

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

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

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

For the fiscal year ended: December 31, 2004

Commission file number: 1-15158

TELEFÓNICA MÓVILES, S.A.

(Exact name of registrant as specified in its charter)

TELEFONICA MOBILE

(Translation of registrant's name into English)

KINGDOM OF SPAIN

(Jurisdiction of incorporation or organization)

Goya, 24

28001 Madrid, Spain

(Address of principal executive offices)

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

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

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

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

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

Ordinary Shares, nominal value 0.50 per share: 4,309,104,934

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

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

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PRESENTATION OF FINANCIAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

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

Item 3.D Risk Factors ,

Item 4. Information on the Company ,

Item 5. Operating and Financial Review and Prospects , and

Item 11. Quantitative and Qualitative Disclosures About Market Risk

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

CERTAIN TERMS AND CONVENTIONS

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

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Table of Contents**Item 3. KEY INFORMATION****A. SELECTED FINANCIAL DATA**

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

Summary Selected Financial Data

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

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

At December 31,

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

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

Operating Data

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

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

Exchange Rate Information

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

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

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

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

Source: Federal Reserve Bank of New York.

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

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

Source: Federal Reserve Bank of New York.

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

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

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

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS**Risks Related to Our Business**

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

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

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

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

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provide increased handset subsidies;

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

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

expand and enhance their networks faster.

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

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

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

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

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

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

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

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

The operation, expansion and upgrade of our networks, as well as the marketing and distribution of our services and products, require substantial financing. Achieving the minimum coverage requirements under our licenses could require additional financing. Any failure to satisfy our substantial liquidity and capital resource requirements would impede our ability to take advantage of promising but capital-intensive opportunities in our industry. In addition, our results of operations may be negatively affected if we are unable to upgrade our networks or respond to competitive initiatives of competitors that may be less capital-constrained.

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

Historically, we have relied, in large measure, on the Telefónica Group to satisfy our liquidity and capital resource requirements through loans and from time to time capital contributions. As of December 31, 2004, our total debt was 11,124 million, of which 9,615 million was owed to other members of the Telefónica Group. In the future, we may be required to incur additional indebtedness to support the ongoing development and expansion of our business. We plan to continue to rely upon Telefónica, S.A. and other Telefónica Group companies to satisfy most of these requirements. If Telefónica, S.A. or other members of the Telefónica Group are unable to provide us with funding, we may need to raise debt from other sources to support the ongoing development and expansion of our business.

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

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

allocation of increasing amounts of cash flow for debt service;

increased difficulty in obtaining future financing;

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

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

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

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

As an element of our strategy, we have invested in and developed new wireless services, such as wireless internet and data services. In order for our customers to better access these services, we will need to upgrade our customer base with new handsets compatible for UMTS services in

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We face risks associated with litigation.

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

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Risks Related to Our Organizational Structure

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

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

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

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

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

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

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

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

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

The transactions that had not been consummated by December 31, 2004 are not reflected in our consolidated financial statements at all. All of these items will affect the comparability of our historical and future results of operations and financial condition. For further information on the items described above please see Item 5A. Operating Results Basis of Presentation Events Affecting Comparability of Historical and Future Results of Operations and Financial Condition. We anticipate that future results of operations and financial condition will be different from our results of operations and financial condition reflected in our consolidated financial statements, after taking into account these developments and any other future material developments.

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

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

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

We regularly enter into business transactions and contractual arrangements with companies in the Telefónica Group and plan to continue to do so. Although we believe that prior and existing transactions and arrangements have been fair to us in all material respects and that their terms have reflected market conditions, it is possible that in some instances we could have obtained better terms from third parties. We could also face competition from other companies within the Telefónica Group that are not part of our company. Consequently, we could be impeded from pursuing some future business opportunities or obligated to pursue them in conjunction with other companies in the Telefónica Group. Because Telefónica, S.A. is a party to business transactions and contractual arrangements with our company and companies of the Telefónica Group are active in businesses that overlap with ours, there is potential for conflicts of interest between Telefónica, S.A. and its affiliates, on the one hand, and our company and subsidiaries, on the other, in circumstances where our interests and those of Telefónica, S.A. are not aligned.

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We must adopt new accounting standards in 2005 that will impact our financial reporting.

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

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

Risks Related to Our Industry

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

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

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

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

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

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

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

Until June 30, 2004, SMP service providers could choose to establish a price cap or freely negotiate their interconnection charges. After that date, free negotiation has been the rule, subject to Anatel regulations.

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

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

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

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

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

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

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

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

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

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

Media and other reports have suggested that radio frequency emissions from wireless handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using wireless handsets. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. Even if the authorized health institutions confirm there is no scientific evidence of adverse health effects, we cannot assure you that further medical research and studies will refute a link between the radio frequency emissions of wireless handsets and base stations and these health concerns. Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including us, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business. In Spain, for example, we have been required by law to test and certify the emissions of all our base stations in or close to populated areas. For the year ended December 31, 2004, all the tests we were obliged to do have again confirmed lower emission levels than those required by regulations. If in the future we fail to comply fully with these standards, we could be subject to claims or regulatory actions.

Risks Related to Latin America

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

The portion of our revenues and profits deriving from Latin American operations will be increasing due mainly to the development of our operations in Brazil, Mexico and other Latin American countries, including the operations recently acquired from CTC (a subsidiary of Telefónica) and BellSouth. Our financial performance in the region is affected by economic, political and social conditions in Latin America. These conditions are volatile due to, among other factors, the following:

significant governmental influence over local economies;

substantial fluctuations in economic growth;

historically high levels of inflation;

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

exchange controls or restrictions on expatriation of earnings;

high domestic interest rates;

wage and price controls;

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changes in governmental economic or tax policies;

imposition of trade barriers;

unexpected changes in governmental regulation;

social unrest; and

overall political and economic instability.

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

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

Additionally, Telefónica Comunicaciones Personales is currently in a negative net worth position. Although current Argentine law (Decree 214/2002, as extended) allows companies to maintain this negative net worth position until December 2005 without the need to establish a positive net worth position, it is uncertain whether the government of Argentina will once again extend this exception beyond December 2005. Should this exception fail to be extended and if Telefónica Comunicaciones Personales is not capitalized by Telefónica Móviles, either through increased capital or partial capitalization of intercompany loans, Telefónica Comunicaciones Personales could be subject to a dissolution proceeding by the Argentine authorities and could lose its license.

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

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

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

Item 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Background of Our Company

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

We are a holding company that conducts its wireless operations through subsidiaries and investments in Spain, Morocco, and Latin America. We manage all of the wireless assets of the Telefónica Group, a diversified

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

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

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

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

Tele Sudeste Celular Participações S.A.;

Celular CRT Participações S.A.;

Tele Leste Celular Participações S.A.; and

Telesp Celular Participações S.A.

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

In June 2004, Brasilcel completed its acquisition of the interests of NTT DoCoMo, Inc. and Itochu Corporation in Sudestecel Participações, S.A., the holding company of Tele Sudeste Celular Participações, S.A. This acquisition brings Brasilcel's control of Sudestecel to 100%. In October 2004, Brasilcel completed voluntary tender offers for outstanding public holdings of Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A. and Celular CRT Participações, S.A., bringing Brasilcel's holdings in these companies to 90.9%, 50.6% and 67.0%, respectively. Additionally during 2005 Sudestecel increased its participation in Tele Sudeste Celular Participações, S.A. to 24.52% bringing Brasilcel's participation to 91.14%. Additionally, in October 2004, Telesp Celular Participações, S.A. (TCP), a company controlled by Brasilcel, increased its participation in Tele Centro Oeste Celular Participações, S.A. (TCO) to 50.6% through the acquisition of a 32.8% interest in TCO's preferred shares. In addition, TCP's Board of Directors approved an increase in its share capital of approximately R\$2.1 billion, which was effected in January 2005. The proceeds raised were used in part to finance TCP's increased stake in TCO and the remainder has been used to partially repay short-term debt and improve TCP's capital structure. Through this transaction Brasilcel's stake in TCP's share capital increased to 65.7%.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisition of 100% of Telefónica Móvil de Chile in 2004: On May 18, 2004, the board of directors of Telefónica CTC Chile, S.A., or CTC, accepted our binding offer for the purchase of 100% of the shares of its subsidiary, Telefónica Móvil de Chile, S.A. Telefónica S.A. owns 43.6% of CTC Chile. We have been managing Telefónica Móvil de Chile's operations since 2000. We completed the acquisition on July 23, 2004. The purchase price was 869.9 million. In addition, we assumed approximately 168,000 million Chilean Pesos in debt owed by Telefónica Móvil de Chile to CTC.

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

Acquisitions in 2002

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

Table of Contents**Acquisitions in 2002**

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

(1) These acquisitions were performed through capital increases.

Acquisitions in 2003

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

Acquisitions in 2004

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

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The following chart presents our corporate organization, including our principal operating companies and the companies in which we have non-controlling minority interests, as well as our ownership interests in these companies at December 31, 2004:

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

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B. BUSINESS OVERVIEW

Overview

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

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

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

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

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

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

Year ended December 31, 2004

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

- (1) Jointly controlled and managed by Telefónica Móviles and Portugal Telecom. Through its 50% interest in Brasilcel, as of December 31, 2004, Telefónica Móviles indirectly holds 45.45% of Tele Sudeste, 26.42% of Celular CRT, 25.3% of Tele Leste Celular, 32.56% of Telesp Celular Participações, S.A. and 10.74% of Tele Centro Oeste Celular Participações, S.A. Brasilcel is proportionally consolidated in our financial statements. For information on our ownership interest in Brasilcel, and its operators, please refer to our organizational structure found in Item 5.A. Operating Results Overview.

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- (2) The service territory in Brazil is nationwide with the exception of region 4 (the state of Minas Gerais).
- (3) Telefónica Móviles México, S.A. de C.V. holds interests in 100% of Baja Celular Mexicano, 90.0% of Movitel del Noroeste, 100% of Telefónica Celular del Norte, 100% of Celular de Telefónica, S.A. de C.V. and 100% of Pegaso PCS. Through its 92.0% interest in Telefónica Móviles México, S.A. de C.V., as of December 31, 2004, Telefónica Móviles indirectly holds 92.0% of Baja Celular Mexicano, 82.8% of Movitel del Noroeste, 92.0% of Telefónica Celular del Norte, 92.0% of Celular de Telefónica, S.A. de C.V. and 92.0% of Pegaso PCS.
- (4) See Item 5.A. Operating Results Introduction to Results of Operations Non-GAAP Financial Information for a definition of operating profit before depreciation and amortization and a discussion concerning our use of, and limitations relating to, that measure.
- (5) In July 2004, we acquired 100% of the shares of Telefónica Móvil de Chile, S.A., and it has been consolidated in our financial statements as from July 1, 2004. Net revenue from operations and operating profit before depreciation and amortization are provided for the last six months of fiscal year 2004. Ownership interests, population and total customers are presented at December 31, 2004.
- (6) Jointly controlled and managed by Telefónica Móviles and Portugal Telecom. Portugal Telecom owns 32.18% of the share capital of Medi Telecom.
- (7) Acquired from BellSouth Corporation in October 2004 and consolidated in our financial statements as from November 1, 2004. Net revenue from operations and operating profit before depreciation and amortization are provided for the last two months of fiscal year 2004. Ownership interests, population and total customers are presented at December 31, 2004.

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Business Strategy

The key elements of our strategy consist of the following:

Maintain our market leadership position in Spain: As the Spanish market continues to mature and the competitive pressure increases, mainly in number portability and pricing for the corporate segment, we are focused on preserving our leading position in the market, particularly in terms of revenue share. As part of our strategy we are developing new products and pricing schemes targeted at different customer segments to stimulate usage, increase customer retention and attract new customers in segments with high growth potential. In addition, we are leading the deployment of the UMTS in Spain, offering superior coverage than our competitors, with 3,800 UMTS base stations as of December 2004. We will also continue to leverage our customer loyalty programs to increase customer retention.

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

Our acquisition of BellSouth's wireless operators in Latin America and Telefónica Móvil de Chile has allowed us to further consolidate our leadership position and strengthen our growth profile in Latin America. At December 31, 2004, we had approximately 74.4 million managed customers in 13 Latin American countries.

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

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

Analyze new projects: We intend to evaluate the possibility of making selective acquisitions and forming selected strategic partnerships in order to improve our competitive position, such as our acquisition of TCO in 2003, our acquisition of 100% of BellSouth's interests in its Latin American wireless operations, our acquisition of 100% of Telefónica Móvil de Chile as well as our alliances with T-Mobile International, TIM (Telecom Italia Mobile) and Orange in Europe. In addition, on February 26, 2003 we announced our participation in the new MPESA association (Mobile Payment Services Association). The association, which is composed of Vodafone, Orange, T-Mobile and us will operate under the brand name Simpay. For further information see Wireless Internet and Data Initiatives M-Payment.

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

Services and Products

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

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

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

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

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

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

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

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

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Our Operations

Our operations currently are conducted in three distinct geographic areas:

Spain

Morocco

Latin America

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

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

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

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

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

Spain

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

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

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

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

Source: Telefónica Móviles

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

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

Market

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

The Spanish wireless market has shown growth as a result of a decline of wireless handset prices and per minute call rates, and the introduction of pre-paid tariffs. At December 31, 2004, Telefónica Móviles España had approximately 19.0 million customers. The number of contract customers totaled approximately 9.3 million, representing a 16.8% increase compared to 2003.

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

Network and Technology

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

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

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

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The Spanish wireless market has been receptive to new wireless services, such as SMS and wireless internet. Telefónica Móviles España has offered GPRS services, with higher speed data transmission than existing GSM networks, since 2001. Multi-media messaging services, or MMS, which allow customers to send and receive messages combining color photographs and images with voice, sound, animation or text, have been offered by Telefónica Móviles España since 2002. Telefónica Móviles España remains committed to being a leader in technological innovation in Spain and to making the most innovative services available to its customers. The following new services and data applications were launched or developed in 2004:

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

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

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

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

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

Sales and Marketing

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

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

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

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

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

In 2004, Telefónica Móviles España continued to encourage customer migration from its pre-paid plans to its contract plans, in line with the process that started in March 2002, when the contract plans of Telefónica Móviles España shifted from a monthly fee to a minimum usage commitment. In 2004, prepaid to contract migrations stood at over a million, contributing to an improvement in the contract weight to the total customer mix by 8.5 percentage points as of December 31, 2004 compared to December 31, 2003.

The tariffs and quality of services provided by Telefónica Móviles España, along with its success in encouraging migration to its contract plans, have led to improvement in the usage and spending patterns of its customers. Total traffic increased to 30.4 billion minutes in 2004, a 12% increase compared to 2003. In addition, data and content services are becoming increasingly important methods by which wireless customers in Spain communicate.

Customer Care

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

We have developed loyalty programs implemented by Telefónica Móviles España for both our contract and pre-paid customers. The *MoviStar Plus* program, for example, offers contract customers the ability to exchange points earned based on monthly usage for new handsets. The *Estrena Plan* allows pre-paid customers to upgrade their handsets and benefit from special offers (attractive prices of handsets and free traffic). In 2004, there were over 3.6 million handset upgrades based on loyalty programs of Telefónica Móviles España.

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

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

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Telefónica Móviles España provides e-business services designed for its large corporate customers including a portal with billing facilities that provides on-line billing customization to customers and distributors through the Hermes system, which provides up-to-date information on news, products and services catalogs, events and promotions. Telefónica Móviles España's average monthly customer churn rate was 1.6% for 2004.

Competition

Telefónica Móviles España currently has two competitors in the Spanish market for wireless communications service: Vodafone España, a subsidiary of Vodafone PLC, and Retevisión Móvil S.A., which operates under the trade name *Amena*.

Morocco

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

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

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

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

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

Source: Telefónica Móviles, except population

Population: Pyramid Research

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

Market

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

Network and Technology

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

Sales and Marketing

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

Customer Care

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

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Competition

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

Latin America

Latin America is an attractive telecommunications market with a population of approximately 512 million people and a combined gross domestic product of approximately \$1.9 trillion in 2004. Since the introduction of wireless services in Latin America in the late 1980s, they have experienced significant growth. The average penetration rate in Latin America as a whole was 30.3% at year-end 2004. The wireless services industry is focusing on increasing penetration and expanding the use of voice service, wireless internet services and wireless data transmission services, through the introduction of 2.5G technologies such as GSM/GPRS and CDMA/CDMA 1XRTT.

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

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

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

Expanding penetration and usage, above fixed-line penetration rate. The number of wireless customers and wireless penetration levels have steadily increased in Latin America in the last years, to the extent that, in most of the countries in the region, the wireless penetration has become higher than the fixed-line penetration, although wireless penetration in Latin America remains low compared with penetration rates in Western Europe. As the cost of wireless services and handsets has declined, these services have become more affordable for a significantly larger percentage of the Latin American population, and both overall minutes of use and revenues have increased. Greater penetration and wireless traffic means that wireless operators can apportion their fixed costs among a greater number of customers, resulting in lower costs per unit which, together with low handset prices, has resulted in a larger percentage of the population being able to afford wireless services, thereby increasing demand and revenues.

Introduction of 2.5G technologies. Voice services as well as mobile Internet and data transmission services have increased through the installation of new 2.5 technologies (GSM/GPRS, EDGE and CDMA/CDMA 1XRTT). The progress in introducing GSM/GPRS technology in the region over the last two years has been particularly significant, above all in the principal markets such as Brazil, Mexico, Chile and Argentina, where various operators have started migrating their 1G and 2G networks to the standard GSM/GPRS networks. The increase in CDMA 1XRTT data networks has also been significant, especially in some countries such as Brazil and Peru, making it possible to increase the data revenues of wireless operators.

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

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process through the establishment of the Brasilcel joint venture and the acquisition of Tele Centro Oeste Participações S.A. in Brazil in 2003, as well as our acquisition of BellSouth's wireless operators in Latin America in 2004 and January 2005 and the acquisition of Telefónica Móvil de Chile in July 2004. The Mexican cellular group, América Móvil, has also played an important role in this process.

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We, along with Portugal Telecom, are 50:50 shareholders in Brasilcel, N.V., or Brasilcel, a joint venture which combined our wireless businesses in Brazil with those of Portugal Telecom. This joint venture is the leading wireless operator in Brazil in terms of total number of customers at December 31, 2004. At December 31, 2004, Brasilcel had a total of 26.5 million customers, of which 5.2 million were contract customers. Brasilcel had an estimated average share in its markets of operations of approximately 51% at December 31, 2004. All of the operating companies participating in the joint venture have been operating under the brand name *Vivo* since April 2003. The licensed areas of Brasilcel include 19 states in Brazil and its federal capital, with a population of approximately 131.5 million, and covering 85.5% of Brazil's gross domestic product.

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

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

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

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

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

(1)

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

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

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Market

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

Network and Technology

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

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

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

Of Vivo's investment in the development of the networks of its companies in Brazil in 2003 and 2004, approximately 278 million and 431 million, respectively, was attributable to Telefónica Móviles as a proportion of the total investment corresponding to its interest in the Brasilcel entities.

Sales and Marketing

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

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

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

Vivo is actively managing its distribution channels, which consisted of 7,998 points of sale at the national level in 2004. Additionally, Vivo prepaid customers were provided access to a wide range of recharge points. Credit recharges can also be made by electronic transfers through the commercial banking network.

As of December 31, 2004, approximately 20% of Vivo's customers were contract clients and the remaining 80% were prepaid customers.

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Customer Service

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

Competition

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

Mexico

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

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

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

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

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

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

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

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

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

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

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

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

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

The suppliers of the GSM network are Nokia and Ericsson.

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

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

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

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

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

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

Peru

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

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

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

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

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

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

Source: Telefónica Móviles, except population

Population: Pyramid Research

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

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

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

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

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

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

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

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

Telefónica Móviles Peru directly targets corporate clients through Movistar Empresas.

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

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

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

Argentina

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

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

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

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

Source: Telefónica Móviles, except population

Population: Pyramid Research

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chile

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

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

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

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

Source: Telefónica Móviles, except population

Population: Pyramid Research

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

Network and Technology

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

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

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

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

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

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

Central America

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

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

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

El Salvador

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

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

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

Source: Telefónica Móviles, except population

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Population: Pyramid Research

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

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

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

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

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

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

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

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

Guatemala

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

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

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

Source: Telefónica Móviles, except population

Population: Pyramid Research

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

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

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

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

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

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

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

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

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

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

Puerto Rico

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

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

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

Other operations (other Latin American operators acquired from BellSouth)

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

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

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

Wireless Internet and Data Initiatives

Wireless Internet and Data

We believe that the convergence of data communications and voice communications represents a new and important opportunity to create value in the mobile communications sector in the near future. An important component of our strategy is broadening uses of wireless communications, currently dominated by voice services, to include more widespread use of wireless internet and data services. Telefónica Móviles España's revenues from data services have increased to 855 million in 2004. This increase is primarily due to the increased use of other data services in addition to traditional SMS usage. Revenues from other data services, excluding traditional SMS, have increased by approximately 5 percentage points in 2004 to 24% of total data revenues.

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

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

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

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

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

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

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

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

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

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

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

M-Payment

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

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

Capital Expenditures and Divestitures

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

Public Takeover Offers

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

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

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

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

Patents, Licenses and Other Intellectual Property

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

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

Regulation

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

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

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

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

Spain

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

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

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Spanish Regulatory Authorities

The following governmental regulatory authorities oversee the Spanish telecommunications industry:

the Commission for the Telecommunications Market (CMT);

the Government Commission for Economic Affairs;

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

the Ministry of Economy; and

The Radiocommunications Agency.

Licenses and Concessions

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

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

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

Spectrum rights	Duration	Ending Date	Extension Period
GSM 900 (2x12)	15 years	February 3, 2010	5 years
GSM 900 (2x4)	15 years	June 6, 2020	5 years
DCS-1800 (1)	25 years	July 24, 2023	5 years
UMTS	20 years	April 18, 2020	10 years
Paging	20 years	April 24, 2020	10 years

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

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

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

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

Our significant market power requires us to disclose our rates and product information to the Spanish regulatory authorities and the public and to keep separate accounts for each of our activities and services. Additional obligations under our licenses include the following:

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

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

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

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

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

to refrain from engaging in anti-competitive conduct;

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

to facilitate interconnection with the networks of other operators;

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

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

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

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

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

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

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

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

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

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

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

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

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

to interconnect our network with the network of our competitors.

Foreign Ownership/Restrictions on Transfer of Ownership

Under the General Telecommunications Law, non-European Union individuals or entities cannot own, directly or indirectly, more than 25% of our assets or share capital, unless such ownership is permitted by authorization of the Spanish government in cases of reciprocal treatment

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between Spain and a non-European Union country, or by specific agreement between Spain and a non-European Union country. Spain has ratified the Telecoms Annex to the General Agreement on Trade in Services, or GATS, pursuant to which specific authorization will not be required so long as direct or indirect control of 25% or more of our assets or share capital is owned by persons or entities domiciled in countries party to the Telecoms Annex to GATS.

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

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

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

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

Substitution of Telefónica Móviles España's business purpose;

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

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

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

Rates

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

Interconnection

Spanish law requires public telecommunications networks to provide interconnection to other public telecommunications networks established in Spain, the terms of which must be specified in an interconnection agreement between the parties. Interconnection agreements are subject to Spanish government regulations, such as the Spanish Interconnection Decree of 1998, and to supervision and arbitration by the CMT. In March

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2002, the European Union passed Directive 2002/19/EC (the Access and Interconnection Directive), which was implanted into Spanish legislation on December 10, 2004 (Decree 2296/2004).

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

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the interconnection fees paid in 1999, 2000 and 2001 and the interconnection fees sought by Telefónica, S.A.'s fixed line operator. Pending a decision regarding these appeals, the interconnection rates approved by the relevant regulatory authorities continue to apply.

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

Other Provisions

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

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

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

interconnection rights;

independent telephone numbers under the National Cellular Numbering Plan; and

an independent network code.

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

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

European Union

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

New Regulation of the Telecommunications Industry

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

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

Legal Framework of European Operations

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

We hold the following licenses in Europe:

Telefónica Móviles licenses in Germany (Quam)

Group 3G, in which our company holds a 57.2% interest, was awarded, through Group 3G UMTS GmbH, one out of six telecommunications licenses granting the necessary frequency blocks for the operation of transmission lines for the provision of UMTS services in the territory of the Federal Republic of Germany. This license expires on December 31, 2021. The license allocation rules neither explicitly permit nor exclude an extension period upon expiration.

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

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

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

Telefónica Móviles licenses in Italy (IPSE 2000)

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

Under this license, IPSE 2000 has been allocated frequency packages of two paired, or two-way, 15 MHz channels. In addition, license awardees which were not operating formerly in Italy received 5 MHz of additional spectrum which has been returned by IPSE 2000. This license has certain minimum coverage requirements with respect to regional and provincial capitals which require performance by 2004 and 2007, respectively. If these obligations are not met, the license may be suspended, changed or revoked by the Italian authorities. This license expires on December 31, 2022 and may be extended, subject to the submission of a request six months prior to expiration, for additional twenty-year periods. As of December 31, 2004, installments amounting to 16,010 thousand were paid for the UMTS license. Simultaneously with the payment of the license, and in order to avoid execution by the Italian Government on the UMTS guarantee issued to the Italian government (see Item 5.E. Off-Balance Sheet Arrangements Ipse 2000 (Italy) UMTS Guarantee), Ipse paid an additional 104,324 thousand as pending installments for the additional 5 MHz of spectrum which was awarded to Ipse 2000, S.p.A. by the Italian Government for a total amount of 826,331 thousand and returned to the Italian Government, although this return is still being disputed between Ipse 2000, S.p.A. and the Italian Government

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Telefónica Móviles licenses in Switzerland (3G Mobile)

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

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

Brazil

The delivery of telecommunications services in Brazil is subject to regulation under the regulatory framework provided in the General Telecommunications Law enacted in July 1997. This law established an independent regulatory agency called the National Agency for Telecommunications, or ANATEL. Telecommunications services are also regulated by decrees issued by the President of Brazil and orders issued by the Ministry of Communication that are being replaced by new regulations issued by the National Agency for Telecommunications. Under this regulatory framework, telecommunications service providers may operate under concessions or authorizations that authorize them to provide specified services and which set forth certain obligations. Brazil is divided into ten geographical regions for the purposes of wireless communications operations. Companies seeking to offer wireless communications services in any one of those regions are required to apply for a license.

Brazilian Regulatory Authorities

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

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

Licenses and Concessions

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

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

Mobile Personal Service (SMP) Regulation

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

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

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

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

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

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

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

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

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

Foreign Ownership/Restrictions on Transfer of Ownership

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

Rates

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

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

Other Provisions

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

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

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Peru

The provision of telecommunications services in Peru, including wireless services, is governed by the Telecommunications Law, which was enacted in 1993, and related regulations. Pursuant to this law, providers of wireless services seeking to operate in Peru must obtain a non-exclusive license from the Ministry of Transport and Communications. Licenses are granted by means of a license agreement entered into between the Ministry and the licensee and set forth the licensee's rights and obligations, including the regions where the licensee is authorized to operate. Licenses are granted either by application or through a bidding process.

Peruvian Regulatory Authorities

The following regulatory authorities oversee the telecommunications industry in Peru:

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

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

Licenses and Concessions

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

Telefónica Móviles del Perú has the following concessions:

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

Paging service. Frequency in the 450 MHz band.

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

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

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

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Comunicaciones Móviles del Peru has the following concessions:

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

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

Local fixed telephony services for Lima and Callao. This concession was granted on August 11, 1999 for a 20 year period.

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

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

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

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

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

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

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

Rates

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

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

Schedule for fixed to mobile tariff reduction

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

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

Interconnection

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

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

Foreign Ownership/Restrictions on the Transfer of Ownership

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

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

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

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

Argentina

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

Argentine Regulatory Authorities

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The following regulatory authorities oversee the Argentine telecommunications industry:

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

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

Licenses and Concessions

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

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

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

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

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

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

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

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

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

Fixed telephony nationwide.

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

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

Rates

Rates charged to customers are not regulated in Argentina.

Interconnection

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

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

Other Provisions

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

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

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

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

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

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

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

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

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

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

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

Mexico

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

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Mexican Regulatory Authorities

The following governmental agencies oversee the telecommunications industry in Mexico:

The Secretariat of Communications and Transportation, or SCT; and

The Federal Telecommunications Commission, or COFETEL.

Licenses and concessions

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

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

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

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

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

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

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

Additionally, we have recently acquired the following concessions:

Pegaso, a company we acquired on April 26, 2002, was awarded a license in 1998 to provide public telecommunications services and nine licenses to provide Personal Communication Services (PCS) in each of the nine PCS service region until 2018. These licenses

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may be extended for additional twenty-year periods, subject to the fulfillment by the operator of certain terms and conditions.

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

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

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

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

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

The SCT, through COFETEL, issued an edict on July 12, 2004 to commence an auction to grant concessions to provide PCS fixed and mobile wireless access. The bidding process for 1900 MHz frequencies available in each of the nine PCS service regions began on January 11, 2005. Telcel, Iusacell, and Telefónica Móviles participated in this bidding process. The bidding process ended on April 4, 2005, and Pegaso (Telefónica Móviles Mexican subsidiary) was awarded 11 spectrum licenses by COFETEL. Nevertheless, Pegaso didn't receive licenses for regions 1, 6 and 9 because the total spectrum assigned to Pegaso in these regions would exceed COFETEL's spectrum cap of 35 MHz per region for 1900 MHz frequencies. Pegaso appealed COFETEL's spectrum cap and the concession of these spectrum licenses is subject to the resolution of these appeals.

Rates

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

Interconnection

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

that the interconnection points of each network be identified;

that access be provided in a non-discriminatory manner;

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

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

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

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

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

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

COFETEL has shown interest in extending the calling party pays system to national long distance calls in 2005. In order to achieve this, the Federal Commission for Regulatory Improvement (COFEMER) must approve a modification of the current Long Distance Rules.

Foreign Exchange/Dividend Limitations

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

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

El Salvador

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

Regulatory Authorities

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

Licenses and Concessions

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

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

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

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

A concession for the provision of public telephony services may be revoked only when a concession holder: (a) fails to supply telephone services within two years after the concession has been granted; or (b) commits three major infractions, as described in the Law, within a three year period. Concessions may be canceled upon the expiration of the concession term. However, upon expiration or revocation of a concession, the General Superintendency of Electricity and Telecommunications may grant a renewal depending on the fulfillment of certain terms and conditions.

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We are required to pay a variable annual fee to the General Superintendency of Electricity and Telecommunications for administration, management and supervision in connection with our concession for the use of the spectrum. This fee is calculated by a fixed formula which incorporates, among other things, the bandwidth of our transmitter equipment, the cost of the radio electric spectrum and a service factor. The cost of the radio electric spectrum is adjusted every year according to the variation of the Consumer Price Index (CPI) of El Salvador.

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

Rates

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

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Other Provisions

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

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

Guatemala

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

Regulatory Authorities

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

Use of Spectrum

Telefónica Móviles Guatemala, S.A. holds titles, obtained in a public auction in March 1999, to use two 15 MHz channels in the 1900 MHz band for the provision of wireless services until 2014. Titles are granted for a fifteen-year term and may be renewed for subsequent fifteen-year terms at the request of the holder. In order to renew a title, the holder must demonstrate before the regulatory body, that the spectrum was effectively used during the previous fifteen-year term.

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

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

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

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

Interconnection and Rates

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

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

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Wireless service providers in Guatemala must pay, upon assignment of telephone numbers, a fee of US\$0.12 per number. Thereafter, wireless service providers must pay an annual administrative fee of approximately \$0.13 to the Superintendency of Telecommunications for each telephone number assigned to such wireless provider.

Other Provisions

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

Chile

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

Regulatory Authorities

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

Licenses and Concessions

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

The Telefónica Group commenced wireless operations in Chile in 1989. In July 2004, we acquired 100% of Telefónica Móvil de Chile, S.A. from Telefónica S.A.

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

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

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

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

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

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

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

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

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

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

BellSouth Chile holds a concession for the provision of intermediate services, including long distance services nationwide. This concession was granted on March 16, 1994 for an unlimited period of time.

Rates

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

Interconnection

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

The tariffs are set every five years. The new interconnection charges for the period 2004-2009 became effective for Telefónica Móvil de Chile and BellSouth Comunicaciones on February 13, 2004 and January 24, 2004, respectively. The new interconnection charges have decreased by

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

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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

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

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

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

Morocco

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

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

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

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

Moroccan Regulatory Authorities

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

Licenses and Concessions

In July 1999, Medi Telecom was awarded a GSM license entitling it to 50 MHz of spectrum on the 900 MHz band to provide wireless services. This license allows Medi Telecom to provide wireless services and to use the

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spectrum, and covers all of Morocco. The license was granted for a period of 15 years from August 2, 1999 and should be renewed for an additional five-year period, subject to the fulfillment by the operator of certain terms and conditions.

In March 2005, Medi Telecom has reached an agreement with the ANRT for extending the GSM license for another 10 years, until August 2024, pending the formal publication of a governmental decree. In exchange for this extension period, Medi Telecom must pay 1% of the revenues obtained from the provision of GSM services starting from August 2014 (the previously scheduled expiration date).

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

Rates

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

Interconnection

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

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

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

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

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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

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

Colombia

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

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Colombian Regulatory Authorities

The following governmental agencies oversee the telecommunications industry in Colombia:

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

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

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

Licenses and concessions

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

Telefónica Móviles Colombia holds the following concessions:

<u>Service</u>	<u>Coverage area</u>	<u>Contract/license</u>	<u>Duration</u>
Wireless telephony	Eastern (Celumovil)	Contract 001, granted on March 28, 1994	Extended for 10 years until March 28, 2014. The contract does not allow extensions.
	Caribbean coast (Celumovil)	Contract 002, granted on March 28, 1994	Extended for 10 years until March 28, 2014. The contract does not allow extensions.
	Western (Cocelco)	Contract 003, granted on March 28, 1994	Extended for 10 years until March 28, 2014. The contract does not allow extensions.
Added Value	National, and in-connection abroad (Celumovil)	Res. 3742/97, granted on August 15 1997.	Initially for 10 years; may be extended once for 10 years.
	National and in-connection abroad (Cocelco)	Res. 2639/94, granted on December 2, 1994.	Initially for 10 years; may be extended once for 10 years. A 10-year extension was requested in December 2004.
Carrier		Res. 1616/98, granted on	

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

June 25, 1998.

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

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

Res. 3009/98, granted on

November 20, 1998.

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

Compliance with the obligations set forth in each wireless concession is enforced by the Ministry of Communications through regular inspections contracted with third parties. Breach of contractual obligations may result in (i) fines of up to 1,000 times the minimum monthly wage (currently, approximately US\$150,000) or (ii) a declaration of forfeiture (termination) of the contract if the breach seriously and directly affects the execution and purposes of the contract and it can be shown that such breach could lead to service paralysis, or for one of the causes established in Art. 43 of Decree 741/93, including: a violation of the prohibition against monopolistic practices

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impeding free competition; failure to provide the service efficiently or regularly in accordance with the mutually agreed service quality rules; assignment or transfer of the concession contract without the prior authorization of the Ministry of Communications or otherwise contrary to applicable law; failure to pay the required fees, rates or tariffs; and failure to update the register of subscribers or the provision of false information that affects the quantification of the economic obligations to the Ministry of Communications.

Rates

Rates charged to customers are not regulated, although they may not be discriminatory. Rates are fixed by wireless operating companies and must be registered with the CRT.

Interconnection

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

Ecuador

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

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

Licenses and Concessions

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

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Telefónica Móviles Ecuador holds the following concessions:

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

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

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

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

Wireless E-mail applications

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Mobile Access to Internet applications

Mobile Capture of Data applications

Vehicle localization and administration of fleets (GPS) applications

Mobile Access to Intranets applications

Intelligent Distribution applications

Mobile and Remote Points of Sale

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

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

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

Rates

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

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

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

Interconnection

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

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

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

Other provisions

In 2000, Law 21, or the Organic Law for the Defense of the Consumer (RO. No.S116 10-07-2000), mandated that interconnection fees be calculated on a per second basis. This law regulates and sanctions misleading publicity and unfair practices. The law allows consumers to terminate an agreement with a service provider at any time,

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without the application of sanctions and limits the conditions on which a service provider may terminate service following customer complaints relating to invoiced prices. The law also established an ombudsman for consumer rights with the power to investigate unfair practices and initiate judicial complaints against service providers.

Nicaragua

The telecommunications industry in Nicaragua is regulated by Telecommunications Law (Law 200) of 1995. Currently, international long distance and PSTN services are provided only by ENITEL and all international and long distance traffic (including cellular traffic) must be carried through ENITEL's network. ENITEL is the incumbent operator owned by America Movil, whose monopoly is due to be dissolved in 2005.

Regulatory Authorities

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

Licenses and Concessions

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

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

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

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

Rates

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

Interconnection

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

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

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Other

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

Panama

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

Regulatory Authorities

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

Licenses and Concessions

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

Telefonica Móviles Panamá has been granted the following concessions:

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

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

Public telephony (expiring in February 2022)

Telecommunications reselling services (expiring in July 2024)

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

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

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

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

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

Rates

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

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Interconnection

Wireless service operators may freely negotiate interconnection agreements.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

Uruguay

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

Regulatory Authorities

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

Licenses and Concessions

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

In 1990, Movicom entered into a contract with ANTEL to build and operate a wireless telecommunications network and to operate the 800 Band B utilizing a total of 25 MHz of spectrum (835 to 845 MHz, 846.5 to 849 MHz, 880 to 890 MHz and 891.5 to 894 MHz) (Spectrum 1). On July 25, 2004, following an auction, Movicom obtained a license to use Spectrum 1 for a 20-year period.

In 1998, Movicom was authorized, on the same conditions as in the original contract, to develop two 5 MHz blocks of spectrum on the 1900 band (Spectrum 2). Movicom began to operate its CDMA 1900 service in 2000.

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

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

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

A regulatory tax was recently approved which will require Movicom to pay the equivalent of 0.3% of its annual revenue.

Rates

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

Interconnection

Wireless service providers are required to provide access to essential resources, including interconnection services, when requested by other telecommunications providers. On September 19, 2003 Movicom and ANTEL entered into an interconnection agreement allowing Movicom to tie its mobile telephone lines to the fixed lines operated by ANTEL.

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Wireless service operators may freely negotiate interconnection agreements. If they fail to reach an agreement, each operator may call upon URSEC to determine the terms and conditions of interconnection. The conditions agreed upon in any interconnection agreement will apply to third parties in the event that those conditions are more beneficial than terms and conditions agreed upon separately.

Foreign Ownership/Restrictions on Transfer and Change in Ownership

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

Venezuela

The basic regulatory framework for the telecommunications industry is based on the Organic Telecommunications Law, or OTL, of 2000, which defines the rights and duties of operators, customers and other users of telephone services. The OTL established pricing freedom, encouraged open competition, and set forth the basic rules for operator licensing, spectrum management, universal service, interconnection rules, taxes and sanctions. CONATEL (*Comisión Nacional de Telecomunicaciones*), the regulatory agency primarily responsible for the regulation of the telecommunications market, was restructured pursuant to the OTL as an autonomous body with managerial, technical and financial independence.

Licenses and Concessions

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

Telcel has been granted the following telecommunications concessions and licenses:

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

A private network services concession, granted in 1993, allows Telcel to offer point-to-point or point-to-multipoint private telecommunication services to corporations. Telcel requested the extension of such concession, which was granted with the authorization to continue unlimited operations within the same scope, rights and duties until an independent act, yet to be issued, would establish the exact duration of the renewal.

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

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

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

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Rates

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

Interconnection

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

Restrictions on Foreign Investment

In the first quarter of 2003, the government implemented a foreign currency exchange control regime that limits the free convertibility of the Venezuelan currency. At the same time, the government created CADIVI (*Comisión de Administración de Divisas*), an organism that regulates the purchase and sale of foreign currency in and the repatriation of capital from Venezuela. All proposed foreign currency transactions, as well as all proposed exports of capital from Venezuela by foreign persons or corporations, must be notified to and approved by CADIVI. This also applies to repatriation of capital as a product of the operation of the foreign companies that operates in the country.

Other provisions

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

C. ORGANIZATIONAL STRUCTURE

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

D. PROPERTY, PLANTS AND EQUIPMENT

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

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

switching, transmissions and receiving equipment;

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

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land and buildings;

easements; and

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

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

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

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

Overview

We are a leading provider of wireless communications services in Spain and Latin America in terms of managed customers. We estimate, based on annual reports and press releases made public by our competitors and information from regulatory authorities, that we are one of the five largest global providers of wireless communication services based upon total managed customers at December 31, 2004. We offer a broad range of wireless services, including voice services, enhanced calling features, international roaming, wireless internet and data services, wireless intranets and other corporate services.

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

Non-GAAP Financial Information

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

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

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

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

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

Year ended December 31, 2004

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

Year ended December 31, 2003

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

Year ended December 31, 2002

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

Basis of Presentation

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

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

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

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

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

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

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

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

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

consolidated

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

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

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

Events Affecting Comparability of Historical and Future Results of Operations and Financial Condition

The global telecommunications industry is undergoing extensive and rapid change. The wireless communications sector, in particular, is in the process of transformation due to general deregulation, licensing of additional spectrum, development of a broad range of wireless services and products, technological advances in handsets and networks, and the consolidation of wireless operators on a cross-border basis. In order to enhance our position as one of the leading global wireless operators and to achieve superior growth and profitability in our industry, we have taken a series of strategic initiatives during 2004, 2003 and 2002 that affect the comparability of our results of operations and financial condition. As a result of these strategic initiatives, our financial condition and results of operations at and for the years ended December 31, 2004 and 2003 may not be comparable with our financial condition and results of operations at and for prior or future periods.

Foreign Currency Effects and Hedging

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

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

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

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

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

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

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

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

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

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

General UMTS market conditions

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

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

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

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

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

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

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

Our UMTS operations

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

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

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

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

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

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

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

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

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

Acquisition of BellSouth's Wireless Operations in Latin America

In October 2004, pursuant to an agreement concluded with BellSouth in March 2004, we acquired from BellSouth its interests in its Latin American wireless operations. In certain countries, we subsequently increased the acquired stakes through the acquisition of minority interests. As of December 31, 2004, we owned 100% of BellSouth Colombia, Otecel, S.A. (Ecuador), Abiatar (Uruguay), Telcel, S.A. (Venezuela), Telefónica Móviles Guatemala y Cía. (formerly BellSouth Guatemala, S.A.) and Telefónica Celular de Nicaragua, S.A., 99.85% of Comunicaciones Móviles del Perú and 99.95% of Telefónica Móviles Panamá, S.A. These companies were consolidated into the Telefónica Móviles group as of November 1, 2004. Consequently, our consolidated statement of income for fiscal year 2004 includes the operating results of these companies for November and December 2004, and our consolidated balance sheet for the fiscal year ended December 31, 2004 includes all of the assets and liabilities of these acquired companies. In 2004, the newly acquired wireless operations together represented approximately 3.5%, or 425 million, of our consolidated net revenues from operations and approximately 1.4%, or 66 million, of our consolidated operating income before depreciation and amortization. In addition, these newly acquired wireless operations contributed approximately 11 million new customers to our operations.

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

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

On July 23, 2004, we acquired 100% of Telefónica Móvil de Chile, S.A. from Telefónica S.A. Telefónica Móvil de Chile was consolidated into the Telefónica Móviles group as of August 1, 2004 under Spanish GAAP. Consequently, our consolidated statement of income for fiscal year 2004 includes the operating results of Telefónica Móvil de Chile for the last five months of 2004, and our consolidated balance sheet for the fiscal year ended December 31, 2004 includes all of Telefónica Móvil de Chile's assets and liabilities. In 2004, Telefónica Móvil de Chile represented approximately 2% of our consolidated net revenues from operations.

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Joint Venture with Portugal Telecom

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

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

Following the agreements entered into with the Portugal Telecom Group on October 17, 2002 and after having obtained the necessary authorization from the Brazilian authorities for the contribution, on December 27, 2002, we and PT Moveis contributed to Brasilcel, N.V. all the shares held directly or indirectly by the two groups in their wireless communications companies in Brazil. For further information, please see Item 4.B Business Overview Latin America Brazil.

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

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

Argentina

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

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

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

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

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

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

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

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

Critical Accounting Policies under Spanish GAAP

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

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

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

Accounting for Long-lived Assets Except Goodwill

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

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

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

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

Goodwill

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

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

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

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certain items of property, plant and equipment overstated by 117 million when these companies were included in the Group were identified. These amounts were allocated on the basis of the preliminary conclusions drawn from the related valuation performed by independent appraisers. However, once the process of allocating the acquisition price to all the assets and liabilities of the companies acquired has been completed at the end of 2005, there could be reclassifications from goodwill to other balance sheet captions, although it is considered that such reclassifications would not be material. These licenses are being amortized over the concession period based on the estimated capacity to generate revenues in each period. The Computer Software and Other are amortized over the period that the customers are expected to remain as such.

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

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

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

Equity Investments

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

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

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

Recognition of Revenues and Expenses

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

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

Critical Accounting Policies under U.S. GAAP

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

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

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

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

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

previously recognized intangibles will be subsumed into goodwill.

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

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

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

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

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

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

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

Revenue and Expense Recognition

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

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

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

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

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

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

Revenues and expenses under US GAAP after December 31, 2003

We have adopted the provisions of the Emerging Issues Task Force Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* (EITF 00-21) for multiple-element revenue arrangements entered into after December 31, 2003.

EITF 00-21 requires that arrangements involving the delivery of bundled products or services be separated into individual component deliverables, each with its own separate earnings process. Revenue relating to the bundled contract is allocated among the different deliverables, based on their relative fair values (the relative fair value of each of the component deliverables to the aggregated relative fair value of the bundled deliverables).

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

Because we enter in thousands of revenue arrangements every period, an analysis has been made of the products and services provided by the Company in order to conclude when those