imbalances between the need for funds and their sources.

Finally, country risk can be highlighted (related to the aforementioned risks), i.e. the chance that the value of foreign assets and, on the cash flows they generate on, that are repatriated to the parent company could decline as a result of political, economic and social instability in the countries where the Group operates.

The Telefónica Móviles Group actively manages these risks with the aim of stabilizing cash flows, in order to facilitate financial planning and leverage investment opportunities, maximize capital and reserves and protect its investments. Risk management guidelines are disseminated by the parent company at the Group level and are implemented by its subsidiaries (ensuring that the individual interests of the Group and its subsidiaries are aligned).

Telefónica Móviles uses derivative financial instruments to manage risks, primarily exchange-rate and interest-rate hedges.

Derivative instruments and hedge accounting

Derivative financial instruments are initially recognized at fair value, normally equivalent to cost. Their carrying amounts are adjusted at each subsequent balance sheet date to fair value, classified under current financial assets or current financial liabilities depending on whether fair value is positive or negative, respectively. Derivatives that meet all the criteria for consideration as long-term hedging instruments are recorded as non-current assets and liabilities, depending on their fair value.

The accounting treatment of any gain or loss resulting from changes in the fair value of a derivative depends on whether the derivative in question meets all the criteria for hedge accounting and, if appropriate, on the nature of the hedge.

Accordingly, the Group designates certain derivatives as:

1. Instruments to hedge risk associated with the fair value of an asset or liability or of a firmly committed transaction (fair value hedge), or
2. Instruments to hedge risk associated with changes in cash flows due to risks associated with a recorded asset or liability or with an expected transaction (cash flow hedge), or
3. Instruments to hedge net investment in a foreign operation

An instrument designed to hedge foreign currency exposure in a firm transaction could be designated as either a fair value or a cash flow hedge.

Changes in fair value of derivatives that qualify as fair value hedges are recognized in the income statement, together with changes in the fair value of the hedged asset or liability attributable to the risk being hedged.

Changes in fair value of derivatives that qualify and have been assigned to hedge cash flows, which are highly effective, are recognized in equity. The portion considered ineffective is recognized directly in profit or loss. Fair value changes from hedges that relate to firm commitments or forecast transactions that result in the recognition of non-financial assets or liabilities are included in the initial measurement of those assets or liabilities. Otherwise, changes in fair value previously deferred to equity are recognized in the income statement in the period in which the hedged transaction affects income.

An instrument designed to hedge foreign currency exposure from a net investment in a foreign operation is accounted for in the same way as a cash flow hedge as described in the preceding paragraph.

The application of the company's corporate risk management policies could result in financial risk-hedging transactions that make economic sense, yet are not strictly IFRS compliant for hedge accounting. Alternatively, the Group may opt not to apply hedge accounting criteria in certain instances. In these cases, gains or losses resulting from changes in the fair value of the derivatives are taken directly to the income statement. Derivatives used to reduce the exchange risk relating to the income contributed by Latin American subsidiaries are not treated as hedging transactions.

From inception, the Group formally documents the hedging relationship between the derivative and the hedged asset or liability, as well as the associated risk management objectives and strategies. This documentation includes identification of the hedge instrument, the hedged asset or liability or transaction and the nature of the risk hedged.

In addition, it states the manner in which hedge effectiveness, i.e. the extent to which the hedge instrument offsets any changes in the underlying hedged item's fair value or cash flows that can be attributed to the risk hedged, is measured. Its effectiveness is measured, prospectively and retroactively, both at the beginning of the hedge transaction as well as on a systematic basis throughout the life of the hedge.

Hedge accounting is discontinued whenever the hedging instrument expires or is sold, terminated or settled or no longer qualifies for hedge accounting. In these instances, gains or losses accumulated in equity are not recognized in profit or loss until the forecast or committed transaction occurs. However, if the hedged transaction is no longer expected to occur, the cumulative gains or losses recognized directly in equity are taken immediately to profit or loss.

The fair value of derivative financial instruments used for hedging purposes is detailed in Note 13. In addition, the statement of changes in equity provides a detail of the movements in gains and losses due to cash flow hedges.

The fair value of the derivative portfolio includes estimates based on calculations using observable market data, as well as specific pricing and risk management tools commonly used by financial entities.

s) *Corporate income tax and other taxes*

This heading in the accompanying consolidated income statement includes all the debits and credits arising from the corporate income tax levied on the Spanish Group companies and similar taxes applicable to the Group companies abroad (see Note 14).

Corporate income tax recorded each year includes current and deferred taxes, if any.

The carrying amount of assets and liabilities related to current tax and prior periods taxes represents the estimated amount owed to/due from the tax authorities. The tax rates and regulations used as a basis for calculating these amounts are those prevailing (or practically endorsed) at the closing date.

Deferred taxes are calculated based on balance sheet analysis. The temporary differences considered are those generated as a result of the difference between tax bases of the assets and liabilities and their respective carrying amounts.

The main temporary differences arise due to discrepancies between the tax bases and carrying amounts of intangible assets, plant, property and equipment, non-deductible provisions, unused tax credits, tax loss carryforwards as well as differences in the fair value and tax bases of net assets acquired of a subsidiary, associate or joint venture.

The Group estimates deferred tax assets and liabilities by applying the tax rates it believes will be in effect when the corresponding asset is received or the liability settled, based on prevailing tax rates and regulations (or practically endorsed) at the closing date.

At each year end, the carrying amount of deferred tax assets on the balance sheet is tested for impairment and the necessary restatements are made if there is uncertainty as to their recoverability. Also at each close, deferred tax assets not recognized on the balance sheet are evaluated. These are recorded to the extent that their recoverability via future taxable profits becomes probable.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

The tax effect of items taken to equity is recognized directly in equity. Deferred tax assets and liabilities resulting from business combinations are added to or netted from goodwill.

Deferred tax assets and liabilities are only offset when they relate to taxes imposed by the same fiscal authority on the same tax entity and where the right to offset current tax assets and liabilities is legally recognized.

t) *Revenues and expenses*

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

Sales of equipment and accessories

Revenues generated on the sale of equipment and accessories are recorded when the purchase transaction is completed. The transaction is considered complete when substantially all the risks associated with ownership of the goods have been transferred.

Traffic sales

Revenues generated on traffic sales are recorded on an accrual basis, i.e., as the traffic is consumed by the customers.

Revenue related to prepaid phone cards and recharges is recognized as the minutes are consumed. Unconsumed minutes are recorded as deferred income under "Trade and other payables" on the liability side of the balance sheet.

Connection fees

This relates to the one-off fee invoiced when the service is contracted.

Under IFRS, connection fees are recognized in income together with the corresponding revenues from handset and other accessory sales, provided there are no amounts contingent on pending delivery of other goods or services to the customer. Connection revenues not recognized together with revenues from equipment sales are deferred and recognized in income throughout the average estimated customer relationship period.

Handset rental (Comodato)

Part of property, plant and equipment, these assets are owned by the group companies throughout the rental period and are depreciated based on their useful lives, being the lesser of the following:

- Contractual rental period.
- The average useful life of the customer relationships.

Loyalty programs

The points program is a tool for enhancing customer loyalty. As customers consume traffic, they earn points which they can exchange for handset upgrades or other services. The accounting treatment for these programs is to accrue points earned as negative revenues as the customer consumes the traffic giving rise to the right to accumulate points.

If the points have an expiration date, the surplus provision made on points accrued is written back to the income statement under the same heading used to record the accrual.

Multiple-element sales contracts

Under IFRS, a specific revenue recognition method must be applied separately to each transaction, and even in certain circumstances it may be necessary to apply a different recognition method to different identifiable components within a single transaction in order to reflect the economic basis of the transaction.

It is common practice among telecommunications operators to sell promotional packages which primarily include the sale of handsets combined with airtime. The Group applies the following rule for recognizing and measuring the various components of promotional package sales combining multiple elements or components:

- The package components that have value to the customer independently, i.e., are also sold separately and could be in turn resold by the customer himself, are identified.
- Total package revenue is split among the identified components in proportion to their respective fair values, but is not allocated to components that are contingent upon delivery of pending goods or services.

u) *Use of estimates in recognizing assets and liabilities*

The main assumptions made and other significant sources of uncertainty in the estimates made at the closing date that could have a material impact on the carrying amount of assets and liabilities in the next financial year are:

Property, plant and equipment and goodwill

The accounting treatment of property, plant and equipment and intangible assets entails the use of estimates to determine their useful lives for depreciation and amortization purposes to assess fair value at their acquisition dates, especially for assets acquired in business combinations.

Determining useful lives requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When property, plant and equipment are considered to be impaired, the corresponding loss is taken to the income statement for the period. The decision to recognize an impairment loss involves estimates of the timing and potential scope of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

The Telefónica Móviles Group evaluates its cash-generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

A significant change in the facts and circumstances on which these estimates are based could have a material negative impact on the Group's earnings and financial position.

Deferred tax assets and liabilities

The Group evaluates the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Group's ability to generate taxable earnings over the course of the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred taxes as well as estimates of taxable earnings and tax planning strategies which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors, including estimates as to the timing and materialization of deferred tax assets and the forecast tax payment schedule. Actual Group company income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Provisions

Provisions are made when a past event gives rise to a present obligation (legal or constructive) on the part of the Group, the settlement of which requires an outflow of resources embodying economic benefits that is considered probable and can be estimated reliably.

This obligation may be legal or constructive, deriving from, *inter alia*, regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that the Group will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the closing date, including the opinions of independent experts such as legal counsel or consultants.

No provision is recognized if the amount of liability cannot be estimated reliably. In this case, the relevant information is provided in the notes to the financial statements.

Given the uncertainties inherent in the estimates used to determine provision amounts, actual outflow of resources may differ from the amounts recognized originally on the basis of the estimates.

v) Pension plans

Some Group companies have commitments for supplementary pension payments with their personnel. These obligations and commitments are for the most part defined-contribution plans and are formalized in pension plans or insurance policies. In the event of defined benefit plans or similar, the companies accrue the expenses associated with defined-contribution pension plans and similar commitments over the life of the employment contracts on the basis of appropriate actuarial studies.

w) IFRS and IFRIC interpretations not yet effective

At the date of preparation of the consolidated financial statements, the following IFRS and IFRIC interpretations have been published but their application is not mandatory:

Standards and amendments to standards		Effective date
IFRS 6	<i>Exploration for and Evaluation of Mineral Assets</i>	January 1, 2006
IFRS 7	<i>Financial Instruments: Disclosures</i>	January 1, 2007
Amendment to IAS 1	<i>Presentation of Financial Statements – Capital Disclosures</i>	January 1, 2007
Amendment to IAS 19	<i>Employee Benefits</i>	January 1, 2006
Amendment to IAS 21	<i>The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation</i>	January 1, 2006
Amendment to IAS 39	<i>Financial Instruments: Recognition and Measurement – Fair Value Option</i>	January 1, 2006
Amendment to IAS 39	<i>Financial Instruments: Recognition and Measurement - Cash Flow Hedges of Forecast Intragroup Transactions</i>	January 1, 2006
Amendment to IAS 39	<i>Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts</i>	January 1, 2006

Interpretations		Effective date
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	January 1, 2006
IFRIC 5	<i>Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	January 1, 2006
IFRIC 6	<i>Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	December 1, 2005
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Information in Hyperinflationary Economies</i>	March 1, 2006
IFRIC 8	<i>Scope of IFRS 2 Share-based Payment</i>	May 1, 2006

In accordance with the recommendation of advance application and temporary provisions, the Group has adopted the amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Fair Value Option* before the effective date.

The Group believes that the adoption of the aforementioned standards and interpretations will not have a significant impact on its financial statements.

4) INTANGIBLE ASSETS

This heading comprises primarily the value of Telefónica Móviles' telecommunications services licenses and concessions in its countries of operation.

The detail and movement in this heading in 2005 and 2004 are as follows:

	Thousands of euros						Balance at 12/31/05
	Balance at 12/31/04	Increases	Decreases	Changes in consolidation scope	Translation differences	Transfers	
Cost:							
Development expenses	2,159	-	-	-	-	(1,999)	160
Administrative concessions	2,930,487	47,730	(1,337)	122,806	650,522	24,622	3,774,830
Software	1,470,871	328,825	(28,981)	4,567	168,410	101,570	2,045,262
Other intangible assets	345,887	63,952	(12)	84,871	61,127	(27,168)	528,657
Total gross intangible assets	4,749,404	440,507	(30,330)	212,244	880,059	97,025	6,348,909
Accumulated depreciation:							
Development expenses	(1,373)	-	-	-	-	1,373	-
Administrative concessions	(362,628)	(261,024)	1,321	-	(111,704)	(19,311)	(753,346)
Software	(831,805)	(316,290)	27,768	-	(115,221)	37,467	(1,198,081)
Other intangible assets	(43,803)	(209,421)	12	-	(16,241)	6,419	(263,034)
Total accumulated depreciation	(1,239,609)	(786,735)	29,101	-	(243,166)	25,948	(2,214,461)
Provisions for impairment	(140)	-	-	-	(43)	183	-
Net intangible assets	3,509,655	(346,228)	(1,229)	212,244	636,850	123,156	4,134,448

	Thousands of euros						
	Balance at 01/01/04	Increases	Decreases	Changes in consolidation scope	Translation differences	Transfers	Balance at 12/31/04
Cost:							
Development expenses	1,321	-	-	-	-	838	2,159
Administrative concessions	2,029,272	7,312	-	967,049	(70,190)	(2,956)	2,930,487
Software	1,127,145	221,568	(959)	81,552	(3,395)	44,960	1,470,871
Other intangible assets	41,088	35,871	(245)	272,118	3,274	(6,219)	345,887
Total gross intangible assets	3,198,826	264,751	(1,204)	1,320,719	(70,311)	36,623	4,749,404
Accumulated depreciation:							
Development expenses	(1,258)	(73)	-	-	-	(42)	(1,373)
Administrative concessions	(232,808)	(134,877)	-	-	1,438	3,619	(362,628)
Software	(578,354)	(250,920)	646	-	2,566	(5,743)	(831,805)
Other intangible assets	(5,869)	(40,323)	-	-	1,223	1,166	(43,803)
Total accumulated depreciation	(818,289)	(426,193)	646	-	5,227	(1,000)	(1,239,609)
Provisions for impairment	(944)	(140)	944	-	-	-	(140)
Net intangible assets	2,379,593	(161,582)	386	1,320,719	(65,084)	35,623	3,509,655

In 2005 “Changes in consolidation scope” includes the addition of the BellSouth Chile and BellSouth Argentina assets. In 2004, the “Changes in consolidation scope” column includes most notably the incorporation of Telefónica Móvil de Chile, S.A. into the consolidation scope and the operators acquired from BellSouth (see Note 2d).

“Increases” primarily includes investments in information and billing systems, as well as the development of new services.

The carrying amount of the licenses of Tele Centro Oeste Celular Participações, S.A. was increased by 70,675 thousand and 27,320 thousand euros in 2004 and 2005, respectively, as the assets of this acquired subsidiary were recognized at fair value (see Note 5).

Independent appraisals of the assets acquired from BellSouth in Chile and Argentina resulted in the allocation in 2005 of 84,692 thousand euros of the acquisition price to customer portfolios acquired which is recorded under “Other intangible assets”.

Independent appraisals of the assets acquired from Telefónica Móvil de Chile, S.A. and the BellSouth operators resulted in the allocation in 2004 of 754,563 thousand euros to “Administrative concessions” (licenses) and a 32,023 thousand euro write-up in “Software”. Furthermore, 248,787 thousand euros of the acquisition price was allocated to customer portfolios acquired which are recorded under “Other intangible assets” (see Notes 3a and 5). These allocations are reflected under “Changes in consolidation scope.”

“Translation differences” reflects the impact of exchange rate movements on opening balances of assets at foreign subsidiaries. The effect of exchange rates on variations in the year is included in the appropriate column for each variation.

In-house developments capitalized in 2005 and 2004 by the Group companies totaled 423 and 263 thousand euros, respectively.

The amount of fully amortized intangible assets at December 31, 2005 and 2004 stood at 680,275 and 352,076 thousand euros, respectively.

At December 31, 2005 and 2004, the Company carried intangible assets with indefinite useful lives amounting to 145,210 and 66,879 thousand euros, respectively. These assets relate primarily to licenses to operate wireless telecommunications services in Argentina.

The Company's management reviews the indefinite useful life classification of these assets each year.

They are also subject to impairment tests whenever there is indication of a potential loss in value and, in any event, at the end of each year. There was no material impact on the consolidated financial statements for 2005 or 2004 as a result of these impairment tests.

The balance of intangible assets carried by the Telefónica Móviles Group under finance leases at December 31, 2005 and 2004 is not material.

5) GOODWILL

The detail of the movement in this heading in 2005 and 2004 are as follows:

	Thousands of euros					
	Balance at 12/31/04	Changes in consolidation scope	Increases	Transfers	Translation differences	Balance at 12/31/05
Spain	12,208	-	-	-	-	12,208
Telefónica Móviles España, S.A.	12,208	-	-	-	-	12,208
Brazil	522,552	-	11,564	(115,391)	140,530	559,255
Subsidiaries of Brasilcel, N.V.	522,552	-	11,564	(115,391)	140,530	559,255
Northern region	779,901	-	102,052	(52)	102,101	984,002
TES Holding, S.A. de C.V. (El Salvador)	47,083	-	5,657	-	7,663	60,403
Telefónica Móviles Mexico Group	223,210	-	85,763	-	20,319	329,292
Mexican company subsidiaries	106,944	-	-	-	22,119	129,063
TCG Holdings, S.A. (Guatemala)	30,860	-	-	-	5,487	36,347
Telefónica Móviles Panamá, S.A.	272,843	-	2,815	(52)	42,307	317,913
Telefónica Móviles Guatemala y Cía., S.C.A.	27,478	-	8	-	4,876	32,362
Telefonía Celular de Nicaragua, S.A.	71,483	-	7,809	-	(670)	78,622
Andean region	1,440,055	-	2,062	(26,971)	188,609	1,603,755
Telefónica Móviles Perú Holding, S.A.	2,216	-	-	-	230	2,446
Telcel, C.A. (Venezuela)	481,362	-	-	(4,861)	15,028	491,529
Olympic, Ltd. (Colombia)	541,310	-	-	(5,118)	111,040	647,232
Otecel, S.A. (Ecuador)	403,870	-	58	(7,401)	62,196	458,723
Telefonía Móviles Perú, S.A.	11,297	-	12	(9,591)	115	1,833
Latin American Celular Holding B.V	-	-	1,992	-	-	1,992
Southern cone	533,849	-	781,189	(111)	232,670	1,547,597
Telefónica Móvil de Chile, S.A.	523,550	-	-	-	130,888	654,438
Telefónica Móviles Uruguay, S.A.	10,299	-	-	(111)	2,670	12,858
Telefónica Móviles Chile Inversiones, S.A.	-	-	219,444	-	44,385	263,829
Compañía Radio Comunicaciones Móviles, S.A.(Argentina)	-	-	547,218	-	55,077	602,295
Telecomunicaciones Personales, S.A. (Argentina)	-	-	14,527	-	(350)	14,177
Total goodwill	3,288,565	-	896,867	(142,525)	663,910	4,706,817

	Thousands of euros					
	Balance at 01/01/04	Changes in consolidation scope	Increases	Transfers	Translation differences	Balance at 12/31/04
Spain	12,208	-	-	-	-	12,208
Telefónica Móviles España, S.A.	12,208	-	-	-	-	12,208
Brazil	474,301	-	114,201	(70,675)	4,725	522,552
Brasilcel, N.V. subsidiares	474,301	-	114,201	(70,675)	4,725	522,552
Northern region	382,246	-	461,510	-	(63,855)	779,901
TES Holding, S.A. de C.V. (El Salvador)	50,781	-	-	-	(3,698)	47,083
Grupo Telefónica Móviles México	183,631	-	47,564	-	(7,985)	223,210
Mexican company subsidiaries	115,673	-	-	-	(8,729)	106,944
TCG Holdings, S.A. (Guatemala)	32,161	-	-	-	(1,301)	30,860
Telefónica Móviles Panamá, S.A.	-	-	305,146	-	(32,303)	272,843
Telefónica Móviles Guatemala y Cía., S.C.A.	-	-	32,147	-	(4,669)	27,478
Telefonía Celular de Nicaragua, S.A.	-	-	76,653	-	(5,170)	71,483
Andean region	2,265	719,284	771,385	-	(52,879)	1,440,055
Telefónica Móviles Perú Holding, S.A.	2,265	-	-	-	(49)	2,216
Telcel, C.A. (Venezuela)	-	-	491,124	-	(9,762)	481,362
Olympic, Ltd. (Colombia)	-	719,284	(183,190)	-	5,216	541,310
Otecel, S.A. (Ecuador)	-	-	451,372	-	(47,502)	403,870
Comunicaciones Móviles Perú, S.A.	-	-	12,079	-	(782)	11,297
Southern cone	-	-	523,225	-	10,624	533,849
Telefónica Móvil de Chile, S.A.	-	-	512,399	-	11,151	523,550
Telefónica Móviles Uruguay, S.A.	-	-	10,826	-	(527)	10,299
Total goodwill	871,020	719,284	1,870,321	(70,675)	(101,385)	3,288,565

Based on the estimates and projections available to them, the directors consider that future earnings attributable to the Group from investments in companies with goodwill balances at year-end 2005 will be at least equal to the net book value of the related goodwill carried.

Goodwill generated from the acquisition of foreign companies is treated as an asset denominated in the currency of the acquiree and is therefore subject to exchange rate differences, which are included under "Translation differences."

"Changes in consolidation scope" in 2005 related to the incorporation of the BellSouth operators in Chile and Argentina in the consolidation scope.

115,391 thousand euros were reclassified in 2005 mainly as a result of the write-up in the carrying amount of the licenses of Tele Centro Oeste Celular Participações, S.A. in the wake of the fair value recognition of the acquired assets when further participations in this subsidiary were acquired (see Note 4).

In 2004, "Increases" relates primarily to the incorporation of Telefónica Móvil de Chile, S.A. into the consolidation scope and the operators acquired from BellSouth, as well as the higher shareholdings in the Brazilian operators as a result of the public takeover bids (see Note 2d).

70,675 thousand euros were reclassified in 2004 mainly as a result of the write-up in the carrying amount of the assets of Tele Centro Oeste Celular Participações, S.A. in the wake of the fair value recognition of the acquired assets when further participations in this subsidiary were acquired (see Note 4).

The Company uses the projections for the various cash-generating units to which goodwill is allocated to carry out its impairment tests, applying forecasted growth rates which are extrapolated at a constant rate from when the cash flows are deemed to be stable. The discount rate is adjusted for country and business risk, as appropriate. These tests are performed annually and when there are indications that the recoverable amount of goodwill may be impaired.

6) PROPERTY, PLANT AND EQUIPMENT

The detail of the movement of property, plant and equipment and related depreciation in 2005 and 2004 are as follows:

	Thousands of euros						
	Balance at 12/31/04	Additions	Disposals	Changes in consolidation scope	Translation differences	Transfers	Balance at 12/31/05
Cost:							
Land and buildings	1,320,024	13,219	(6,007)	52,739	154,972	141,624	1,676,571
Plant and machinery	9,265,694	161,413	(206,615)	56,711	1,333,743	1,275,536	11,886,482
Data processing equipment	595,720	83,284	(11,288)	6,272	74,902	27,642	776,532
Furniture, tools and other items	435,500	379,603	(18,109)	37,246	88,490	(220,191)	702,539
Work-in-progress	700,988	1,246,637	(331)	2,004	116,543	(1,279,398)	786,443
Advances on PP&E	5,762	5,774	(11)		622	(7,690)	4,457
Gross PP&E	12,323,688	1,889,930	(242,361)	154,972	1,769,272	(62,477)	15,833,024
Accumulated depreciation:							0
Buildings	(410,604)	(164,920)	3,834	-	(56,987)	12,018	(616,659)
Plant and machinery	(5,635,948)	(1,244,879)	187,042	-	(879,328)	(17,614)	(7,590,727)
Data processing equipment	(441,826)	(82,184)	10,773	-	(53,725)	21,141	(545,821)
Furniture, tools and other items	(155,754)	(95,292)	16,096	-	(59,032)	18,752	(275,230)
Total accumulated depreciation	(6,644,132)	(1,587,275)	217,745	-	(1,049,072)	34,297	(9,028,437)
Provisions for impairment	(35,816)	(14,765)	5,863	-	(4,577)	(6,191)	(55,486)
Net PP&E	5,643,740	287,890	(18,753)	154,972	715,623	(34,371)	6,749,101

	Thousands of euros						
	Balance at 01/01/04	Additions	Disposals	Changes in consolidation scope	Translation differences	Transfers	Balance at 12/31/04
Cost:							
Land and buildings	951,612	54,358	(1,455)	203,497	(14,049)	126,061	1,320,024
Plant and machinery	7,857,718	164,776	(71,800)	690,452	(96,708)	721,256	9,265,694
Data processing equipment	504,883	35,227	(6,059)	47,165	(4,271)	18,775	595,720
Furniture, tools and other items	285,223	271,847	(4,564)	48,229	(7,185)	(158,050)	435,500
Work-in-progress	545,434	817,868	(3,095)	101,328	(20,662)	(739,885)	700,988
Advances on PP&E	3,942	555	(1)	1,173	(176)	269	5,762
Gross PP&E	10,148,812	1,344,631	(86,974)	1,091,844	(143,051)	(31,574)	12,323,688
Accumulated depreciation:							
Buildings	(302,264)	(80,405)	807	-	1,656	(30,398)	(410,604)
Plant and machinery	(4,868,783)	(893,531)	57,379	-	44,216	24,771	(5,635,948)
Data processing equipment	(383,800)	(68,312)	4,702	-	3,932	1,652	(441,826)
Furniture, tools and other items	(119,209)	(54,500)	3,410	-	4,723	9,822	(155,754)
Total accumulated depreciation	(5,674,056)	(1,096,748)	66,298	-	54,527	5,847	(6,644,132)
Provisions for impairment	(35,447)	787	1,182	-	1,449	(3,787)	(35,816)
Net PP&E	4,439,309	248,670	(19,494)	1,091,844	(87,075)	(29,514)	5,643,740

As in the case of intangible assets, the Company has measured property, plant and equipment acquired as part of the purchase of the BellSouth operators and Telefónica Móvil de Chile, S.A. in order to allocate the corresponding portion of the purchase price to related assets, up to the limit of their market value.

“Changes in consolidation scope” in 2005 reflects the addition of the assets of BellSouth Chile and BellSouth Argentina (see Note 2d).

In 2004, “Changes in consolidation scope” comprises the incorporation of Telefónica Móvil de Chile, S.A. into the consolidation scope and the operators acquired from BellSouth (see Note 2d).

In both 2005 and 2004, the amounts recorded under “Additions” relate primarily to network capacity expansion and rollout by the Móviles Group operators.

“Translation differences” reflects the impact of exchange-rate movements on opening balances of assets at foreign subsidiaries. The effect of exchange rates on movements in the year is included in the corresponding columns.

The detail, at December 31, 2005 and 2004, of the property, plant and equipment owned by consolidated Group subsidiaries located abroad is as follows:

	Thousands of euros	
	12/31/05	12/31/04
Cost	9,193,181	6,334,541
Accumulated depreciation and impairment	(4,351,593)	(2,441,541)
Total	4,841,588	3,893,000

The following items in use had been fully depreciated:

	Thousands of euros	
	12/31/05	12/31/04
Buildings	51,653	46,929
Plant and machinery	3,922,793	2,457,893
Data processing equipment	411,693	317,020
Furniture, tools and other items	116,517	568,657
Total	4,502,656	3,390,499

The detail of Telefónica Móviles Group property, plant and equipment under finance leases is as follows:

	Thousands of euros	
	12/31/05	12/31/04
Land and buildings	20,100	16,438
Plant and machinery	65,701	-
Data processing equipment	14,049	10,694
Furniture, tools and other items	1,576	1,095
Cost	101,426	28,227
Accumulated depreciation	(39,011)	(6,968)
Total	62,415	21,259

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

7) FINANCIAL ASSETS

Non-current financial assets

The detail of non-current financial assets and the corresponding impairment provisions at December 31, 2005 and 2004 are as follows:

	Thousands of euros							
	Other shareholdings	Loans to Telefónica Group companies (Note 11)	Other loans	Derivative financial assets	Deposits and guarantees	Other non-current financial assets	Impairment losses	Total
Balance at 01/01/04	5,851	1,206,118	61,300	92,573	486,882	27,660	(3,357)	1,877,027
Increases	966	229,617	120,086	-	6,885	8,587	(49,995)	316,146
Decreases	(803)	(2,248)	(5,102)	(2,465)	(70,325)	(5,902)	-	(86,845)
Changes in consolidation scope	-	-	268	-	1,553	8,905	-	10,726
Translation differences	83	(46,996)	(9,272)	(10,122)	173	(676)	-	(66,810)
Fair value restatements	-	35,722	-	(1,908)	-	-	-	33,814
Transfers	4,852	958,937	97	(14,526)	-	(179)	(14)	949,167
Balance at 12/31/04	10,949	2,381,150	167,377	63,552	425,168	38,395	(53,366)	3,033,225
Increases	2,077	166,980	29,447	2,714	6,130	19,443	(2,853)	223,938
Decreases	(1,615)	(518,516)	(81,576)	-	(69,657)	(14,788)	1,923	(684,229)
Changes in consolidation scope	-	-	-	-	-	242	-	242
Translation differences	6,222	6,203	25,557	1,152	4,292	2,598	(12,880)	33,144
Fair value restatements	-	-	-	(1,706)	-	-	-	(1,706)
Transfers	43,739	(877,063)	(12,619)	(50,942)	10,616	(20,374)	(328,818)	(1,235,461)
Balance at 12/31/05	61,372	1,158,754	128,186	14,770	376,549	25,516	(395,994)	1,369,153

At December 31, 2004, “Other loans” included 60,945 thousand euros of convertible promissory notes in the Puerto Rican operator Newcomm Wireless Services, Inc. which Telefónica Móviles carried through its subsidiary TEM Puerto Rico, Inc. In 2005, this balance was transferred to the “Other shareholdings” column when the aforementioned promissory notes were converted into 49.9% of the investee’s share capital. In addition, the Móviles Group diluted its shareholding from 49.9% to 49.3% when it did not participate in the capital increase carried out by Newcomm Wireless Services, Inc in August 2005. In light of this operator’s financial situation, an impairment loss of 46,632 thousand euros was recognized in 2004.

“Derivative financial assets” reflect the fair value of derivatives used to hedge assets or liabilities whose maturity is 12 months or greater, as part of the Group’s financial risk hedging strategy (see Note 13).

“Deposits and guarantees” relates primarily to balances to cover IPSE 2000, S.p.A. guarantees amounting to 335,452 thousand and 400,866 thousand euros at December 31, 2005 and 2004, respectively. These deposits will decrease as the respective obligations they are guaranteeing are reduced (see Note 17). At December 31, 2005, the Group had provisioned the deposits held in connection with the IPSE 2000, S.p.A. guarantees (see Note 10).

Current financial assets

This heading in the consolidated balance sheets includes mainly the following:

- Current investments of cash surpluses at Group companies, which amounted to 134,783 thousand euros (181,798 thousand euros at December 31, 2004) and investment of loans proceeds totaling 140,161 thousand euros (525,477 thousand euros at December 31, 2004).
- Derivative financial assets amounting to 51,778 thousand euros (12,425 thousand euros at December 31, 2004).
- Loans to Telefónica Group companies amounting to 940,095 thousand euros (399,921 thousand euros at December 31, 2004) which are detailed in Note 11.
- At December 31, 2005, the Group had recorded current financial asset impairment provisions, corresponding mainly to the 351,028 thousand euro provision on loans made to IPSE 2000, S.p.A. (See Note 10).

Given the short-term maturity of the assets described above, their fair value is similar to their carrying amounts.

Cash and cash equivalents

Cash and cash equivalents at December 31, 2005 and 2004 comprise mainly cash on hand and at banks, demand deposits and other highly liquid investments that mature in less than three months.

In addition, this heading includes the cash balances at the Telefónica Group companies, Telefonía y Finanzas, S.A. (Telfisa), Fisatel México, S.A. de C.V. and Telefónica Finanzas Perú S.A.C., arising on transfers to and from the banks with which Telefónica Group has current accounts. At December 31, 2005, the balance outstanding with the aforementioned Group companies amounted to 1,744,537 thousand euros (1,396,227 thousand euros at December 31, 2004) (see Note 11).

8) INVESTMENTS IN ASSOCIATES

The detail of associates and key financial highlights is the following:

2005

COMPANY	Thousands of euros				
	Total assets	Total liabilities	Ordinary income	Profit (loss) for the year	Goodwill
IPSE 2000, S.p.A. (1)	42,255	1,033,588	-	(1,223,389)	-
Medi Telecom, S.A.	1,154,920	991,359	390,584	26,434	9,822
Mobipay España, S.A.	3,171	-	-	(4,791)	-
TOTAL	1,200,346	2,024,947	390,584	(1,201,746)	9,822

(1) Losses at IPSE S.p.A. in 2005 include the full write-off of the license that had already been partially written down to 136,787 thousand euros in previous years.

2004

COMPANY	Thousands of euros				
	Total assets	Total liabilities	Ordinary income	Profit (loss) for the year	Goodwill
IPSE 2000, S.p.A.	797,677	724,883	558	(61,838)	-
Medi Telecom, S.A.	1,144,379	1,010,523	324,808	(26,881)	9,575
Mobipay España, S.A.	15,905	7,943	2,919	(4,611)	-
Mobipay Internacional, S.A.	4,146	431	-	(1,024)	-
TOTAL	1,962,107	1,743,780	328,285	(94,354)	9,575

The detail of the movements in “Investments in associates” in 2005 and 2004 were as follows:

	Thousands of euros					
	Balance at 12/31/04	Profit (loss)	Increases	Translation differences	Transfers	Balance at 12/31/05
IPSE 2000, S.p.A.	32,757	(160,770)	101,918	-	26,095	-
Medi Telecom, S.A.	43,075	8,506	-	1,196	(143)	52,634
Mobipay España, S.A.	883	(640)	-	-	180	423
Other companies	-	(1,302)	773	(63)	1,095	503
Total	76,715	(154,206)	102,691	1,133	27,277	53,560

	Thousands of euros					
	Balance at 01/01/04	Profit (loss)	Increases	Translation differences	Transfers	Balance at 12/31/04
IPSE 2000, S.p.A.	79,221	(28,192)	76,769	-	(95,041)	32,757
Medi Telecom, S.A.	52,252	(8,650)	(243)	(284)	-	43,075
Mobipay Internacional, S.A.	2,158	(512)	3,252	-	(4,898)	-
Mobipay España, S.A.	996	(616)	503	-	-	883
Other companies	-	(164)	69	95	-	-
Total	134,627	(38,134)	80,350	(189)	(99,939)	76,715

In 2005, Ipse 2000, S.p.A. fully provisioned the unamortized balance of its license, setting the carrying amount of its investment to zero (See Note 19). The net loss taken by the Móviles Group in connection with IPSE 2000, S.p.A. in 2005 is 136,787 thousand euros, which corresponded to its net exposure to this associate investment.

“Transfers” in 2005 and 2004 include the transfer of 26,095 thousand and 95,041 thousand euros, respectively, related to the provision for liabilities and charges allocated to IPSE 2000, S.p.A., since this associate had recorded certain concepts in its statutory accounts that had already been previously provisioned by Telefónica Móviles (see Note 10).

In 2004 “Transfers” includes Mobipay Internacional, S.A. which went from being consolidated under the equity method to being proportionally consolidated (See Note 2d).

9) EQUITY

The detail of the movement of equity accounts in 2005 and 2004 is as follows:

	Thousands of euros						
	Share capital	Share premium	Reserves	Translation differences	Total	Minority interests	Total equity
Balance at January 1, 2004	2,165,275	151,764	541,979	-	2,859,018	359,411	3,218,429
Dividends	-	-	(795,956)	-	(795,956)	-	(795,956)
Purchases and sales of minority interests	-	-	-	-	-	(75,558)	(75,558)
Income and expense recognized in the year	-	-	1,676,532	(196,141)	1,480,391	(7,250)	1,473,141
Balance at December 31, 2004	2,165,275	151,764	1,422,555	(196,141)	3,543,453	276,603	3,820,056
Dividends	-	-	(835,797)	-	(835,797)	-	(835,797)
Purchases and sales of minority interests	-	-	-	-	-	182,411	182,411
Income and expense recognized in the year	-	-	1,934,783	1,103,613	3,038,396	41,389	3,079,785
Balance at December 31, 2005	2,165,275	151,764	2,521,541	907,472	5,746,052	500,403	6,246,455

a) Share capital and share premium

2005

Share capital at December 31, 2005 consisted of 4,330,550,896 fully subscribed and paid ordinary shares of a single series and 0.5 euros par value each, all recorded by the book-entry system and traded on the Spanish continuous market, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

At its General Shareholders' Meeting on May 6, 2005, Telefónica Móviles' shareholders voted in favor of a gross interim dividend against 2004 income of 0.193 euros per outstanding share. The dividend was paid on June 15, 2005. At the same shareholders' meeting, approval was given to take the remaining 18,582 thousand euros in profit to voluntary reserves.

The following were among the motions voted on at the General Shareholders' Meeting on May 6, 2005.

- Authorization was given to the Board of Directors for the derivative acquisition of its own shares, in accordance with the limits, terms and conditions established at the Shareholders' Meeting, within a maximum period of 18 months from that date, provided that the par value of the shares acquired, added to that of the treasury shares already held by the Company or its subsidiaries, does not exceed 5% of share capital. It was specifically stated at the shareholders' meeting that the authorization could be totally or partially used to acquire shares of Telefónica Móviles which it is obliged to deliver or transfer to managers or employees of the Group's companies or subsidiaries when they exercise their options within the context of share-based payment systems.

At December 31, 2005, the company had an insignificant number of treasury shares (1,599) which were acquired under the MOS Program (see Note 18). These shares will either be delivered to beneficiaries who exercise their options at a future date or amortized in accordance with the Company's commitments. Under IFRS, treasury shares are netted from equity on the consolidated balance sheet.

The shareholder structure of Telefónica Móviles, S.A. at December 31, 2005 is as follows:

Shareholder	Number of shares	% shareholding
Telefónica S.A.	3,075,983,129	71.03%
Telefónica Internacional, S.A.	927,917,620	21.43%
Other shareholders	326,650,147	7.54%
Total at 12/31/2005	4,330,550,896	100.00%

2004

Share capital at December 31, 2004, consisted of 4,330,550,896 fully subscribed and paid ordinary shares of a single series and 0.5 euros par value each, all recorded by the book-entry system and traded on the Spanish continuous market, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York Stock Exchange.

At its General Shareholders' Meeting on April 16, 2004, Telefónica Móviles' shareholders voted in favor of a gross cash dividend against 2003 profit of 0.1838 euros per outstanding share. The dividend was paid on June 16, 2004. At the same shareholders' meeting, approval was given to take the remaining 470,730 thousand euros in profit to voluntary reserves.

The following resolution was among those adopted at the General Shareholders' Meeting on April 16, 2004:

- Authorization was given to the Board of Directors for the derivative acquisition of its own shares, in accordance with the limits, terms and conditions established at the Shareholders' Meeting, within a maximum period of 18 months from that date, provided that the par value of the shares acquired, added to that of the treasury shares already held by the Company or its subsidiaries, does not exceed 5% of share capital. It was specifically stated at the shareholders' meeting that the authorization could be totally or partially used to acquire shares of Telefónica Móviles which it is obliged to deliver or transfer to managers or employees of the Group's companies or subsidiaries when they exercise their options within the context of share-based payment systems.

At December 31, 2004, the company had an insignificant number of treasury shares (496), acquired within the context of the partial execution of the MOS Program (see Note 18). These shares will either be delivered to beneficiaries who exercise their options at a future date or amortized in accordance with the Company's commitments. Under IFRS, treasury shares are netted from equity on the consolidated balance sheet.

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

Shareholder	Number of shares	% shareholding
Telefónica S.A.	3,075,983,129	71.03%
Telefónica Internacional, S.A.	927,917,620	21.43%
Other shareholders	326,650,147	7.54%
Total at 12/31/2004	4.330.550.896	100.00%

b) Translation gains and losses taken to equity

Translation differences relate mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad. Gains of 1,103,613 thousand euros were recorded for this concept in 2005, while losses of 196,141 thousand euros were taken in 2004.

These amounts also include exchange rate differences resulting from specific-purpose foreign-currency financing transactions relating to investments in investees and which hedge the exchange rate risk on these investments (see Note 3c). These transactions resulted in losses of 120,093 thousand and 8,151 thousand euros in 2005 and 2004, respectively.

c) Reserves in consolidated companies

The movement in this heading corresponds to the prior year's retained earnings.

d) Legal reserve

Under Spanish Corporation Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve is equivalent to at least 20% of share capital. The legal reserve can be used to increase capital to the extent that it exceeds 10% of increased share capital. With the exception of the above, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses provided other reserves are insufficient for this purpose.

At December 31, 2005, the Group's parent company had met in full its legal reserve requirements, totalling 433,055 thousand euros under "Other reserves" on the accompanying consolidated balance sheet.

e) Legislation regulating the sale of holdings

Following the modification of Law 5/1995, of March 23, regarding the legal regime for selling publicly-owned holdings in certain companies, introduced in Law 62/2003, of December 30, (Law accompanying the State Budget Law) effective until February 18, 2007, there is administrative intervention (requirement to notify the Spanish government which in turn has a veto right) on the disposal or encumbrance of Telefónica Móviles shares representing at least 10% of its share capital, with an exception to this notification requirement where shares representing 10% or more of Telefónica Móviles S.A.'s share capital are acquired for purely financial purposes and not with the aim of taking control over the company, including management control.

In addition, the acquisition of significant holdings in Telefónica Móviles share capital is subject to the significant holdings disclosure requirements contained in Royal Decree 377/1991, of March 15, amended by Royal Decree 2590/1998, of December 7, regarding modifications to securities markets legislation.

f) Proposed appropriation of profit attributable to equity holders of the parent

The Board of Directors will propose the following appropriation of income at the General Shareholders' Meeting:

	Thousands of euros
Profit for the year	783,938
<u>Appropriation of profit to:</u>	
dividends	783,938

At the General Shareholders' Meeting, the Board of Directors will also propose the payment of an additional dividend of 103,825 thousand euros from "Voluntary reserves".

g) Minority interests

The amounts recorded under "Minority interests" represent the direct and indirect shareholdings of the Group's minority shareholders in the equity of the following companies:

	12/31/05	12/31/04
Group 3G UMTS Holding, GmbH	42.80%	42.80%
Telefónica Móviles Perú Holding, S.A.	2.03%	2.03%
Telefónica Móviles Argentina, S.A.	-	2.07%
Telefónica Móviles México, S.A. de C.V.	-	8.00%
Brasilcel, N.V. subsidiaries		
Tele Sudeste Celular Participações, S.A.	4.50%	4.56%
Tele Leste Celular Participações, S.A.	24.66%	24.96%
Celular CRT Participações, S.A.	16.69%	17.03%
Telesp Celular Participações, S.A.	16.96%	17.44%
Tele Centro Oeste Celular Participações, S.A.	32.66%	33.51%
Telefónica Móviles Panamá, S.A.	0.02%	0.43%
Telefónica Móviles Perú, S.A. (*)	0.15%	0.15%
Sistemas Timetrac, C.A.	25.00%	25.00%

(*)A company resulting from the merger between Comunicaciones Móviles Perú and Telefónica Móviles Perú SAC.

The detail of the movements in minority interests in 2005 and 2004, broken down by subsidiary:

	Thousands of euros							Balance at 12/31/05
	Balance at 12/31/04	Changes in consolidation scope	Profit (loss)	Translation differences	Increases	Transfers	Other movements	
Brasilcel, N.V. subsidiaries	279,370	-	(1,209)	78,671	144,485	-	(8,681)	492,636
Telefónica Móviles Perú Holding, S.A.	4,024	-	(4)	186	(93)	-	-	4,113
Telefónica Móviles Argentina, S.A.	(10,843)	-	(124)	(1,594)	-	-	12,561	-
Telefónica Móviles México, S.A. de C.V. and subsidiaries	675	-	(34,202)	(187)	-	-	34,676	962
Telefónica Móviles Panamá, S.A.	414	-	1	177	-	-	(567)	25
Telefónica Móviles Perú, S.A.	(15)	-	(1)	(87)	55	-	-	(48)
Sistemas Timetrac, C.A.	2,293	-	615	(93)	-	-	-	2,815
Other companies, net	685	-	(317)	(443)	-	-	(25)	(100)
Total	276,603	-	(35,241)	76,630	144,447	-	37,964	500,403

	Thousands of euros							
	Balance at 01/01/04	Changes in consolidation scope	Profit (loss)	Translation differences	Increases	Transfers	Other movements	Balance at 12/31/04
Brasilcel, N.V. subsidiaries	361,538	-	43,103	4,783	4,245	6,590	(140,889)	279,370
Telefónica Móviles Perú Holding, S.A.	4,396	-	(292)	(80)	-	-	-	4,024
Telefónica Móviles Argentina, S.A.	(10,240)	-	(1,669)	1,066	-	-	-	(10,843)
Telefónica Móviles México, S.A. de C.V. and subsidiaries	1,684	-	(55,119)	2,304	-	-	51,806	675
Telefónica Móviles Panamá, S.A.	-	420	23	(29)	-	-	-	414
Telefónica Móviles Perú, S.A.	-	(12)	(4)	1	-	-	-	(15)
Sistemas Timetrac, C.A.	-	2,282	93	(82)	-	-	-	2,293
Other companies, net	2,033	-	(1,377)	29	-	-	-	685
Total	359,411	2,690	(15,242)	7,992	4,245	6,590	(89,083)	276,603

In 2004, “Other movements” includes the increase in Brasilcel, N.V.’s shareholding in various Brazilian subsidiaries, as detailed in Note 2d.

Group 3G UMTS Holdings GmbH minority interests recorded at December 31, 2004 and 2005 totaled 382,442 thousand euros (debit balance) and were fully provisioned for. This interest is presented on a net basis for presentation purposes.

10) PROVISIONS

The detail of the movements in “Non-current provisions” in 2005 and 2004 is as follows:

	Thousands of euros
Balance at January 1, 2004	813,538
Increases	82,020
Decreases	(104,051)
Changes in consolidation scope	35,675
Transfers	516
Translation differences	(8,249)
Balance at December 31, 2004	819,449
Increases	52,650
Decreases	(63,209)
Changes in consolidation scope	3,350
Transfers	(619,507)
Translation differences	16,634
Balance at December 31, 2005	209,367

“Provisions” include the estimated amounts required to cover the company’s probable or certain obligations arising from litigation underway, indemnifications or pending commitments.

In 2005, when the Italian Government informed Ipse 2000, S.p.A. of its decision to revoke the UMTS license granted to it in 2000, Ipse 2000, S.p.A. provisioned the entire unamortized carrying amount of its license, and this investment was completely written-off in the Group’s balance sheet (see Notes 7 and 19).

The movement in non-current provisions in 2005 reflects the impact of allocating the 632,396 thousand euros impairment loss recognized at December 31, 2004, on its investment in Ipse 2000, S.p.A. corresponding to loans and guarantees provided by Móviles Group companies, recorded under “Non-current financial assets” and “Current financial assets” (see Note 7).

This heading also includes provisions related to the dismantling and relocation of assets by Group companies (see Note 3e) and other litigation and claims related provisions.

Given the nature of the risks covered by these provisions, it is not possible to determine a reliable schedule of potential payments.

11) RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

11.a) Accounts and transactions with Telefónica Group companies

The detail of payables and receivables with Telefónica Group companies and associates at December 31, 2005 and 2004 are as follows:

	Thousands of euros			
	2005		2004	
	Receivables	Payables	Receivables	Payables
Telefónica, S.A.	1,670,521	11,110,402	2,392,237	11,134,763
Telefónica de España, S.A.	114,453	111,253	208,730	96,191
Telefónica Internacional, S.A.	6,951	7,124	15,531	308,300
Telefónica Internacional Chile, S.A.	-	306,015	-	-
Telefónica Investigación y Desarrollo, S.A.	-	7,678	787	20,687
T. Servicios Integrales de Distribución	-	6,993	-	-
Telecomunicações de Sao Paulo, S.A.	37,791	21,486	24,537	44,682
Telefónica Finanzas, S.A. (Telfisa)	1,580,706	272,255	1,415,244	300,649
Teleinformática y Comunicaciones, S.A. (TELYCO)	13,864	7,708	19,053	9,188
Telefónica Soluciones de Informática y Com de España	224	29,904	-	-
Atento Group	523	18,992	659	11,663
Ipse 2000, S.p.A.	351,028	-	313,694	-
Telefónica Argentina, S.A.	640	6,901	-	-
Telefónica del Perú, S.A.	21,735	22,293	21,820	33,524
Medi Telecom, S.A.	78,189	384	74,169	-
Brasilcel Group	18,631	629	14,275	533
Fisatel Mexico, S.A. de C.V.	163,813	-	386	40,074
Compañía de Telecomunicaciones de Chile, S.A.	31,323	10,532	16,411	7,324
Other Telefónica Group companies	43,989	43,864	37,026	53,991
Total	4,134,381	11,984,413	4,554,559	12,061,569

The detail of payables, by concept, is as follows:

	Thousands of euros			
	2005		2004	
	Current	Non-current	Current	Non-current
Loans and credit lines	3,422,307	6,455,667	1,836,566	7,837,452
Consolidated corporate income taxes payable	1,813,066	-	2,055,855	-
Purchases of goods, services and other	293,373	-	331,696	-
Total	5,528,746	6,455,667	4,224,117	7,837,452

The outstanding balances of loans and credit lines granted by Telefónica Group companies at December 31, 2005 and 2004 are as follows:

Company	Thousands of euros			
	2005		2004	
	Current	Non-current	Current	Non-current
Telefónica Móviles, S.A.				
- Telfisa credit line in USD	-	-	14,979	-
- Telefónica, S.A. credit lines in euros	1,962,152	3,418,460	972,917	5,159,606
- Telefónica, S.A. credit lines in USD	218,665	640,443	221,593	1,060,873
- Telefónica, S.A. loan in euros	978,329	908,744	240,000	867,252
- Telefónica, S.A. loan in USD	10,596	850,914	133,424	111,982
- Other borrowings	215,131	82,820	173,569	91,840
Telefónica Móviles España, S.A.				
- Telfisa-BEI loan in euros	27,274	77,156	37,851	102,875
- Telfisa-BEI loan in USD	-	167,842	-	147,836
- Telefónica, S.A. loan in euros	-	13,433	-	-
Telefónica Móviles México, S.A. de C.V.				
- Fisatel México, S.A. de C.V. credit line in MXN	-	-	40,074	-
Inversiones Telefónica Móviles Holding Limitada				
- Telefónica, S.A. loan in euros	10,160	295,855	1,757	295,188
Other	-	-	402	-
Total	3,422,307	6,455,667	1,836,566	7,837,452

All of the loans and credit lines described above carry market interest rates. The average interest rate on the financing described above was 3.72% and 4.01% in 2005 and 2004 respectively.

In 2005 and 2004, 1,795,124 thousand and 1,477,429 thousand euros of outstanding borrowings with Telefónica Group companies was paid down. Meanwhile, the Telefónica Móviles Group financing in 2005 amounted to 1,703,307 thousand euros, mainly to finance the acquisition of the BellSouth operators in Chile and Argentina. In 2004, the Group drew down additional financing of 5,058,065 thousand euros, mainly to finance the acquisition of BellSouth's Latin American operators.

At December 31, 2005 and 2004, the Telefónica Group had granted credit lines amounting to 6,465 and 7,730 million euros, respectively. Of total credit lines extended at December 31, 2005, 985 million euros are dollar denominated while 42 million euros are denominated in Mexican pesos. Of total credit lines extended at December 31, 2004, 1,297 million euros were dollar denominated and 54 million euros were denominated in Mexican pesos.

At December 31, 2005 and 2004, 6,239 million and 7,479 million euros of the aforementioned credit lines had been drawn down, respectively, of which 859 and 1,297 million euros, respectively, were dollar denominated. At December 31, 2004, 40 million euros of Mexican peso denominated credit lines had been drawn down. No peso denominated credit lines had been drawn down at December 31, 2005.

Unpaid accrued interest at December 31, 2005 and 2004 amounted to 53,513 and 31,789 thousand euros, respectively.

The maturity profile of these borrowings at December 31, 2005 is as follows:

	Thousands of euros
2005	3,422,307
2007 - 2008	2,983,732
2009 - 2010	2,984,985
Subsequent years	486,950
Total at December 31, 2005	9,877,974

Telefónica Móviles, S.A. and Telefónica Móviles España, S.A. centralize all their cash balances at the Telefonía Group companies, Telefonía y Finanzas, S.A. (Telfisa), Fisatel México, S.A. de C.V. and Telefónica Finanzas Perú S.A.C., by means of transfers to and from the banks with which they have current accounts.

The main transactions with Telefónica Group companies and associates in 2005 were:

	Thousands of euros			
	Net sales and services	Financial income	Financial expenses	Procurements and other expenses
Telefónica, S.A.	1,266	28,407	510,960	44,348
Telefónica de España, S.A.	677,933	-	-	412,527
Telefónica Internacional, S.A.	346	-	-	1,245
Telefónica Internacional Chile, S.A.	-	-	10,458	-
Telefónica Investigación y Desarrollo, S.A.	616	-	-	2,776
Telefónica Telecomunicaciones Públicas, S.A.	8,288	-	-	194
Telefónica Servicios Integrales de Distribución	91	-	-	46,954
Telecomunicações de Sao Paulo, S.A.	288,866	-	-	36,931
Telefonía y Finanzas, S.A. (Telfisa)	5	52,235	8,579	-
Teleinformática y Comunicaciones, S.A.	274,700	-	-	49,870
Atento Group	2,240	2	-	133,764
Ipse 2000, S.p.A.	-	23,499	-	-
Telefónica Argentina, S.A.	2,949	-	-	75,010
Telefónica del Perú, S.A.	98,236	-	-	32,339
Compañía de Telecomunicaciones de Chile, S.A.	76,345	-	-	20,184
ATCO Group	307	-	-	3,667
Telefónica Soluciones de Informática y Comunicaciones, S.L.	974	-	-	21,240
Medi Telecom, S.A.	919	2,800	-	2,267
TIWS, S.L.	3,123	-	-	3,150
TPI	1,541	-	-	39
Fisatel México	-	4,303	5,879	-
Other Telefónica Group companies	7,541	518	4	55,763
Total	1,446,286	111,764	535,880	942,268

The main transactions with Telefónica Group companies and associates in 2004 were:

	Thousands of euros			
	Net sales and services	Financial income	Financial expenses	Procurements and other expenses
Telefónica, S.A.	710	8,010	315,698	41,030
Telefónica de España, S.A.	743,757	-	-	391,810
Telefónica Internacional, S.A.	189	-	3,046	101
Telefónica Investigación y Desarrollo, S.A.	427	-	-	11,248
Telefónica Telecomunicaciones Públicas, S.A.	31,763	-	-	283
Zeleris España, S.A.U.	130	-	-	39,459
Telecomunicações de São Paulo, S.A.	256,986	-	-	48,122
Telefonía y Finanzas, S.A. (Telfisa)	3	38,730	5,857	-
Teleinformática y Comunicaciones, S.A.	286,249	-	-	40,674
Atento Group	1,517	13	-	76,557
Ipse 2000, S.p.A.	-	20,705	-	-
Telefónica Argentina, S.A.	997	-	-	38,517
Telefónica del Perú, S.A.	84,178	90	299	22,480
Telefónica Gestión de Servicios Compartidos Group	115	-	-	14,537
Compañía de Telecomunicaciones de Chile, S.A.	12,203	-	-	7,219
Telefónica Soluciones de Informática y Comunicaciones, S.L. España	690	-	-	11,627
Medi Telecom, S.A.	616	2,857	-	-
Other Telefónica Group companies	20,818	832	3,762	35,721
Total	1,441,348	71,237	328,662	779,385

In October 2000, the Company took over Telefónica Internacional, S.A.'s consulting services contract with the Brazilian companies Telerj Celular, S.A., Telest Celular, S.A., Telebahia Celular, S.A., Telergipe Celular, S.A. and Celular CRT, S.A., which gives it the right to receive a fee of between 1% and 2% of service revenues invoiced by these companies.

Within the framework of the joint venture agreements signed between Telefónica Móviles and Portugal Telecom, in 2004 both parties agreed to evenly split the amounts accruing to each group from their individual management agreements with their former Brazilian subsidiaries from January 1, 2003.

The Telefónica Móviles Group also has a management agreement with Medi Telecom, S.A. by virtue of which it receives a fee equivalent to 1% of Medi Telecom, S.A.'s gross revenues or 4.5% of profit before interest and tax, depending of the level of operating income generated by the Moroccan operator.

Between January 1, 2002 and September 2004, Telefónica Móviles, S.A. provided operating management services to Newcomm Wireless Services, Inc. ("Newcomm"), pursuant to the subrogation by Telefónica Móviles, S.A. of Telefónica Larga Distancia de Puerto Rico, Inc. in its management contract with Newcomm.

11.b) Directors' and senior executive compensation, other benefits and additional information

a) Directors' compensation and other benefits

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

On April 1, 2003, the Company's shareholders set the maximum gross annual amount to be paid to the Board of Directors at 2 million euros. This includes a fixed payment and fees for attending meetings of the Board of Directors' advisory or control committees. In 2004, in accordance with Article 25.b.5 of the Rules of the Board of Directors, the Appointments and Compensation Committee reviewed the compensation system for the Company's directors, which had not been revised since the Company was incorporated in 2000, with the exception of the modification to the fees for attending Audit and Compliance Committee sessions, and submitted a proposal to the Board of Directors to change said compensation system. On October 26, 2004, the Board of Directors resolved to revise the fixed annual amount to be paid as compensation to the members of the Board of Directors and the fees for attending the meetings of the other Board Committees, and to establish a fixed annual amount to be paid as compensation to the members of these Board Committees, all within the maximum limit set at the Shareholders' Meeting on April 1, 2003.

Subsequently, on July 26, 2005, the Board of Directors resolved to appoint a Vice Chairman to the board and set the fixed compensation for this position.

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

2005

Total compensation paid to Telefónica Móviles' directors in their capacity as members of the Board of Directors in 2005 was 1,984 thousand euros, 1,888 thousand euros in fixed compensation and 96 thousand euros in fees for attending Board committee meetings. In addition, certain directors were paid a total of 114 thousand euros for advisory services to the Company and 198 thousand euros in compensation for their roles as directors of other Telefónica Móviles Group companies.

In addition, the Executive Chairman, in his capacity of Company executive, was paid 1,423 thousand euros in salary and variable compensation, 63 thousand euros in compensation-in-kind, including life and health premiums plus housing allowance and 8 thousand euros in contributions to Company-sponsored pension plans.

The detail of the compensation and benefits received by the directors in 2005 is as follows:

i) **Board of Directors:** Fixed payment made to each director (in thousands of euros):

Position	2005
Chairman	120
Vice Chairman	200
Members, nominee directors and independent directors	120
Secretary	120

Directors receive no fees for attending Board meetings.

ii) Board committees.

- a) Fixed payment in 2005 for each director forming part of one of the Board committees, by position (thousands of euros):

Position	2005
Chairman ⁽¹⁾	20
Members	10

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

- b) Total fees paid to directors in 2005 for attending meetings of the Board committees (euros):

Committee	2005
Audit and Compliance Committee	Attendance fee/meeting: 1,250 Number of meetings: 11 Total paid: 35,000
Appointments and Compensation Committee	Attendance fee/meeting: 1,250 Number of meetings: 8 Total paid: 50,000
Standing Committee	Attendance fee/meeting: 1,250 Number of meetings: 1 Total paid: 11,250

- iii) Executive directors:** Total amounts paid to executive directors for carrying out their executive duties:

ITEM	Thousands of euros
Salary	762
Variable compensation	661
Compensation in kind ⁽¹⁾	63
Contributions to pension plans	8

(1) Includes life and health premiums plus housing allowance.

The executive directors, as directors of the Telefónica Móviles Group, are beneficiaries of the MOS stock option plan (see Note 18).

Additionally, it should be noted that the non-executive directors do not receive and did not receive in 2005 any compensation in the form of pensions or life insurance, nor do they participate in the shared-based compensation plans.

The Company does not grant and did not grant in 2005 any advances, loans or credits to the directors, or to its top executives, thereby complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica Móviles as a listed company in that market.

- iv) **Telefónica Móviles S.A.'s' senior executives (excluding the Executive Chairman):** Compensation amounting to approximately 8,044 thousand euros in 2005, broken down as follows:

CONCEPT	Thousands of euros
Fixed compensation	4,928
Variable compensation	2,830
Compensation in kind	172
Contributions to pension plans	114
Total	8,044

Of this compensation, 3,215 thousand euros corresponded to compensation of certain members of the Management Committee who run other Telefónica Móviles Group companies. In addition, certain members left the Management Committee in 2005. These individuals were paid a total of 1,421 thousand euros.

2004

Total compensation paid to Telefónica Móviles' directors in their capacity as members of the Board of Directors in 2004 was 1,594 thousand euros: 1,473 thousand euros in fixed compensation, including compensation received for their presence on the Boards of other Telefónica Móviles Group companies and 121 thousand euros in fees for attending Board committee meetings. Certain directors also received compensation for advisory services provided to the Company, totaling 132 thousand euros.

In addition, the Executive Chairman, in his capacity of Company executive, was paid 1,299 thousand euros in salary and variable compensation, 60 thousand euros in compensation-in-kind, including life and health premiums plus housing allowance, and 8 thousand euros in contributions to Company-sponsored pension plans.

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

- i) **Board of Directors:** Fixed payment paid to each director (in thousands of euros):

Position	2004
Chairman	98
Members, nominee directors and independent directors	98
Secretary	98

Directors receive no fees for attending Board meetings.

- ii) **Board committees.**

- a) Fixed payment for each director forming part of one of the Board committees in October, November and December 2004, by post (thousands of euros):

Position	2004
Chairman ⁽¹⁾	5
Members	2

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

b) Total fees paid to directors in 2004 for attending meetings of the Board committees (euros):

Committee	2004
Audit and Compliance Committee	Attendance fee/meeting (until 09/30/04): 1,352 Attendance fee/meeting (since 10/01/04): 1,250 Number of meetings: 12 Total paid: 39,852
Appointments and Compensation Committee	Attendance fee/meeting (until 09/30/04): 901 Attendance fee/meeting (since 10/01/04): 1,250 Number of meetings: 10 Total paid: 50,242
Standing Committee	Attendance fee/meeting (until 09/30/04): 901 Attendance fee/meeting (since 10/01/04): 1,250 Number of meetings: 5 Total paid: 30,651

iii) **Executive directors:** Total paid to executive directors for carrying out their executive duties:

ITEM	Thousands of euros
Salary	698
Variable compensation	601
Compensation in kind ⁽¹⁾	60
Contributions to pension plans	8

(1) Includes life and health premiums plus housing allowance.

The executive directors, as directors of the Móviles Group, are beneficiaries of the MOS share option plan described in Note 18.

Additionally, it should be noted that the non-executive directors do not receive and did not receive in 2004 any compensation in the form of pensions or life insurance, nor do they participate in the shared-based compensation plans.

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

iv) **Telefónica Móviles S.A.'s' senior executives (excluding the Executive Chairman):** Compensation amounting to approximately 3,992 thousand euros in 2004, broken down as follows:

CONCEPT	Thousands of euros
Fixed compensation	2,806
Variable compensation	1,062
Compensation in kind	63
Contributions to pension plans	61
Total	3,992

Of this compensation, 2,607 thousand euros corresponded to compensation of certain members of the Management Committee who run other Telefónica Móviles Group companies. In addition, certain members left the Management Committee in 2004. These individuals were paid a total of 5,524 thousand euros in the form of salaries, variable compensation and severance pay.

j) Detail of the equity interests in companies engaging in a similar activity and the performance of similar activities by the directors on their own behalf and on behalf of third parties

Pursuant to Article 127 ter. 4 of the Spanish Corporation Law, introduced by Law 26/2003, which amends Securities Market Law 24/1988, and the revised Spanish Corporation Law, in order to reinforce transparency at listed corporations, Appendix II to the accompanying consolidated financial statements details the companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Telefónica Móviles, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they perform in them.

12) BORROWINGS

The detail of borrowings in 2005 and 2004 is as follows:

	Millions of euros	
	Balance at 12/31/05	Balance at 12/31/04
Issues	746,842	138,003
Interest-bearing loans and borrowings	1,840,302	1,426,632
Total	2,587,144	1,564,635
Total non-current	1,531,434	668,151
Total current	1,055,710	896,484

Debenture and bond issues

The detail of the movements in the debenture and bond issues in the years ended December 31, 2005 and 2004 were as follows:

	Thousands of euros
Balance at January 1, 2004	132,920
New issues	8,974
Redemptions, conversions and exchanges	1,259
Restatements and other movements	(5,150)
Balance at December 31, 2004	138,003
New issues	679,765
Redemptions, conversions and exchanges	31,474
Restatements and other movements	(102,400)
Balance at December 31, 2005	746,842
Maturity profile:	
Non-current	692,222
Current	54,620

The main issues in 2005 were:

Telefónica Móviles México, S.A.

Issue type	Date	Face value (thousands)	Currency	Maturity	Interest rate
Non-convertible bonds	September 2005	3,486,805	Mexican pesos	Non-current	9.64
Non-convertible bonds	September 2005	1,494,344	Mexican pesos	Non-current	9.25

Brasilcel Group

Issue type	Date	Face value (thousands)	Currency	Maturity	Interest rate
Non-convertible bonds	May 2005	200,000	Brazilian reais	Non-current	103.3% CDI
Non-convertible bonds	May 2005	800,000	Brazilian reais	Non-current	104.20% CDI

The maturity profile of debenture and bond issues at December 31, 2005 is as follows:

	Thousands of euros
2006	54,620
2007	-
2008	90,538
2009	-
2010	231,948
Subsequent years	369,736
Total at December 31, 2005	746,842

	Thousands of euros
2005	9,425
2006	59,433
2007	-
2008	69,145
2009	-
Subsequent years	-
Total at December 31, 2004	138,003

Interest-bearing loans and borrowings

The detail of this heading at December 31, 2005 and 2004 is as follows:

Company	Thousands of euros	Maturity	
	2005	Current	Non-current
Telefónica Móviles España, S.A.	15,704	643	15,061
Telefónica Móviles, S.A.	233	233	-
Brasilcel Group	868,730	369,123	499,607
TCG Holdings, S.A.	14,937	14,937	-
Telefónica Móviles Argentina, S.A.	3,580	3,580	-
Telefónica Móviles Perú Holding, S.A.	176,679	153,846	22,833
Telefónica Móviles México, S.A.	49,206	27,026	22,180
Telefónica Móviles Soluciones y Aplicaciones, S.A.	887	597	290
Telcel Group Venezuela	21,575	17,763	3,812
Olympic Group (Colombia)	479,083	355,653	123,430
Otecel, S.A. (Ecuador)	22,168	22,168	-
Grupo TM Inversora Argentina, S.A.	32,718	32,718	-
Grupo Telefónica Móviles Chile, S.A.	154,802	2,803	151,999
Total	1,840,302	1,001,090	839,212

Company	Thousands of euros	Maturity	
	2004	Current	Non-current
Telefónica Móviles España, S.A.	84,795	855	83,940
Telefónica Móviles, S.A.	232	232	-
Brasilcel Group	764,164	460,299	303,865
TES Holding, S.A. de C.V.	4,790	4,790	-
TCG Holdings, S.A.	1,292	1,292	-
Telefónica Móviles Argentina, S.A.	6,948	3,860	3,088
Telefónica Móviles Perú Holding, S.A.	7,165	672	6,493
Telefónica Móviles México, S.A.	52,729	27,853	24,876
Telefónica Móviles Puerto Rico, Inc.	5,635	5,635	-
Telefónica Móviles Soluciones y Aplicaciones, S.A.	975	448	527
Telcel Group Venezuela	16,804	6,903	9,901
Comunicaciones Móviles de Perú, S.A.	147,776	147,776	-
Olympic Group (Colombia)	328,467	221,582	106,885
Otecel, S.A. (Ecuador)	4,860	4,860	-
Total	1,426,632	887,057	539,575

All intra-Group loans carry market interest rates, and some contain covenants. At the date of preparation of the accompanying consolidated financial statements, all these covenants have been either fulfilled or renegotiated, as appropriate, with the corresponding financial entities.

The maturity profile of the Group's total borrowings:

Company	Thousands of euros						
	Maturity						
	2006	2007	2008	2009	2010	Subsequent years	Total
Telefónica Móviles España, S.A.	643	15,061	-	-	-	-	15,704
Telefónica Móviles, S.A.	233	-	-	-	-	-	233
Brasilcel Group	369,123	456,171	32,825	4,297	4,175	2,139	868,730
TCG Holdings, S.A.	14,937	-	-	-	-	-	14,937
Telefónica Móviles Argentina, S.A.	3,580	-	-	-	-	-	3,580
Telefónica Móviles Perú Holding, S.A.	153,846	17,608	1,386	1,535	2,304	-	176,679
Telefónica Móviles México, S.A.	27,026	6,406	6,318	6,304	3,152	-	49,206
Telefónica Móviles Soluciones y Aplicaciones, S.A.	597	235	55	-	-	-	887
Telcel Group Venezuela	17,763	3,812	-	-	-	-	21,575
Olympic Group (Colombia)	355,653	20	123,200	14	15	181	479,083
Otecel, S.A. (Ecuador)	22,168	-	-	-	-	-	22,168
Grupo TM Inversora Argentina, S.A.	32,718	-	-	-	-	-	32,718
Grupo Telefónica Móviles Chile, S.A.	2,803	-	-	-	-	151,999	154,802
Total at December 31, 2005	1,001,090	499,313	163,784	12,150	9,646	154,319	1,840,302

Company	Thousands of euros						
	Maturity						
	2005	2006	2007	2008	2009	Subsequent years	Total
Telefónica Móviles España, S.A.	855	-	-	-	45,680	38,260	84,795
Telefónica Móviles, S.A.	232	-	-	-	-	-	232
Brasilcel Group	460,299	133,312	86,141	75,442	3,426	5,544	764,164
TES Holding, S.A. de C.V.	4,790	-	-	-	-	-	4,790
TCG Holdings, S.A.	1,292	-	-	-	-	-	1,292
Telefónica Móviles Argentina, S.A.	3,860	3,088	-	-	-	-	6,948
Telefónica Móviles Perú Holding, S.A.A.	672	879	1,085	1,202	1,331	1,996	7,165
Telefónica Móviles México, S.A.	27,853	5,582	5,496	5,495	5,496	2,807	52,729
Telefónica Móviles Puerto Rico, Inc.	5,635	-	-	-	-	-	5,635
Telefónica Móviles Soluciones y Aplicaciones, S.A.	448	467	60	-	-	-	975
Telcel Group Venezuela	6,903	6,601	3,300	-	-	-	16,804
Comunicaciones Móviles de Perú, S.A.	147,776	-	-	-	-	-	147,776
Olympic Group (Colombia)	221,582	19	17	106,660	12	177	328,467
Otecel, S.A. (Ecuador)	4,860	-	-	-	-	-	4,860
Total at December 31, 2004	887,057	149,948	96,099	188,799	55,945	48,784	1,426,632

The Group purchases financial instruments to hedge its exchange rate risk (see Note 13). In markets where it is not possible to contract a derivative with the same characteristics and maturity as the loan being hedged, the Group's policy is to renew these derivatives until the hedged loan expires.

At December 31, 2005 and 2004 there were no credit lines other than those extended by the Telefónica Group companies which are detailed in Note 11.

The detail of loans in euros and foreign currency at December 31, 2005 and 2004, is as follows:

	Foreign currency (millions)	Thousands of euros	Foreign currency (millions)	Thousands of euros
Company	2005		2004	
Brasilcel Group				
- Euros	-	-	-	225
- USD	1,361	576,675	599	441,636
- Brazilian reais	884	224,731	1,081	297,411
- Yen	18,747	67,327	3,470	24,892
TES Holding, S.A. de C.V.				
- USD	-	-	7	4,790
TCG Holdings, S.A.				
- USD	17	14,223	-	-
- Quetzal	6	714	14	1,292
Telefónica Móviles Mexico Group				
- USD	55	45,866	62	45,330
- Mexican pesos	42	3,339	113	7,399
Telefónica Móviles Perú Holding, S.A.				
- USD	209	176,678	10	7,165
Telefónica Móviles Puerto Rico, Inc.				
- USD	-	-	8	5,635
Telefónica Móviles Argentina, S.A.				
- USD	4	3,579	9	6,948
Telefónica Móviles España, S.A.				
- USD	0.77	643	53	39,115
- Euros	15	15,060	46	45,680
Grupo Tmoviles Inversiones Argentina				
- Argentine pesos	117	32,719	-	-
Telefónica Móviles Soluciones y Aplicaciones, S.A.				
- Chilean pesos	537	886	739	975
Otecel, S.A. (Ecuador)				
- USD	26	22,168	7	4,860
Comunicaciones Móviles de Perú, S.A.				
- USD	-	-	202	147,776
Grupo Olympic (Colombia)				
- USD	519	439,608	423	309,995
- Colombian pesos	106,407	39,477	60,171	18,472
Telefónica Móviles, S.A.				
- Euros	-	233	-	232
Telefónica Móviles Chile Group				
- USD	183	154,802	-	-
Telcel Group Venezuela				
- USD	25	21,574	23	16,804
Total		1,840,302		1,426,632

Other financial commitments

The detail of operating lease commitments and other payment commitments at December 31, 2005 and 2004, by maturity, is the following (thousands of euros):

December 31, 2005	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Operating leases	1,447,103	213,382	425,007	266,662	572,052
Purchase commitments	562,294	560,137	2,157	-	-
Other non-current commitments	50,236	47,685	2,100	264	187
Total	2,089,633	821,204	429,264	266,926	572,239

December 31, 2004	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Operating leases	1,052,005	154,461	342,950	182,148	372,446
Purchase commitments	786,103	653,687	126,446	4,175	1,795
Other non-current commitments	303,035	75,324	113,954	113,758	-
Total	2,141,143	883,472	583,350	300,081	374,241

13) DERIVATIVE FINANCIAL PRODUCTS

The Telefónica Móviles Group is exposed to various financial market risks as a result of (i) its ordinary business, (ii) debt taken on to finance its business, (iii) investments in companies, and (iv) other financial instruments related to the above.

As part of its risk management policy, the Group uses financial instruments to hedge the aforementioned risks. The main market risks affecting the Group are as follows:

1. Exchange rate risk

Exchange rate risk arises mainly from Telefónica Móviles' international presence through investments and businesses in countries outside the Euro zone (primarily Latin America) and foreign currency-denominated debt in its countries of operations.

2. Interest rate risk

This arises from changes in (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of long-term liabilities at fixed interest rates (whose market value rises as interest rates fall).

Accounting policies take into account the derivative instruments permitted to hedge risks of this nature, as well as the method and time frequency applied to measure the hedge's effectiveness.

In accordance with the Group's accounting policies, hedge management is carried out on a dynamic basis, adapted to the variability of the aforementioned risks.

As previously indicated, in 2005 and 2004 the Group used derivatives both to limit interest rate risk and exchange rate risk on unhedged positions and to adapt its debt structure to market conditions.

At December 31, 2005 and 2004 the total outstanding balance of derivatives transactions acquired to hedge interest rate and exchange rate balance sheet risks was 9,355 million and 7,243 million euros, respectively, of which 2,593 million euros related to interest rate risk and 6,762 million euros to exchange risk at December 31, 2005. Hedging derivative transactions on interest and exchange rate risks amounted to 1,955 million euros and 5,288 million euros, respectively at December 31, 2004.

The detail of the Group's derivative portfolio by hedged risk and maturity at December 31, 2005 is as follows:

Thousands of euros	Fair value	Notional value				
		2006	2007	2008	Subsequent years	Total
Interest rate hedges	767	73,392	25,719	25,719	195,253	320,083
Cash flow hedges	1,686	25,719	25,719	25,719	195,253	272,410
Fair value hedges	(920)	47,673	-	-	-	47,673
Exchange rate hedges	(2,195)	175,943	16,930	16,930	25,395	235,199
Cash flow hedges	(2,195)	175,943	16,930	16,930	25,395	235,199
Fair value hedges	-	-	-	-	-	-
Interest and exchange rate hedges	105,497	244,570	284,604	13,352	85,159	627,685
Cash flow hedges	-	-	-	-	-	-
Fair value hedges	105,497	244,570	284,604	13,352	85,159	627,685
Investment hedges	71,041	(96,991)	(66,095)	(143,994)	(86,366)	(393,446)
Derivatives not designated as hedges	84,809	(220,549)	(154,022)	(2,696)	19,106	(358,161)
Interest rate	(1,625)	129,257	125,584	128,984	94,503	478,329
Exchange rate	57,298	128,451	(148,520)	(3,811)	(5,805)	(29,684)
Interest and exchange rate	29,136	(478,258)	(131,087)	(127,870)	(69,593)	(806,807)
Total	259,920					

14) TAX MATTERS

The Móviles Group's main Spanish subsidiaries pay corporate income tax on a consolidated basis and are therefore not required to pay taxes directly to the Spanish tax authorities. All tax credits and tax bases, up to the limit applicable to the Telefónica Tax Group, are transferred to Telefónica, S.A., recognizing the corresponding tax credit or debit with the parent company depending on the outcome of the individual company tax return, which is recorded under "Receivables from Telefónica Group companies" if the tax return results in moneys owed to the Telefónica Móviles Group, or under "Payables to Telefónica Group companies" if money is owed to the parent company as a result of the tax return.

The balances receivables from Telefónica Group companies are cancelled by means of cash payments by Telefónica, S.A. to the Móviles Group entity which contributed the tax credit, as said credit is effectively used by Telefónica's consolidated tax group (see section d of this note).

The other Móviles Group subsidiaries do not pay taxes on a consolidated basis. They recognize their tax credits and debits, which can only be settled with the public tax authorities of the countries where they were generated, under current and deferred tax liabilities and assets, as appropriate.

Corporate income tax recorded is the sum of the corporate income tax and other analogous taxes payable recorded by the Móviles Group companies. These taxes have been calculated in accordance with the tax standards in effect in each country on the basis of earnings on the unconsolidated financial statements, the sum of which is not necessarily equal to consolidated income.

The years open for review by the tax inspection authorities vary from one Group company to another, depending on each country's tax legislation, taking into account their respective statutes-of-limitation. Management does not believe that a possible tax inspection would result in material tax liabilities.

a) Deferred tax assets and liabilities

The detail at December 31, 2005 and 2004, of this heading, and the variations therein, is as follows:

	Thousands of euros	
	Deferred tax assets	Deferred tax liabilities
Balance at 1/1/04	1,205,364	260,388
New	400,325	464,588
Reversals	(168,852)	(108,044)
Changes in consolidation scope and others	44,378	(5,518)
Transfers	(15,755)	-
Balance at 12/31/04	1,465,460	611,414
New	644,052	327,769
Reversals	(498,898)	(320,923)
Changes in consolidation scope and others	260,862	180,738
Transfers	(53,044)	55,474
Balance at 12/31/05	1,818,432	854,472

The detail of "Deferred tax assets" on the consolidated balance sheet at December 31, 2005 and 2004 and the variations therein is the following:

Thousands of euros	Balance at 01/01/05	Increases	Decreases	Transfers	Changes in consolidation scope	Translation differences	Balance at 12/31/05
Tax loss carryforwards	134,139	60,627	(146,858)	(48,729)	116,763	16,347	132,289
Tax credits for deductions	85,763	80,160	(73,315)	-	-	-	92,608
Temporary differences	1,245,558	503,265	(278,725)	(4,315)	34,614	93,138	1,593,535
TOTAL	1,465,460	644,052	(498,898)	(53,044)	151,377	109,485	1,818,432

Thousands of euros	Balance at 01/01/04	Increases	Decreases	Transfers	Changes in consolidation scope	Translation differences	Balance at 12/31/04
Tax loss carryforwards	153,253	58,665	(45,394)	(31,107)	2,026	(3,304)	134,139
Tax credits for deductions	70,525	62,622	(31,629)	(15,755)	-	-	85,763
Temporary differences	981,586	279,038	(91,829)	31,107	40,652	5,004	1,245,558
TOTAL	1,205,364	400,325	(168,852)	(15,755)	42,678	1,700	1,465,460

This heading includes 92,608 thousand euros in tax credits for deductions (deductions for technological RDI, investment in the Canary Islands, special events, double tax treaties, etc.) in addition to the credits on tax loss carryforwards and deductible temporary differences detailed below.

In addition, Telefónica Móviles S.A. has recorded an export promotion activity deduction tax credit of 20,921 thousand euros arising from the acquisition of BellSouth's wireless operators in Argentina and Chile. The Company recorded a tax credit of 65,928 for this same concept in 2004 in relation to the acquisition of the other BellSouth operators.

At December 31, 2005 and 2004, "Deferred tax assets" and "Deferred tax liabilities" include deductible and taxable temporary differences whose origin and detail are described in the following table:

	2005		2004	
	Assets for deductible temporary differences	Liabilities for taxable temporary differences	Assets for deductible temporary differences	Liabilities for taxable temporary differences
Property, plant and equipment	76,274	33,478	48,159	35,260
Intangible assets	59,018	577,213	66,803	413,978
Personnel expenses	-	83	5,462	494
Inventories and accounts receivable	34,337	-	24,373	-
Provisions	210,202	154,441	106,090	83,991
Investments in associates, subsidiaries and joint ventures	1,052,386	-	932,321	-
Other	161,318	82,257	62,350	77,691
TOTAL	1,593,535	847,472	1,245,558	611,414

The detail of total assets for deductible temporary differences (1,593,535 thousand euros) is as follows:

- 1,277,899 thousand euros generated by Group companies in Spain, of which 1,052,386 thousand euros correspond to provisions related to investments, mainly in Germany, Mexico, Argentina and Italy, and 225,513 thousand euros to other non-deductible provisions and expenses (provision for bad debts, derivatives, etc.).
- The remaining 315,636 thousand euros were generated by foreign subsidiaries and relate primarily to depreciation of property, plant and equipment, write-down of inventories and bad debt provisioning.

b) Current tax receivables and payables:

Income tax receivables and payables (corporate income tax and equivalent credits and debits outside the scope of the Telefónica Tax Group) include assets of 136,501 thousand euros and liabilities of 362,338 thousand. At December 31, 2004, receivables stood at 216,646 thousand euros and payables at 290,858 thousand euros.

"Trade and other receivables" and "Trade and other payables" comprise all credits and debits with the public tax authorities for taxes other than corporate income and equivalent taxes. The detail of this heading at December 31, 2005 and 2004 is as follows:

Tax receivables (tax authorities)	Thousands of euros	
	2005	2004
Indirect taxes	529,699	502,467
Social security agencies and others	73,255	4,938
Total	602,955	507,405

Tax payables (tax authorities)	Thousands of euros	
	2005	2004
Indirect taxes	416,061	480,581
Personal income tax withholdings	12,419	7,883
Social security	12,038	11,479
Fees	679	3,115
Total	441,197	503,058

c) Reconciliation of book profit to taxable income for corporate income tax purposes

The following table reconciles the Group's reported profit before taxes and the tax expense recorded on the income statement, explaining the differences between actual tax expense and tax expense at prevailing statutory rate:

	Thousands of euros	
	2005	2004
Book profit before taxes	2,829,706	2,544,945
Taxes expense at prevailing statutory rate – 35%	990,397	890,730
Impact of applying statutory rates prevailing in other countries	9,671	34,555
		4,975
Changes in tax expense from asset or wealth taxes	23,892	
Permanent differences	15,946	43,981
		(16,343)
Booking of tax assets from current deductions	(21,922)	
Booking of tax assets from previous years	(154,078)	(52,163)
Losses not recognized against tax	60,277	41,253
Decreases of tax assets for losses or deductions	584	7,278
Consolidation adjustments	19,652	(85,656)
Corporate income tax adjustment from prior years	1,619	(107)
Corporate income tax expense	946,039	868,504

The main reasons for the discrepancy between the local prevailing statutory rate (35%) and the final effective tax rate in 2005 (33.4%) and 2004 (34.1%) are:

- Booking of tax credits and deductions from prior years. These include, among others, export promotion activity deductions at Spanish entities, the offsetting of tax losses in Colombia and the booking of tax asset in Argentina.
- Unrecognized tax losses given that tax consolidation is not applicable in Brazil and Mexico (in Mexico due to the impact of minority interests).

The breakdown of the tax expense in the table above and the concepts used for the calculation bases is the following:

Tax expense:	2005	2004
Deferred tax liabilities	(358,310)	(124,633)
Current taxes	1,304,349	993,137
Total corporate income tax	946,039	868,504

d) Detail of tax credits from tax loss carryforwards.

The tax losses available for carryforward at the main Móviles companies that did not belong to the Tax Group at December 31, 2005 and 2004 stood at 3,636,524 thousand euros and 3,575,924 thousand euros, respectively. The maximum time period for offsetting these carryforwards varies depending on the applicable tax legislation in the country where the losses were generated. At year-end 2005 and 2004, 402,630 thousand euros and 263,893 thousand euros, respectively, had been capitalized, thus generating tax assets of 132,289 thousand euros and 90,362 thousand euros, respectively, classified under “Deferred tax assets”.

The tax losses available for carryforward at the main Móviles companies belonging to the Tax Group at December 31, 2005 and 2004 stood at 6,478,666 thousand euros and 6,148,470 thousand euros, respectively. These can only be offset within 15 years of being incurred. At year-end 2005 and 2004, 4,341,426 thousand euros and 3,700,737 thousand euros, respectively, had been capitalized, thus generating tax assets of 1,519,499 thousand euros and 1,295,258 thousand euros, respectively, classified under “Current- and Non-current Telefónica Group company receivables”, and break down as follows:

	Balance at 12/31/04	Increases	Applied by Tax Group	Transfers	Adjustment from prior years	Balance at 12/31/05
Non-current	2,248,744	1,162	(500,662)	(699,047)	(655)	1,049,542
Current	8,337	149,333	(8,337)	320,624	-	469,957
TOTAL	2,257,081	150,495	(508,999)	(378,423)	(655)	1,519,499

Unused tax loss carry forwards, totaling 2,137,243 thousand euros, relate to a negative adjustment made to the taxable base for corporate income tax purposes in 2002 as a result of the transfer of certain holdings acquired in previous years where the market value differed from the carrying amount at which they were recognized.

The Tax Group applied 508,999 thousand euros in tax credits:

- 500,662 thousand euros were paid to Telefónica Móviles S.A in 2005.
- 8,337 thousand euros relate to intra-group withholdings made in previous years.

Transfers of 699,047 thousand euros from non-current receivables relate to:

- 320,624 thousand euros corresponding to prior year tax credits transferred to “Current assets – Receivable from Telefónica Group companies”
- 378,423 thousand euros are presented as a reduction in “Current assets – Receivable from Telefónica Group companies.”

Of total tax loss carryforwards outstanding at December 31, 2005 (1,519,499 thousand euros), 721,861 thousand euros were generated by Telefónica Móviles S.A and 797,638 thousand euros by Telefónica Móviles España S.A.

Goodwill arising from business combinations with foreign companies is deductible under Spanish tax legislation under certain conditions. Goodwill deductible for tax purposes -under certain conditions- is defined as the excess of financial goodwill over the amount allocated to the goods, rights and contingent liabilities of the foreign operations acquired.

15) SEGMENT REPORTING

The Telefónica Móviles Group's management structure is organized along geographic lines in order to optimize efficiency in each region. The main geographic segments are:

- **Spain.** Wireless services operator in Europe.
- **Latam.** Wireless services operator in Latin America.
- **Row.** Wireless services provider in the Mediterranean basin and the rest of Europe.

Key information by geographic segment:

Thousands of euros	Spain	Latam	Row & intragroup eliminations	Total
2005				
Revenues	8,834,249	7,704,531	(25,278)	16,513,502
Capitalized expenses of Group work on non current assets	76,089	36,966	10,542	123,596
Other operating income	30,714	99,252	16,193	146,159
Procurements and other operating expenses	(4,813,177)	(6,086,134)	(66,946)	(10,966,256)
OIBDA	4,127,875	1,754,615	(65,489)	5,817,001
Depreciation and amortization	(664,888)	(1,489,504)	(219,618)	(2,374,010)
OPERATING INCOME	3,462,987	265,111	(285,107)	3,442,991
Financial income (loss)	(43,103)	(172,418)	(243,558)	(459,079)
Share in income (loss) from companies accounted for by the equity method	-	(24)	(154,182)	(154,206)
Corporate income tax	(1,051,610)	(226,162)	331,733	(946,039)
Minority interests	-	72,206	(36,965)	35,241
PROFIT (LOSS) FOR THE YEAR	2,368,274	(61,287)	(388,079)	1,918,908
INVESTMENT IN PP&E	727,450	1,602,207	(43,332)	2,286,325
SEGMENT ASSETS	10,597,995	15,834,654	529,691	26,962,340
SEGMENT LIABILITIES	8,070,268	11,740,292	905,325	20,715,885

Thousands of euros				
2004	Spain	Latam	Row & intragroup eliminations	Total
Revenues	8,213,839	3,552,363	(12,327)	11,753,875
Capitalized expenses of Group work on non current assets	48,257	38,105	3,138	89,500
Other operating income	18,651	70,022	20,384	109,057
Procurements and other operating expenses	(4,122,515)	(3,109,340)	(132,686)	(7,364,541)
OIBDA	4,158,232	551,150	(121,492)	4,587,890
Depreciation and amortization	(662,796)	(806,519)	(53,626)	(1,522,941)
OPERATING INCOME	3,495,436	(255,368)	(175,119)	3,064,949
Financial income (loss)	(108,039)	(440,082)	66,250	(481,871)
Share in income (loss) from companies accounted for by the equity method	-	(163)	(37,971)	(38,134)
Corporate income tax	(1,100,343)	(74,222)	306,062	(868,503)
Minority interests	-	(54,444)	69,686	15,242
PROFIT (LOSS) FOR THE YEAR	2,287,054	(824,279)	228,908	1,691,683
INVESTMENT IN PP&E	628,185	981,684	7,746	1,617,615
SEGMENT ASSETS	9,596,150	11,695,182	1,899,210	23,190,542
SEGMENT LIABILITIES	8,111,067	8,799,375	2,460,044	19,370,486

The items detailed in the tables above were selected to reflect the main factors affecting management and strategic decisions in each segment.

16) REVENUES AND EXPENSES

Other income

The detail of this heading is as follows:

	Thousands of euros	
	2005	2004
Non-core and other current operating revenues	143,639	96,487
Capitalized expenses of Group work on non current assets	123,596	89,500
Government grants	288	909
Gain on disposal of assets	2,232	11,661
Total	269,755	198,557

Other expenses

The breakdown of this heading in 2005 and 2004 is as follows:

	Thousands of euros	
	2005	2004
External services	4,135,625	2,871,602
Taxes	333,483	170,880
Other operating expenses	53,115	23,898
Changes in operating provisions	266,093	86,474
Asset impairment (Note 7)	10,750	66,320
Loss on disposal of assets	2,071	8,949
Total	4,801,137	3,228,123

Research and development expense recognized in the income statement in 2005 amounted to 205 million euros (105 million euros in 2004).

Number of employees

The average number of employees at the Telefónica Móviles Group in 2005 and 2004 totaled 22,655 and 13,524, respectively. The breakdown by professional category in 2005 and 2004 is as follows:

	Average number of employees	
	2005	2004
Senior management	21	21
Executives and mid-level managers	2,339	1,470
Rest of workforce	20,295	12,033
Total	22,655	13,524

Financial income (expenses)

The detail of "Net financial expenses" recorded on the consolidated income statement for the years ended December 31, 2005 and 2004 is as follows:

	Thousands of euros	
	2005	2004
Finance expenses	(871,525)	(579,815)
Financial income	286,947	173,813
Total	(584,578)	(406,002)

Foreign currency transactions

The Group's foreign currency transactions relate primarily to traffic transactions carried out by fully consolidated subsidiaries which are settled in the corresponding local currency, as well as to interest payments and loan repayments which are detailed in Note 13.

Information by consolidation method

Income attributable to the companies that comprise the Group in 2005 and 2004:

	Thousands of euros	
	2005	2004
Fully and proportionally consolidated companies	2,073,114	1,729,817
Companies accounted for by the equity method	(154,206)	(38,134)
Total	1,918,908	1,691,683

Earnings per share

The basic figure for earnings per share is calculated by dividing net profit for the year attributable to equity holders in the parent company by the weighted average number of shares outstanding over the period.

Diluted earnings per share is calculated by dividing net profit for the year attributable to equity holders of the parent (adjusted for any dilutive effects as if the conversion of potential ordinary shares had occurred) by the weighted average number of ordinary shares outstanding over the period adjusted to give effect to all dilutive potential ordinary shares that were outstanding during the period.

Both basic and diluted earnings per share attributable to equity holders of the parent are calculated based on the following data:

Net profit

Thousands of euros

	2005	2004
Profit attributable to equity holders of the parent	1,918,908	1,691,683

Number of shares

Thousands

	2005	2004
Weighted average number of shares outstanding over the period for the purposes of basic earnings per share	4,309,480	4,309,105
Dilutive effect of conversion of potential ordinary shares		
Telefónica Móviles S.A. employee share option plans	1,131	1,026
Weighted average number of ordinary shares outstanding for the purposes of diluted earnings per share	4,310,611	4,310,131

Earnings per share

Euros

	2005	2004
Basic earnings per share	0.445	0.393
Diluted earnings per share	0.445	0.392

17) OTHER INFORMATION

a) Guarantees

The most significant guarantees provided at December 31, 2005 are the following:

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

As a result of this modification, the amount guaranteed by Telefónica Móviles España, S.A. as a performance bond for the commitments assumed prior to the launch of the UMTS service and in the first year of service was reduced to 157.5 million euros. At December 31, 2005, this guarantee therefore stood at 157.5 million euros. Telefónica Móviles de España, S.A. has begun the procedures to accredit its first year of operating the UMTS service before the Ministry. Compliance with the commitment would reduce the amount guaranteed.

- Telefónica Móviles España S.A., as a shareholder of Medi Telecom, signed a “Shareholders’ Support Agreement” together with Portugal Telecom SGPS, S.A. and the BMCE Group. This commitment requires the joint and several provisions of up to 210 million euros of financial assistance to Medi Telecom in the event of non-compliance with financial clauses, and up to 50 million euros in the event of a shortfall in funds at Medi Telecom that would prevent it from meeting its debt servicing obligations. If Medi Telecom obtains a specific level of OIBDA during a certain period of time and fulfils all its obligations under the loan agreement, this financial commitment will automatically be cancelled. As a result of the loans and capital increases subscribed by, inter alia, Telefónica Móviles España, S.A., in addition to new commitments, the outstanding balances at December 31, 2005 stood at 118.3 million and 50 million euros, respectively.
- On December 23, 2003, Telefónica Móviles, S.A. arranged a counter-guarantee for Telefónica, S.A. vis-à-vis the commitment to Newcomm Wireless Services, Inc. of Puerto Rico in relation to a 61 million dollar bridge loan provided by ABN AMRO which matures on June 30, 2005. These guarantees are deemed to be recoverable on the basis of the company’s business plan and of the seniority of their claim over equity.

Subsequently, on April 21, 2005, an agreement was reached to extend the bridge loan to June 30, 2008, and the possibility of a further 2-year extension, with a corresponding extension of the counter-guarantee.

On April 21, 2005, Telefónica Móviles S.A. also arranged a counter-guarantee for Telefónica, S.A. vis-à-vis the commitment to Newcomm Wireless Services, Inc. of Puerto Rico in relation to a subordinated loan of up to 40 million dollars provided by ABN AMRO to meet Newcomm’s license payments to the FCC (Federal Communications Commission), maturing June 30, 2010.

- The Group provided a bank guarantee to Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) to cover potential contingencies related to the sale in December 2003 of 3G Mobile Telecommunications GmbH up to a maximum of 1,650 thousand euros. This guarantee matured on December 31, 2005.

- At the end of 2000, Ipse 2000, S.p.A. acquired a third generation wireless telephony (UMTS) license for 3,269 million euros. The terms of the license agreement stipulated that 40% of this amount be paid in ten equal annual installments through 2010.

On December 27, 2002, Telefónica Móviles, S.A. arranged a counter-guarantee for Telefónica, S.A., which in turn was counter guaranteed by Telefónica Móviles España, S.A. Under this agreement, subject to certain terms and conditions, Telefónica Móviles, S.A. undertakes vis-à-vis Telefónica, S.A. to pay 91.79% of any amounts Telefónica S.A. may be legally, contractually or judicially obliged to pay in connection with the guarantee that it (jointly with other strategic partners of Ipse 2000, S.p.A.) provided to certain banks, which in turn provided a bank guarantee to the Italian authorities as security for the deferred payment of the UMTS license. On November 30, 2005, to avoid the Italian Government calling in the guarantee, IPSE 2000, S.p.A paid 120,334 thousand euros representing a quarter of the outstanding balance owed as deferred payment for the additional 5 MHz of spectrum awarded to Ipse 2000 SpA by the Italian Government for an original total value of 826,331 thousand euros. On December 31, 2005, the payment balance was 601,672 thousand euros (335,452 thousand euros allocable to the Telefónica Móviles Group). This additional 5MHz of spectrum was returned by Ipse 2000, S.p.A. and the validity of said return is currently being disputed by the Italian Government.

On October 25, 2000, Ipse 2000, S.p.A. signed an agreement with Ferrovie dello Stato, S.p.A., an Italian railroad company, whereby Ipse 2000, S.p.A. was granted certain access and user rights to specific sites owned by the railroad company. Telefónica, S.A. provided a guarantee of up to 48.2 million euros to secure the amounts owed under this agreement. On May 9, 2005 the parties executed the agreement through the payment of 93,360,000 euros. Of this amount, the Telefónica Móviles Group paid 39,387,139 euros.

- On October 28, 2004, Telefónica Móviles S.A. entered into the following counter-guarantee agreements vis-à-vis Telefónica S.A. on the following obligations guaranteed by Telefónica S.A.:
 - a) Bridge loans arranged for Telefónica Móviles Colombia S.A. (previously BellSouth Colombia S.A.) for 273,934 thousand dollars with Santander Overseas Bank Inc. and for 59,024 million Colombian pesos (approximately 23,500 thousand dollars) with Santander Colombia S.A. Both these companies are part of the Santander Group. Both loans were due on October 28, 2005. They were refinanced for another year for 254,000 thousand dollars with Santander Overseas Bank Inc. and 104,762 million Colombian pesos (approximately 41,738 thousand dollars) with Banco Santander de Colombia S.A. This arrangement was again guaranteed by Telefónica S.A. and counter-guaranteed by Telefónica Móviles S.A.
 - b) Syndicated loan for Comunicaciones Móviles del Perú S.A. (now Telefónica Móviles Perú S.A.) for 200 million dollars due February 24, 2006.
- On January 7, 2005, Telefónica Móviles S.A. counter guaranteed Telefónica S.A.'s guarantee on the 179,615 thousand dollar syndicated loan arranged by Telefónica Móviles Chile S.A. (previously BellSouth Communications), maturing January 7, 2006. This loan was refinanced upon maturity and is currently guaranteed directly by Telefónica Móviles de Chile.
- On September 30, 2005, Telefónica Móviles S.A. arranged a counter guarantee for Telefónica S.A. in relation to Telefónica Finanzas México S.A.'s issue of *certificados bursátiles* (peso bonds) for up to 12,000 million Mexican pesos, underwritten by Telefónica S.A. At December 31, 2005, 5,000 million pesos had been issued under this program (approximately 464 million dollars).

The Company does not believe it will incur material losses as a result of the guarantees provided.

Group management believes the likelihood that additional unprovisioned liabilities could result from these guarantees is remote.

b) Litigation

Telefónica Móviles, S.A. and its Group companies are subject to a range of lawsuits the unfavorable resolution of which, in the Company's opinion and based on the advice of its legal counsel, would not materially affect the financial position or solvency of Group.

The suits that the Company deems probable it could lose have been adequately provisioned (see Note 10). Of the suits that the Company deems probable it could lose, but do not require provisioning, those that are considered material by virtue of their nature or the significance of the amounts involved are listed below.

SPAIN.

Claims in relation to the fee for reserving public radio spectrum for GSM, DCS-1800 and UMTS services in 2001

Law 13/2000 establishing the general Spanish budget for 2001 modified the formula for calculating the reservation fee for public radio spectrum, resulting in a significant increase in said payments. Telefónica Móviles España, S.A. lodged three claims against the three payments owed in connection with its GSM, DCS-1800 and UMTS services in 2001, which were dismissed. As a result, Telefónica Móviles España, S.A. filed an appeal for judicial review of this decision at the National Appellate Court. At the same time, it proceeded to settle the payments with the Secretary of State for Telecommunications. A ruling has since been made in the cases appealing the DCS-1800 and GSM reservation fees, raising the question of unconstitutionality. In the case reclaiming the UMTS payment, Telefónica Móviles España, S.A. has pleaded to the National Appellate Court to reraise the question of unconstitutionality at a higher instance, i.e. the Constitutional Court, and to bring the issue before the European Community Court of Justice for a preliminary ruling. The magnitude of the claim in terms of overstated payments totals 228,357 thousand euros.

Economic-administrative claim relating to business tax (IAE) payment in 2003

In December 2003, Telefónica Móviles España, S.A. filed a claim with the regional tax authorities of Madrid in connection with the 2003 IAE payment of 26,000 thousand euros. Telefónica Móviles España believes the tax authorities committed an administrative error in processing this tax payment, not recognizing a prior wire payment of 3,226 thousand euros.

Telefónica Móviles España, S.A. has paid the amounts in question. The purpose of the claim is to demand the repayment of the amounts the Company believes it overpaid.

Interconnection termination tariffs with RETEVISIÓN MÓVIL, S.A.

The ruling on January 12, 2006 closed the interconnection suit brought by RETEVISIÓN MÓVIL, S.A. against Telefónica Móviles España, S.A. in relation to the call termination tariffs on the former's network. Pursuant to the ruling, Telefónica Móviles España, S.A. must apply the interconnection call-termination fees in effect before October 7, 2004 retroactively from February 4, 2005. Telefónica Móviles España, S.A.'s appeal to this ruling was fully upheld by the CMT (telecommunications regulatory body) in its ruling on February 16. This ruling finds that RETEVISIÓN MÓVIL, S.A.'s termination rates in effect prior to October 7, 2004 are not applicable to Telefónica Móviles España, S.A. Accordingly, Telefónica Móviles España, S.A. should not be obliged to pay any amounts, in addition to those actually paid during the conflict in this regard. RETEVISIÓN MÓVIL, S.A. could file a complaint for judicial review by the CMT ruling within two months of the decision.

GERMANY**Ostheimer**

In 2003, Ostheimer GmbH filed a suit against Quam GMBH demanding indemnification of 100 million euros as a result of damages arising from the termination of the framework distribution agreement signed with Quam. The courts ruled in favor of Quam GMBH in 2005 but the ruling has been appealed recently by Ostheimer.

Cancellation of the license granted to Quam GMBH

In December 2004, the Regulatory Authority for Telecommunications and Post (RegTP) revoked the UMTS license granted to Quam GMBH in 2000. After obtaining a suspension of the revocation order, Quam filed a suit against the revocation order with the German courts. On January 16, 2005. There are two main parts to this claim: the first seeking that the suspension of the license revocation order issued by the RegTP be upheld, and the second, in the event the first does not prosper, seeking the partial and total repayment of the original amount paid for the license.

ITALY

In the wake of the Italian government's refusal to accept the return by Ipse 2000, S.p.A, of the additional 5Mhz of spectrum awarded to it after it was granted a UMTS license, Ipse 2000, S.p.A. filed a claim based on its basic right to renounce to its rights granted by the government and requested a 826 million euro reduction in payments owed (corresponding to the 5Mhz of spectrum).

Simultaneously, in light of the new regulatory framework establishing a maximum annual price per 5Mhz, which is below that set when the license was granted to Ipse, S.p.A., the company filed a suit with the same organism against the Italian Ministry for Communications, requesting the cancellation of pending payments in connection with the UMTS license, which, if successful, would represent a reduction over the initial amount of between approximately 1.2 and 2.3 billion euros. On May 31, 2004, Ipse, S.p.A. also filed a complaint against the Italian government's allocation of GSM frequency free of charge.

Currently, all these claims have been brought under one suit. In August 2005, the Italian courts ruled against the first two claims and delayed its ruling on the last one (the free allocation of GSM frequency).

MEXICO**Corporate income tax law regarding interest deductibility**

Telefónica Móviles México, S.A. de C.V. and its subsidiaries filed a suit against certain temporary provisions of the corporate income tax law limiting deductibility of interest payments on loans under certain circumstances.

Notification was received in January 2006 that the case was being dismissed on the grounds that since the judge did not consider that it was the right time to call into question the unconstitutionality of the provisions.

The Mexican subsidiaries plan to appeal the ruling on the basis that the provisions in question have been detrimental to the companies since they came into effect.

Annual fees for use and operation of spectrum frequency

The Mexican Federal Rights Act establishes an annual fee for the use and operation of spectrum frequency tendered since 2003. Telefónica Móviles México, S.A. de C.V. was awarded spectrum on the 1900 MHz frequency in the tender process held in April 2005, on which it is obliged to pay spectrum fees.

Telefónica Móviles México, S.A. de C.V. has filed a claim against the unconstitutionality of the fee imposed on the spectrum it was granted.

In December 2005, Telefónica Móviles México, S.A. de C.V. appealed the sentence ruling against its claim.

Telefónica Móviles España, S.A. has paid the fees in question. The purpose of the claim is to demand the repayment of the amounts already paid.

Kargo, Inc., ACK Ventures Holdings, LLC and United Mobile Technologies, LLC.

Kargo, Inc., has filed a suit against Telefónica Móviles México, S.A. de C.V., Pegaso PCS, S.A. de C.V., Pegaso Telecomunicaciones, S.A. de C.V., Telefónica Móviles, S.A. and Telefónica, S.A. for the payment of damages, legal fees and expenses, and any other amounts deemed payable by the courts, for alleged failure to comply with a systems and hosting agreement negotiated by Pegaso PCS, S.A. de C.V.

The case is currently being heard at a Federal court. In January 2006, Telefónica Móviles México, S.A. de C.V. filed a motion to have the case dismissed for lack of grounds.

BRAZIL**Universal service fund (FUST)**

The VIVO Group operators have appealed ANATEL's decision to modify the basis for calculating amounts payable into the FUST (Fundo de Universalização de Serviços de Telecomunicações), a fund to pay for telecommunications services providers' obligations to provide universal service (wireline and wireless).

Lune

Lune Projetos Especiais em Telecomunicações Com has filed a suit against the VIVO Group companies, alleging to own the patent on "caller ID" and to have registered the "Bina" brand. The suit demands the cessation of this service and requests indemnification for an amount equal to the amount customers have paid for this service.

Several wireless infrastructure manufacturers, including subsidiaries of the VIVO Group, have lodged a complaint with the Brazilian institute for industrial property demanding that it declare the patent in question null and void.

PIS and COFINS

COFINS (Contribuição Social para o Financiamento da Seguridade Social) and PIS (Programa de Integração Social) are gross revenue taxes levied on corporations in Brazil. In 1998, Law 9,718 modified the calculation of these taxes, (i) increasing the COFINS tax from 2% to 3% and (ii) expanding the taxable base. The VIVO Group operators all elected to file a suit with the Brazilian state against this law and to fully provision these amounts, with the exception of Celular CRT S.A., which chose to pay the taxes pursuant to Law 9,718.

In terms of the expanded taxable base issue, two VIVO Group companies (Tele Centro Oeste Celular Participações S.A. and Telergipe Celular S.A.) have been handed down favorable rulings. Rulings in favor of the rest of the companies are expected over the course of the coming year.

VENEZUELA

Appeal for tax review by TELCEL, C.A. in 2002 against the Venezuelan agency (SENIAT) which is demanding TELCEL, C.A. pay approximately 54,364,291 euros for alleged tax irregularities between 11-01-94 and 10-31-95, 11-01-95 and 10-31-96 and between 11-01-96 and 10-31-97.

c) Alliances

Telefónica Móviles, Orange, T-Mobile and Vodafone signed an agreement in February 2003 to create a wireless payment services association, which has been operating under the Simpay brand since June 2003. The purpose of this association is to foster the adoption of *m-commerce* by customers, content suppliers, commercial establishments and banks by creating a wireless telephony payment system based on open, interoperable standards under a shared brand.

d) Investments in joint ventures

On December 27, 2002, having complied with Brazilian regulatory provisions, Telefónica Móviles, S.A. and PT Movéis Serviços de Telecomunicações, SGPS, S.A. (PT Movéis) set up a 50/50 joint venture, Brasilcel, N.V., via the contribution of 100% of the groups' direct and indirect shareholdings in Brazilian cellular operators.

The contributions of Brasilcel, N.V. to the Telefónica Móviles Group's 2005 and 2004 consolidated balance sheets and income statements are as follows:

	Thousands of euros	
	2005	2004
Current assets	1,242,021	948,358
Non-current assets	3,448,292	2,634,308
Current liabilities	1,132,169	1,156,447
Non-current liabilities	1,028,986	502,095
Revenues	1,955,267	1,550,831
Expenses	1,857,984	1,353,166

e) Environmental matters

Through its investees and in line with its environmental policy, the Telefónica Móviles Group has undertaken various environmental-management initiatives and projects. In 2005 and 2004 these initiatives resulted in expenditure and investment for insignificant amounts which were recognized in the consolidated income statement and balance sheet.

The various Group companies have launched a series of preventative projects at existing systems with a view to reducing the environmental impact of its facilities. Project costs are included in that of the installations to which the project relates.

The Group has also rolled out internal control mechanisms sufficient to pre-empt any environmental liabilities that may arise in future, which are assessed at regular intervals either by internal staff or renowned third-party institutions. No significant risks have been identified in these assessments.

f) Auditors' fees

In 2005, fees paid to the various companies forming part of the Ernst&Young International Group, to which Ernst & Young, S.L. (the auditors of the Telefónica Móviles Group) belongs, amounted to 3,450 thousand euros. In 2004, fees paid to the various companies forming part of the Deloitte Touche Tohmatsu International Group, to which Deloitte, S.L. (the auditors of the Telefónica Móviles Group in 2004) belongs, amounted to 3,839 thousand euros.

The detail of these amounts is as follows:

	Thousands of euros	
	2005 Ernst&Young	2004 Deloitte & Touche
Audit of financial statements	2,308	2,279
Other audit services	469	1,325
Non-audit work	673	235
TOTAL	3,450	3,839

These fees include amounts paid in respect of fully and proportionally consolidated Spanish and foreign Telefónica Móviles Group companies (50% of the fees paid by proportionally consolidated companies in 2004 included in the detail amounted to 606 thousand euros).

The detail of fees paid to other auditors in 2005 and 2004 amounted to 3,527 thousand and 4,778 thousand euros, respectively, is as follows:

	Thousands of euros	
	2005	2004
Audit of financial statements	1,312	227
Other audit services	1,030	-
Non-audit work	1,185	4,551
TOTAL	3,527	4,778

These fees include amounts paid by fully and proportionally consolidated Spanish and foreign Telefónica Móviles Group companies (50% of other auditors' fees paid by proportionally consolidated companies in 2005 included in the detail amounted to 796 thousand euros).

18) OTHER COMMITMENTS

On October 26, 2000, authorization was given at the Extraordinary Shareholders' Meeting of Telefónica Móviles, S.A. to establish a corporate share option plan for the executives and employees of Telefónica Móviles, S.A. and its subsidiaries. To facilitate coverage of the Company's obligations to the beneficiaries of the plan, it was resolved to increase the share capital of Telefónica Móviles, S.A. by 11,400,000 euros through the issuance of 22,800,000 shares of 0.50 euro par value each.

Subsequently, at the Shareholders' Meeting of Telefónica Móviles, S.A. on June 1, 2001, certain modifications and clarifications were introduced to the share option plan with a view to making it more attractive and efficient to encourage the loyalty of its beneficiaries.

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

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

The MOS Program also envisaged the possibility of awarding new options at dates subsequent to its initial implementation. In order to carry this out, following the issuance of a report by the Appointments and Compensation Committee, the Board of Directors resolved to assign options to both the employees of the new companies which, when joining the Telefónica Móviles Group, met the aforementioned requirements and the employees hired by companies already participating in the MOS Program. The Board also resolved that employees could join the plan until December 31, 2003. Consequently, new beneficiaries joined the plan in 2002 and 2003. In 2003 certain companies were excluded from the MOS Program because they no longer meet the related requirements.

2. There are three types of options:

- Type-A options, with a strike price of 11 euros.
- Type-B options, with a strike price of 16.5 euros.
- Type-C options, with a strike price of 7.235 euros.

3. Each beneficiary of the Program will receive an equal number of type-A and type-B options and a number of type-C options equal to the sum of the type-A and type-B options received.
4. The executive directors and executives who are beneficiaries of the MOS Program must deposit one share of Telefónica Móviles, S.A. for every 20 options assigned to them.
5. Each option, regardless of the type, entitles its holder to receive one share of Telefónica Móviles, S.A.

6. The options may be exercised at a rate of one-third each year from the day after the day on which two, three and four years have elapsed from the option grant date (January 2, 2002). The first exercise period commenced on January 2, 2004. The second period commenced on January 3, 2005. The third and last exercise period commenced on January 3, 2006.
7. At the exercise date, the options may be settled, at the beneficiary's request, either (i) through delivery of shares of Telefónica Móviles, S.A., once the beneficiary has paid the option strike price, or (ii) cash settlement.

The first phase of the Program commenced on January 2, 2002. The second phase of the plan, which included the companies and new employees who fulfilled the requirements envisaged in the plan, commenced on June 1, 2002, and finished on December 31, 2003. The total number of beneficiaries of the MOS Program was 6,970 at December 31, 2005 (7,575 at December 31, 2004). Of these beneficiaries, one is an executive director of Telefónica Móviles, S.A. and 10 are general managers or similar executives. 9,446,373 options had been assigned at December 31, 2005 (11,137,144 at December 31, 2004).

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

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

In 2005, in the third exercise period, 1,019 employees exercised a total of 383,116 options. Of these employees, six beneficiaries opted for share settlement and the remainder for cash settlement. The amount received by these beneficiaries upon the exercise of their options was 320.4 thousand euros.

Additionally, in 2005, 605 employees, owning a total of 1,307,655 options, left the program as a result of early settlement or voluntary withdrawal. 791.7 thousand euros were paid for this concept in 2005.

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

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

The implementation of the MOS Program and the capital increase to provide coverage for the Program were notified to the CNMV and published in an abridged prospectus, which was verified and registered in the CNMV's Official Register on November 2, 2001.

The following table summarizes the status of the MOS Plan at December 31, 2004 and 2005:

	Number of options
Outstanding at January 1, 2004	12,819,072
Granted	-
Exercised	(1,118,665)
Cancelled	(563,263)
Outstanding at December 31, 2004	11,137,144
Granted	-
Exercised	(1,298,072)
Cancelled	(392,699)
Outstanding at December 31, 2005	9,446,373

Agreements with Portugal Telecom.

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

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

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

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

Agreements with the Pegaso Group.

On December 21, 2005, the Burillo Group and Telefónica Móviles S.A. agreed to the acquisition by Telefónica Móviles S.A. of the 8% stake in the share capital of Telefónica Móviles México S.A. de C.V. owned by the Burillo Group.

This deal gave Telefónica Móviles 100% ownership of Telefónica Móviles México S.A. de C.V. before the exercise date for its share purchase options in the third quarter of 2007 on 4% of the capital and in the third quarter of 2008 for the remaining 4% (or 8% if it had not exercised its options in 2007).

This acquisition concludes the agreements signed by the two parties and settles all call and put options on Telefónica Móviles de México S.A. de C.V. awarded under the agreements.

This acquisition cost to Telefónica Móviles 177 million euros and was structured as an exchange of Telefónica Móviles México S.A. shares for 14,135,895 Telefónica S.A. shares.

The transaction created no material additional debt for the Móviles Group as, in accordance with IFRS, the minimum exercise price of the Burillo Group's put option was recognized as debt and at November 30, 2005 stood at 153 million euros (including interest paid to that date).

Domestic long-distance license awarded to GTM.

Telefónica Móviles, S.A. is backing the commitments assumed by Grupo de Telecomunicaciones Mexicanos, S.A. de C.V. (GTM) with the regulator, COFETEL, for its domestic long-distance (DLD) license. The maximum amount of this support is 124,155 thousand Mexican pesos. At the date of preparation of these consolidated financial statements no disbursements had been made in this connection.

19) SUBSEQUENT EVENTS

From December 31, 2005 until the date of preparation of these consolidated financial statements the following events took place at the Telefónica Móviles Group:

- On January 31, 2006, the Italian Government informed Ipse 2000, S.p.A., an indirect investee in which Telefónica Móviles owns 45.59%, of its decision to revoke the UMTS license granted to it in 2000. The company is studying its potential courses of action.
- In February 2006, approval was given at the respective shareholders' meetings of Telesp Celular Participações, S.A. ("TCP"), Tele Centro Oeste Celular Participações, S.A. ("TCO"), Tele Sudeste Celular Participações, S.A. ("TSD"), Tele Leste Celular Participações, S.A. ("TLE") and Celular CRT Participações, S.A. ("CRT Part") for a corporate restructuring for the exchange of TCO shares for TCP shares and absorption of TSD, TLE and CRT Part. Thus, TCP became a 100% subsidiary.
- Under its bond issuance program launched in September 2005, Telefónica Finanzas de México, S.A. de C.V. issued 6,500 million Mexican pesos (517 million euros) in 7-year peso bonds (*certificados bursátiles*) on February 10, 2006.

- In July 2003, Telefónica Móviles together with T-Mobile International, Telecom Italia Mobile (TIM) and Orange signed an agreement to form a strategic alliance which it subsequently named Freemove. Within the context of the acquisition by Telefónica, S.A. of British telecommunications operator (O2), the European Commission ordered Telefónica Móviles to withdraw from the Freemove alliance in an orderly fashion. Telefónica Móviles, S.A.'s Standing Committee approved the withdrawal of Telefónica Móviles, S.A. from the aforementioned alliance in its session on January 10, 2006.
- As part of the restructuring process at the Telefónica Móviles Group in Argentina, on January 2, 2006, Telefónica Móviles, S.A. transferred 98% of its stake in Telefónica Móviles Inversora S.A. (company controlling 100% of B.A. Celular Inversora S.A.) to Telefónica Móviles Argentina, S.A. As consideration for the share contribution, Telefónica Móviles Argentina, S.A. assumed a 343,726 thousand euro debt with Telefónica Móviles, S.A. which was capitalized on January 3, 2006.

In addition, on January 31, 2006, Telefónica Móviles Argentina, S.A. approved the measures necessary to carry out the merger by absorption of Telefónica Móviles Inversora S.A. and BA Celular Inversora S.A. into Telefónica Móviles Argentina, S.A. The merger will be effective as from January 1, 2006.

20. ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These financial statements are presented on the basis of International Financial Reporting Standards. Consequently, certain accounting practices applied by the Company may not conform with generally accepted principles in other countries.

APPENDIX II.

Detail of the equity interests in companies engaging in a similar activity and the performance of similar activities of the directors on their own behalf or on behalf of third parties

The following table lists the companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Telefónica Móviles, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge in them.

Name	Investee	% ownership	Activity	Position held or functions performed
Antonio Viana-Baptista	Telefónica, S.A.	< 0.01%	Telecommunications	Director
Antonio Viana Baptista	Portugal Telecom., SGPS.	< 0.01%	Telecommunications	Director
Antonio Viana Baptista	PT Multimedia	< 0.01%	Internet	Director
José María Álvarez-Pallete	Telefónica, S.A.	< 0.01%	Telecommunications	Management committee Member
Maximino Carpio García	Telefónica, S.A.	< 0.01%	Telecommunications	Director
José María Más Millet	Telefónica, S.A.	< 0.01%	Telecommunications	None
Javier Echenique Landiribar	Telefónica, S.A.	< 0.01%	Telecommunications	None
Luis Lada Díaz	Telefónica, S.A.	< 0.01%	Telecommunications	Director
Luis Lada Díaz	Sogecable, S.A.	< 0.01%	Television, telecommunications and audiovisual production services	Director
Fernando de Almansa Moreno-Barreda	Telefónica, S.A.	< 0.01%	Telecommunications	Director
Antonio Massanell Lavilla	Telefónica, S.A.	< 0.01%	Telecommunications	Director
Alejandro Burillo Azcárraga	PanAmsat, S.R.L. de C.V.	51%	Satellite capacity provider	None
Alejandro Burillo Azcárraga	Grupo Wcom, S.A. de C.V.	99%	Value added satellite services	None
Alejandro Burillo Azcárraga	Corporativo Wcom, S.A. de C.V.	99%	Value added satellite services	None
Alejandro Burillo Azcárraga	Televisión Internacional, S.A. de C.V.	11.7%	Cable services, internet and telephone signals	None

The table below gives details of activities carried out, on their own behalf or on behalf of third parties, by the various members of the Company Board of Directors that are identical, or similar or complementary to those of the corporate purpose of Telefónica Móviles, S.A.

Name	Activity	Arrangement under which the activity is performed	Company through which the activity is performed ¹	Positions held or functions performed
Antonio Viana-Baptista	Telecommunications	Employee	Telefónica, S.A.	Director
Antonio Viana-Baptista	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Director
Antonio Viana-Baptista	Wireless telecommunications	Employee	Telefónica Móviles España, S.A.	Chairman
Antonio Viana-Baptista	Telecommunications	Employee	Cesky Telecom, a.s.	Supervisory Board Member
Antonio Viana-Baptista	Wireline telecommunications	Employee	Telefónica de España, S.A.	Director
Antonio Viana-Baptista	Wireless telecommunications	Employee	Brasilcel, N.V.	Director
Antonio Viana-Baptista	Wireless telecommunications	Employee	Portugal Telecom., SGPS	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica, S.A.	Management Committee Member
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Executive Chairman
José María Álvarez-Pallete	Data telecommunications	Employee	Telefónica Datacorp, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica de España, S.A.	Director
José María Álvarez-Pallete	Wireless telecommunications	Employee	Telefónica Móviles, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica de Argentina, S.A.	Director (Vice chairman)
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telecomunicaciones de Sao Paulo, S.A.	Director (Vice chairman)
José María Álvarez-Pallete	Wireline telecommunications	Employee	Compañía de Telecomunicaciones de Chile, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Mundo, S.A.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	Telefónica del Perú, S.A.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Larga Distancia de Puerto Rico, Inc.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Compañía Internacional de Telecomunicaciones, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Internacional Chile, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Telefónica Holding Argentina, S.A.	Director
José María Álvarez-Pallete	Telecommunications	Employee	Cesky Telecom, a.s.	Director
José María Álvarez-Pallete	Wireline telecommunications	Employee	China Netcom Corporation.	Director
Maximino Carpio García	Telecommunications	Employee	Telefónica, S.A.	Director
Maximino Carpio García	Telecommunications equipment provider	Employee	Abengoa, S.A.	Advisory Committee Member
Fernando de Almansa Moreno-Barreda	Telecommunications	Employee	Telefónica, S.A.	Director
Fernando de Almansa Moreno-Barreda	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Director
Fernando de Almansa Moreno-Barreda	Wireline telecommunications	Employee	Telefónica de Argentina, S.A.	Director
Fernando de Almansa Moreno-Barreda	Wireline telecommunications	Employee	Telecomunicaciones de Sao Paulo, S.A.	Director

Name	Activity	Arrangement under which the activity is performed	Company through which the activity is performed	Positions held or functions performed
Fernando de Almansa Moreno-Barreda	Wireline telecommunications	Employee	Telefónica del Perú, S.A.	Director
Luis Lada Díaz	Telecommunications	Employee	Telefónica, S.A.	Director
Luis Lada Díaz	Wireline telecommunications	Employee	Telefónica Internacional, S.A.	Director
Luis Lada Díaz	Television, telecommunications and audiovisual production services	Employee	Sogecable, S.A.	Director
Luis Lada Díaz	Telecommunications	Employee	Cesky Telecom a.s.	Vice chairman
Javier Echenique Landiribar	Wireless telecommunications	Employee	Telefónica Móviles México, S.A.	Director
Antonio Massanell Lavilla	Telecommunications	Employee	Telefónica, S.A.	Director
Lars M. Berg	Wireless telecommunications	Employee	TELCEL, S.A.	Director
Lars M. Berg	Wireless telecommunications	Employee	Telefónica Móviles Colombia, S.A.	Director
Alejandro Burillo Azcárraga	Wireless telecommunications	Employee	Pegaso, S.A.	Director

APPENDIX III.

Description of market-sensitive financial instruments.

The tables below describe financial instruments designed to hedge interest and exchange rate risk at the companies consolidated by the Telefónica Móviles Group.

The tables were prepared using the following criteria:

Borrowings were classified according to their financial characteristics, bearing in mind the effect of the associated derivatives. They are classified by the currency in which they are denominated into one of the following categories:

- Euro (EUR)
- US dollar (USD)
- Latin American currencies (ARS – Argentine peso; BRL – Brazilian real; CLP – Chilean peso; COP – Colombian peso; PEN – Peruvian sol; MXN – Mexican peso; GTQ – Guatemala quetzal)
- Japanese yen (JPY)
- Moroccan dirham (MAD)

Each category is subdivided into:

- Floating rate
- Fixed rate

Each column contains the amount of debt due to mature in the next five years, broken down by year. The total column sums the yearly amounts.

- Face values do not include accrued interest.

Note: The assets included in this table relate exclusively to derivative financial products

TELEFÓNICA MÓVILES GROUP'S MARKET-SENSITIVE FINANCIAL INSTRUMENTS
Instruments outstanding at December 31, 2005

(Millions of euros)	<u>Maturity</u>					Subsequent years	TOTAL
	2006	2007	2008	2009	2010		
EURO	2,320	2,297	487	1,270	479	-22	6,830
Floating rate	2,061	2,094	259	1,227	310	-22	5,930
Spread to Euribor	0.59%	1.52%	-0.08%	0.54%	0.58%	-7.42%	0.91%
Fixed rate	259	203	228	43	168	-	900
Interest rate	5.42%	5.84%	3.22%	3.63%	6.43%	-	5.06%
AMERICAS	2,135	738	429	1,180	483	477	5,443
Instruments in USD	-162	-7	96	972	58	341	1,298
Floating rate	-132	-118	10	907	12	73	753
Spread	-2.94%	-0.55%	61.78%	0.04%	0.77%	0.56%	1.53%
Fixed rate	-30	111	86	64	47	268	546
Interest rate	3.32%	5.10%	4.09%	4.75%	5.61%	5.53%	5.26%
Instruments in ARS	126	57	-	-	-	-	183
Floating rate	-	-	-	-	-	-	-
Spread	-	-	-	-	-	-	-
Fixed rate	126	57	-	-	-	-	183
Interest rate	7.35%	9.48%	-	-	-	-	8.01%
Instruments in BRL	532	444	18	37	145	17	1,193
Floating rate	365	444	18	37	145	17	1,026
Spread	0.19%	0.12%	0.12%	-	-	3.95%	0.19%
Fixed rate	167	-	-	-	-	-	167
Interest rate	10.40%	-	-	-	-	-	10.40%
Instruments in CLP	430	82	180	79	-	-	771
Floating rate	260	-	20	18	-	-	298
Spread	-	-	-0.35%	-0.33%	-	-	-0.04%
Fixed rate	170	82	160	62	-	-	474
Interest rate	4.05%	4.49%	4.82%	5.14%	-	-	4.53%
Instruments in UFC	1	1	1	1	1	1	4
Floating rate	-	-	-	-	-	-	-
Spread	-	-	-	-	-	-	-
Fixed rate	1	1	1	1	1	1	4
Interest rate	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%	7.85%
Instruments in PEN	138	25	-	-	-	-	163
Floating rate	-	-	-	-	-	-	-
Spread	-	-	-	-	-	-	-
Fixed rate	138	25	-	-	-	-	163
Interest rate	4.72%	5.32%	-	-	-	-	4.81%
Instruments in COP	245	58	128	-	-	-	430
Floating rate	97	-	-	-	-	-	97
Spread	0.00%	-	6.50%	-	-	6.50%	0.00%
Fixed rate	148	58	128	-	-	-	334
Interest rate	9.20%	8.79%	8.04%	-	-	-	8.68%
Instruments in MXN	810	80	7	92	279	118	1,385
Floating rate	702	13	3	88	277	-	1,084
Spread	-0.01%	-0.66%	-0.52%	2.59%	0.60%	-	0.35%
Fixed rate	108	67	3	3	2	118	301
Interest rate	7.75%	7.93%	8.83%	8.83%	8.83%	9.25%	8.41%
Instruments in GTQ	15	-	-	-	-	-	15
Floating rate	15	-	-	-	-	-	15
Spread	-	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-	-
Interest rate	-	-	-	-	-	-	-
ASIA	-	-	-	-	-	1	1
Instruments in JPY	-	-	-	-	-	1	1
Floating rate	-	-	-	-	-	1	2
Spread	3.79%	3.79%	3.79%	-	-	3.79%	3.79%
Fixed rate	-	-	-	-	-	-	-
Interest rate	1.80%	0.03%	-	-	-	-	0.03%
AFRICA	-	-	-	-	-	91	91
Instruments in MAD	-	-	-	-	-	91	91
Floating rate	-	-	-	-	-	-	-
Spread	-	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	91	91
Interest rate	-	-	-	-	-	4.54%	4.54%
TOTAL	4,455	3,035	917	2,450	962	547	12,366
Exchange rate options	-	-	-	-	-	-	-
TOTAL	4,455	3,035	917	2,450	962	547	12,366

TELEFÓNICA MÓVILES GROUP'S MARKET SENSITIVE FINANCIAL INSTRUMENTS
Instruments outstanding at December 31, 2004

(Millions of euros)

	<u>MATURITIES</u>						
	2005	2006	2007	2008	2009	Subsequent years	TOTAL
EURO	2,4	3,096	2,275	306	223	503	8,803
Floating rate	1,079	2,853	2,089	95	197	43	6,356
Spread to Euribor	-0.77%	0.41%	1.52%	-1.08%	0.79%	0.57%	0.57%
Fixed rate	1,321	243	186	211	26	460	2,447
Interest rate	5.14%	5.68%	6.23%	3.35%	4.98%	5.29%	5.15%
AMERICAS	188	250	282	356	756	426	2,258
Instruments in USD	-916	-188	5	121	684	418	124
Floating rate	-1,238	-93	-22	121	668	90	-474
Spread	-0.13%	-0.90%	-4.00%	4.49%	0.33%	0.10%	-2.33%
Fixed rate	322	-95	27	-	16	328	598
Interest rate	5.04%	-4.00%	5.23%	5.68%	6.08%	5.39%	6.70%
Instruments in ARS	15	7	50	-	-	-	72
Floating rate	15	-	-	-	-	-	15
Spread	-	-	-	-	-	-	-
Fixed rate	-	7	50	-	-	-	57
Interest rate	-	9.25%	9.48%	-	-	-	9.45%
Instruments in BRL	416	233	58	85	3	6	801
Floating rate	336	233	58	85	3	4	719
Spread	0.502%	-4431%	1284%	1072%	3781%	-	-0.95%
Fixed rate	80	-	-	-	-	2	82
Interest rate	16364%	-	-	-	-	-	15.97%
Instruments in CLP	260	-	65	144	63	-	532
Floating rate	260	-	-	16	14	-	290
Spread	-	-	-	-0.35%	-0.33%	-	-0.04%
Fixed rate	-	-	65	128	49	-	242
Interest rate	-	-	4.49%	4.82%	5.14%	-	4.80%
Instruments in PEN	133	11	8	-	-	-	152
Floating rate	48	-	-	-	-	-	48
Spread	-	-	-	-	-	-	-
Fixed rate	85	11	8	-	-	-	104
Interest rate	4.53%	5.95%	5.35%	-	-	-	4.75%
Instruments in COP	129	95	30	-	-	-	254
Floating rate	129	5	-	-	-	-	134
Spread	0.37%	4.00%	-	-	-	-	0.50%
Fixed rate	-	90	30	-	-	-	120
Interest rate	-	9.32%	10.55%	-	-	-	9.63%
Instruments in MXN	150	92	66	6	6	2	322
Floating rate	3	3	11	3	3	1	24
Spread	-8.48%	2.97%	-0.66%	-0.52%	-0.52%	-0.52%	-1.14%
Fixed rate	147	89	55	3	3	1	298
Interest rate	3.98%	7.75%	7.93%	8.83%	8.83%	8.83%	5.95%
Instruments in GTQ	1	-	-	-	-	-	1
Floating rate	-	-	-	-	-	-	-
Spread	-	-	-	-	-	-	-
Fixed rate	1	-	-	-	-	-	1
Interest rate	10.50%	-	-	-	-	-	10.50%
ASIA	-	-	-	-	-	-	-
Instruments in JPY	-	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-	-
Spread	-	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-	-
Interest rate	-	-	-	-	-	-	-
AFRICA	31	-	-	-	-	-	31
Instruments in MAD	31	-	-	-	-	-	31
Floating rate	-	-	-	-	-	-	-
Spread	-	-	-	-	-	-	-
Fixed rate	31	-	-	-	-	-	31
Interest rate	4.23%	-	-	-	-	-	4.23%
TOTAL	2,619	3,346	2,557	662	979	929	11,092
Exchange rate options	22	-	-	-	-	-	22

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Brasilcel, N.V. (NETHERLANDS) <i>Joint Venture and holding Company for wireless communications services</i> Strawinskylaan 3105 - 1077ZX - Amsterdam	50,00%	-	50,00%	PC	134	5.829.445	20.428	-
Vivo Brasil Comunicação Ltda (BRAZIL) <i>Holding company</i> Rua da Consolação, 247-6º andar sala 57-São Paulo-SP	-	100,00%	50,00%	PC	18	-	(19.040)	-
Tagilo Participações, S.A. (BRAZIL) <i>Intellectual and industrial property ownership</i> Rua Martiniano de Carvalho 851, 20 andar, Parte, Bela Vista, São Paulo	-	99,99%	50,00%	PC	127.566	6.723	(29)	-
Sudestecel Participações, S.A. (BRAZIL) <i>Holding company</i> Rua Martiniano de Carvalho 851, 20 andar, Parte, Bela Vista, São Paulo	-	100,00%	50,00%	PC	698.697	(25.905)	(14.552)	-
Avista Part. S.L. (BRAZIL) <i>Holding company</i> Rua da Consolação, 247-6º andar sala 57-São Paulo-SP	-	99,99%	50,00%	PC	223.084	(2.750)	(11.961)	-
Tele Sudeste Celular Participações, S.A. (BRAZIL) <i>Holding company</i> Praia de Botafogo 501, 20 andar, parte bela Vista, São Paulo	-	91,02%	45,51%	PC	752.026	269.062	200.603	-
Telerj Celular, S.A. (BRAZIL) <i>Wireless operator</i> Praia de Botafogo 501-5º a 8º Andares, Botafogo-Rio de Janeiro	-	100,00%	45,51%	PC	602.182	61.384	40.895	-
Telerj Celular, S.A. (BRAZIL) <i>Wireless operator</i> Avda Nossa Senhora da Penha 275-Praia de Santa Helena, Vitoria-Espírito Santo	-	100,00%	45,51%	PC	130.514	43.985	11.341	-
TBS Celular Participações, S.A. (BRAZIL) <i>Holding company</i> Avda. Martiniano de Carvalho 851, 20 andar, parte São Paulo, São Paulo	1,12%	96,26%	49,25%	PC	211.929	17.886	9.090	-
Celular CRT Participações, S.A. (BRAZIL) <i>Holding company</i> Rua José Bonifácio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul	-	67,44%	33,50%	PC	118.612	285.467	43.396	-
Celular CRT, S.A. (BRAZIL) <i>Wireless operator</i> Rua José Bonifácio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul	-	100,00%	33,50%	PC	206.590	(13.283)	-	-
Tele Leste Celular Participações, S.A. (BRAZIL) <i>Holding company</i> Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia	-	50,67%	25,33%	PC	130.514	43.985	11.341	-
Telebahia Celular, S.A. (BRAZIL) <i>Wireless operator</i> Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia	-	100,00%	25,33%	PC	129.584	(22.312)	(33.458)	-
Telergipe Celular, S.A. (BRAZIL) <i>Wireless operator</i> Avda Francisco Porto 686, 13 de julho-Aracaju, Sergipe	-	100,00%	25,33%	PC	111.119	16.067	(27.502)	-
Ptelecom Brasil, S.A. (BRAZIL) <i>Holding company</i> Rua Cubatao 320, 4 andar, São Paulo, São Paulo	-	99,99%	49,99%	PC	956.470	(550.118)	(8.034)	-
Portelcom Participações, S.A. (BRAZIL) <i>Holding company</i> Avda Brigadeiro Faria Lima 2277, 15º andar, Conj1503, Jardim Paulistano, São Paulo	-	99,99%	49,99%	PC	1.282.416	(262.214)	(21.975)	-
Telesp Celular Participações, S.A. (BRAZIL) <i>Holding company</i> Av. Roque Petroni Júnior n°1464, 6 andar-parte, bloco B, Morumbi, São Paulo, São Paulo	-	66,08%	33,04%	PC	2.415.595	(638.385)	(289.184)	-

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Telesp Celular S.A. (BRAZIL) <i>Holding company</i> <i>Av.Roque Petroni Júnior nº1464, 6 andar-parte, bloco B, Morumbi, São Paulo, São Paulo</i>	-	100,00%	33,04%	PC	788.151	269.812	55.565	-
Telesp Celular internacional <i>Holding company</i> <i>Av.Roque Petroni Júnior nº1464, 6 andar-parte, bloco B, Morumbi, São Paulo, São Paulo</i>	-	100,00%	33,04%	PC	1	13.128	-	-
Telesp Celular overseas <i>Holding company</i> <i>Av.Roque Petroni Júnior nº1464, 6 andar-parte, bloco B, Morumbi, São Paulo, São Paulo</i>	-	100,00%	33,04%	PC	-	12		-
Global Telecom Telecom S.A. (BRAZIL) <i>Wireless operator</i> <i>Av.Higienópolis, nº1635, Curitiba Parana</i>	-	100,00%	33,04%	PC	1.465.752	(992.036)	(85.465)	-
Tele Centro Oeste Celular Participações, S.A. (BRAZIL) <i>Holding company and telecommunications operator for the commercial sector</i> <i>Sul,Quadra 2, Bloco C, nº226. Edif Telebrasil Celular, 7 andar, Brasília DF</i>	-	52,47%	17,34%	PC	370.022	522.995	106.443	-
Telegoiás Celular, S.A. (BRAZIL) <i>Wireless operator</i> <i>Rua 136-C,Quadra F-44, nº150, Sector Sul Goiania,Goias</i>	-	100,00%	17,34%	PC	94.079	154.416	50.738	-
Telemat Celular, S.A. (BRAZIL) <i>Wireless operator</i> <i>Av.Getúlio Vargas nº1,300, Centro, Cuiabá, Matogrosso</i>	-	100,00%	17,34%	PC	55.064	95.569	35.194	-
Telems Celular, S.A. (BRAZIL) <i>Wireless operator</i> <i>Av.Alfonso Pena nº2,386,Ed Dolor de Andrade, Campo Grande, Matogrosso Do Sul</i>	-	100,00%	17,34%	PC	42.802	66.458	21.652	-
Teleron Celular, S.A. (BRAZIL) <i>Wireless operator</i> <i>Av.Getúlio Vargas nº1,941, Porto Velho, Rondonia</i>	-	100,00%	17,34%	PC	13.504	21.405	4.242	-
Teleacre Celular, S.A. (BRAZIL) <i>Wireless operator</i> <i>Rua Minas Gerais, nº64, Ivete Vargas, Rio Branco-Acre</i>	-	100,00%	17,34%	PC	7.175	11.189	575	-
Norte Brasil Telecom, S.A. (BRAZIL) <i>Wireless operator</i> <i>Travessa Padre Eutiquio nº1,226, Barrio Batista Campos, Belém, Para</i>	-	100,00%	17,34%	PC	65.187	14.105	5.297	-
Tele Centro Oeste IP, S.A. (BRAZIL) <i>Wireless operator AC/Sul Quadra o2, Bloco C, nº256, AC/Sul Quadra o2, Bloco C, nº256, 3º Pavimento, Ed Toufic, Plano Piloto, Brasília, DF</i>	-	100,00%	17,34%	PC	4.151	(3.971)	(98)	-
Telefónica Móviles El Salvador Holding, S.A. de C.V. (EL SALVADOR) <i>Holding company</i> <i>Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador</i>	100,00%	-	100,00%	FC	158.550	(63.950)	(336)	-
Telefónica Móviles El Salvador, S.A. de C.V. (EL SALVADOR) <i>Operator of long distance, international wireless services.</i> <i>Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador</i>	-	99,03%	99,03%	FC	59.346	(41.121)	(5.818)	-
Telefónica Multiservicios, S.A. de C.V. (EL SALVADOR) <i>Cable modem system operator.</i> <i>Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador</i>	-	77,50%	76,75%	FC	7.528	(1.660)	(1.097)	-
Telefónica Móviles Centroamérica, S.A. de C.V. (EL SALVADOR) <i>Operative company</i> <i>Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador</i>	-	100,00%	99,03%	FC	1.211	(63)	208	-
Telefónica El Salvador, S.A. de C.V. (EL SALVADOR) <i>Operative company</i> <i>Alameda Roosevelt y Avenida Sur.Torre Telefónica nivel 10-San Salvador</i>	-	100,00%	99,03%	FC	21	(25)	(19)	-

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
TCG Holdings, S.A. (GUATEMALA) <i>Holding company</i> <i>Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Ciudad de Guatemala</i>	100,00%	-	100,00%	FC	351.160	(1.448)	183	-
Telefónica Móviles Guatemala, S.A. (GUATEMALA) <i>Provision of wireless, wireline and radio paging communications services</i> <i>Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Ciudad de Guatemala</i>	-	100,00%	100,00%	FC	248.893	(148.303)	(2.006)	-
Infraestructura Internacional, S.A. (GUATEMALA) <i>Provision of telecommunications and radio paging services</i> <i>5ª avenida, 7-76 Zona 10, Ciudad de Guatemala</i>	-	70,00%	70,00%	FC	483	(170)	(48)	-
PageMart de Centroamérica. (GUATEMALA) <i>Operative company</i> <i>Bulevar Los Próceres 5-56 Zona 10 - Univentro Nivel 11, Ciudad de Guatemala</i>	-	30,00%	30,00%	FC	-	-	-	-
Central America Servies Holding Ltd. (BRITISH VIRGIN ISLANDS) <i>Inactive company</i> <i>Palm Grove House, PO Box 438, tortola, BVI</i>	-	100,00%	100,00%	FC	-	-	-	-
Telefónica Móviles España, S.A., unipersonal. (SPAIN) <i>Provision of wireless communications services</i> <i>Plaza de la Independencia 6 - Pta.5 28001 MADRID</i>	100,00%	-	100,00%	FC	476.514	393.360	2.104.850	(700.000)
TLD Top Level Domain Ltd. (IRELAND) <i>Inactive company</i>	-	5,00%	5,00%	C	-	-	-	-
Spiral Investments B.V. (NETHERLANDS) <i>Holding company</i> <i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>	-	100,00%	100,00%	FC	38.535	(135.712)	(3.190)	-
3G Mobile AG. (SWITZERLAND) <i>Wireless operator</i> <i>Bahnhofplatz 4, 8001 Zurich</i>	-	100,00%	100,00%	FC	35.432	(77.453)	(2.633)	-
Mobipay España, S.A. (SPAIN) <i>Provision of payment services through wireless telephony</i> <i>Avda. Europa 20 - Alcobendas - Madrid</i>	-	13,36%	13,36%	EM	16.052	7.962	(4.791)	-
Solivella Investments B.V. (NETHERLANDS) <i>Holding company</i> <i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>	-	100,00%	100,00%	FC	880.699	(1.412.276)	(90.041)	-
Ipse 2000, S.p.A. (ITALY) <i>Installation and execution of third-generation telecommunications services</i> <i>Piazza dei Capprettari, 70 - Roma</i>	-	45,59%	45,59%	EM	150.500	81.556	(1.223.388)	-
Group 3G UMTS Holding GmbH. (GERMANY) <i>Network development and provision of third-generation telecommunications services</i> <i>Alois-Wolfmüller-Str.8 80939 München</i>	-	57,20%	57,20%	FC	250.025	(965.509)	(32.837)	-
Quam GmbH. (GERMANY) <i>Provider of UMTS services</i> <i>Alois-Wolfmüller-Str.8 80939 München</i>	-	100,00%	57,20%	FC	250.025	9.001.113	(7.320)	-
Opco Mobile Services GmbH. (GERMANY) <i>Provider of UMTS services</i> <i>Alois-Wolfmüller-Str.8 80939 München</i>	-	100,00%	57,20%	FC	50	(1)	-	-
Medi Telecom, S.A. (MOROCCO) <i>Provision of wireless communications services</i> <i>Twin Center, Tour A.Angle Bd Zertouni et El Massira El Kadra Casablanca</i>	-	32,18%	32,18%	EM	427.935	(320.942)	11.273	-
Terra Mobile, Brasil Ltd. (BRAZIL) <i>Inactive company</i> <i>22° ANDAR 17 - Bairro ou Distrito FLAMENCO, Rio de Janeiro</i>	-	100,00%	100,00%	FC	5.650	(5.634)	-	-
Gruppo 3G, SRL. (ITALY)	-	100,00%	100,00%	C	67	-	-	-

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Holding company Via Lepetit, 4 - Milán								

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Tempos 21, Innovación en Aplicaciones Móviles, S.A. (SPAIN) <i>Research, development and commercial operation of wireless services and applications</i> <i>Avda. Diagonal, 640 - Barcelona</i>	-	38,50%	38,50%	EM	4.638	-	(3.331)	-
Simpay, Ltd. (UK) <i>Payment services through wireless telephony</i> <i>62-65 Chandos Place, London WC2N 4LP</i>	25,00%	-	25,00%	C	-	-	-	-
Omicron Ceti, S.L. (SPAIN) <i>Inactive company</i> <i>José Abascal, Madrid</i>	100,00%	-	100,00%	C	-	-	-	-
Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO) <i>Ownership of wireless operators in Puerto Rico</i> <i>Metro Office Park Calle Edificio # 17, Suite 600 - 00968 Guaynabo</i>	100,00%	-	100,00%	FC	83.593	(73.140)	(1.899)	-
Newcomm Wireless Services, Inc. <i>Wireless operator</i>	-	49,30%	49,30%	C	-	-	-	-
OMTP Limited (Open Mobile Terminal Platform) <i>Inactive company</i>	2,04%	-	2,04%	C	-	-	-	-
MobiPay Internacional, S.A. (SPAIN) <i>Provision of payment services through wireless telephony</i> <i>Avda. Europa 20 - Alcobendas - Madrid</i>	50,00%	-	50,00%	PC	11.822	(3.579)	(2.420)	-
Telefónica Móviles Perú Holding, S.A. (PERU) <i>Holding company</i> <i>Avda. Arequipa, 1155 Lima, 01</i>	97,97%	-	97,97%	FC	180.708	31.931	(4.328)	-
Telefónica Móviles Perú, S.A. (PERU) <i>Provision of wireless communications services.</i> <i>Avda. Arequipa 1155 Lima, 01</i>	0,09%	99,89%	98,03%	FC	38.518	183.430	(4.704)	-
Inmuebles Aries SAC (PERU) <i>Services company</i>	-	100,00%	98,03%	FC	-	-	-	-
Billing&Management (PERU) <i>Services company</i>	-	100,00%	98,03%	FC	-	-	-	-
Telefónica Móviles Argentina, S.A. (ARGENTINA) <i>Holding company</i> <i>Ing Huergo 723, piso 17 - Capital Federal - Argentina</i>	100,00%	-	100,00%	FC	450.631	(732.505)	(138.249)	-
Telefónica Comunicaciones Personales, S.A. (ARGENTINA) <i>Provision of wireless communications services</i> <i>Ing Huergo 723, piso 17 - Capital Federal - Argentina</i>	-	100,00%	100,00%	FC	344.664	(625.978)	(1.864)	-
Radio Servicios, S.A. (ARGENTINA) <i>Inactive company</i> <i>Ing Huergo 723, piso 17 - Capital Federal - Argentina</i>	-	100,00%	100,00%	EM	12	(339)	(20)	-
Telefónica de Centroamérica, S.L. (SPAIN) <i>Inactive company</i> <i>Gran Vía, nº 28, Madrid</i>	100,00%	-	100,00%	C	500	10	(127)	-
Telefónica Móviles Holding Uruguay, S.A. (URUGUAY) <i>Inactive company</i> <i>Plaza de la Independencia 8, planta baja - Montevideo</i>	100,00%	-	100,00%	FC	30.332	-	(299)	-
Telefónica Móviles Uruguay, S.A. (URUGUAY) <i>Inactive company</i> <i>Plaza de la Independencia 8, planta baja - Montevideo</i>	-	100,00%	100,00%	FC	24.006	-	(88)	-
Wireless Network Ventures. (BRITISH VIRGIN ISLANDS) <i>Holding company</i> <i>Palm Grove House, PO Box 438, tortola, BVI</i>	-	100,00%	100,00%	FC	-	-	-	-
Telefónica Móviles México, S.A. de C.V. (MEXICO)	100,00%	-	100,00%	FC	1.772.134	(1.468.501)	(405.943)	-

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
<i>Holding company</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>								

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Telefónica Finanzas México, S.A. de C.V. (MEXICO) <i>Promotion, formation, organization, exploitation, operation and participation of companies' capital stock</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	4	1.154	1.836	-
Baja Celular Mexicana, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	119.189	(55.305)	2.071	-
Movitel de Noroeste, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	90,00%	90,00%	FC	17.269	(19.745)	(3.721)	-
Moviservicios, S.A. de C.V. (MEXICO) <i>Technical, administrative, consultancy, advisory and supervision services.</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	99,99%	99,99%	FC	2.221	744	13	-
Telefonía Celular del Norte, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	36.818	(107.693)	2.544	-
Celular de Telefonía, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	29.493	(144.927)	(17.880)	-
Enlaces del Norte, S.A. de C.V. (MEXICO) <i>Acquisition, disposal and custodianship of securities</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	94,90%	94,90%	FC	44	(10.589)	12.151	-
Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	97,40%	FC	702	(9.067)	25.506	-
Pegaso Telecomunicaciones, S.A. de C.V. (MEXICO) <i>Installation, maintenance and operation of public or private telecommunications networks</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	888.509	(1.924.445)	(387.046)	-
Pegaso Comunicaciones y Sistemas, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	704.137	(1.380.697)	85.764	-
Pegaso PCS, S.A. de C.V. (MEXICO) <i>Provision of wireless local loop services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	12.625	(388.644)	(521.986)	-
Pegaso Recursos Humanos, S.A. de C.V. (MEXICO) <i>Technical professional services for the development of public telecommunications networks</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	2.781	950	(1.835)	-
Activos para Telecoms., S.A. de C.V. (MEXICO) <i>Provision of handsfree wireless telecommunications services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120 05120</i>	-	100,00%	100,00%	FC	4	(100.302)	74.728	-
Telecomunicaciones Punto a Punto Mexico, S.A. de C.V. (MEXICO) <i>Provision of handsfree wireless telecommunications services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, México, D.F. 05120</i>	-	100,00%	100,00%	FC	4	(38.780)	(699)	-
Telefónica Telecomunicaciones México. (MEXICO) <i>Holding company</i> <i>Río Duero 31, México DF 06500</i>	94,90%	-	94,90%	FC	-	-	-	-
Telefónica Móviles Soluciones y Aplicaciones, S.A. (CHILE) <i>Provision of computer and communications services</i> <i>Avda del Cóndor n°720, piso4, comuna de Huechuraba, de la Ciudad de Santiago de Chile</i>	100,00%	-	100,00%	FC	13.956	(6.089)	(3.019)	-
Inversiones Telefónica Móviles Holding Limitada. (CHILE) <i>Holding company</i>	100,00%	-	100,00%	FC	428.232	264.207	(32.396)	-

	Holding			Consolidation Method	Equity (2) (thousands of euros)			
Subsidiaries and their holdings (1)	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
<i>Av.El Bosque Sur 090, Las Condes, Santiago de Chile</i>								

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Pleyade Chile (CHILE) <i>Wireless operator</i> <i>Av.El Bosque Sur 090, Las Condes, Santiago de Chile</i>		0,17%	0,17%	C	-	-	-	-
TEM Inversiones Chile Limitada. (CHILE) <i>Holding company</i> <i>Av.El Bosque Sur 090, Las Condes, Santiago de Chile</i>	-	100,00%	100,00%	FC	1.119.977	12.483	(25.202)	-
Telefónica Moviles Chile Distribucion S.A. (CHILE) <i>Wireless operator</i> <i>Fidel Oteiza 1953, Oficina 201, Providencia, Santiago de Chile</i>	-	100,00%	99,99%	FC	17	-	(39)	-
Telefónica Moviles de Chile S.A. (CHILE) <i>Wireless operator</i> <i>Av.El Bosque Sur 090, Las Condes, Santiago de Chile</i>	-	100,00%	100,00%	FC	292.639	(47.620)	(170.589)	-
TEM eServices Latin America, Inc. (USA) <i>Provider of computer services</i> <i>Mellon Financial Center 1111 Brickell ave. Suite 1000, Miami, Florida 33131</i>	100,00%	-	100,00%	FC	12.131	(1.786)	4.617	-
Ecuador Cellular Holding, B.V. (ECUADOR) <i>Holding company</i> <i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>	100,00%	-	100,00%	FC	18	640.172	132	-
BS Ecuador Holdings, Ltd. (BRITISH VIRGIN ISLANDS) <i>Holding company</i> <i>Palm Grove House, PO Box 438, tortola, BVI</i>	-	100,00%	100,00%	FC	-	-	-	-
Otecel, S.A. (ECUADOR) <i>Provision of wireless communications services</i> <i>Avda. de la República y la Pradera esq. Casilla, Quito</i>	-	100,00%	100,00%	FC	93.749	62.908	2.561	-
Cellular Holdings (Central America), Inc. (BRITISH VIRGIN ISLANDS) <i>Inactive company</i> <i>Palm Grove House, PO Box 438, tortola, BVI</i>	100,00%	-	100,00%	FC	-	-	-	-
Guatemala Cellular Holdings, B.V. (NETHERLANDS) <i>Holding company</i> <i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>	100,00%	-	100,00%	FC	18	27.712	(13)	-
TMG (BVI) Holdings Ltd. (BRITISH VIRGIN ISLANDS) <i>Inactive company</i> <i>Palm Grove House, PO Box 438, tortola, BVI</i>	-	100,00%	100,00%	FC	-	-	-	-
Centram Communications, LP. (BRITISH VIRGIN ISLANDS) <i>Inactive company</i> <i>Palm Grove House, PO Box 438, tortola, BVI</i>	-	100,00%	100,00%	FC	-	-	-	-
TEM Guatemala Ltd. (BRITISH VIRGIN ISLANDS) <i>Holding company</i> <i>Palm Grove House, PO Box 438, tortola, BVI</i>	-	100,00%	100,00%	FC	-	-	-	-
Multi Holding Corporation. (PANAMA) <i>Holding company</i> <i>Edificio HSBC, Piso11, Avd Samuel Lewis, Panamá, República de Panamá</i>	99,96%	-	99,96%	FC	-	-	-	-
Panamá Cellular Holdings, B.V. (NETHERLANDS) <i>Holding company</i> <i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>	100,00%	-	100,00%	FC	18	243.367	(7.404)	-
BellSouth Panamá, Ltd. (CAYMAN ISLANDS) <i>Inactive company</i> <i>Cayman Islands</i>	-	100,00%	100,00%	FC	-	-	-	-
Panamá Cellular Holdings, B.V. (USA) <i>Holding company</i>	-	100,00%	100,00%	FC	-	-	-	-

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Delaware, USA								

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
BSC de Panama Holdings, SRL. (PANAMA) <i>Holding company</i> <i>Avda Samuel Lewis y Calle 54 - Edificio Afra, Panamá</i>	-	100,00%	100,00%	FC	-	100.646	2.082	-
BSC Cayman. (CAYMAN ISLANDS) <i>Inactive company</i> <i>General Partnership - Cayman Islands</i>	-	100,00%	99,98%	FC	-	-	-	-
Telefónica Móviles Panamá, S.A. (PANAMA) <i>Wireless operator</i> <i>Edificio Magna Corp. Calle 51 Este y Avda Manuel Maria Icaza, Ciudad de Panamá</i>	-	100,00%	100,00%	FC	78.096	110.287	41.639	-
Panamá Cellular Investments, LLC. (USA) <i>Services company</i> <i>Delaware, USA</i>	-	100,00%	100,00%	FC	-	-	-	-
Latin America Cellular Holdings, B.V. (NETHERLANDS) <i>Holding company</i> <i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>	100,00%	-	100,00%	FC	18	1.251.407	(17.205)	-
Ablitur, S.A. (URUGUAY) <i>Holding company</i> <i>Constituyente 1467 Piso 23, Montevideo 11200, Uruguay</i>	-	100,00%	100,00%	FC	44.799	(10.623)	8.765	-
Redanil, S.A. (URUGUAY) <i>Holding company</i> <i>Constituyente 1467 Piso 23, Montevideo 11200, Uruguay</i>	27,00%	73,00%	100,00%	FC	6.318	21.086	1.203	-
Abiatar, S.A. (URUGUAY) <i>Wireless operator and services</i> <i>Constituyente 1467 Piso 23, Montevideo 11200, Uruguay</i>	-	100,00%	100,00%	FC	6.880	24.987	659	-
T.Móviles Nicaragua, S.A. (NICARAGUA) <i>Holding company</i> <i>Managua, Nicaragua</i>	-	100,00%	100,00%	FC	-	-	-	-
Pisani Resources y Cia, Ltd. (NICARAGUA) <i>Inactive company</i> <i>Managua, Nicaragua</i>	-	100,00%	100,00%	FC	-	-	-	-
Doric Holding y Cia, Ltd. (NICARAGUA) <i>Inactive company</i> <i>Managua, Nicaragua</i>	-	100,00%	100,00%	FC	-	-	-	-
Kalamai Holdings, Ltd. (Virgin Islands) <i>Inactive company</i> <i>Managua, Nicaragua</i>	-	100,00%	100,00%	FC	-	-	-	-
Kalamai Hold. Y Cia, Ltd. (NICARAGUA) <i>Inactive company</i> <i>Palm Grove House, PO Box 438, tortola, BVI</i>	-	100,00%	100,00%	FC	-	-	-	-
Telefonía Celular de Nicaragua, S.A. (NICARAGUA) <i>Wireless operator</i> <i>Carretera Mazalla, Managua, Nicaragua</i>	-	100,00%	100,00%	FC	12.329	35.317	(6.957)	-
Comtel Comunicaciones Telefónicas, S.A. (VENEZUELA) <i>Holding company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	65,14%	34,86%	100,00%	FC	671	104.192	(107.421)	-
Telcel, C.A. (VENEZUELA) <i>Wireless operator</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	91,63%	8,37%	100,00%	FC	26.195	430.240	187.980	-
Sistemas Timetrac, C.A. (VENEZUELA) <i>Fleet locating services</i>	-	75,00%	75,00%	FC	1.689	9.601	-	-

	Holding			Consolidation Method	Equity (2) (thousands of euros)			
Subsidiaries and their holdings (1)	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
<i>Calle Pantin, Edificio Grupo Secusat, piso3, Caracas - Venezuela</i>								

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Telcel International, Ltd. (CAYMAN ISLANDS) <i>Holding company</i> <i>Cayman Islands</i>	-	100,00%	100,00%	FC	-	127	-	-
Corporación 271191, C.A. (VENEZUELA) <i>Telecommunication services and customer services</i> <i>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela</i>	-	100,00%	100,00%	FC	211	-	-	-
Promociones 4222, C.A. (VENEZUELA) <i>Sale and purchase of real estate</i> <i>Av. Francisco de Miranda, Edif Parque Cristal</i>	-	100,00%	100,00%	FC	745	(731)	-	-
S.T. Mérida, C.A. (VENEZUELA) <i>Telecommunication services and customer services</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	1	(1)	-	-
S.T. Ciudad Ojeda, C.A. (VENEZUELA) <i>Telecommunication services and customer services</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	1	(1)	-	-
S.T. San Cristóbal, (VENEZUELA) <i>Telecommunication services and customer services</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	1	-	-	-
S.T. Maracaibo, C.A. (VENEZUELA) <i>Telecommunication services and customer services</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	2	9	-	-
S.T. Punto Fijo, C.A. (VENEZUELA) <i>Telecommunication services and customer services</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	1	(1)	-	-
S.T. Valera, C.A. (VENEZUELA) <i>Telecommunication services and customer services</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	1	(1)	-	-
S.T. Valencia, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
SyRed, T.E.L., C.A. (VENEZUELA) <i>Telecommunication services and customer services</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	70	(141)	-	-
Servicios Telcel Acarigua, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
Servicios Telcel Barquisimeto, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
Serv. Telcel Charallave. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
S.T. Cumana, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
S.T. Guarenas, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
S.T. Los Teques, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
S.T. Maracay, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
S.T. Margarita, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
S.T. Maturín, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
S.T. Puerto Ordaz, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
S.T. Puerto la Cruz, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
S.T. La Guaira, C.A. (VENEZUELA) <i>Inactive company</i> <i>Av Francisco de Miranda, Edif Parque Cristal, Caracas 1060 - Venezuela</i>	-	100,00%	100,00%	FC	-	-	-	-
Olympic, Ltda. (COLOMBIA) <i>Holding company</i> <i>Av.82 n° 10 - 62, piso 6</i>	-	100,00%	100,00%	FC	31	935.732	(18.134)	-
Telefónica Móviles Colombia, S.A. (COLOMBIA) <i>Wireless operator</i> <i>Calle 100 n°7-33, piso 15, Bogotá - Colombia</i>	22,44%	77,56%	100,00%	FC	347	1.113.632	1.568	-
Bautzen Inc. (PANAMA) <i>Financial management</i> <i>Ciudad de Panamá</i>	-	100,00%	100,00%	FC	255	(244)	-	-
Comoviles S.A. (COLOMBIA) <i>Telecommunications services</i> <i>Calle 100, n°7-33, piso 17, Bogotá</i>	-	99,97%	99,97%	FC	-	206	(8)	-
Comunicaciones Trunking S.A. (COLOMBIA) <i>Telecommunications services</i> <i>Calle 100, n°7-33, piso 16, Bogotá</i>	-	99,98%	99,95%	FC	21	79	(8)	-
Paracomunicar S.A. (COLOMBIA) <i>Telecommunications services</i> <i>Calle 100, n°7-33, piso 17, Bogotá</i>	-	99,35%	99,31%	FC	-	2	4	-
Kobrocom Electrónica Ltda. (COLOMBIA) <i>Telecommunications services</i> <i>Calle 100, n°7-33, piso 15, Bogotá</i>	-	100,00%	99,95%	FC	53	(20)	(1)	-
Telefónica Móviles Chile Inversiones. S.A. (CHILE) <i>Holding company</i> <i>Avda. El Bosque Sur 090, Las Condes, Santiago de Chile</i>	100,00%	-	100,00%	FC	31.722	(44.657)	(1.787)	-
Telefónica Moviles Chile larga Distancia, S.A. (CHILE) <i>Wireless operator</i> <i>Avda. El Bosque Sur 090, Las Condes, Santiago de Chile</i>	-	100,00%	100,00%	FC	31.747	(45.286)	(582)	-
Telefónica Moviles Chile, S.A. (CHILE) <i>Wireless operator</i> <i>Avda. El Bosque Sur 090, Las Condes, Santiago de Chile</i>	100,00%	-	100,00%	FC	341.618	8.795	10.620	-
Intertel, S.A. (CHILE) <i>Wireless operator</i> <i>Avda. El Bosque Sur 090, Las Condes, Santiago de Chile</i>	-	100,00%	100,00%	FC	-	15	(1)	-

Subsidiaries and their holdings (1)	Holding			Consolidation Method	Equity (2) (thousands of euros)			
	% Direct	% Indirect	Móviles Group		Capital	Reserves	Profit (loss)	Interim Dividend
Telefonica Moviles Inversora.S.A. (ARGENTINA) <i>Holding company</i> <i>Av. Libertador 602, Piso 20, Buenos Aires</i>	-	100,00%	100,00%	FC	24	424	(173)	-
B.A. Celular Inversora.S.A. (ARGENTINA) <i>Holding company</i> <i>Av. Libertador 602, Piso 4, Buenos Aires</i>	-	100,00%	100,00%	FC	24	405	(168)	-
Compañía Radiocomunicaciones Móviles.S.A. (ARGENTINA) <i>Wireless operator</i> <i>Ingeniero Butty 240, Piso 4, Buenos Aires.</i>	27,26%	72,74%	100,00%	FC	7.760	112.574	(42.509)	-
Compañía de telefonos del Plata. (ARGENTINA) <i>Wireless operator</i> <i>Av. Libertador 602, Piso 4, Buenos Aires</i>	-	100,00%	100,00%	FC	7	861	(25)	-

(1) The data on companies outside the euro zone were translated to euros by applying the year-end exchange rates to capital and reserves and the average exchange rates for the period to their results

(2) This caption does not include the equity of minority stockholders.

TELEFÓNICA MÓVILES, S.A.

MANAGEMENT REPORT FOR 2005

After completing the acquisitions of BellSouth's cellular operators in Argentina and Chile at the beginning of January, 2005 marked a new starting point for Telefónica Móviles as a larger operator, with a presence in 15 countries representing a total population of nearly 500 million. Its operators in these countries all enjoy solid competitive positions (ranking first or second in the main markets).

The year also featured the integration of the 10 BellSouth operators, technological migration in six countries and strong competitive pressure, with the managed customer base reaching 94.3 million vs. 74.4 million in 2004 and strengthening Telefónica Móviles' position as one of the world largest operators.

The Group's operating and financial results in 2005 were shaped by a series of significant factors during the year. The most important can be summarized as follows:

- Telefónica Móviles made significant progress in the integration of the 10 BellSouth operators, and in record time. Considerable savings were achieved from the various initiatives undertaken, mainly in the four countries where Telefónica Móviles was already present (Argentina, Chile, Guatemala and Peru), via the unification of commercial plans, the renegotiation of contracts with dealers and network maintenance contracts, and the unification of points of sale and call centers.

A clear example of the integration process was the unification of Telefónica Móviles' operations in 13 Spanish-speaking countries under the Movistar brand. The launch of the new brand, which took place in April, entailed a rebranding in various countries (Venezuela, Colombia, Ecuador, Panama, Uruguay and Nicaragua); the unification of two brands in other markets (Argentina, Chile, Guatemala and Peru); and the renovation of the Movistar brand in others (Spain, Mexico and El Salvador).

- The company also embarked on a regionalization process to integrate the management of operations in Latin America around four regions: the northern region (Mexico, Guatemala, El Salvador, Nicaragua and Panama), Brazil, the Andean region (Colombia, Ecuador, Peru and Venezuela) and the Southern Cone (Argentina, Chile and Uruguay). Accordingly, the projects carried out in 2005 led to important savings, mostly from the centralized handset and infrastructure management, while leveraging synergies come from managing higher volumes.
- Notable developments included the deployment of new GSM networks in Colombia, Ecuador, Nicaragua, Panama, Peru and Uruguay and the improved coverage and capacity of GSM networks in Argentina, Chile, Guatemala, El Salvador and Mexico.
- The strong growth of the penetration rate in Latin America produced a large increase in commercial activity in the main markets, in line with Telefónica Móviles' commitment to capturing the growth of the region's high potential markets, amid a fiercely competitive backdrop.

We would highlight that the number of customers in the region increased by more than 13.8 million (33.5%) in 2005 to 70.4 million.

- In 2005, Brazil witnessed robust market growth and much stronger commercial efforts by competitors, particularly in the higher value segments. The estimated penetration rate in Vivo's areas of operation rose to 50%. In this setting, Vivo geared its commercial efforts towards acquiring and retaining higher value customers, enlarging its customer base by 12% to 29.8 million.

At the same time, Vivo launched the first wireless handset services in Brazil based on its CDMA2000 1xEV-DO (evolution-data optimized) network. This technology provides internet access speed of up to 2.4Mb/second, much higher than the domestic broadband speed.

- In Argentina, market growth accelerated sharply in 2005, driven by the country's healthy macroeconomic setting and a pick-up in the competitive environment. The estimated penetration rate reached 55.1%, nearly 20 percentage points (p.p.) more than in 2004. Telefónica Móviles Argentina's customer base grew sharply, with net adds of 2.6 million in the year to a total of 8.3 million, 45% more than the year before. GSM customers now account for 52% of the total.
- In Mexico, particularly from the second half of the year, Telefónica Móviles focused on developing a quality distribution network and upgrading its processes, enhancing customer service and service quality. The Company also reinforced its commercial strategy to reduce the churn rate by adjusting the pace of its commercial activity and improving its scoring systems. Its customer base at year-end 2005 stood at 6.37 million, up 13% on 2004. GSM customers represented 88% of the total (72% in 2004).
- The Colombian cellular market registered the highest growth of all Latin America, with an increase in the estimated penetration rate of more than 25 p.p. to over 47.5% at year end. After the commercial launch of GSM in July, Telefónica Móviles Colombia again stepped up the pace of commercial activity, enlarging its customer base to over 6 million by the end of the year, 83% more than in 2004. The success of the Christmas campaign, aimed at attracting GSM customers, generated a high percentage of gross adds in this technology and only five months after its launch GSM customers accounted for over 27% of the total customer base.
- Venezuela's wireless telephony market also grew substantially in 2005, reaching an estimated penetration rate of 46%, nearly 15 p.p. higher than in 2004. Telefónica Móviles Venezuela ended the year with more than 6 million customers, a 39% increase. Particularly notable was the launch in December of services based on EV-DO technology. The network provides coverage to Venezuela's 26 largest urban areas, representing 80% of the total population.
- The Chile wireless market remained buoyant, registering a 10 p.p. increase in the estimated penetration rate (to over 71%) despite the high starting point. Telefónica Móviles Chile ended 2005 with 5.3 million customers, with net adds in the year of 525,000. GSM customers accounted for 51% of the total customer base.
- In Spain, the wireless telephony business faced strong competitive pressure, which led to estimated market growth of over 10% with respect to 2004 and an estimated penetration rate at the end of the year of 96.6%. In this setting, Telefónica Móviles España (TME) achieved net adds of nearly one million lines, with its customer base edging the 20 million mark, representing a 5% increase from the year before. Noteworthy were the strong commercial efforts made throughout the year: including adds, migrations and handset exchanges, TME carried out 10.7 million commercial initiatives in 2005, its highest ever.

In line with the Company's focus on value, especially noteworthy is the increase in contract gross adds (+30%). As a result of this and ongoing efforts to encourage prepaid to contract migrations (nearly 1 million in 2005), the contract segment represented nearly 54% of TME's total customer base (+5 p.p vs. 2004).

TME also launched a series of commercial initiatives that not only provided an important tool for enhancing customer loyalty and encouraging usage, but also helped contain the churn rate despite competitors' aggressive commercial activity, while at the same time boosting traffic volume.

The company also continued with the rollout of a high quality UMTS network, with more than 5,000 base stations at the end of 2005 (3,800 in December 2004). TME became the first operator in Spain and one of the first in the world to demonstrate the development of HSDPA (High Speed Downlink Packet Access) technology in a real environment.

In addition, in June, TME was awarded a block of 4 Mhz in the GSM 900 band in the tender organized by the Ministry of Industry, Tourism and Commerce, which awarded three concessions for wireless services in the 900MhZ band. TME will use these frequencies to complete the coverage and capacity of its GSM network and to enhance the service offered to its customers.

- In Morocco, Medi Telecom's customer base grew considerably, ending the year at over 4 million, a 47% increase from 2004.

The main changes in the consolidation scope over the last two years are as follows:

2005

- The acquisitions of 100% of BellSouth's Chilean and Argentine operators completed on January 7 and January 11, 2005, respectively, thereby completing the purchase of the Latin American operators from BellSouth.

The acquisition of BellSouth's Chilean operators closed on January 7, 2005. The value assigned to these companies in the share purchase agreement dated March 5, 2004 was 532 million dollars. The acquisition cost for Telefónica Móviles, adjusted for the outstanding net debt, was 317,561 thousand euros.

The acquisition of BellSouth's Argentine subsidiaries closed on January 11, 2005. The agreed-upon enterprise value for these companies was 988,355 thousand dollars. The acquisition cost for Telefónica Móviles, adjusted for the outstanding net debt, was 519,394 thousand euros

- The capital increase of approximately 2,054 million Brazilian reais carried out by Telesp Celular Participações, S.A. on January 4, 2005 was fully subscribed. Brasilcel, N.V. now owns 65.7% of Telesp Celular Participações, S.A.
- On April 20, 2005, TES Holding, S.A., a 100%-owned Telefónica Móviles, S.A. subsidiary, acquired an additional 4.44% interest in Telefónica Móviles El Salvador, S.A. The acquisition raised TES Holding, S.A.'s stake to 96.16%. This transaction entailed an outlay of 5,064 thousand dollars.
- In April 2005, Telcel, C.A increased its capital by 26,791 thousand dollars (20,988 thousand euros). Telefónica Móviles, S.A. subscribed for all the shares, increasing its stake in Telcel to 91.63%. This transaction had no impact on the consolidated financial statements.

- The takeover bid launched by TES Holding, S.A., a Salvadoran company, 100%-owned by Telefónica Móviles, S.A., for Telefónica Móviles El Salvador, S.A. was completed in June 2005. 2.7% of the share capital was acquired for 3,096 thousand dollars. Following this and subsequent transactions, TES Holding, S.A.'s stake in Telefónica Móviles El Salvador, S.A. stands at 99.03%.
- In June 2005, the Group acquired an additional 0.38% of Telefónica Móviles Panamá, for a total outlay of 2,196 thousand euros. Following this and subsequent acquisitions, Telefónica Móviles now controls 99.98% of the company.
- In June 2005, the merger between Comunicaciones Móviles del Perú, S.A. and Telefónica Móviles S.A.C. was completed. The resulting company is Telefónica Móviles Perú, S.A., in which the Telefónica Móviles Group has a shareholding of 98.03%. This transaction had no impact on the consolidated financial statements.
- In July 2005, the Group capitalized the tax credits arising from the tax deductions on goodwill at various companies composing the Brasilcel Group as well as several acquisitions made during the year. The Group's new holding in these companies is as follows:

Brasilcel, N.V.	Shareholding at 12/31/04	Shareholding at 12/31/05
Tele Sudeste Celular Participações, S.A.	91.03%	91.03%
Tele Leste Celular Participações, S.A.	50.59%	50.67%
Celular CRT Participações, S.A.	65.94%	66.36%
Telesp Celular Participações, S.A.	65.12%	66.09%
Tele Centro Oeste Participações, S.A.	32.98%	34.68%

- In September 2005 Telefónica Móviles approved the merger by absorption of Telefónica Móviles Interacciona, S.A., a company in which it was the sole shareholder. This transaction had no impact on the consolidated financial statements.
- In October 2005, the Venezuelan companies Telcel, C.A., Servicios Telcel, C.A. and Telecomunicaciones BBS, C.A. merged. The resulting company is Telcel, C.A. This transaction had no impact on the consolidated financial statements.
- In November 2005, Telefónica Móviles acquired 2.07% of Telefónica Móviles Argentina, S.A. for 1,987 thousand euros, bringing its stake in this subsidiary to 100%.
- In December 2005, Telefónica Móviles, S.A. reached an agreement to acquire 8% of Telefónica Móviles México, S.A. de C.V in exchange for shares in Telefónica, S.A. The sale entailed an outlay of 177,274 thousand euros. Telefónica Móviles now owns 100% of the Mexican subsidiary.
- In December 2005, Telefónica Móviles Guatemala, S.A. and Tele-Escucha, S.A., were merged by absorption into TEM Guatemala y Cia. S.C.A. The resulting new entity adopted the business name, Telefónica Móviles Guatemala, S.A. This transaction had no impact on the consolidated financial statements.

2004

- On June 10, 2004, the Company acquired an additional 13.95% in Mobipay Internacional, bringing its shareholding to 50%. As a result of this acquisition, this company was no longer consolidated under the equity method and is now proportionally consolidated.

- On July 23, 2004, Telefónica Móviles, S.A. acquired 100% of Telefónica Móvil de Chile, S.A., a wireless telecommunications provider in Chile, for 1,058 million dollars and assumed a debt of 168,000 million Chilean pesos. As of that date, Telefónica Móvil de Chile, S.A. is fully consolidated by the Móviles Group. The acquisition cost for Telefónica Móviles was 870 million euros.
- At the end of June 2004, Brasilcel N.V. acquired from NTT DoCoMo, Inc. and Itochu Corporation their shareholdings in Sudestecel Participações, S.A., a holding company controlling a bloc of shares in the operator Tele Sudeste Celular Participações, S.A., representing 10.5% of its share capital, for 20,839 thousand euros. This transaction gave Brasilcel, N.V. 100% control of Sudestecel Participações, S.A.

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

Brasilcel, N.V.	Pre-offer shareholding	Post-offer shareholding tender offers
Tele Sudeste Celular Participações, S.A.	86.7%	90.9%
Tele Leste Celular Participações, S.A.	27.9%	50.6%
Celular CRT Participações, S.A.	51.5%	67.0%
Tele Centro Oeste Celular Participações, S.A.	18.8%	32.9%

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

On October 8, 2004, Telesp Celular Participações, S.A. approved a capital increase of 2,054 million reais. This capital increase was fully subscribed and closed on January 4, 2005. Brasilcel, N.V.'s shareholding in Telesp Celular Participações, S.A. went from 65.12% to 65.70% as a result.

- On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth Corporation ("BellSouth") to acquire 100% stakes in its wireless operators Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama.

The effective transfer of the shares of these companies was conditional upon obtaining the required regulatory authorizations in each country and on acceptance by minority shareholders. The shares were effectively transferred in the last quarter of 2004. BellSouth's holdings in Ecuador, Guatemala and Panama were transferred on October 14, 2004 and those in Colombia, Nicaragua, Peru, Uruguay and Venezuela were transferred on October 28, 2004. BellSouth's holdings in Chile and Argentina were transferred on January 7 and January 11, respectively.

In addition to acquiring BellSouth's shareholdings in the wireless operators in Latin America, in compliance with the commitments assumed under the share purchase agreement, Telefónica Móviles launched an offer to buy out the minority shareholders in these companies, at the corresponding purchase prices agreed upon with BellSouth.

This agreement valued 100% of these operators at 4,330 million dollars (5,850 million dollars if we include the Argentine and Chilean acquisitions completed in January 2005). The total acquisition cost for Telefónica Móviles, adjusted by the net debt of all the companies at the transfer date, amounted to 3,252,539 thousand euros (excluding Chile and Argentina).

The values assigned to each transaction and the acquisition cost for Telefónica Móviles are as follows:

- Acquisition of 100% of Otecel, S.A. (Ecuador) for a total enterprise value of 833 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 663,428 thousand euros.

- Acquisition of 100% of Telefónica Móviles y Compañía, S.C.A. (Guatemala) for a total enterprise value of 175 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 92,538 thousand euros.

- Acquisition of 99.57% of BellSouth Panamá, S.A. for a total enterprise value of 657 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 549,275 thousand euros.

- Acquisition of 100% of Telcel, S.A. (Venezuela) for a total enterprise value of 1,195 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 1,223,984 thousand euros.

- Acquisition of 100% of Telefónica Móviles Colombia, S.A. for a total enterprise value of 1,050 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 517,456 thousand euros.

- Acquisition of 99.85% of Comunicaciones Móviles del Perú, S.A. for a total enterprise value of 210 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 7,697 thousand euros.

- Acquisition of 100% of Telefonía Celular de Nicaragua, S.A. for a total enterprise value of 150 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 148,742 thousand euros.

- Acquisition of a 100% of Abiatar, S.A. for a total enterprise value of 60 million dollars. The acquisition cost for Telefónica Móviles, adjusted for outstanding net debt, was 49,419 thousand euros.

INCOME STATEMENT FOR TELEFÓNICA MÓVILES, S.A.

	Millions of euros		
	2005	2004	% Chg
Net sales and services	16,513.5	11,753.9	40.5%
Other income	296.4	200.1	48.1%
Gain on disposal of assets	2.2	11.7	-81.2%
TOTAL INCOME	16,812.1	11,965.6	40.5%
Purchases and supplies	(5,394.3)	(3,608.1)	49.5%
Personnel expenses	(798.2)	(534.6)	49.3%
Changes in provisions	(266.1)	(86.5)	207.7%
Other operating expenses	(4,183.7)	(2,859.7)	46.3%
Loss on disposal of assets	(352.9)	(288.9)	22.1%
TOTAL EXPENSES	(10,995.1)	(7,377.7)	49.0%
OIBDA	5,817.0	4,587.9	26.8%
OIBDA margin	35.2%	39.0%	-3.8%
Depreciation and amortization	(2,374.0)	(1,522.9)	55.9%
OPERATING INCOME	3,443.0	3,064.9	12.3%
Financial income and others	(613.3)	(520.0)	17.9%
PROFIT BEFORE TAXES	2,829.7	2,544.9	11.2%
Corporate income tax	(946.0)	(868.5)	8.9%
Minority interests	35.2	15.2	131.6%
INCOME (LOSS) FOR THE YEAR	1,918.9	1,691.7	13.4%

a) Net sales and services

	Millions of euros		
	2005	2004	% Chg
Spain	8,834.2	8,213.8	7.6%
Latin America	7,704.5	3,552.4	116.9%
RoW & intragroup eliminations	(25.3)	(12.3)	105.69%
TOTAL	16,513.5	11,753.9	40.5%

Consolidated operating revenues rose 40.5% to 16,513.5 million euros, implying organic growth² of 14.2%.

² Organic growth including the consolidation of Telefónica Móvil Chile and the assets acquired from BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela as of January 1, 2004, and excluding the impact of exchange rates.

The main driver of growth was the increase of the customer base. In 2005, Telefónica Móviles increased its managed customer base by 20 million, or over 26%, to more than 94.3 million managed customers by the end of the year. Service revenues were 40.4% higher, at 14,354 million euros, while revenues from handset sales advanced 41.4%, to 2,160 million euros.

- **Operating revenues in Spain:** Operating revenues in Spain increased by 7.6%. Service revenues rose by 7.0% (8.2% excluding the points program) driven by higher traffic, but held back slightly by decreases in service prices and lower interconnection tariffs. Data ARPU rose 7.7% to 4.4 euros.
- **Operating revenues in Latin America:** Operating revenues in Latin America represented 47% of consolidated revenues, with a year-on-year increase in euros of 117%. In organic terms¹, revenues were 23.5% higher, mainly due to the increase in the customer bases in Colombia (83%), Argentina (44.9%) and Venezuela (38.9%).

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

b) Supplies

Supplies, which mainly include handset purchases and interconnection, increased 49.5% to 5,394.3 million euros from 3,608.1 million euros in 2004. They accounted for 32.7% of operating revenues, 2 p.p. higher than the figure for 2004 (30.7%).

- **Operations in Spain:** Total supply costs increased 16.4% to 2,379 million euros from 2,044 million euros in 2004 (15%), due to the growth of commercial initiatives (adds, migrations and handset exchanges), as well as to the increase in interconnection expenses, mainly because of the growth in outgoing traffic). However, the weight supplies over revenues in Spain only increased 2 p.p. to 26.9% from 24.9% in 2004.
- **Operations in Latin America:** Operating expenses in Latin America totaled 3,035 million euros in 2005, up from 1,570 million euros in 2004, owing to changes in the consolidation scope and the increased commercial activity in 2005. However, the weight of supplies over operating revenues in Latin America fell to 39.4% from 44.2% in 2004.

c) Personnel expenses

The headcount at the end of 2005 at fully and proportionally consolidated Telefónica Móviles Group companies stood at 23,511 vs. 20,282 the year before. This increase was mainly due to changes in the consolidation scope due to the companies acquired in Argentina and Chile.

Personnel expenses increased 49.3%, from 535 million euros to 798.2 million euros, representing 4.8% of operating revenues vs. 4.5% in 2004.

- **Operations in Spain:** The Telefónica Móviles Group's operations in Spain represented 34% of Telefónica Móviles Group's personnel expenses. These rose by 5.4%, from 258 million euros in 2004 to 271 million euros in 2005, fuelled by a 2.3% increase in the average labor force and salary increases. Personnel expenses in Spain represented 3.1% of operating revenues in 2005, the same as in 2004.
- **Operations in Latin America:** The Telefónica Móviles Group's operations in Latin America represented 61.6% of total personnel expenses, with the increase from 2004 due mainly to changes in the consolidation scope.

d) Other operating expenses

These include external services from the commercial activity and increased 49% from 2,859.7 million euros in 2004 to 4,183.7 million euros in 2005. Their weight on operating revenues also rose slightly to 25.3% from 24.3 % in 2004.

- **Operations in Spain:** Operations in Spain accounted for 48.2% of “Other operating expenses” in 2005, a 19.7% increase due to stronger commercial efforts, which led to increases in SACs, SRCs and advertising expenses. “Other operating expenses” increased from 1,685 million euros in 2004 to 2,018 million euros in 2005, representing 22.8% of operating revenues vs. 20.5% in 2004.
- **Operations in Latin America:** Operations in Latin America accounted for 50.6% of the total. The balance of this heading totaled 2,118 million euros in 2005 compared to 1,168 million euros in 2004, due to increased commercial activity and changes in the consolidation scope. When calculated as a percentage of operating revenues in Latin America, these expenses fell to 27.5% in 2005 from 32.9% in 2004.

e) OIBDA

	Millions of euros		
	2005	2004	% Chg
Spain	4,127.9	4,158.2	-0.7 %
Latin America	1,754.6	551.2	218.4 %
RoW & intragroup eliminations	(65.5)	(121.5)	-46.1 %
TOTAL	5,817.0	4,587.9	26.8 %

OIBDA increased 26.8% from 4,587.9 million euros in 2004 to 5,817 million euros in 2005, with organic growth of 7.4%. The consolidated OIBDA margin was 35.2%, down from 39% in 2004.

- **Operations in Spain:** Operations in Spain represented 71% of Telefónica Móviles Group OIBDA in 2005, a 0.7% fall from the previous year. The 2005 OIBDA margin was 46.7%, compared to 50.6% in 2004.
- **Operations in Latin America:** OIBDA from Latin America surged 208.4% in euros and represented 30.7% of consolidated OIBDA in 2005. In organic terms ³, OIBDA growth was 27.9%, due to the strong growth in Venezuela, Chile and Argentina.

f) Financial results:

“Net financial income (expense)” includes the results from companies carried by the equity method and showed an increase of 17.9% from 2004. Highlights include:

- Higher losses from companies reported by the equity method due to the write-down at IPSE (161 million euros worth of losses attributable to the Group in 2005 vs. 28 million euros in 2004). These losses are partially offset by better results from Medi Telecom (-8.6 million euros attributable to the Móviles Group in 2004 vs. +8.5 million euros in 2005).
- The 4.7% decrease in net financial expenses despite the (3%) increase in the average net debt balance in the year.

g) Corporate income tax

The corporate income tax charged in 2005 was 910 million euros, with a tax rate of 33.4%, which was positively affected by the application of deductions on exports and negatively by the absence of fiscal consolidation in Latin American investments (mainly Brazil).

³ Organic growth including the consolidation of Telefónica Móvil Chile and the assets acquired from BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela since January 1, 2004, and excluding the exchange rate effect.

h) Net debt

Consolidated net debt at the Telefónica Móviles Group ended the year at 8,659 million euros, 3% higher than in 2004.

i) Capex

Investment in PP&E and intangible assets (capex) excluding licenses for the year was 2,286 million euros, an increase of 41.3% on 2004 owing to changes in the consolidation scope. Highlights included the rollout of the GSM network in Colombia and Chile.

Innovation and R&D

Telefónica Móviles considers innovation to be one of the pillars of its future transformation. This strategy underscores the importance of innovation, especially in technology, as a basic means for achieving sustainable competitive advantages. These advantages include the anticipation of market trends and product differentiation through the addition of new technologies via the development of new products and services and the mainstreaming of ICT (information and communications technologies) in business processes. Here its goal is to become a more effective, efficient and flexible integrated group focused on the customer.

In 2005, Telefónica Móviles invested 1,518 million euros (*) in technological innovation (+18% compared to 2004 mainly due to changes in the consolidation scope). While scaling back capex, Telefónica Móviles has continued to increase the percentage of investment earmarked for new businesses.

As for how it obtains innovative solutions, Telefónica Móviles still considers that differentiating itself from peers and being more widely accepted by the market does not depend solely on an acquired technology. It must promote its own R&D activities to guarantee this differentiation and to drive forward other innovation initiatives. In 2005 the Telefónica Móviles Group invested 205 million euros (*) in R&D, representing 1.2% of its revenues.

R+D projects carried out by the Telefónica Móviles Group in 2005 were aimed at profitable innovation, process efficiency, the creation of new revenue sources, customer satisfaction, growth in new markets and technological leadership.

(*) Includes 100% of Brasilcel

Treasury shares

At December 31, 2005, the Company held 1,599 treasury shares, acquired within the context of the partial execution of the MOS Program. These shares will either be delivered to participants of the program who exercise their options at a future date or cancelled in accordance with the Company's obligations. Under IFRS, treasury shares are netted from equity on the consolidated balance sheet.