

TELEFONICA MOBILE INC

Form 20-F

April 12, 2006

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

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## SECURITIES AND EXCHANGE COMMISSION

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### FORM 20-F

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

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

## TELEFÓNICA MÓVILES, S.A.

(Exact name of registrant as specified in its charter)

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TELEFONICA MOBILE

(Translation of registrant's name into English)

KINGDOM OF SPAIN

(Jurisdiction of incorporation or organization)

Goya, 24 28001 Madrid, Spain

(Address of principal executive offices)

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

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

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

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

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

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

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

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

Yes  No

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

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Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Item 17

Item 18

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

Yes

No

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**PRESENTATION OF FINANCIAL INFORMATION**

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

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

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

**FORWARD-LOOKING STATEMENTS**

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

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

Item 3.D Risk Factors ,

Item 4. Information on the Company ,

Item 5. Operating and Financial Review and Prospects , and

Item 11. Quantitative and Qualitative Disclosures About Market Risk

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

### CERTAIN TERMS AND CONVENTIONS

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

### PART I

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

Not applicable.

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

Not applicable.



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

**Summary Selected Financial Data**

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

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

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

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

**Proposed Merger with Telefónica, S.A.**

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

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

**Exchange Rate Information**

Spain's currency is the euro. For your convenience, we have translated some amounts denominated