AMERICA MOVIL SAB DE CV/
Form 20-F
June 30, 2009
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As filed with the Securities and Exchange Commission on June 30, 2009

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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, 2008

Commission file number for securities registered pursuant to Section 12(b) of the Act: 0-32245

Commission file number for securities registered pursuant to Section 12(g) of the Act: 1-16269

AMÉRICA MÓVIL, S.A.B. DE C.V.

(exact name of registrant as specified in its charter)

America Mobile

(translation of registrant s name into English)

United Mexican States

(jurisdiction of incorporation)

Lago Alberto 366, Colonia Anáhuac, 11320 México, D.F., México

(address of principal executive offices)

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Facsimile: (5255) 2581-4422, Lago Alberto 366, Colonia Anáhuac, Edificio Telcel I, Segundo Piso, 11320,

México, D.F., México

(name, telephone, e-mail and/or facsimile number and address of company contact person)

Title of each class:	Name of each exchange on which registered:
Securities registered pursuant to Section 12(b) of the Act:	
American Depositary Shares, each representing 20 L Shares, without par value	New York Stock Exchange
L Shares, without par value	New York Stock Exchange (for listing purposes only)

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

American Depositary Shares, each representing 20 A Shares, without par value

A Shares, without par value

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

None

The number of outstanding shares of each of the registrant s classes of capital or common stock as of December 31, 2008:

11,712 million	AA Shares
480 million	A Shares
21,058 million	L Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this report is an annual or transition report, indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x 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. **x** Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A

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. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other x

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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PART I

Item 3. Key Information

SELECTED FINANCIAL DATA

This annual report includes our audited consolidated financial statements as of December 31, 2007 and 2008 and for each of the three years ended December 31, 2006, 2007 and 2008. Our financial statements have been prepared in accordance with Mexican Financial Reporting Standards (*Normas de Información Financiera Mexicanas* or Mexican FRS) and are presented in Mexican pesos. The financial statements of our non-Mexican subsidiaries have been adjusted to conform to Mexican FRS and translated to Mexican pesos. See Note 2(a)(ii) to our audited consolidated financial statements.

Mexican FRS differs in certain respects from U.S. GAAP. Note 22 to the audited consolidated financial statements provides a description of the principal differences between Mexican FRS and U.S. GAAP, as they relate to us, a reconciliation to U.S. GAAP of net income and total stockholders equity and cash flow statements for the years ended 2006 and 2007 under U.S. GAAP.

Under Mexican FRS, our financial statements for periods ending prior to January 1, 2008 recognized the effects of inflation on financial information. Inflation accounting under Mexican FRS had extensive effects on the presentation of our financial statements through 2007. See Inflation Accounting under Item 5 and Note 2(z.2) to our audited consolidated financial statements.

For years prior to 2008, the effect of inflation accounting under Mexican FRS has not been reversed in the reconciliation to U.S. GAAP of net income and total stockholders equity, except with respect to the methodology for restatement of imported telephone plant. See Note 22 to our audited consolidated financial statements.

Beginning with the year ended December 31, 2012, Mexican issuers with securities listed on a Mexican securities exchange will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB). Issuers may voluntarily report using IFRS before the change in the reporting standards becomes mandatory. We plan to begin reporting financial statements in IFRS for 2012 at the latest.

On July 19, 2005, we effected a three-for-one stock split. Unless otherwise noted, all share and per share data in this annual report have been adjusted to reflect the stock split for all periods presented.

On December 13, 2006, our shareholders approved the merger of América Telecom, S.A.B. de C.V., or Amtel, our then controlling shareholder, and its subsidiary Corporativo Empresarial de Comunicaciones, S.A. de C.V., or Corporativo, with us. As a result of the merger, we assumed assets and liabilities based on Amtel s unaudited financial statements as of October 31, 2006. In accordance with Mexican FRS, the merger with Amtel has been accounted for on a historical basis similar to a pooling of interest basis and we have adjusted our financial information and selected financial information presented in this annual report to include the consolidated assets, liabilities and results of operations of Amtel for periods presented up to December 31, 2006. See Note 3 to our audited consolidated financial statements.

References herein to U.S.$ are to U.S. dollars. References herein to pesos, P. or Ps. are to Mexican pesos.

This annual report contains translations of various peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the nominal peso or constant peso amounts actually represent the U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts from constant pesos at the exchange rate of Ps. 13.5383 to U.S.$1.00, which was the rate reported by Banco de México for December 31, 2008, as published in the Official Gazette of the Federation (*Diario Oficial de la Federación*, or Official Gazette).

The selected financial and operating information set forth below has been derived in part from our audited consolidated financial statements, which have been reported on by Mancera S.C., a Member Practice of Ernst & Young Global, an independent registered public accounting firm. The selected financial and operating information should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements.

	As of and for the year ended December 31,(1)					
	2004(12)	2005(12)	2006(12)	2007(12)(13)	2008	2008
	(2008 in millions of pesos, previous years in millions of constant pesos as of December 31, 2007)(2)					(millions of U.S. dollars)(2)
Income Statement Data:						
Mexican FRS						
Operating revenues	Ps. 150,306	Ps. 196,638	Ps. 243,005	Ps. 311,580	Ps. 345,655	U.S.$ 25,532
Operating costs and expenses	124,457	159,928	181,971	226,386	250,109	18,475
Depreciation and amortization	20,742	22,955	27,884	40,406	41,767	3,085
Operating income	25,849	36,710	61,034	85,194	95,546	7,058
Comprehensive financing (income) cost	(2,158)	2,790	28	387	13,865	1,024
Net income	18,595	33,053	44,422	58,587	59,486	4,393
Earnings per share:						
Basic(3)	0.50	0.92	1.25	1.67	1.74	0.13
Diluted(3)	0.50	0.92	1.25	1.67	1.74	0.13
Dividends declared per share(4)	0.04	0.37	0.10	1.20	0.26	0.02
Dividends paid per share(5)	0.03	0.37	0.12	1.20	0.26	0.02
Weighted average number of shares outstanding (millions)(6):						
Basic	36,848	35,766	35,459	35,149	34,220	
Diluted	36,860	35,766	35,459	35,149	34,220	
U.S. GAAP						
Operating revenues(7)	Ps. 141,325	Ps. 183,417	Ps. 231,509	Ps. 299,335	Ps. 330,712	U.S.$ 24,428
Operating costs and expenses	116,229	149,415	172,170	220,294	237,737	17,560
Depreciation and amortization	20,358	25,037	30,020	46,698	43,961	3,247
Operating income	25,096	34,002	59,339	79,041	92,975	6,868
Comprehensive financing (income) cost	(2,666)	(140)	(1,084)	(267)	19,629	1,450
Net income	18,762	33,028	40,639	55,419	54,162	4,001
Earnings per share:						
Basic(3)	0.51	0.92	1.15	1.58	1.58	0.12
Diluted(3)	0.51	0.92	1.15	1.58	1.58	0.12

(see footnotes on following page)

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	As of and for the year ended December 31,[1]					
	2004[12]	2005[12]	2006[12]	2007[12][13]	2008	2008
	(2008 in millions of pesos, previous years in millions of constant pesos as of December 31, 2007)[2]					(millions of U.S. dollars)[2]
Balance Sheet Data:						
Mexican FRS						
Property, plant and equipment, net	Ps. 94,719	Ps. 120,734	Ps. 143,090	Ps. 167,084	Ps. 209,897	U.S.$ 15,504
Total assets	217,245	249,171	328,325	349,121	435,455	32,164
Short-term debt and current portion of long-term debt	12,828	22,176	26,214	19,953	26,731	1,974
Long-term debt	76,741	68,346	89,038	84,799	116,755	8,624
Total stockholders equity[8]	65,797	77,909	113,747	126,858	144,925	10,704
Capital stock	36,580	36,565	36,555	36,552	36,532	2,698
Number of outstanding shares (millions)[6][9]						
AA Shares	10,941	10,915	10,859	11,712	11,712	
A Shares	795	761	571	547	480	
L Shares	24,263	23,967	23,872	22,638	21,058	
U.S. GAAP						
Property, plant and equipment, net	Ps. 106,098	Ps. 136,871	Ps. 156,449	Ps. 177,424	Ps. 212,264	U.S.$ 15,679
Total assets	232,354	268,479	349,564	363,075	443,544	32,762
Short-term debt and current portion of long-term debt	12,828	22,176	26,213	19,953	26,731	1,974
Long-term debt	76,741	68,346	89,037	84,799	116,755	8,624
Non-controlling interest	1,850	1,103	684	634	656	48
Total stockholders equity	74,249	92,256	124,909	137,026	151,239	11,171
Capital stock	37,043	37,026	37,017	37,014	36,994	2,733
Subscriber Data:						
Number of subscribers (in thousands)	61,107	93,329	124,776	157,287	186,568	
Subscriber growth	39.80%	52.70%	33.70%	23.20%	18.60%	
Ratio of Earnings to Fixed Charges:						
Mexican FRS[10]	5.6	4.6	7.2	9.0	7.6	
U.S. GAAP[11]	5.5	4.5	7.0	8.7	7.5	

(1) In accordance with Mexican FRS, the merger with Amtel has been accounted for on a historical basis similar to a pooling of interest basis and we have adjusted our financial information and selected financial information presented in this annual report to include the consolidated assets, liabilities and results of operations of Amtel for periods presented up to December 31, 2006. See Note 3 to our audited consolidated financial statements.

(2) Except per share, share capital and subscriber data.

(3) We have not included earnings or dividends on a per ADS basis. Each L Share ADS represents 20 L Shares and each A Share ADS represents 20 A Shares.

(4) Nominal amounts. Figures provided represent the annual dividend declared at the general shareholders meeting and for 2005 and 2007 include special dividends of Ps. 0.30 per share and Ps. 1.0 per share, respectively.

(5) Nominal amounts. For more information on dividends paid per share translated into U.S. dollars, see Financial Information Dividends under Item 8. Amount in U.S. dollars translated at the exchange rate on each of the respective payment dates.

(6) All share figures have been adjusted retroactively to reflect a reduction in L Shares as a result of our merger with Amtel. See Notes 3 and 18 to our audited consolidated financial statements. The increase in AA Shares between 2006 and 2007 was due to the exchange of shares of Amtel for our shares in connection with our merger with Amtel. Subject to certain restrictions, the shareholders of Amtel were free to elect to receive L Shares or AA Shares.

(7) The differences between our Mexican FRS and U.S. GAAP operating revenues include the reclassification of (1) the application of EITF 01-9, Accounting Consideration Given by a Vendor to a Customer, which we have applied to all periods presented in this table and which resulted in a reclassification of certain commissions paid to distributors from commercial, administrative and general expenses under Mexican FRS to reductions in operating revenues under U.S. GAAP, and (2) the application in 2004 of EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, which addresses certain aspects of accounting for sales that involved multiple revenue generating products and/or services sold under a single contractual agreement. See Note 22 to our audited consolidated financial statements.

(8) Includes non-controlling interest.

(9) As of year-end.

(10) Earnings, for this purpose, consist of earnings from continuing operations before income taxes, plus fixed charges and depreciation of capitalized interest and minus interest capitalized during the period. Through December 31, 2006, for Mexican FRS purposes, employee profit-sharing is considered an income tax and earnings are calculated before the provision for employee profit-sharing. Fixed charges, for this purpose, consist of interest expense plus interest capitalized during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.

(11) Earnings, for this purpose, consist of earnings from continuing operations before income taxes, plus fixed charges and depreciation of capitalized interest and minus interest capitalized during the period. Under U.S. GAAP, employee profit-sharing is considered an operating expense and earnings are calculated after the provision for employee profit-sharing. Fixed charges, for this purpose, consist of interest expense plus interest capitalized during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.

(12) Note 1z.2 to our audited consolidated financial statements describes new accounting pronouncements under Mexican FRS that came into force in 2008. The pronouncements that became effective on January 1, 2008, were fully implemented in the financial statements included in this annual report. These new accounting pronouncements were applied on a prospective basis. As a result, the financial statements of prior years, which are presented for comparative purposes, have not been modified and may not be comparable to our financial statements for 2008.

(13) Beginning in 2007, we capitalize interest under Mexican FRS.

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EXCHANGE RATES

Mexico has a free market for foreign exchange, and the Mexican government allows the peso to float freely against the U.S. dollar. There can be no assurance that the Mexican government will maintain its current policies with regard to the peso or that the peso will not depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end noon buying rate in New York City for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

Period	High	Low	Average(1)	Period End
2004	11.6350	10.8050	11.3095	11.1540
2005	11.4110	10.4135	10.8680	10.6275
2006	11.4600	10.4315	10.9023	10.7995
2007	11.2692	10.6670	10.9253	10.9169
2008	13.9350	9.9166	11.2124	13.8320
2009				
January	14.3330	13.3300		
February	15.0880	14.1340		
March	15.4060	14.0240		
April	13.8882	13.0470		
May	13.8230	12.8845		

(1) Average of month-end rates.

On June 19, 2009, the noon buying rate was Ps. 13.3380 to U.S.$1.00.

We will pay any cash dividends in pesos, and exchange rate fluctuations will affect the U.S. dollar amounts received by holders of American Depositary Shares, or ADSs, on conversion by the depositary of cash dividends on the shares represented by such ADSs. Fluctuations in the exchange rate between the peso and the U.S. dollar affect the U.S. dollar equivalent of the peso price of our shares on the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*, or the Mexican Stock Exchange) and, as a result, can also affect the market price of the ADSs.

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports to the U.S. Securities and Exchange Commission, or SEC, on Forms 20-F and 6-K, in our annual report to shareholders, in offering circulars and prospectuses, in press releases and other written materials, and in oral statements made by our officers, directors or employees to analysts, institutional investors, representatives of the media and others. Examples of such forward-looking statements include:

- projections of operating revenues, net income (loss), net income (loss) per share, capital expenditures, dividends, capital structure or other financial items or ratios;
- statements of our plans, objectives or goals, including those relating to acquisitions, competition, regulation and rates;
- statements about our future economic performance or that of Mexico or other countries in which we operate;
- competitive developments in the telecommunications sector in each of the markets where we currently operate;
- other factors or trends affecting the telecommunications industry generally and our financial condition in particular; and
- statements of assumptions underlying the foregoing statements.

We use words such as believe, anticipate, plan, expect, intend, target, estimate, project, predict, forecast, guideline, shoul
expressions to identify forward-looking statements, but they are not the only way we identify such statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, some of which are discussed under Risk Factors, include economic and political conditions and government policies in Mexico, Brazil or elsewhere, inflation rates, exchange rates, regulatory developments, technological improvements, customer demand and competition. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements.

Forward-looking statements speak only as of the date they are made. We do not undertake any obligation to update such statements in light of new information or future developments.

You should evaluate any statements made by us in light of these important factors.

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RISK FACTORS

Risks Relating to Our Businesses

Competition in the wireless industry is intense and could adversely affect the revenues and profitability of our business

Our wireless businesses face substantial competition from other wireless providers. We also face competition from fixed-line telephone companies and, increasingly, other service providers such as cable, paging, trunking and Internet companies because of the trend towards convergence of telecommunication services.

Competition in our markets has intensified in recent periods, and we expect that it will continue to intensify in the future as a result of the entry of new competitors, the development of new technologies, products and services, and the auction of additional spectrum. We also expect the current consolidation trend in the wireless industry to continue, as companies respond to the need for cost reduction and additional spectrum. This trend may result in larger competitors with greater financial, technical, promotional and other resources to compete with our businesses. Telefónica, S.A. (*Telefónica Móviles*), which has important operations in Mexico and Brazil, as well as other of our markets, consolidated its position as our largest regional competitor through several acquisitions.

Among other things, our competitors could:

- provide increased handset subsidies;
- offer higher commissions to retailers;
- provide free airtime or other services (such as Internet access);
- expand their networks faster; or
- develop and deploy improved wireless technologies faster.

Competition can result in increases in advertising and promotional spending and reductions in prices for services and handsets. In addition, portability requirements, which enable customers to switch wireless providers without changing their wireless numbers, have been introduced in some of our markets, including Mexico and Brazil, and may be introduced in other markets in the near future.

These developments may lead to smaller operating margins, greater choices for customers, possible consumer confusion and increasing movement of customers among competitors, which may make it difficult for us to retain customers or add new customers. The cost of adding new customers may also continue to increase, reducing profitability even if customer growth continues.

Our ability to compete successfully will depend on our coverage, the quality of our network and service, our rates, customer service, marketing and our ability to anticipate and respond to various competitive factors affecting the telecommunications industry, including new services and technologies, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors. If we are unable to respond to competition and compensate for declining prices by adding new customers, increasing usage and offering new services, our revenues and profitability could decline.

Changes in government regulation could hurt our businesses

Our businesses are subject to extensive government regulation and can be adversely affected by changes in law, regulation or regulatory policy. The licensing, construction, operation, sale, resale and interconnection arrangements of wireless telecommunications systems in Latin America and elsewhere are regulated to varying

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degrees by government or regulatory authorities. Any of these authorities having jurisdiction over our businesses could adopt or change regulations or take other actions that could adversely affect our operations. In particular, the regulation of prices operators may charge for their services could have a material adverse effect on us by reducing our profit margins.

These risks are significant in all of the markets in which we operate. See Mexican Operations Regulation and Non-Mexican Operations Regulation under Item 4. The risks in our largest markets, for example, include the following.

- In Mexico, the business of Radiomóvil Dipsa, S.A. de C.V., or Telcel, is subject to extensive government regulation, principally by the Mexican Ministry of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*, or SCT), the Federal Telecommunications Commission (*Comisión Federal de Telecomunicaciones*, or Cofetel), the Federal Antitrust Commission (*Comisión Federal de Competencia*, or Cofeco) and the Federal Consumer Bureau (*Procuraduría Federal del Consumidor*, or Profeco), and may be adversely affected by changes in law or by actions of Mexican regulatory authorities. In particular, there has been extensive controversy and dispute in Mexico concerning the interconnection fees payable by local and long-distance operators to mobile operators. If these disputes are resolved against us, the consequences for our business could be material.

- In Brazil, our business is regulated principally by the Brazilian National Telecommunications Agency (*Agência Nacional de Telecomunicações*, or Anatel) and may be adversely affected by its actions or changes in its regulations. In particular, Anatel has defined a series of cost-based methods, including the fully allocated cost methodology, for determining interconnection fees charged by operators belonging to an economic group with significant market power. Anatel has not published all of the applicable regulations, but the implementation of the cost-based methodology is expected to take effect in 2010. It is uncertain how Anatel will define the criteria for determining whether an operator belongs to an economic group with significant market power for purposes of this new regulation. When these methods are ultimately implemented and if we are deemed to be an economic group with significant market power, the revenues and results of operations of our Brazilian operations may be affected.

- In Colombia, the Colombian Ministry of Communications (Ministerio de Comunicaciones, or Ministry of Communications) and the Colombian Telecommunications Regulation Commission (Comisión de Regulación de Telecomunicaciones, or CRT) are responsible for regulating and overseeing the telecommunications sector, including cellular operations. In March 2009, the CRT issued a series of resolutions stating that Comunicación Celular, S.A. (Comcel), our Colombian subsidiary, has a dominant position in Colombia s market for outgoing mobile services. Under Colombian law, a market participant is considered to have a dominant position in a specified market if the regulators determine that it has the capacity to control the conditions in that market. The CRT made its determination based on Comcel s traffic, revenues and subscriber base. The resolutions also included regulations that would require Comcel to charge rates (excluding access fees) for mobile-to-mobile calls outside the Comcel network (off net) that are no higher than the fees charged for mobile-to-mobile calls within the Comcel network (on net). CRT would monitor the rates by reviewing Comcel s average revenue per minute on a quarterly basis. The resolutions did not present a timetable for implementation of the regulations. In April 2009, Comcel filed a request for review of the resolutions (*recurso de reposición*) with the CRT. See Legal Proceedings Comcel Dominant Position under Item 8.

In addition, changes in political administrations could lead to the adoption of policies concerning competition and taxation of communications services that may be detrimental to our operations throughout Latin America. These restrictions, which may take the form of preferences for local over foreign ownership of communications licenses and assets, or for government over private ownership, may make it impossible for us to continue to develop our businesses. These restrictions could result in our incurring losses of revenues and require capital investments all of which could materially adversely affect our businesses and results of operations.

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Dominant carrier regulations could hurt our business by limiting our ability to pursue competitive and profitable strategies

Cofetel is authorized to impose specific requirements as to rates, service quality and information on any wireless operator that is determined by Cofeco to have substantial market power in a specific market. In two investigations, Cofeco has issued preliminary reports (*dictámenes preliminares)* concluding that Telcel has substantial market power in specified markets. We cannot predict what regulatory steps Cofetel might take if these determinations become final. We believe that if dominant carrier regulations are imposed on our business in the future, they will likely reduce our flexibility to adopt competitive market policies and impose specific tariff requirements or other special regulations on us, such as additional requirements regarding disclosure of information or quality of service. Any such new regulation could have a material adverse effect on our operations.

Cofeco is also conducting four investigations into whether Telcel has engaged in monopolistic practices. Adverse determinations against Telcel in any of the ongoing investigations could also result in material fines, penalties or restrictions on our operations.

We will, in the future, have to acquire additional radio spectrum capacity in order to expand our customer base and maintain the quality of our services

Licensed radio spectrum is essential to our growth and the quality of our services, particularly for GSM and UMTS services and increased deployment of 3G networks to offer value-added services. We can increase the density of our network, thus reducing our need for additional spectrum by building more cell and switch sites, but such measures are costly and would be subject to local restrictions and approvals, and they will not fully meet our needs.

In 2005, we acquired the right to use 10 megahertz in the 1900 megahertz spectrum in each of Mexico s nine regions, through a public auction. We also bid and won the auction for an additional 10 megahertz of capacity in three principal regions, but were subsequently prohibited from acquiring this additional spectrum based on restrictions imposed by Cofeco. We expect that government will conduct auctions for additional spectrum capacity during the second half of 2009 or 2010. We cannot assure that we will be allowed to participate in any new auctions for additional spectrum capacity in Mexico.

Participation in spectrum auctions requires prior governmental authorization (including prior approval from Cofeco).

Our concessions and licenses are for fixed terms, and conditions may be imposed on their renewal

Our concessions and licenses have specified terms, ranging typically from 10 to 30 years, and are generally subject to renewal upon payment of a fee, but renewal is not assured. The loss of, or failure to renew, any one concession could have a material adverse effect on our business and results of operations. Our ability to renew concessions and the terms of renewal are subject to a number of factors beyond our control, including the prevalent regulatory and political environment at the time of renewal. Fees are typically established at the time of renewal. As a condition for renewal, we may be required to agree to new and stricter terms and service requirements. For example, in order to renew our concession to provide services in Ecuador, we were required to pay U.S.$289 million in August 2008. If our concessions are not renewed, we are required to transfer the assets covered by the concession to the government, generally for fair market value, although certain jurisdictions provide for other valuation methodologies. In Mexico, we have important concessions expiring in 2010 and 2011, and the SCT may impose additional conditions in connection with the renewal of a concession. See Note 1 to our audited consolidated financial statements.

In Mexico, the Mexican Federal Telecommunications Law (*Ley Federal de Telecomunicaciones*, or the Telecommunications Law) also gives certain rights to the Mexican government, including the right to revoke

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the concessions pursuant to an expropriation or to take over the management of Telcel s networks, facilities and personnel in cases of imminent danger to national security, internal peace or the national economy, natural disasters and public unrest.

We continue to look for investment opportunities, and any future acquisitions and related financings could have a material effect on our business, results of operations and financial condition

We continue to look for other investment opportunities in telecommunication companies primarily in Latin America and the Caribbean, including in markets where we are already present, and we often have several possible acquisitions under consideration. For example, we may pursue further market consolidation opportunities in Argentina and Brazil depending on their terms and conditions. Any future acquisitions and related financings could have a material effect on our business, results of operations and financial condition, but we cannot give any assurances that we will complete any of them. In addition, we may incur in significant costs and expenses as we integrate these companies in our systems, controls and networks.

We may be unsuccessful in addressing the challenges and risks presented by our investments in countries outside Mexico

We have invested in a growing number of telecommunications businesses outside our historical activity of providing wireless telecommunications services in Mexico, and we plan to continue to do so in the rest of Latin America and the Caribbean. Whereas Mexico accounted for 63.0% of our total wireless subscribers as of December 31, 2002 and 71% of our consolidated revenues during 2002, it accounted for 30.9% of our total wireless subscribers as of December 31, 2008 and 39.1% of our consolidated revenues during 2008. During that period, Brazil, as a result of rapid subscriber growth and the acquisitions of BSE S.A. and BCP S.A. (now Claro S.A.), increased its share of our total wireless subscribers from 16.3% as of December 31, 2002 to 21.2% as of December 31, 2008, and it accounted for 20.3% of our consolidated revenues during 2008. These investments outside Mexico may involve risks to which we have not previously been exposed. Some of the investments are in countries that may present different or greater risks, including from competition, than Mexico. We cannot assure you that these investments will be successful.

We are subject to significant litigation

Some of our subsidiaries are subject to significant litigation, which if determined adversely to our interests may have a material adverse effect on our business, results of operations, financial condition or prospects. In Mexico, for example, there are pending administrative investigations into whether Telcel has substantial market power and whether it has engaged in monopolistic practices, and there are legal proceedings regarding rates for interconnection with other operators. In Brazil, there are pending regulatory proceedings regarding the calculation of inflation-related adjustments due under our concessions with Anatel. In Colombia, there are pending administrative proceedings against Comcel regarding alleged anti-competitive behavior. Our significant litigation is described in Legal Proceedings under Item 8.

A system failure could cause delays or interruptions of service, which could cause us to lose customers and revenues

We will need to continue to provide our subscribers with reliable service over our network. Some of the risks to our network and infrastructure include the following:

- physical damage to access lines;
- power surges or outages;
- limitations on the use of our radiobases;
- software defects;

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natural disasters; and

disruptions beyond our control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose subscribers and incur additional expenses.

If our current churn rate increases, our business could be negatively affected

The cost of acquiring a new subscriber is much higher than the cost of maintaining an existing subscriber. Accordingly, subscriber deactivations, or churn, could have a material negative impact on our operating income, even if we are able to obtain one new subscriber for each lost subscriber. Because a substantial majority of our subscribers are prepaid, we do not have long-term contracts with those subscribers. Our weighted monthly average churn rate on a consolidated basis for the twelve-month period ended December 31, 2007 was 2.9% and for the twelve-month period ended December 31, 2008 was 2.8%. If we experience an increase in our churn rate, our ability to achieve revenue growth could be materially impaired. In addition, a decline in general economic conditions could lead to an increase in churn, particularly among our prepaid subscribers.

We depend on key suppliers and vendors to provide equipment that we need to operate our business

We depend upon various key suppliers and vendors, including Apple, Nokia, Sony-Ericsson, Huawei, Motorola, LG and Samsung, to provide us with handsets and network equipment, which we need to operate our business. If these suppliers or vendors fail to provide equipment or service to us on a timely basis, we could experience disruptions, which could have an adverse effect on our revenues and results of operations. In addition, we might be unable to satisfy the requirements contained on our concessions.

Our ability to pay dividends and repay debt depends on our subsidiaries ability to transfer income and dividends to us

We are a holding company with no significant assets other than the shares of our subsidiaries and our holdings of cash and marketable securities. Our ability to pay dividends and repay debt depends on the continued transfer to us of dividends and other income from our subsidiaries. The ability of our subsidiaries to pay dividends and make other transfers to us may be limited by various regulatory, contractual and legal constraints that affect our subsidiaries.

Risks Relating to the Wireless Industry Generally

Changes in the wireless industry could affect our future financial performance

The wireless communications industry is experiencing significant changes as new technologies are developed that offer subscribers an array of choices for their communications needs. These changes include, among others, regulatory changes, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products, and changes in end-user needs and preferences. In Mexico and in the other countries in which we conduct business, there is uncertainty as to the pace and extent of growth in subscriber demand, and as to the extent to which prices for airtime and line rental may continue to decline. If we are unable to meet future advances in competing technologies on a timely basis or at an acceptable cost, we could lose subscribers to our competitors. In general, the development of new services in our industry requires us to anticipate and respond to the varied and continually changing demands of our subscribers. We may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restraints to our introduction of new services. If these services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract subscribers could be adversely affected.

There are three existing digital technologies for wireless communications, none of which is compatible with the others. In the past, Telcel and certain of our international businesses used time division multiple access (TDMA) technology for their digital networks, while certain of our other international businesses used code division multiple access (CDMA) as their digital wireless technology. We have introduced global system for mobile communications (GSM) technology in all of our markets (excluding TracFone Wireless, Inc.). Also, Telcel and all of our international businesses (excluding Tracfone Wireless, Inc.) launched new networks using the UMTS and HSDPA third generation technology between 2007 and 2009. We expect to complete the deployment of the third generation technology in the following years. If future wireless technologies that gain widespread acceptance are not compatible with the technologies we use, we may be required to make capital expenditures in excess of our current forecasts in order to upgrade and replace our technology and infrastructure.

The intellectual property rights utilized by us, our suppliers or service providers may infringe on intellectual property rights owned by others

Some of our products and services use intellectual property that we own or license from others. We also provide content services we receive from content distributors, such as ring tones, text games, video games, wallpapers or screensavers, and outsource services to service providers, including billing and customer care functions, that incorporate or utilize intellectual property. We and some of our suppliers, content distributors and service providers have received, and may receive in the future, assertions and claims from third parties that the products or software utilized by us or our suppliers, content distributors and service providers infringe on the patents or other intellectual property rights of these third parties. These claims could require us or an infringing supplier, content distributor or service provider to cease engaging in certain activities, including selling, offering and providing the relevant products and services. Such claims and assertions also could subject us to costly litigation and significant liabilities for damages or royalty payments, or require us to cease certain activities or to cease selling certain products and services.

We may incur significant losses from wireless fraud and from our failure to successfully manage collections

Our wireless businesses incur losses and costs associated with the unauthorized use of these wireless networks, particularly their analog cellular networks. These costs include administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs, capacity costs, administrative costs and payments to other carriers for unbillable fraudulent roaming. Although we seek to combat this problem through the deployment of anti-fraud technologies and other measures, we cannot assure you that these efforts will be effective or that fraud will not result in material costs for us in the future.

Cloning, which is one form of wireless fraud, involves the use of scanners and other electronic devices to obtain illegally telephone numbers and electronic serial numbers during cellular transmission. Stolen telephone and serial number combinations can be programmed into a cellular phone and used to obtain improper access to cellular networks. Roaming fraud occurs when a phone programmed with a number stolen from one of our subscribers is used to place fraudulent calls from another carrier s market, resulting in a roaming fee charged to us that cannot be collected from the subscriber.

Concerns about health risks relating to the use of wireless handsets and base stations may adversely affect our business

Portable communications devices have been alleged to pose health risks, including cancer, due to radio frequency emissions from these devices. Lawsuits have been filed in the United States against certain participants in the wireless industry alleging various adverse health consequences as a result of wireless phone usage, and our businesses may be subject to similar litigation in the future. Research and studies are ongoing, and there can be no assurance that further research and studies will not demonstrate a link between radio frequency emissions and health concerns. Any negative findings in these studies could adversely affect the use of wireless handsets and, as a result, our future financial performance.

Developments in the telecommunications sector have resulted, and may in the future result, in substantial write-downs of the carrying value of certain of our assets

We review on a annual basis, or more frequently where the circumstances require, the value of each of our assets and subsidiaries, to assess whether those carrying values can be supported by the future cash flows expected to be derived from such assets. Whenever we consider that due to changes in the economic, regulatory, business or political environment, our goodwill, intangible assets or fixed assets may be impaired, we consider the necessity of performing certain valuation tests, which may result in impairment charges. The recognition of impairments of tangible, intangible and financial assets results in a non-cash charge on the income statement, which could adversely affect our results of operations. For example, during 2007 and 2008, we recorded charges in respect of certain analog, TDMA and CDMA equipment in Argentina, Brazil, Colombia and Ecuador following our decision to discontinue using the equipment.

Risks Relating to Our Controlling Shareholders, Capital Structure and Transactions with Affiliates

Members of one family may be deemed to control us

According to reports of beneficial ownership of our shares filed with the SEC, Carlos Slim Helú, together with his sons and daughters (together, the Slim Family), including his son and chairman of our board of directors, Patrick Slim Domit, may be deemed to control us. The Slim Family may be able to elect a majority of the members of our board of directors and to determine the outcome of other actions requiring a vote of our shareholders, except in very limited cases that require a vote of the holders of L Shares. We cannot assure you that the Slim Family will not take actions that are inconsistent with your interests.

We have significant transactions with affiliates

We engage in transactions with Teléfonos de México, S.A.B. de C.V., or Telmex, Telmex Internacional, S.A.B. de C.V., or Telmex Internacional, and certain of their subsidiaries and with certain subsidiaries of Grupo Carso, S.A.B. de C.V. and Grupo Financiero Inbursa, S.A.B. de C.V., all of which are affiliates of América Móvil. Many of these transactions occur in the ordinary course of business and, in the case of transactions with Telmex, are subject to applicable telecommunications regulations in Mexico. Transactions with affiliates may create the potential for conflicts of interest.

We also make investments together with affiliated companies, sell our investments to related parties and buy investments from related parties. We may pursue joint investments in the telecommunications industry with Telmex and Telmex International. For more information about our transactions with affiliates see Related Party Transactions under Item 7.

Our bylaws restrict transfers of shares in some circumstances

Our bylaws provide that any acquisition or transfer of more than 10% of our capital stock by any person or group of persons acting together requires the approval of our Board of Directors. If you acquire or transfer more than 10% of our capital stock, you will not be able to do so without the approval of our Board of Directors.

The protections afforded to minority shareholders in Mexico are different from those in the United States

Under Mexican law, the protections afforded to minority shareholders are different from those in the United States. In particular, the law concerning fiduciary duties of directors is not as fully developed as in other jurisdictions, there is no procedure for class actions, and there are different procedural requirements for bringing shareholder lawsuits. As a result, in practice it may be more difficult for minority shareholders of América Móvil to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a company incorporated in another jurisdiction, such as the United States.

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Holders of L Shares and L Share ADSs have limited voting rights, and holders of ADSs may vote only through the depositary

Our bylaws provide that holders of L Shares are not permitted to vote except on such limited matters as, among others, the transformation or merger of América Móvil or the cancellation of registration of the L Shares with the National Securities Registry (*Registro Nacional de Valores*) maintained by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or CNBV) or any stock exchange on which they are listed. If you hold L Shares or L Share ADSs, you will not be able to vote on most matters, including the declaration of dividends, that are subject to a shareholder vote in accordance with our bylaws.

Holders of ADSs are not entitled to attend shareholders meetings, and they may only vote through the depositary

Under our bylaws, a shareholder is required to deposit its shares with a custodian in order to attend a shareholders meeting. A holder of ADSs will not be able to meet this requirement, and accordingly is not entitled to attend shareholders meetings. A holder of ADSs is entitled to instruct the depositary as to how to vote the shares represented by ADSs, in accordance with procedures provided for in the deposit agreements, but a holder of ADSs will not be able to vote its shares directly at a shareholders meeting or to appoint a proxy to do so.

Mexican law and our bylaws restrict the ability of non-Mexican shareholders to invoke the protection of their governments with respect to their rights as shareholders

As required by Mexican law, our bylaws provide that non-Mexican shareholders shall be considered as Mexicans in respect of their ownership interests in América Móvil and shall be deemed to have agreed not to invoke the protection of their governments in certain circumstances. Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the shareholder s rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the U.S. securities laws, with respect to its investment in América Móvil. If you invoke such governmental protection in violation of this provision, your shares could be forfeited to the Mexican government.

Our bylaws may only be enforced in Mexico

Our bylaws provide that legal actions relating to the execution, interpretation or performance of the bylaws may be brought only in Mexican courts. As a result, it may be difficult for non-Mexican shareholders to enforce their shareholder rights pursuant to the bylaws.

It may be difficult to enforce civil liabilities against us or our directors, officers and controlling persons

América Móvil is a *sociedad anónima bursátil de capital variable* organized under the laws of Mexico, with its principal place of business *(domicilio social)* in Mexico City, and most of our directors, officers and controlling persons reside outside the United States. In addition, all or a substantial portion of our assets and their assets are located outside of the United States. As a result, it may be difficult for investors to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

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You may not be entitled to participate in future preemptive rights offerings

Under Mexican law, if we issue new shares for cash as part of certain capital increases, we must grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage in América Móvil. Rights to purchase shares in these circumstances are known as preemptive rights. Our shareholders do not have preemptive rights in certain circumstances such as mergers, convertible debentures, public offers and placement of repurchased shares. We may not legally be permitted to allow holders of ADSs or holders of L Shares or A Shares in the United States to exercise any preemptive rights in any future capital increase unless we file a registration statement with the SEC, with respect to that future issuance of shares. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether we will file such a registration statement.

We cannot assure you that we will file a registration statement with the SEC to allow holders of ADSs or U.S. holders of L Shares or A Shares to participate in a preemptive rights offering. As a result, the equity interest of such holders in América Móvil may be diluted proportionately. In addition, under current Mexican law, it is not practicable for the depositary to sell preemptive rights and distribute the proceeds from such sales to ADS holders.

Risks Relating to Developments in Mexico and Other Countries

Latin American and Caribbean economic, political and social conditions may adversely affect our business

Our financial performance may be significantly affected by general economic, political and social conditions in the markets where we operate, particularly Mexico, Brazil and Central America. Many countries in Latin America and the Caribbean, including Mexico, Brazil and Argentina have suffered significant economic, political and social crises in the past, and these events may occur again in the future. Many of these countries, including Ecuador, El Salvador and Panama, recently held elections and others including Honduras, Uruguay and Chile will hold presidential elections in 2009. We cannot predict whether changes in administrations will result in changes in governmental policy and whether such changes will affect our business. Instability in the region has been caused by many different factors, including:

- significant governmental influence over local economies;
- substantial fluctuations in economic growth;
- high levels of inflation;
- changes in currency values;
- exchange controls or restrictions on expatriation of earnings;
- high domestic interest rates;
- wage and price controls;
- changes in governmental economic or tax policies;

- imposition of trade barriers;
- unexpected changes in regulation; and
- overall political, social and economic instability.

Adverse economic, political and social conditions in Latin America may inhibit demand for wireless services and create uncertainty regarding our operating environment, which could have a material adverse effect on our company.

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Our business may be especially affected by conditions in Mexico and Brazil, our two principal markets. Mexico has experienced a prolonged period of slow growth since 2001, primarily as a result of the downturn in the U.S. economy. According to preliminary data, during 2008, Mexico s gross domestic product, or GDP, decreased by 1.6% in real terms. In 2007, GDP grew by 4.7%. Mexico has also experienced high levels of inflation and high domestic interest rates. The annual rate of inflation, as measured by changes in the National Consumer Price Index as published by the Banco de México, was 6.5% for 2008.

Brazil has also experienced slow economic growth over the past several years. Brazil s GDP grew by an estimated 1.2% in real terms in 2008, compared to a growth rate of 5.4% in 2007. Brazil has in the past experienced extremely high rates of inflation, with annual rates of inflation during the last years reaching as high as 2,489% in 1993 and 929% in 1994, as measured by the Brazilian National Consumer Price Index. More recently, Brazil s rates of inflation were 3.1% in 2006, 4.5% in 2007, and 6.4% in 2008. Inflation, governmental measures to combat inflation and public speculation about possible future actions have in the past had significant negative effects on the Brazilian economy.

Our business may be affected by political developments in Latin America and the Caribbean. We cannot predict whether these recent events will affect our business or our ability to renew our licenses and concessions, to maintain or increase our market share or profitability or will have an impact on future strategic acquisition efforts.

Depreciation or fluctuation of the currencies in which we conduct operations relative to the U.S. dollar could adversely affect our financial condition and results of operations

We are affected by fluctuations in the value of the currencies in which we conduct operations compared to the U.S. dollar, in which a substantial portion of our indebtedness is denominated. Changes in the value of the various currencies in which we conduct operations against the Mexican peso, which we use as our reporting currency in our financial statements, and against the U.S. dollar may result in exchange losses or gains on our net U.S. dollar-denominated indebtedness and accounts payable. In 2007 and 2006, changes in currency exchange rates led us to report foreign exchange gains of Ps. 2,463 million and Ps. 2,321 million, respectively. In 2008, we reported foreign exchange losses of Ps. 13,686 million. In addition, currency fluctuations between the Mexican peso and the currencies of our non-Mexican subsidiaries affect our results as reported in Mexican pesos. Currency fluctuations are expected to continue to affect our financial income and expense.

Major devaluation or depreciation of any such currencies may also result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert such currencies into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our indebtedness. The Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies out of Mexico. The government could, however, institute restrictive exchange rate policies in the future. Also, the Brazilian government may impose temporary restrictions on the conversion of Brazilian reals into foreign currencies and on the remittance to foreign investors of proceeds from investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil s balance of payments or a reason to foresee a serious imbalance.

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Item 4. Information on the Company

GENERAL

We are the largest provider of wireless communications services in Latin America based on subscribers. As of December 31, 2008, we had 182.7 million wireless subscribers in 17 countries, compared to 153.4 million at year-end 2007. Because our focus is on Latin America, a substantial majority of our wireless subscribers are prepaid customers. We also had an aggregate of approximately 3.8 million fixed lines in Central America and the Caribbean as of December 31, 2008, making us the largest fixed-line operator in Central America and the Caribbean based on the number of subscribers.

Our principal operations are:

Mexico. Through Radiomóvil Dipsa, S.A. de C.V., which operates under the name Telcel, we provide mobile telecommunications service in all nine regions in Mexico. As of December 31, 2008, we had 56.4 million subscribers in Mexico. We are the largest provider of mobile telecommunications services in Mexico.

Brazil. With approximately 38.7 million subscribers as of December 31, 2008, we are one of the three largest providers of wireless telecommunications services in Brazil based on the number of subscribers. We operate in Brazil through our subsidiaries, Claro S.A. and Americel S.A., or Americel, under the unified brand name Claro. Our network covers the main cities in Brazil (including São Paulo and Rio de Janeiro).

Southern Cone. We provide wireless services in Argentina, Paraguay, Uruguay and Chile. As of December 31, 2008, we had 19.6 million subscribers in the Southern Cone region. We operate under the Claro brand in the region.

Colombia. We provide wireless services in Colombia under the Comcel brand. As of December 31, 2008, we had 27.4 million wireless subscribers and were the largest wireless provider in Colombia.

Andean Region. We provide wireless services in Peru and Ecuador. As of December 31, 2008, we had 15.5 million subscribers in the Andean region. We operate under the Porta brand in Ecuador and under the Claro brand in Peru.

Central America. We provide fixed-line and wireless services in Guatemala, El Salvador, Honduras, Nicaragua and Panama. Our Central American subsidiaries provide wireless services under the Claro brand. As of December 31, 2008, our subsidiaries had 9.2 million wireless subscribers and over 2.2 million fixed-line subscribers in Central America. We began providing wireless services in Panama in March 2009.

United States. Our U.S. subsidiary, TracFone Wireless Inc., or Tracfone, is engaged in the sale and distribution of prepaid wireless services and wireless phones throughout the United States, Puerto Rico and the U.S. Virgin Islands. It had approximately 11.2 million subscribers as of December 31, 2008.

Caribbean. Compañía Dominicana de Teléfonos, C. por A., or Codetel, is the largest telecommunications service provider in the Dominican Republic with 3.9 million wireless subscribers, 0.8 million fixed-line subscribers and 0.2 million broadband subscribers as of December 31, 2008. We provide fixed-line and broadband services in the Dominican Republic under the Codetel brand and wireless services under the Claro brand.

Telecomunicaciones de Puerto Rico, Inc., or TELPRI, through its subsidiaries, is the largest telecommunications service provider in Puerto Rico with approximately 0.8 million fixed-line subscribers and 0.7 million wireless subscribers as of December 31, 2008. We provide fixed-line and broadband services in Puerto Rico under the PRT brand and wireless services under the Claro brand.

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Oceanic Digital Jamaica Limited, or Oceanic, provides wireless and value added services throughout Jamaica, with 0.2 million wireless subscribers as of December 31, 2008.

América Móvil, S.A.B. de C.V. is a *sociedad anónima bursátil de capital variable* organized under the laws of Mexico with its principal executive offices at Lago Alberto 366, Edificio Telcel I, Colonia Anáhuac, Delegación Miguel Hidalgo, 11320, México D.F., México. Our telephone number at this location is (5255) 2581-4449.

Our Markets, Networks and Technology

We operate pursuant to concessions, licenses or authorizations to provide wireless telecommunications services in each of the countries in which we operate. We seek to provide a full range of wireless telecommunications services in each of our markets. Our networks are consistently optimized to try to ensure maximum coverage and high quality service. In 2008, we invested Ps. 57,134 million in capital expenditures on our property, plant and equipment. We also seek to expand market share by exploring strategic acquisition opportunities in Latin America and the Caribbean.

We use a number of mobile technologies in the markets in which we operate. All of our markets (excluding Tracfone) have global system for mobile communication (GSM) networks for voice and digital transmissions. Through these networks, we provide many of the voice and data services supported by GSM technology, such as short message service (SMS), circuit switch data (CSD), high speed circuit switch data (HSCSD), packet switch data through general packet radio services (GPRS) and enhanced data rates for GSM evolution (EDGE).

During 2007, we began deploying networks based on universal mobile telecommunications systems (UMTS) in certain of our principal markets, including Mexico, Brazil and Colombia. UMTS is a system based on the third generation (3G) of mobile phone standards and technology that allows the transmission of large volumes of data at high speeds. 3G technologies enable network operators to offer users a wider range of more advanced services while achieving greater network capacity through improved spectral efficiency. Services include wide-area wireless phone telephony, video calls and broadband data, all in a mobile environment. We are deploying these networks using the high-speed downlink packet access protocol (HSDPA), which is a mobile telephony communications protocol that allows networks based on UMTS to have higher data transfer speeds and capacity. Our HSDPA deployment supports down-link speeds of 3.6 megabits per second. Our 3G networks use the same technology that is generally used throughout Europe to provide 3G services. We elected to deploy the UMTS/HSDPA networks principally because:

- *New market opportunities.* It allows us to enter new markets and provide new services, such as the wireless broadband market, which we believe has significant growth potential throughout Latin America and the Caribbean.

- *Handset compatibility.* UMTS handsets are compatible with our GSM networks, so a customer can use one handset to connect to our UMTS and GSM networks. This allows us to focus the deployment of our new networks in areas of high demand for 3G services, principally large urban areas.

- *Spectral compatibility.* With our new networks, we can generally offer 3G services using our existing licenses in the 850 megahertz spectrum, which is being increasingly underutilized by our remaining TDMA customers. In addition to being efficient from a cost perspective, deployment in the 850 megahertz spectrum is more efficient and provides better coverage than deployment in the 1900 megahertz spectrum.

- *Increased voice capacity.* Our new networks give us approximately 5.7 times more capacity to provide voice services than our existing GSM network using our current spectrum (considering a 5 megahertz fully-used spectrum).

- *Cost effective deployment.* Unlike some of the 3G networks being deployed in the United States, UMTS networks use some of the same basic network plant and equipment as GSM networks. This has permitted us to achieve a quicker and more cost effective deployment of 3G services, than would have been possible using other technologies.

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We are the first operator to deploy these new technologies in most of our markets. We launched 3G services based on these new technologies in Brazil during the second half of 2007 and in Mexico and Colombia during the first quarter of 2008. As of the date of this annual report, we are offering 3G services in 17 countries in Latin America and the Caribbean.

Our principal markets of operations are Mexico and Brazil, the two largest economies in Latin America. We are the largest provider of wireless communication services in Mexico and one of the three largest in Brazil, based on the number of subscribers at December 31, 2008. In contrast to U.S. practices, both of these markets operate under a form of calling party pays billing system, under which subscribers only pay for outgoing calls. During 2008, our Mexican operations represented 39.1% of our operating revenues and our Brazilian operations represented 20.3% of our operating revenues.

In many of our markets, the regulatory environment has become increasingly more open and flexible over the past decade. These changes have increased competition as markets have become more open to new entrants. In Mexico, these changes have exposed us to competition from domestic competitors and from international operators. In other markets, these changes have allowed us an opportunity to enter as a competitor and capture market share from local providers. However, we operate in many markets that have had and may continue to have volatile economic and political environments, and significant political changes may lead to changes in regulatory environments that can adversely affect our interests and prospects.

Our Strategy

We intend to capitalize on our position as the leader in wireless telecommunications in Latin America to continue to expand our subscriber base, both by development of our existing businesses and selected strategic acquisitions in the region. We seek to become a leader in each of our markets by providing better coverage and services and benefiting from economies of scale. We closely monitor our costs and expenses, and we will continue to explore alternatives to further improve our operating margins.

Operating Information

We count our wireless subscribers by the number of lines activated. We continue to count post-paid subscribers for the length of their contracts. We disconnect, or churn, our postpaid subscribers at the moment they voluntarily discontinue their service or following a prescribed period of time after they become delinquent. We disconnect our prepaid subscribers after a period of four months after they discontinue to use our service, so long as they have not activated a calling card or have received traffic. We calculate our subscriber market share by dividing our own subscriber figures into the total market subscriber figures periodically reported by the regulatory authorities in the markets in which we operate. We understand that these regulatory authorities compile total market subscriber figures based on subscriber figures provided to them by market participants, and we do not independently verify these figures.

Throughout this annual report, we make reference to certain operating data, such as average revenues per subscriber (also referred to as ARPUs), average minutes of use per subscriber (also referred to as average MOUs per subscriber) and churn rate, that are not included in our financial statements. We calculate ARPUs for a given period by dividing service revenues for such period by the average number of subscribers for such period. The figure includes both prepaid and postpaid customers. We calculate churn rate as the total number of customer deactivations for a period divided by total subscribers at the beginning of such period.

We provide this operating data because it is regularly reviewed by management and because management believes it is useful in evaluating our performance from period to period. We believe that presenting information about ARPUs and MOUs is useful in assessing the usage and acceptance of our products and services, and that presenting churn rate is useful in assessing our ability to retain subscribers. This additional operating information may not be uniformly defined by our competitors. Accordingly, this additional operating information may not be comparable with similarly titled measures and disclosures by other companies.

History

We were established in September 2000 in a spin-off from Telmex, a leading provider of local and long-distance telephone services in Mexico. The spin-off was implemented using a procedure under the Mexican General Corporations Law (*Ley General de Sociedades Mercantiles*) called *escisión*. The shares of our company were delivered to Telmex shareholders on February 7, 2001.

Our wireless business in Mexico is conducted through our wholly-owned subsidiary Telcel, which traces its history to the establishment in 1956 of Publicidad Turística, S.A., an affiliate of Telmex that published telephone directories. In 1981, the SCT granted Publicidad Turística, S.A. a concession for the installation and operation of a wireless telephone system in Mexico City. In 1984, Publicidad Turística, S.A. changed its corporate name to Radiomóvil Dipsa, S.A. de C.V., and in 1989, the company began operating under the trademark Telcel.

Between 1988 and 1990, Telcel expanded its cellular network on the 850 megahertz (Band B) frequency spectrum to cover the Mexico City metropolitan area and the cities of Cuernavaca, Guadalajara, Monterrey, Tijuana and Toluca, and in 1990, Telcel began offering cellular services in all nine geographic regions of Mexico. Telcel launched a PCS system in Mexico City in 1999 and currently offers the service in all nine geographic regions of Mexico. In October 2002, Telcel launched its GSM network. Since December 2002, Telcel has been authorized to provide long-distance services.

In 1999, we began acquiring our international subsidiaries and investing in our Brazilian operations and our other international affiliates. We made significant acquisitions in Latin America and the Caribbean during the past 10 years, and our non-Mexican operations have generally experienced higher subscriber growth rates in recent periods than our Mexican operations. As a result, as of December 31, 2008, approximately 69.1% of our wireless subscribers were located outside Mexico.

In December 2006, our shareholders approved the merger of Amtel, our then controlling shareholder, and its subsidiary, Corporativo, with us. As a result of the merger, we assumed Amtel s net indebtedness, which we refinanced in January 2007. The merger also increased the amount we may use under applicable Mexican tax rules (*cuenta de utilidad fiscal neta*, or CUFIN) to repurchase shares or pay dividends without incurring additional taxes.

See Mexican Operations, Non-Mexican Operations and Other Investments under this Item 4.

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Major Subsidiaries

The table below sets forth our principal subsidiaries, our percentage ownership in each such entity and the main activity of such entity as of the date of this annual report.

Name of Company	Jurisdiction	Ownership Interest[1]	Main Activity
Sercotel, S.A. de C.V.	Mexico	100.0%	Holding company
AMX Argentina, S.A.	Argentina	100.0	Wireless
Americel S.A.	Brazil	99.3	Wireless
Claro S.A.	Brazil	99.4	Wireless
Claro Chile S.A.	Chile	100.0	Wireless
Comunicación Celular S.A. (COMCEL)	Colombia	99.4	Wireless
TracFone Wireless, Inc.	Delaware	98.2	Wireless
Consorcio Ecuatoriano de Telecomunicaciones, S.A. (CONECEL).	Ecuador	100.0	Wireless
Compañía de Telecomunicaciones de El Salvador (CTE), S.A. de C.V.	El Salvador	95.8	Fixed-line
CTE Telecom Personal, S.A. de C.V.	El Salvador	95.8	Wireless
Telecomunicaciones de Guatemala, S.A.	Guatemala	99.2	Fixed-line/Wireless
Servicios de Comunicaciones de Honduras, S.A. de C.V.	Honduras	100.0	Wireless
Oceanic Digital Jamaica Limited[2]	Jamaica	99.4	Wireless
Empresa Nicaragüense de Telecomunicaciones, S.A. (ENITEL)	Nicaragua	99.5	Fixed-line/Wireless
Cablenet, S.A.	Nicaragua	100.0	Cable TV
Estaciones Terrenas de Satélite, S.A. (Estesa)	Nicaragua	100.0	Cable TV
Radiomóvil Dipsa, S.A. de C.V.	Mexico	100.0	Wireless
Claro Panamá, S.A.	Panama	100.0	Wireless
AMX Paraguay, S.A.	Paraguay	100.0	Wireless
América Móvil Perú, S.A.C.	Peru	100.0	Wireless
Puerto Rico Telephone Company, Inc.	Puerto Rico	100.0	Fixed-line/Wireless
PRT Larga Distancia, Inc.	Puerto Rico	100.0	Fixed-line/Wireless
AM Wireless Uruguay, S.A.	Uruguay	100.0	Wireless
AMX Tenedora, S.A. de C.V.	Mexico	100.0	Holding company
Compañía Dominicana de Teléfonos, C. por A. (CODETEL)	Dominican Republic	100.0	Fixed-line/Wireless

(1) Percentage of equity owned by América Móvil directly or indirectly through subsidiaries or affiliates.
(2) On November 28, 2008, Sercotel sold 100% of its shares in AMX Santa Lucía Inc. (parent company of Oceanic) to Comcel. As a result, our ownership interest in Oceanic decreased from 100% to 99.4%.

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MEXICAN OPERATIONS

Our subsidiary Telcel is the leading provider of wireless communications services in Mexico. As of December 31, 2008, our cellular network covered approximately 50.8% of the geographical area of Mexico, including all major cities, and 91% of Mexico s population. Telcel holds concessions to operate a wireless network in all nine geographic regions in Mexico using both the 850 megahertz and 1900 megahertz radio spectrums. As of December 31, 2008, we had approximately 56.4 million cellular subscribers and, according to Cofetel, as of December 2008, an approximately 74.9% share of the Mexican wireless market. Approximately 92.7% of our cellular subscribers as of December 31, 2008 were prepaid customers.

In 2008, our Mexican operations had revenues of Ps. 135,278 million (U.S.$9,992 million), representing 39.1% of our consolidated revenues for such period. As of December 31, 2008, our Mexican operations accounted for approximately 30.9% of our total wireless subscribers, as compared to 32.6% at December 31, 2007.

The following table sets forth information on our Mexican operations financial results, subscriber base, coverage and related matters at the dates and for the periods indicated:

	December 31,				
	2004	2005	2006	2007	2008
	(peso amounts prior to 2008 in constant Mexican pesos as of December 31, 2007)				
Operating revenues (millions)	Ps. 78,999	Ps. 96,710	Ps. 113,295	Ps. 127,027	Ps. 135,278
Average monthly revenues per subscriber during preceding 12 months[(1)]	Ps. 216	Ps. 208	Ps. 196	Ps. 188	Ps. 174
Operating income (millions)	Ps. 28,205	Ps. 36,837	Ps. 49,814	Ps. 59,257	Ps. 61,983
Cellular lines in service (thousands)	28,851	35,914	43,190	50,011	56,371
Subscriber growth during preceding 12 months	23.1%	24.5%	20.3%	15.8%	12.7%
Company penetration[(2)]	27.3%	34.8%	41.4%	47.5%	53.1%
Average monthly minutes of use per subscriber during preceding 12 months	99	103	113	143	174
Churn rate[(3)]	3.0	3.1	3.2	3.4	3.3
Employees	9,354	11,129	12,370	14,360	16,526

(1) Average for the year of the amount obtained each month by dividing service revenues by the average number of customers during such month. The figure includes both prepaid and postpaid customers.
(2) Number of cellular lines in service divided by the population of Mexico based on the latest census data available.
(3) Total number of customer deactivations for the period divided by total subscribers at the beginning of such period.

Our Mexican business is subject to comprehensive regulation and oversight by the SCT, Cofetel, Cofeco and Profeco. The SCT is part of the executive branch of the Mexican federal government, and Cofetel is an independent agency of the SCT. Cofeco and Profeco are independent agencies of the Ministry of Economy *(Secretaría de Economía*). Regulation and oversight are governed by the General Communications Law *(Ley de Vías Generales de Comunicación,* or the General Communications Law), the Telecommunications Law, the telecommunications regulations adopted under both the General Communications Law and the Telecommunications Law, the Federal Antitrust Law *(Ley Federal de Competencia Económica* or Federal Antitrust Law), the Federal Customer Protection Law *(Ley Federal de Protección al Consumidor)* and the concessions and license agreements granted by the SCT. See Regulation.

Unlike the United States, Mexico uses the calling party pays system for cellular calls, under which subscribers only pay for outgoing calls, unless subscribers are outside their local area. See Regulation Calling Party Pays.

Services and Products

We offer services and products in Mexico directly through Telcel or through Telcel s subsidiaries and affiliates in Mexico.

Voice services

We offer voice services under a variety of rate plans to meet the needs of different user segments. The rate plans are either postpaid, where the customer is billed monthly for the previous month, or prepaid, where the customer pays in advance for a specified volume of use over a specified period.

Telcel s postpaid plans include the following charges:

- monthly charges, which usually include a number of minutes of use and short text messages that are included in the monthly service charge;

- usage charges, for usage in excess of the specified number of minutes or short text messages included in the monthly charge; and

- additional charges, including charges for data services, voicemail and general information.

Certain plans include the cost of national roaming and long-distance in the price per minute so that all calls within Mexico cost the same amount per minute. Some postpaid plans are designed for high and moderate usage subscribers, who are typically willing to pay higher monthly fees in exchange for larger blocks of minutes that are included in the monthly service charge, services such as voicemail, call forwarding, call waiting, caller ID and three-way calling, and lower per minute airtime charges under a single contract. To satisfy the more limited needs of low-usage postpaid subscribers, Telcel also offers plans which provide a moderately priced, fixed monthly charge coupled with a high per minute airtime charge and relatively few included minutes. As part of postpaid plans, Telcel typically offers additional digital services such as voicemail, call forwarding, call waiting, caller ID and three-way calling, which are all included in the monthly fee. In addition, Telcel offers its postpaid customers the flexibility to manage their additional usage costs by contracting additional minutes of use under the prepaid system. Telcel also offers customized services to its corporate clients. Postpaid customers may terminate plans at any time, except customers that receive a handset as part of subscribing to a plan, which must remain with the plan for at least between one year and 18 months, depending on the cost of the handset.

Rates for postpaid plans have not increased since April 1999 and are expected to remain stable as long as the Mexican economic environment remains stable. In recent periods, we have offered postpaid plans that include effective price-per-minute reductions. In addition, Telcel offers discounts that reduce the effective rates paid by its customers for calls to fixed lines or other Telcel wireless customers.

We also offer several prepaid plans, none of which includes activation or monthly charges. Prepaid customers purchase a prepaid card for a specific amount of airtime and also receive additional services such as voicemail and caller ID, although these services are less comprehensive than those available under postpaid plans.

Prepaid customers typically generate lower levels of cellular usage and are often unwilling to make a fixed financial commitment or do not have the credit profile to purchase postpaid plans. Prepaid plans serve the needs of distinct consumer segments such as the youth market, families, customers with variable income who otherwise would not be able to obtain service due to their credit profile, and customers who prefer to pay in cash. Prepaid customers also include parents who wish to control costs for their children.

Basic rates for prepaid plans have remained unchanged since 2002. However, we offer effective price-per-minute seasonal discounts and effective discounts under certain friends and family and other loyalty programs. Beginning in 2006, we offer a preferential rate to customers who have remained active for a period of at least one year with respect to certain outgoing calls. Our prepaid subscribers may choose to be billed per minute (rounding each call to the next full minute), per second (paying a fixed rate for the first minute and another fixed rate for additional seconds), and beginning on April 2007, per call (consisting of a fixed rate for any call lasting up to 20 minutes). Prepaid subscribers may also choose to combine per minute and per call billing (calls lasting up to two minutes are billed on a per minute basis, while calls lasting longer than two minutes are billed on a per call basis for each additional 20 minute block).

National long distance rates for prepaid plans decreased in August 2006 from Ps. 2.61 per minute to Ps. 2.25 per minute and are expected to continue to decrease.

We believe the prepaid market represents a large and growing under-penetrated market in Mexico. Compared to the average postpaid plan, prepaid plans involve higher average per minute airtime charges, lower customer acquisition costs and billing expenses, and low credit or payment risk. However, prepaid customers on average have substantially lower minutes of use than postpaid customers and do not pay monthly fees and, as a result, generate substantially lower average monthly revenues per customer.

Data services

Short Message Services (SMS)

In January 2002, we began to offer two-way SMS to our customers as part of its value-added services. Since the launch of two-way SMS, Telcel has experienced significant growth in traffic. Through arrangements with other mobile operators, Telcel began to offer to its customers the ability to send and receive short messages to and from users of networks of other carriers throughout Mexico in the fourth quarter of 2003. Since December 2004, postpaid and prepaid customers may send and receive short messages to and from users of networks in the United States and more recently to and from 34 other countries. In 2007, Telcel began to offer to its customers the ability to send and receive short messages to and from users of Nextel México, the largest trunking carrier in Mexico.

Multimedia Messaging Service (MMS)

As an enhanced version of SMS, MMS allows customers the capability to send, in a single message, multiple color images, sounds and different size text to another mobile phone or e-mail account. Telcel began to offer MMS through GSM technology to postpaid and prepaid customers in March 2003. Beginning in 2007, our customers can also send and receive multimedia messages to and from users of networks of other Mexican carriers.

Premium SMS, Premium MMS and Content Community

In April 2002, we became the first Mexican operator to offer premium information services through our SMS capabilities, including weather reports, financial quotes and entertainment news. Other content services include personalized ring tones, text and video games, wallpapers, screensavers, themes, video clips and interactive forums.

Starting in June 2006, we were the first Mexican operator to offer to our postpaid customers premium information services through our MMS capabilities, including news and weather reports, horoscopes and soccer score alerts and match results.

To further enhance its content offerings with well-known brands, Telcel has built a Content Community through agreements and special alliances with nationally and internationally renowned entertainment companies. These agreements and special alliances allow Telcel to offer premium content services, through the *Ideas Telcel* portal.

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Ideas Telcel

Through the *Ideas Telcel* portal, Telcel offers its customers mobile entertainment services, including SMS, MMS, e-mail, news and personalized downloads, such as ring tones and screensavers.

In May 2006, Telcel launched TV content services which allow certain customers to access news, cartoon, documentary and sports channels through their handsets. Telcel provides these services through an agreement with a content distributor. Telcel s TV content services, are available for EDGE users with compatible handsets, and since 2007 are also available to our 3G users.

Internet

Wireless application protocol, or WAP, is a global standard designed to make Internet services available to mobile telephone users. At present, Telcel offers WAP including e-mail, data and information services and electronic commerce transactions. WAP allows a micro browser in a mobile phone to link into a gateway service in Telcel s network enabling users to scroll through different pages of information of third parties on the Internet. Telcel s WAP gateway enables its prepaid and postpaid users to access e-mail, banking, and a variety of reservation and other types of electronic commerce services.

As part of our third generation services, we offer internet access through smart phones and computers.

Data transmission

We offer the following data transmission services through our GSM network: high speed circuit switch data (HSCSD), packet switch data through general packet radio services (GPRS), enhanced data rates for GSM evolution (EDGE), universal mobile telecommunications systems (UMTS) and high speed downlink packet access (HSDPA).

GPRS is a non-voice value added service that allows information to be sent and received across a mobile telephone network. GPRS radio resources are used only when users are actually sending or receiving data. Rather than dedicating a radio channel to a mobile data user for a fixed period of time, the available radio resource can be concurrently shared between several users. This efficient use of scarce radio resources means that large numbers of GPRS users can share the same bandwidth and be served from a single cell. The number of users supported depends on the application being used and how much data is being transferred. Because of the spectrum efficiency of GPRS, there is less need to build in idle capacity that is only used during peak hours. GPRS therefore lets Telcel maximize the use of its network resources.

EDGE is a standardized set of improvements to the GSM radio interface. EDGE and GPRS traffic can function on any GPRS network, provided the carrier implements certain upgrades, which include certain modifications, installations and upgrades to base stations. The implementation of EDGE effectively triples the rate of gross data transmission offered by GPRS.

Because GPRS and EDGE transmit information through data channels rather than voice channels, they facilitate faster connections than previous technologies, such as CSD and HSCSD. No dial-up modem connection is necessary. The speed of GPRS and EDGE is an important feature for time critical applications, and Telcel s GPRS and EDGE services are able to accommodate corporate applications such as:

Transmission of Still Images Still images such as photographs, pictures, postcards, greeting cards and presentations and static web pages can be sent and received over the mobile network as they are across fixed telephone networks. GPRS and EDGE permit users to post images from a digital camera connected to a GPRS or EDGE radio device directly to an Internet site, allowing near real-time desktop publishing.

Transmission of Moving Images The capacity of GPRS and EDGE to facilitate transmission of moving images has market applications such as monitoring parking lots or building sites for intruders and sending images of patients from ambulances to hospitals.

Web Browsing GPRS and EDGE permit more rapid web browsing and enhanced access to web images.

Document Sharing GPRS and EDGE facilitate document sharing and remote collaboration, permitting people in different locations to work on the same document at the same time.

Job Dispatch GPRS and EDGE can be used to communicate assignments from office-based staff to mobile field staff. These job dispatch applications can then be combined with vehicle positioning applications to allow the nearest available suitable personnel to be deployed to serve a customer.

Push E-mail and Remote LAN Access GPRS and EDGE facilitate the extension of push e-mail systems beyond an employee s office PC. Remote LAN applications provide an employee with remote access to desk-top applications, such as intranet, push e-mail and database applications.

Internet E-mail Internet e-mail users can receive SMS message notifications on their mobile phones of incoming e-mail at their e-mail server.

Vehicle Positioning Vehicle positioning applications integrate satellite positioning systems with nonvoice mobile services. These applications can be used to deliver services including remote vehicle diagnostics and ad-hoc stolen vehicle tracking.

File Transfer Users can download large files from the mobile network, such as presentation documents, appliance manuals or software applications.

Home Automation Home automation applications will permit customers to monitor home security from outside of the office and perform other functions, such as operating certain home appliances.

Telcel s UMTS third generation network and the high-speed downlink packet access protocol (HSDPA) are described under Third generation technologies under this Item 4.

Push-to-Talk Services

In 2004, we began to offer push-to-talk services (two-way half duplex voice service) over our GSM network. Postpaid customers may use push-to-talk over cellular, or POC, to communicate with other Telcel customers that subscribe to this service across Mexico at no cost in addition to the fixed monthly charge. POC is geared mainly towards potential customers in the business environments.

Oficina Móvil Telcel

Oficina Móvil allows our customers to access e-mail and personal information management tools, such as calendars and address books, through their handsets. Through strategic alliances with renowned companies such as BlackBerry and Windows Mobile, Telcel customers can manage multiple e- mail accounts and review and edit e-mail attachments. Telcel also offers data coverage in Mexico and other countries where we have roaming agreements.

E-Commerce

Telcel offers services that focus on e-commerce, such as services that allow customers to recharge air time remotely, share airtime with other prepaid costumers and perform banking activities from their mobile phones.

Products

Telcel offers a variety of products as complements to its wireless service, including handsets and accessories such as chargers, headsets, belt clips and batteries. As part of its prepaid service offering, Telcel provides new customers with an *Amigo Kit*, which includes airtime, a handset, a charger and other accessories at a discounted price. For prepaid customers that own GSM handsets, Telcel also offers an *Amigo Chip,* which includes airtime and the chip for the handset. New postpaid customers also receive a handset, a charger and other accessories complimentary or at a discounted price, if they enter into a long-term contract with Telcel.

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Most of the handsets that Telcel currently offers are GSM dual-band, which can switch between the 850 and 1900 megahertz radio spectrums. In addition, Telcel offers tri-band and four-band handsets, which can also operate in the 900 megahertz radio spectrum and/or the 1800 megahertz radio spectrum. Telcel no longer offers analog handsets. Beginning in 2007, Telcel offers 3G handsets, which operate on our 3G network and GSM network, depending on the customer s location.

Interconnection

Telcel earns interconnection revenues from calls to any of its subscribers that originate with another service provider. Telcel charges the service provider from whose network the call originates an interconnection charge for the time Telcel s network is used in connection with the call. Telcel must pay interconnection fees in respect of calls made by its subscribers to customers of other service providers (mobile and fixed). See Regulation Interconnection under this Item 4.

There has been extensive controversy, and legal and administrative proceedings, concerning the terms of interconnection in Mexico. See Regulation Interconnection under this Item 4.

Roaming

Telcel offers international roaming services to its subscribers through the networks of cellular service providers with which Telcel has entered into international roaming agreements. Telcel also provides roaming services in Mexico to customers of Telcel s international roaming partners. Subscribers are able to roam outside Mexico by paying international roaming fees. Telcel has entered into approximately 421 agreements covering GSM networks around the world. As of the date of this annual report, Telcel had commercially launched roaming GSM services covering 169 countries and GPRS services covering 123 countries for postpaid subscribers. Telcel s costumers can roam in 3G networks covering 36 countries. Telcel s 3G network also provides inbound roaming to customers of its international roaming partners.

Telcel offers international roaming services (voice, SMS and data) under a variety of rates including special rates to subscribers roaming in the U.S. border, the U.S., Canada and other markets.

GPRS roaming features provide push-to-talk and push e-mail service customers with unlimited usage within certain zones on daily or monthly bases.

Telcel offers its prepaid customers GSM, GPRS and 3G services in the U.S., Canada and Brazil, including prepaid roaming top-up services and the ability to check their balance.

Roaming payments between Telcel and its international roaming partners are channeled through Cibernet Plc, which functions as a central international clearing house that collects and redistributes roaming fees from and to the participating providers.

Marketing

We develop customer and brand awareness through our marketing and promotion efforts and high-quality customer care. We build upon the strength of our well-recognized brand name to increase consumer awareness and customer loyalty, employing continuous advertising efforts through print, radio, television, sponsorship of sports events and other outdoor advertising campaigns. In addition, Telcel employs concentrated advertising efforts to promote specific products and services such as the *Amigo Kit* and related products, certain GSM postpaid plans and certain value-added services. In October 2003, Telcel launched *Círculo Azul*, a loyalty rewards program that offers postpaid customers points that can be redeemed for handsets and other goods or services provided by third parties.

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In 2008, our marketing efforts focused significantly on the promotion of Telcel s launch and development of 3G services in Mexico.

Telcel targets groups of customers who share common characteristics or have common needs. Telcel then assembles a packet of services that meets the particular needs of that targeted group through one of its various pricing plans.

Sales and Distribution

Telcel markets its wireless services primarily through exclusive distributors located throughout Mexico. In the year ended December 31, 2008, approximately 72% of Telcel s sales of handsets were generated by cellular distributors (including retail chains), with approximately 24% from sales in company-owned stores, and approximately 4% from direct sales to corporate accounts.

As of December 31, 2008, Telcel had relationships with a network of over 1,293 exclusive distributors, who sell Telcel s services and products through approximately 45,024 points of sale and receive commissions. Telcel operates permanent training and evaluation programs for distributors to help maintain the level of service quality.

Telcel s company-owned retail stores offer one-stop shopping for a variety of cellular services and products. Walk-in customers can subscribe for postpaid plans, purchase prepaid cards and purchase handsets and accessories. Company-owned stores also serve as points of customer service, technical support and payment centers. As of December 31, 2008, Telcel owned and operated 246 customer sales and service centers throughout the nine regions of Mexico and will continue to open new service centers as necessary in order to offer its products directly to subscribers in more effective ways.

Telcel also distributes prepaid cards and handsets, the latter as part of the *Amigo Kit* consisting of handsets and free airtime ranging from 25 to 250 minutes, through distributors that include Telmex, Sears, Sanborns and its network of retail outlets. Telmex purchases the Telcel prepaid cards and handsets on the same or similar commercial terms offered to other cellular distributors. We estimate that, as of December 31, 2008, prepaid cards are available through approximately 130,000 points of sale in Mexico.

We sell prepaid airtime principally through the sale of cards. We also offer customers the option of buying airtime through other means.

To service the needs of its large corporate and other high-usage customers, Telcel has a dedicated corporate sales group.

Billing and Collection

We bill our postpaid customers through monthly invoices, which detail itemized charges such as usage, services such as voicemail, call forwarding, call waiting, caller ID and three-way calling, and long-distance and roaming charges, in addition to applicable taxes. Customers may pay their bills through pre-authorized debit or credit charges, in person at banks (including through banks Internet websites), at Telcel retail stores and other designated retail stores, and through Telcel s Internet website.

If a postpaid customer s payment is overdue, service may be suspended until full payment for all outstanding charges is received. If the subscriber s payment is more than 60 days past due, service may be discontinued. Accounts that are more than 90 days past due are considered doubtful accounts.

A prepaid customer who purchases a prepaid card has 30 or 60 days from the date of activation of the card to use the airtime. After 30 or 60 days, the customer can no longer use that airtime for outgoing calls unless the customer activates a new card. After 180 days, unless the customer has activated a new card, the service is discontinued and the balance on the card, if any, is recognized as revenue.

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Customer Service

Telcel places a high priority on providing its customers with quality customer care and support. Approximately 38.5% of Telcel s employees are dedicated to customer service. Customers may call a toll-free telephone number or go to one of the customer sales and service centers located throughout the nine regions for inquiries regarding their service or plan options. In addition, using Telcel s website, subscribers may learn about the various offered rate plans, products and promotions, as well as subscribe for additional services and pay bills on line.

Wireless Network

Telcel s wireless networks use digital technologies. Telcel uses time division multiple access (TDMA) digital technology in the 850 megahertz frequency spectrum. TDMA is a digital technology that divides radio spectrum into assigned time slots to transmit signals. In October 2002, Telcel launched a new network using global system for mobile communications (GSM) digital technology in the 1900 megahertz frequency spectrum. GSM is a digital standard used in Europe, North America and elsewhere. Because it is so widely used, it provides higher quality and faster availability of new products and services and a wider variety of suppliers than TDMA technology. In addition, GSM provides access to a better developed path toward third generation wireless technologies. In 2006, Telcel started deploying the GSM, GPRS and EDGE technologies in the 850 megahertz frequency spectrum. In February 2008, Telcel launched a UMTS third generation network in Mexico in the 850 megahertz frequency spectrum.

TDMA network

Telcel has a nationwide TDMA network. TDMA permits the use of advanced dual-band handsets that allow for roaming across analog and digital systems and across 850 megahertz and 1900 megahertz spectrums. TDMA digital technology also allows for enhanced services and features, such as SMS, extended battery life, added call security and improved voice quality.

GSM network

Telcel has built and installed a GSM network in the 1900 megahertz frequency spectrum in all nine regions in Mexico, which began commercial operation in October 2002. Telcel continues with the expansion of its GSM network, using the 850 megahertz spectrum since 2006. The GSM network allows Telcel to augment its digital capacity and progress in its evolution toward the third generation of wireless technology. GSM technology supports a wide range of voice and data services, including SMS, MMS, CSD, high-speed CSD, GPRS and EDGE, and is currently the most widely used and tested wireless system in the world. GSM technology, which is used in all nine regions, is expected to yield global economies of scale in developing network equipment and handsets, as well as seamless global roaming capabilities.

Currently, Telcel s GSM network offers service in all nine regions in Mexico. As of December 31, 2008, Telcel s GSM subscriber base accounted for approximately 92% of Telcel s total subscribers.

Telcel upgraded the GSM/GPRS network with EDGE technology. It has implemented EDGE technology in more than 181,111 localities, including all the major cities in Mexico. EDGE can be deployed in existing spectrum with minimum changes in hardware. As customers upgrade their equipment to EDGE, Telcel expects that all the applications developed and deployed today will be able to operate at significantly higher speeds and in more places.

Third generation technologies

Third generation (3G) technologies provide high-speed wireless packet data access and all Internet- related services that can be offered through broadband with the advantage of mobility. Any successful third generation strategy must allow the wireless provider to achieve a pervasive footprint quickly and cost effectively and on a global scale through international roaming capacities.

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Telcel is deploying a UMTS third generation network in Mexico using the existing 850 megahertz spectrum and began offering 3G services in February 2008. 3G technologies enable network operators to offer users a wider range of more advanced services while achieving greater network capacity through improved spectral efficiency. Services include wide-area wireless phone telephony, video calls and broadband data, all in a mobile environment. Telcel is deploying its UMTS network using the high-speed downlink packet access protocol (HSDPA), which is a mobile telephony communications protocol that allows networks based on UMTS to have higher data transfer speeds and capacity. Telcel s HSDPA deployment supports down-link speeds of 3.6 megabits per second. Our 3G networks use the same technology that is generally used throughout Europe to provide 3G services. We elected to deploy the UMTS/HSDPA networks principally because:

New market opportunities. It allows us to enter new markets and provide new services, such as the wireless broadband market, which we believe has significant growth potential throughout Latin America and the Caribbean.

Handset compatibility. UMTS handsets are compatible with our GSM networks, so a customer can use one handset to connect to our UMTS and GSM networks. This allows us to focus the deployment of our new networks in areas of high demand for 3G services, principally large urban areas.

Spectral compatibility. With our new networks, we can generally offer 3G services using our existing licenses in the 850 megahertz spectrum, which is being increasingly underutilized by our remaining TDMA customers. In addition to being efficient from a cost perspective, deployment in the 850 megahertz spectrum is more efficient and provides better coverage than deployment in the 1900 megahertz spectrum.

Increased voice capacity. Our new networks give us approximately 5.7 times more capacity to provide voice services than our existing GSM network using our current spectrum (considering a 5 megahertz fully-used spectrum).

Cost effective deployment. Unlike some of the 3G networks being deployed in the United States, UMTS networks use some of the same basic network plant and equipment as GSM networks. This has permitted us to achieve a quicker and more cost effective deployment of 3G services, than would have been possible using other technologies.

Telcel is the first operator to deploy UMTS/HSDPA technologies in Mexico. As of December 31, 2008, Telcel s UMTS/HSDPA network covered 40,549 localities, including all of Mexico s principal cities. Telcel plans to continue expanding its 3G coverage in Mexico throughout 2009. As of December 31, 2008, Telcel s UMTS/HSDPA subscriber base accounted for approximately 2% of Telcel s total subscribers.

Spectrum

Telcel currently holds concessions in each of the nine regions of Mexico in both the 850 megahertz and 1900 megahertz radio spectrums and has a functioning nationwide network. Three other companies also hold concessions for nationwide service using the 1900 megahertz spectrum.

Telcel currently holds 28.4 megahertz of capacity in the 1900 megahertz spectrum in each of Mexico s nine regions. It acquired 10 megahertz (Band D) of this capacity in 1998 and 10 megahertz (Band F) in 2005, in each case through public auctions. Telcel acquired 8.4 megahertz (Band A) as a result of the assignment of capacity from Unefon, S.A. de C.V. during 2005. This assignment was approved by Cofeco and the SCT and no consideration in addition to the U.S.$267.7 million (Ps. 3,309 million) paid to Unefon in 2003 for the service agreement was paid for the assignment.

Fixed wireless

Fixed wireless technology provides wireline quality voice telephony available over cellular networks. Voice channels are delivered over the existing telephone wiring within the residence or small business premises, allowing customers to utilize their existing telephones.

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Telcel provides public fixed wireless services in rural, semi-urban and urban regions in Mexico.

Property

Telcel s wireless network includes transport and computer equipment, as well as exchange and transmission equipment consisting primarily of switches (which set up and route telephone calls either to the number called or to the next switch along the path, and which may also record information for billing and control purposes), cellular base stations (radio transmitters or receivers that maintain communications with the cellular telephones within given geographical areas or cells), microcells (small cells covered by low-power base stations), and local links and repeaters (equipment for radio or fiberoptic transmission between network elements). Telcel owns all of its network routing and switching equipment. Telcel owns certain properties for commercial and administrative offices, the installation of some of its equipment, and 190 customer sales and service centers, while it leases other locations. Telcel operates certain equipment on Telmex property under a co-location agreement. See Related Party Transactions under Item 7.

Telcel currently relies on Ericsson for the supply of more than 61% (measured in terms of cost) of its switch and cell site equipment. Telcel purchases handsets and other customer equipment primarily from the major vendors, including Nokia, Sony-Ericsson, Apple, Motorola, LG and Samsung.

Competition

Telcel faces competition from other mobile providers using the 850 megahertz spectrum and from providers with PCS licenses that have developed and continue to develop wireless service on the 1900 megahertz spectrum. Telcel s principal competitors in Mexico are Grupo Iusacell, S.A. de C.V. and Telefónica Móviles. We also compete with Nextel in certain segments. According to Cofetel, Telcel s share of the Mexican cellular market was approximately 74.9% as of December 31, 2008.

The effects of competition on Telcel depend, in part, on the business strategies of its competitors and the general economic and business climate in Mexico, including demand growth, interest rates, inflation and exchange rates. The effects could include loss of market share and pressure to reduce rates. Telcel believes that its strategies to meet competition will continue to help limit its loss of market share and that any loss of market share will be partly offset by increasing demand.

Regulation

The following is a summary of certain provisions of the General Communications Law, the Telecommunications Law and the telecommunications regulations applicable to Telcel and of the various concessions held by Telcel.

General

The General Communications Law, the Telecommunications Law and the telecommunications regulations provide the general legal framework for the regulation of telecommunications services in Mexico. The Telecommunications Law replaced certain provisions of the General Communications Law and established that only those provisions of the General Communications Law not opposed to the Telecommunications Law would remain in effect. Other regulations implementing particular provisions of the Telecommunications Law have been adopted or are pending. The main objectives of the Telecommunications Law are to promote the efficient development of the telecommunications industry, to encourage fair competition in the provision of quality, low-priced services and to assure satisfactory breadth of coverage of the Mexican population.

Under the Telecommunications Law, an operator of public telecommunications networks, such as Telcel, must operate under a concession granted by the SCT. Such a concession may only be granted to a Mexican citizen or corporation and may not be transferred or assigned without the approval of the SCT. A concession to provide services which utilize electro-magnetic frequencies, such as cellular telecommunications services, may have a term of up to twenty years and may be extended for additional terms of equal duration.

The Telecommunications Law requires public telecommunications concessionaires to establish open network architecture which permits interconnection and interoperability. Operators of private networks that do not use electro-magnetic frequencies or provide services to the public are not required to obtain a concession, permit or registration.

Regulatory oversight

The SCT, through Cofetel, is the government agency principally responsible for regulating telecommunications services. The SCT s approval is required for any change in Telcel s bylaws. It also has broad powers to monitor Telcel s compliance with the concessions, and it can require Telcel to supply it with such technical, administrative and financial information as it may request. Telcel is required to publish its annual network expansion program and must advise the SCT of the progress of its expansion and modernization program on a quarterly basis.

Cofetel is an independent agency within the SCT, with five commissioners appointed by the President of Mexico, one of whom is appointed as chairman. Cofetel s mandate is to regulate the Mexican telecommunications sector. Many of the powers and obligations of SCT under the Telecommunications Law and the telecommunications regulations have been delegated to Cofetel.

The Telecommunications Law gives certain rights to the Mexican government in its relations with concessionaires, including the right to take over the management of an operator s networks, facilities and personnel in cases of imminent danger to national security, internal peace or the national economy, natural disasters and public unrest. The Telecommunications Law also provides that at the expiration of Telcel s concessions, the Mexican government has a right of first refusal to acquire Telcel s assets used directly in the exploitation of frequency bands. See Termination of the Concessions under this Item 4.

In addition, we are subject to regulation from Profeco under the Federal Consumer Protection Law. This law regulates publicity, the quality of services and information required to be provided to consumers and provides a mechanism to address consumer complaints. Profeco has the authority to impose fines, which can be significant.

Competition Investigations

The Telecommunications Law authorizes SCT to impose specific requirements as to rates, quality of service and information on any wireless operator that is determined by Cofeco to have substantial power in a specific market according to the Federal Antitrust Law. Pursuant to the Telecommunications Law, SCT has the power to adopt specific regulations on rates, quality of service, disclosure of information or other special regulations.

Cofeco is conducting investigations into market power and monopolistic practices in the telecommunications sector. Depending on the resolution of these investigations, they may result in new regulations applicable to Telcel. See Legal Proceedings Mexico Cofeco under Item 8.

Number Portability

Cofetel rules for the portability of fixed-line and mobile telephone numbers took effect in June 2008. One of the objectives of these rules is to increase competition among operators. The portability rules allow customers to change providers without contacting their current provider, so we may lose customers without having the opportunity to influence their decision. The rules also require that we bear the costs of changes in our network and any other investments necessary to implement portability, without being able to charge other operators. To date, the portability rules have not materially affected our subscriber base.

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Rates

The Telecommunications Law provides that concessionaires may freely determine the rates for telecommunications services, including interconnection. Mobile rates are not subject to a price cap or any other form of price regulation. However, Telcel and other mobile carriers operating in Mexico are required to register with Cofetel their rates for mobile service prior to implementing such rates. Cofetel is authorized to impose specific rate requirements on any operator that is determined to have substantial market power under the Federal Antitrust Law. Although no such determination has been made with respect to the wireless market in Mexico or any other market that could affect our business, there can be no assurance that such a determination will not be made in the future.

Concessions General

Telcel operates under several different concessions covering particular frequencies and regions. The following table summarizes Telcel s concessions.

Regions in Mexico		Band A (1900 MHz)			Band B (850 MHz)		
Cel	**PCS**	**Concession Date**	**Termination Date**	**Fee Structure**	**Concession Date**	**Termination Date**	**Fee Structure**
I	I	Sept. 1999	Sept. 2019	Upfront fee	Aug. 1991	Aug. 2011	Semi-annual fees(1)
II	II	Sept. 1999	Sept. 2019	Upfront fee	Aug. 1991	Aug. 2011	Semi-annual fees(1)
III	III	Sept. 1999	Sept. 2019	Upfront fee	Aug. 1991	Aug. 2011	Semi-annual fees(1)
IV	IV	Sept. 1999	Sept. 2019	Upfront fee	Aug. 1990	Aug. 2010	Semi-annual fees(1)
VIII	V	Sept. 1999	Sept. 2019	Upfront fee	Aug. 1990	Aug. 2010	Semi-annual fees(1)
V	VI	Sept. 1999	Sept. 2019	Upfront fee	Oct. 1991	Oct. 2011	Semi-annual fees(1)
VI	VII	Sept. 1999	Sept. 2019	Upfront fee	Oct. 1991	Oct. 2011	Semi-annual fees(1)
VII	VIII	Sept. 1999	Sept. 2019	Upfront fee	Oct. 1991	Oct. 2011	Semi-annual fees(1)
IX	IX	Sept. 1999	Sept. 2019	Upfront fee	Oct. 2000	Oct. 2015	Upfront fee

(1) The semi-annual fees, or *aprovechamientos,* are determined as a percentage of gross revenues corresponding to the concession. Amounts payable vary depending on the relevant region.

Regions in Mexico		Band D (1900 MHz)			Band F (1900 MHz)		
Cel	**PCS**	**Concession Date**	**Termination Date**	**Fee Structure**	**Concession Date**	**Termination Date**	**Fee Structure**
I	I	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)
II	II	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)
III	III	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)
IV	IV	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)
VIII	V	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)
V	VI	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)
VI	VII	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)
VII	VIII	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)
IX	IX	Oct. 1998	Oct. 2018	Upfront fee	April 2005	April 2025	Annual fees(2)

(2) The annual fees, or *derechos*, are for the use and exploitation of radio spectrum bands. Amounts payable are set forth by the *Ley Federal de Derechos* and vary depending on the relevant region and radio spectrum band.

In addition to the cellular and PCS concessions detailed in the tables above, in December 2002, the SCT granted Telcel a concession to install and operate a telecommunications network to provide national and international long distance services, as well as data transmission services.

The concession was granted for an initial term of 15 years, and it is subject to extension for an additional 15-year period. The concession limited

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Telcel to provide these services only to its wireless subscribers until December 2005. In 2006, Telcel completed the build out of its long distance network which allows Telcel to carry all the national long distance traffic originated from Telcel s customers to other customers. Also, since May 2007, Telcel opened its interconnection with the local network of Telmex in Mexico City and with the long distance network of AT&T.

Concessions Fees

There are two different types of fees that we may be required to pay in connection with our concessions.

Aprovechamientos. Some concessions require Telcel to pay semi-annual fees (*aprovechamientos*) equal to a percentage of gross revenues derived from the concessioned services. The percentage ranges between 5% and 10%. These fees apply to the 850 megahertz (Band B) concessions, except for Region 9 which covers Mexico City and the states of Mexico, Morelos and Hidalgo. For the Region 9 Band B concession, these fees were eliminated pursuant to a court decision, against an increase of Ps. 2,149.5 million in the aggregate consideration payable for the concession (from Ps. 116.4 million to Ps. 2,265.9 million). Telcel paid Ps.150.9 million in cash and credited Ps. 1,998.5 million of fees it had previously paid. Fees of this type do not apply to the 1900 megahertz (Band D) concessions, which Telcel purchased for a fixed amount in 1998, and the 1900 megahertz (Band A) concessions, which Telcel acquired from Unefon.

Derechos. Owners of concessions granted or renewed on or after January 1, 2003 are required to pay annual fees (*derechos*) for the use and exploitation of radio spectrum bands. The amounts payable are set forth by the *Ley Federal de Derechos* and vary depending on the relevant region and radio spectrum band. These annual fees apply to all spectrum bands, including those that are already subject to the payment of fees (*aprovechamientos*) based on gross revenues. Currently, we are not required to pay these fees in respect of our Bands A, B and D concessions since they were awarded prior to 2003, but we are required to pay them in respect of additional 10 megahertz of capacity in the 1900 megahertz spectrum (Band F) acquired in 2005.

Telcel challenged the validity of these annual fees, on the grounds that they violate the Mexican Constitution and certain provisions of the Telecommunications Law. In January 2009, one chamber (*sala*) of the Mexican Supreme Court denied our request for an injunction, but that decision was subject to rehearing because another chamber (*sala*) issued a contrary ruling in a case brought by another operator challenging the same law. In April 2009, the Mexican Supreme Court definitively denied Telcel s request for an injunction. Telcel has paid the annual fees notwithstanding its legal challenges.

Concessions Expansion, modernization and service quality requirements

Telcel s concessions impose a number of requirements for expansion and modernization of its network. The concessions establish certain minimum network capacities that Telcel must achieve, to extend service coverage to a targeted percentage of population. Telcel is in compliance with these requirements.

The concessions also set forth extensive requirements for the quality and continuity of Telcel s service, including, in some cases, maximum rates of incomplete and dropped calls and connection time. In May 2003, Cofetel issued the Fundamental Technical Plan for Quality of Local Mobile Services Networks, applicable to all operators, including Telcel, which imposes additional service quality requirements. We are in compliance with the service quality requirements of our concessions and the Technical Plan.

Concessions Competition

The telecommunications regulations and the concessions contain various provisions designed to introduce competition in the provision of communications services. In general, the SCT is authorized to grant concessions to other parties for the provision of any of the services provided by Telcel under the concessions.

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Concessions Renewal

The eight Band B concessions covering regions other than the Mexico City area were granted for initial terms of twenty years that will expire in 2010 or 2011. Our ability to renew the eight Band B concessions in the coming years will be subject to a number of factors beyond our control. Among other possible factors, renewal of the eight concessions will be conditioned on our compliance with the terms and conditions of the relevant concessions during their terms, payment of a renewal fee and our acceptance of terms and conditions which may differ from those applicable under the existing concessions.

The Band B concession covering the Mexico City area (Region 9) was renewed effective October 2000 for a term of fifteen years that will expire in October 2015. The Band D concessions will expire in 2018, the Band A concessions in 2019 and the Band F concessions in 2025. All of these concessions are subject to renewal for additional 20-year terms.

Concessions Termination

The General Communications Law, the Telecommunications Law and the concessions include various provisions under which the concessions may be terminated before their scheduled expiration dates. Under the Telecommunications Law, the SCT may cause early termination of any of the concessions in certain cases, including:

- failure to exercise rights under a concession during the 180 days after that concession is granted;
- failure to expand telephone services at the rate specified in the concession;
- interruption of all or a material part of the services provided by Telcel;
- acts by Telcel with the effect of impeding the operations of other concessionaires;
- refusing interconnection arrangements with other concessionaires;
- change of jurisdiction by Telcel;
- transfer, assignment of, or grant of liens to, Telcel s concessions or any asset used to provide service without SCT s approval;
- failure to pay certain government fees;
- violation of the prohibition against ownership of shares of Telcel by foreign states;
- any material modification of the nature of Telcel s services without prior SCT s approval; and
- breach of certain other obligations under the General Communications Law.

In addition, the concessions provide for early termination by the SCT following administrative proceedings in the event of:

a material and continuing violation of any of the conditions set forth in the concessions;

material failure to meet any of the service expansion requirements under the concessions;

material failure to meet any of the requirements under the concession for improvement in the quality of service;

engagement in any telecommunications business not authorized under the concession and requiring prior approval of the SCT;

following notice and a cure period, failure without just cause to allow other concessionaires to interconnect their networks to Telcel s network; or

bankruptcy of Telcel.

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The General Communications Law and all but one of Telcel s 850 megahertz concessions provide that in the event of early termination of Telcel s mobile concessions, all assets that are the subject of such concession would revert to the Mexican government without compensation to Telcel. In the event of early termination of any of Telcel s PCS concessions, the Mexican government would have the option to purchase the equipment, installations and other assets used directly for the exploitation of the frequencies which are the subject of such concession. The latter regime also applies to one of Telcel s 850 megahertz concessions.

Calling Party Pays

In Mexico, calls to and from our mobile subscribers are subject to the calling party pays system, under which subscribers only pay for outgoing calls. Subscribers have the option of retaining the mobile party pays system. The calling party pays system has applied to local calls since 1999 and to long-distance calls since November 2006. Mobile operators do not charge airtime fees to customers receiving calls, except for roaming fees applicable when subscribers receive calls outside their local areas. Two long-distance carriers, Axtel and Avantel, have challenged the validity of the long distance calling party pays system through judicial proceedings and are operating under a court order obtained in those proceedings that temporarily suspends the application to them of the calling party pays system.

Interconnection fees

Under the calling party pays system, when the customer of one operator (local or long-distance) places a call to a customer of another operator, the first operator pays the second a fee, which is referred to as an interconnection fee.

Under Mexican law, interconnection fees are negotiated between operators. For some periods, we have been unable to reach agreement on fees with some operators, and operators that are unable to agree have sought the intervention of Cofetel to establish interconnection fees. Our interconnection agreements with each operator require us to offer that operator the best rates we offer to other similar operators, and as a result if a single operator obtains a more favorable rate through a final, non-appealable resolution or decision from Cofetel, SCT or the courts, we may be required to offer that rate to other operators even though we have previously agreed with them on rates.

There has been extensive controversy in Mexico concerning the interconnection fees payable by fixed-line operators to mobile operators on fixed-to-mobile calls for periods beginning with 2005. The principal stages in the controversy, as it relates to interconnection with Telcel, are summarized below.

December 2004 Agreement. In December 2004, most Mexican telecommunications operators agreed on interconnection fees for the years 2005 through 2007. The agreement provided for annual reductions of 10% and contemplated that the reductions would be reflected in the tariffs charged by fixed operators to their customers.

August 2006 Cofetel Resolution. Axtel, S.A.B. de C.V., or Axtel , Avantel, S. de. R.L. de C.V., or Avantel , and Servicios Alestra, S.A. de C.V., or Alestra did not become party to the December 2004 agreement. Instead, they began proceedings with Cofetel to establish the interconnection fees for local traffic under calling party pays between them and Telcel. In August 2006, Cofetel issued a resolution establishing local interconnection fees between these operators and Telcel for the years 2005 through 2010. These rates were lower than the fees Telcel had agreed with the other operators in December 2004. In addition, Cofetel ruled that starting in 2007, interconnection fees would be based on the total number of seconds for the month rounded to the next minute, rather than by rounding each call to the next minute, as had been the practice. In order to mitigate the effects of this change on Telcel, Cofetel authorized Telcel to collect a surcharge of 25% in 2007, 18% in 2008 and 10% in 2009 over the interconnection fees billed to Axtel, Avantel and Alestra. Telcel challenged this resolution.

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2006 Agreements. In the fourth quarter of 2006, in connection with the implementation of the calling party pays system for long-distance, most operators other than Axtel and Avantel agreed on local and long-distance interconnection fees for the years 2007 through 2010. These agreements contemplated continued reductions in fees.

December 2007 Judicial Decision and January 2008 Cofetel Resolution. Telcel began judicial proceedings challenging Cofetel s August 2006 resolutions on interconnection rates between Axtel, Avantel, Alestra and Telcel. In December 2007, the court invalidated Cofetel s August 2006 Axtel resolution in its entirety and directed Cofetel to issue a new resolution covering only the periods from 2005 through 2007. In January 2008, as directed by the court, Cofetel issued a resolution establishing interconnection rates between Telcel and Axtel for the periods from 2005 through 2007 on the same terms as Cofetel s August 2006 resolution. Telcel challenged this resolution as to the rates applicable for 2005 through 2007 and the courts have not yet resolved this challenge.

2008 Proceedings Involving Axtel. In December 2007 and March 2008 Axtel initiated proceedings with Cofetel to establish interconnection rates for the years from 2008 through 2011. In May 2008, prior to Cofetel issuing a resolution, Axtel obtained a court order against Cofetel to prevent Cofetel from issuing a resolution on interconnection between Axtel and Telcel. It also filed with the SCT an administrative review proceeding (*recurso de revisión*) against the alleged failure to act (*negativa ficta*) of Cofetel that permits the SCT to review the alleged decision of Cofetel. Axtel contended that Cofetel, by failing to issue a resolution on interconnection between Axtel and Telcel for interconnection fees for 2008 through 2011, had refused to act, and asked SCT to review that refusal. In July 2008, Telcel obtained a court order preventing SCT from ruling on Axtel s challenge to Cofetel s supposed refusal to act on interconnection between Axtel and Telcel. In September 2008, however, SCT issued a resolution establishing interconnection fees for 2008 through 2011. These fees are less than half of the fees we previously agreed with the other operators. We challenged the resolution and obtained a court order suspending the effects of the resolution.

April 2009 Cofetel Resolution. In April 2009, Cofetel issued a resolution establishing the interconnection rates applicable between Avantel (a subsidiary of Axtel) and Telcel for long distance traffic under the calling party pays system. The resolution provides for the same tariffs resolved in the August 2006 Cofetel Resolutions, but is applicable to long distance traffic under the calling party pays system. We challenged this resolution and the court has not yet resolved the challenge.

We expect that interconnection fees for fixed-to-mobile calls will continue to be the subject of litigation and administrative proceedings and the resulting uncertainty. We cannot predict when or how these matters will be resolved, and the competitive and financial effects of any resolution could be complex and difficult to predict. Although the matters in dispute primarily concern one operator, Axtel (and its subsidiary Avantel), if those matters are resolved adversely to us through a final, non-appealable resolution or decision from Cofetel, SCT or the courts, the impact could be material because Telcel would be required to offer to the other operators any more favorable fees Telcel is required to provide to Axtel. This could materially reduce Telcel s interconnection revenues in future periods. Also, depending on how the disputes are resolved, there could be contractual claims among the parties for reimbursement of amounts already paid or payment of amounts left unpaid between Telcel and Axtel with respect to certain time periods between 2005 and 2009.

February 2009 Interconnection Plan

In February 2009, Cofetel published a Fundamental Technical Plan of Interconnection and Inter-operability (*Plan Técnico Fundamental de Interconexión e Interoperabilidad*, or the Plan). The Plan addresses the technical, economic and legal conditions of interconnection. With respect to interconnection fees, the Plan establishes a process for developing an economic model over a relatively brief period and then applying the economic model to determine fees, which could override the existing fee agreements among operators. The Plan also contemplates asymetrical and discriminatory treatment for operators with the largest number of access points, including specific technical and legal requirements and different economic, technical and legal conditions from other operators.

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We cannot predict the competitive and financial effects that might result from implementation of the Plan. They could be substantially different from the potential effects of the regulatory steps described above with respect to fixed-to-mobile interconnection. It is also difficult to anticipate the timetable for implementation of the Plan.

Telcel has challenged the Plan in the Mexican courts. In April 2009, Telcel obtained a court order suspending the effects of the Plan as they relate to Telcel pending resolution of its judicial challenge.

Consolidation of Local Service Areas

In March 2007, Cofetel issued a resolution to eliminate 70 local service areas and in September 2008, it issued a resolution to eliminate an additional 125 local service areas, reducing the total number of local service areas from 397 to 202 in a process that began in November 2008 and will be completed in 2010. If implemented as issued, the resolution would have the effect of requiring mobile operators to reassign the local area code numbers for a significant number of their subscribers. We are currently in discussions with Cofetel for a technical solution to the reassignment of local area codes as a result of the consolidation. As of the date of this annual report, we have not reached an agreement with Cofetel regarding this matter. We do not expect the consolidation of local service areas to have a significant negative impact on our results of operations.

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NON-MEXICAN OPERATIONS

We have subsidiaries or businesses in the telecommunications sector in Brazil, the Southern Cone region (Argentina, Paraguay, Uruguay and Chile), Colombia, the Andean region (Ecuador and Peru), Central America (El Salvador, Guatemala, Honduras, Nicaragua and Panama), the United States and the Caribbean (the Dominican Republic, Jamaica and Puerto Rico). Our principal subsidiaries outside Mexico are described below. The revenues of our subsidiaries other than Telcel represented 60.9% of our consolidated revenues for 2008, as compared to 59.2% of our consolidated revenues for 2007.

In addition, we expect to have opportunities to invest in other telecommunications companies outside Mexico, especially in Latin America and the Caribbean, because we believe that the telecommunications sector will continue to be characterized by growth, technological change and consolidation. We may take advantage of these opportunities through direct investments or other strategic alliances.

The following table sets forth financial and operating information for certain of our non-Mexican operations for the periods indicated. Lines in service are presented as of year-end. For some segments or periods, information may not be comparable to prior periods because it includes the results of operations of acquired companies as from the date of consolidation in our financial statements. See Note 20 to our audited consolidated financial statements.

	Year ended December 31,		
	2006	2007	2008
	(peso amounts prior to 2008 in constant Mexican pesos as of December 31, 2007, except lines in service, minutes of use and churn)		
BRAZIL			
Consolidated operating revenues (millions)	Ps. 41,049	Ps. 58,305	Ps. 70,484
Average monthly revenues per subscriber(1)	136	160	155
Operating (loss) income (millions)	(4,316)	608	1,584
Cellular lines in service (thousands) at year end	23,881	30,228	38,731
Average monthly minutes of use per subscriber	70	77	93
Churn rate(2)	2.8%	2.5%	2.7%
SOUTHERN CONE(3)			
Operating revenues (millions)	Ps. 20,603	Ps. 27,237	Ps. 30,541
Average monthly revenues per subscriber(1)	131	126	120
Operating income (millions)	1,355	2,691	5,702
Cellular lines in service (thousands) at year end	13,247	17,290	19,591
Average monthly minutes of use per subscriber	134	127	130
Churn rate(2)	1.9%	2.5%	2.6%
COLOMBIA			
Combined operating revenues (millions)	Ps. 22,252	Ps. 29,614	Ps. 32,622
Average monthly revenues per subscriber(1)	93	105	100
Operating income (millions)	4,766	7,616	10,955
Cellular lines in service (thousands) at year end	19,521	22,335	27,390
Average monthly minutes of use per subscriber	110	122	157
Churn rate(2)	1.7%	2.3%	2.4%
ANDEAN REGION(4)			
Combined operating revenues (millions)	Ps. 12,866	Ps. 16,210	Ps. 20,218
Average monthly revenues per subscriber(1)	115	101	98
Operating income (millions)	2,794	3,725	5,284
Cellular lines in service (thousands) at year end	9,026	12,390	15,482
Average monthly minutes of use per subscriber	51	55	70
Churn rate(2)	3.0%	3.0%	2.4%

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	Year ended December 31, 2006	2007	2008
	(peso amounts prior to 2008 in constant Mexican pesos as of December 31, 2007, except lines in service, minutes of use and churn)		
CENTRAL AMERICA(5)			
Combined operating revenues (millions)	Ps. 17,116	Ps. 16,918	16,051
Average monthly revenues per subscriber(1)	120	94	72
Operating income (millions)	5,106	4,698	3,029
Lines in service (thousands) at year end	7,972	10,285	11,320
Wireless	5,875	8,157	9,158
Fixed	2,097	2,128	2,162
Average monthly minutes of use per subscriber	149	138	116
Churn rate(2)	0.8%	1.6%	2.0%
UNITED STATES			
Operating revenues (millions)	Ps. 14,748	Ps. 15,604	Ps. 16,545
Average monthly revenues per subscriber(1)	150	134	122
Operating income (millions)	759	1,503	943
Cellular lines in service (thousands) at year end	7,897	9,514	11,192
Average monthly minutes of use per subscriber	66	72	76
Churn rate(2)	5.3%	4.6%	3.8%
DOMINICAN REPUBLIC(6)			
Operating revenues (millions)	Ps. 986	Ps. 10,990	Ps. 11,241
Average monthly revenues per subscriber(1)	144	142	120
Operating income (millions)	282	3,946	3,373
Lines in service (thousands) at year end	2,874	3,430	4,649
Cellular	2,140	2,682	3,877
Fixed	734	748	772
Average monthly minutes of use per subscriber	122	104	97
Churn rate(2)	5.4%	4.3%	4.2%
CARIBBEAN(7)			
Operating revenues (millions)	Ps.	Ps. 9,780	Ps. 12,884
Operating income (millions)		1,332	1,612
Lines in service (thousands) at year end		1,734	1,764
Cellular		814	932
Fixed		920	832
Churn rate(2)		3.0%	1.9%

(1) Average for the year of the amount obtained each month by dividing service revenues by the average number of customers during such month. The figure includes both prepaid and postpaid customers.
(2) Total number of customer deactivations for a period divided by total subscribers at the beginning of such period.
(3) Includes our operations in Argentina, Chile, Paraguay and Uruguay.
(4) Includes our operations in Ecuador and Peru.
(5) Includes our operations in El Salvador, Guatemala, Honduras, Nicaragua and Panama. For our operations in Central America, average monthly revenues per subscriber, average monthly minutes of use per subscriber and churn rate are presented only with respect to our wireless services in these countries and do not take into consideration our fixed-line services. We began consolidating the results of Panama in March 2009.
(6) We began consolidating the results of Codetel in December 2006. Average monthly revenues per subscriber, average monthly minutes of use per subscriber and churn rate are presented only with respect to our wireless services in this country and do not take into consideration our fixed-line services. ARPUs and MOUs are calculated using only periods after consolidation.
(7) Includes our operations in Puerto Rico and Jamaica. We began consolidating the results of Puerto Rico in April 2007 and of Jamaica in December 2007.

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We own, directly or indirectly, a substantial majority of the telephone plant of our non-Mexican operations.

Brazil (Claro Participações)

General

Claro Participações S.A , or Claro Participações, through its subsidiaries is one of the three largest providers of wireless telecommunication services in Brazil, with an estimated nationwide market share in Brazil at December 31, 2008, of approximately 25.7%. Brazil is the largest market in Latin America in terms of wireless customers.

Claro Participações provides services in Brazil under a unified brand name and it offers a variety of rate plans to its postpaid customers and offers prepaid services in all of its markets. At December 31, 2008, Claro Participações served approximately 38.7% million subscribers compared to 30.2 million subscribers at December 31, 2007 and our licensed area covered approximately 192 million licensed points of presence. At December 31, 2008, approximately 79.5% of Claro Participações subscribers were prepaid customers.

Claro Participações owns and operates cellular networks using GSM, CDMA and TDMA digital technology. We operate in Brazil under the PCS (*Serviço Móvel Pessoal*) regime. Claro Participações launched its GSM network in 2003 in certain major urban areas, and as of December 31, 2008, the GSM network covered more than 2,794 cities and was used by 97.35% of Claro Participações wireless subscribers. We continue rolling out the GSM network with the goal of providing similar coverage as the Band A incumbent providers in the major markets.

In addition, during the fourth quarter of 2007, we began offering 3G services in Brazil under our new UMTS/HSDPA network. We continue the rollout of UMTS/HSDPA technologies in Brazil and by December 31, 2008, our UMTS/HSDPA network covered 286 towns, where approximately 51.32% of Brazil s population resides. We were the first operator to offer 3G services in Brazil. In order to rollout 3G services in Brazil, during 2008, we acquired 20 megahertz of additional spectrum in each of five regions and 30 megahertz of additional spectrum in each of six regions.

We have built our operations in Brazil through a number of transactions commencing in 2000 and ending with the acquisitions of operators in the metropolitan area of São Paulo and in the states of Ceará, Piauí, Rio Grande do Norte, Paraiba, Pernambuco and Alagoas during 2003 and the acquisition of a license in the Minas Gerais region in 2005. In April 2005, Stemar, a company owned by Claro, was awarded a license to operate wireless services in the Minas Gerais region. In September 2007, Claro acquired licenses to operate wireless services in the cities of Londrina and Tamarana (Paraná) and the north region (Amazonas, Pará, Maranhão, Roraima and Amapá) in Brazil. At December 31, 2008, our two principal operating subsidiaries, Claro S.A. and Americel, had approximately 9,460 employees. We own all of our network equipment in Brazil.

We operate in Brazil through two principal operating subsidiaries, Claro and Americel. Claro is licensed to operate in the metropolitan area of São Paulo and in the states of Rio de Janeiro, Espírito Santo, São Paulo, Rio Grande do Sul, Santa Catarina, Paraná, Ceará, Piauí, Rio Grande do Norte, Paraiba, Pernambuco, Alagoas, Bahia, Sergipe, Minas Gerais, Amazonas, Pará, Maranhão, Roraima and Amapá, and Americel in seven states in the central-west and northern regions of Brazil.

Through a number of holding companies we own more than 99.97% of the share capital of Claro S.A. and 99.38% of the share capital of Americel. BNDESPar (the private equity arm of BNDES, the Brazilian development bank) holds approximately 0.03% and 0.62% of the share capital of Claro and Americel, respectively.

Sales and Distribution

Claro Participações markets its wireless services primarily through retail chains (approximately 7,367 points of sale) and exclusive distributors (dealers) (approximately 3,225 points of sale) located throughout the regions where it operates in Brazil. In the year ended December 31, 2008, approximately 57% of Claro Participações sales of handsets were generated by retail chains, 27% by exclusive distributors (dealers) and approximately 6% from sales in company-owned stores, of which there are approximately 166. Claro Participações also sells and distributes its products and services over the Internet.

Claro Participações has implemented permanent training and evaluation programs for dealers to help maintain the level of service quality.

Claro Participações company-owned retail stores offer one-stop shopping for a variety of cellular services and products. Walk-in customers can subscribe for postpaid plans, prepaid plans, purchase prepaid cards and purchase handsets. Claro Participações stores serve as customer sales and service centers and Claro Participações expects to continue to open new service centers as necessary in order to offer its products directly to subscribers in more effective ways.

Claro Participações has a corporate sales group to service the needs of its large corporate and other high-usage customers.

Billing and Collection

Claro Participações bills its postpaid customers through monthly invoices, which detail itemized charges such as usage, services such as voicemail, and long-distance and roaming charges, in addition to applicable taxes. Customers may pay their bills with a credit card, through online banking, or in person at the post office or outlets of federal lottery houses *(Casas Lotéricas*).

If a postpaid customer s payment is overdue, service may be suspended until the payment for outstanding charges is received. If the subscriber s payment is more than 60 days past due, service may be discontinued. Accounts that are more than 180 days past due are categorized as doubtful accounts together with all other accounts related to the same client.

A prepaid customer who purchases a card has between 90 and 180 days from the date of activation of the card to use the airtime. After such time, the customer can no longer use that airtime for outgoing calls unless the customer activates a new card. Sixty days after the card expires, unless the customer activates a new card, the balance on the card, if any, is recognized as revenue.

Competition

Although the number of competitors has decreased primarily as a result of consolidation, competition in the Brazilian wireless industry is substantial and varies by region. In addition to us, there are four other groups in Brazil with significant nationwide coverage. The largest is Vivo, a joint venture between Telefónica Móviles and Portugal Telecom. The joint venture or one of its partners owns interests in some of the wireless companies that were created upon the breakup of Telebrás. The others are Telecom Italia Mobile (TIM), Oi and Brasil Telecom. Other regional competitors are CTBC and Sercomtel. We also face competition from Nextel, a joint venture between Motorola and Nextel Communications, Inc., for trunking services to the corporate segment in urban areas.

Since we began providing 3G services in 2008, we also face competition in the broadband internet market from mobile companies that also offer 3G services as well as from other telecommunications companies and cable television operators, which were already providing broadband internet access services through asymmetric digital subscriber line (ADSL) or cable technology.

Regulatory environment

Under the General Telecommunications Law (*Lei Geral de Telecomunicações*) an independent regulatory agency, Anatel, regulates the telecommunications industry. Anatel has the authority to grant concessions and licenses for all telecommunications services, except for broadcasting services.

Beginning in 1997, there have been two cellular service providers in all markets in Brazil, one operating in subfrequency Band A and another in subfrequency Band B. Since 1999, the entire Brazilian telecommunications sector has been open to competition.

In September 2000, Anatel published guidelines for the implementation of PCS (*Serviço Móvel Pessoal*) operations in Brazil. Under the guidelines, Brazil is divided into three regions for PCS operation within the 1800 megahertz frequency, as opposed to ten regions for the cellular service providers. All concessionaires in Brazil have migrated to the PCS regime. Upon migration to PCS, the Band A and Band B cellular providers have the right to apply for long distance services licenses and are no longer subject to cellular regulations that restricted them from operating in more than two regions per Band. Regulations require that migrating companies adopt PCS service plans and provide for the establishment of charges for the use of one operator s network by another. During 2003, our operating companies in Brazil exchanged their original concessions for 15-year PCS authorizations. The 15-year period started from the time the original concessions were granted, generally in 1997 or 1998. The operating companies may extend the term of the license for an additional 15 years, upon the payment of a fee.

The September 2000 guidelines also established rules regarding the selection of up to three additional wireless providers per region, corresponding to Bands C, D and E. Beginning in February 2001, Anatel initiated a series of auctions through which it sold rights to D-Band and E-Band licenses. After canceling the auction of new licenses under the C-Band, Anatel implemented procedures in May 2002 for the sale of C-Band bandwidth in installments not to exceed 50 megahertz per existing service provider, through which each of Claro Participações principal operating companies acquired bandwidth.

In December 2007, Anatel auctioned the remaining spectrum of Bands A, B, C, D, and E to existing service providers as extension blocks. In this auction, we acquired spectrum to initiate operations in the northern region of Brazil (Amazonas, Pará, Maranhão, Amapá and Roraima) and in the cities of Londrina and Tamarana.

As part of Anatel s plan to auction 3G licenses (in the 2100 megahertz spectrum), Anatel issued a resolution in 2006 increasing the maximum overall spectrum permitted per operator from 50 megahertz to 80 megahertz. In December 2007, Anatel auctioned new 3G bands (Bands F, G, I and J in the 2100 megahertz spectrum) dividing Brazil into 11 regions. In that auction, we acquired 20 megahertz of additional spectrum in each of five regions and 30 megahertz of additional spectrum in each of six regions. Anatel imposed certain coverage obligations related to the purchase of additional spectrum to be fully-implemented during an eight-year period. One of the more relevant obligations require the four main operators in Brazil to provide mobile services in every city where there is no current provider by 2010. Claro S.A. is responsible for 25% or 459 of the relevant cities identified by Anatel.

In Brazil, rates for telecommunications services are regulated by Anatel. In general, PCS licensees are authorized to increase basic plan rates only for inflation (less a factor determined by Anatel based on the productivity of each operator during the year) and on an annual basis. However, operators are allowed to create non-basic plans (known as alternative plans) and modify them, without prior Anatel approval. Discounts from existing service plans, both basic and non-basic, are allowed without Anatel approval.

Currently, operators determine interconnection fees by agreement, subject to Anatel intervention only in case of disputes. On February 2005, Anatel commenced an arbitration proceeding against all mobile and fixed line operators in Brazil regarding the inflation adjustment applied by operators on the interconnection fees. The operators agreed on an interim price adjustment of 4.5% on mobile interconnection fees. In 2006, the arbitration panel requested that the operators hire a consulting firm to analyze and recommend a resolution to the arbitration. Because operators could not agree on a single firm, two firms were hired and each presented a report to Anatel. While Anatel has not reached a decision regarding any of the proceedings, the initial decision of Anatel s arbitrage commission recommended that Anatel confirm the 4.5% interim adjustment. During 2007 and 2008, we entered into agreements with all mobile and some fixed operators in Brazil establishing interconnection fees. Based on the auction rules for 3G licenses published in 2007, we believe that Anatel may establish regulations by October 2009 that would impose uniform interconnection fees for all bands of megahertz spectrum in Brazil. However, there is uncertainty as to whether Anatel will in fact establish the regulations.

In 2005, Anatel defined a series of cost-based methods, including the fully allocated cost methodology, for determining interconnection fees charged by operators belonging to an economic group with significant market power. Anatel has not published all of the applicable regulations, but the implementation of the cost-based methodology is expected to take effect in 2010. It is uncertain how Anatel will define the criteria for determining whether an operator belongs to an economic group with significant market power for purposes of this new regulation. However, given the size of our operations in Brazil, it is likely that we would be deemed to belong to an economic group with significant market power. In 2008, mobile operators in Brazil began to provide Anatel with annual operating data (initially, for 2006 and 2007), which is intended to support Anatel s future cost-based methods for determining interconnection fees. When these methods are ultimately implemented and if we are deemed to be an economic group with significant market power, the revenues and results of operations of our Brazilian operations may be affected.

In July 2006, Brazilian regulators adopted a change in the interconnections regime relating to the methodology required for the recognition of interconnection fees. Under the new methodology (full bill), we recognize interconnection revenues (and costs) on a gross basis, rather than on a net basis as required by the prior system (bill and keep).

In March 2007, Anatel issued a resolution establishing the portability of fixed and mobile numbers. Through this resolution, customers have the option of retaining the fixed and mobile numbers if and when they change service providers within each state of Brazil. The implementation process of this resolution took two years, with national roll out that began in August 2008 in certain cities and ended in March 2009. Anatel has nominated an independent entity, supported by mobile and fixed operators, to manage portablility solicitations and has determined, through an administrative ruling, the maximum one-time fee to be charged to a customer for the election to retain its number.

In 2007, Anatel issued a revision of the PCS rules which revision came into effect in February 2008. Under the revised PCS rules, service providers are required to implement customer service centers in all regions of Brazil with more than 100,000 inhabitants, charge only for delivered SMS messages and reimburse unused prepaid credits. Other main changes to the PCS rule include the regulation of the duration of contracts with a given operator (maximum of 12 months per contract) and the right of customers to change service plans with the same operator without penalties.

In 2008, Anatel approved the General Regulatory Plan (or PGR) which identifies significant issues in the telecom industry and sets forth a timetable for future regulations. The PGR included Anatel´s plans within the next two years to regulate MVNO (Mobile Virtual Network Operators) practices, expand broadband services to rural and low-income areas and implement rules related to fixed incumbents infrastructure usage.

Anatel has also shown intention to organize several auctions in 2009 for new bands in the 2.5GHz (2,500 to 2,690 MHz) and 3,5GHz frequencies (3,400 to 3,600 MHz) as well as the remaining spectrum available in the 2,100, 1,900, 1,800, 900 and 850 MHz frequencies.

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Southern Cone

Argentina (AMX Argentina)

AMX Argentina Holdings S.A. (previously named CTI Holdings) provides nationwide PCS wireless service in Argentina under the Claro brand name, through its wholly-owned subsidiary AMX Argentina, S.A., or AMX Argentina. During the first quarter of 2008, we re-branded our services in Argentina to Claro, from CTI Móvil. We own a 100% interest in AMX Argentina, which we acquired through a series of transactions in 2003 and 2004. Since the acquisition, AMX Argentina s subscriber base has grown significantly, from 1.3 million in October 2003 to 15.4 million at December 31, 2008.

At December 31, 2008, AMX Argentina had approximately a 35.2% share of the Argentine wireless market. Approximately 74% of AMX Argentina s subscribers at December 31, 2008 resided in the interior of Argentina and the balance in the greater Buenos Aires region.

AMX Argentina began providing services in the interior of Argentina in 1994 and in Greater Buenos Aires in 2000. AMX Argentina offers basic cellular service through a variety of rate plans and also offers prepaid services. Prepaid customers represented 87.9% of AMX Argentina s total subscribers as of December 31, 2008. In addition, AMX Argentina offers long distance and value added services.

AMX Argentina s cellular network uses GSM technology and covers approximately 100% of Argentina s population. During the fourth quarter of 2007, AMX Argentina launched third generation technology networks (UMTS/HSDPA) in certain urban areas of Argentina. During 2008, we expanded the 3G coverage to the largest cities and capitals of the provinces. At December 31, 2008, AMX Argentina had 2,143 employees.

AMX Argentina s principal competitors are: Telecom Personal, a subsidiary of Telecom Argentina, the principal telecom operator in Argentina, which is controlled by Telecom Italia, and Movistar, a subsidiary of Telefónica Móviles.

AMX Argentina holds licenses covering the entire Argentine territory. These licenses contain coverage, reporting and service requirements, but do not have a fixed expiration date. The Communications Ministry (*Secretaría de Comunicaciones de la Nación*) is in charge of supervising the telecommunications industry in Argentina. It is authorized to foreclose and sell the shares of a licensee in case of specified breaches of the terms of a license.

Chile (Claro Chile)

In August 2005, we began providing wireless services in Chile through Claro Chile S.A., or Claro Chile.

Claro Chile provides nationwide wireless service in Chile under the Claro brand name. We own a 100% interest in Claro Chile, which we acquired in August 2005 from Endesa Participadas, S.A. We began including the results of Claro Chile in our audited consolidated financial statements in September 2005. Claro Chile had approximately 3.0 million wireless subscribers as of December 31, 2008.

At December 31, 2008, Claro Chile had approximately a 18.9% share of the Chilean wireless market and was the third largest wireless operator in Chile measured by the number of subscribers.

Claro Chile was granted one of three nationwide PCS licenses in 1997. In 1998, it began providing services in Chile under the Chilesat PCS brand, which was changed in 1999 to Smartcom and in 2006 to Claro. Claro Chile offers basic cellular service through a variety of rate plans and also offers prepaid services. Prepaid customers represented 87.3% of Claro Chile s total subscribers as of December 31, 2008. In addition, Claro Chile offers long distance and value added services.

Claro Chile s cellular network uses GSM technology and CDMA technology. In 2007, we launched a third generation UMTS network which covered 77.95% of the Chilean population by year-end 2008. Claro Chile deployed a nationwide GSM and UMTS network in 2008 that covers all urban zones in Chile. By the end of 2008, the GSM network covered 99.09% of the population. Claro Chile was the first operator to offer 3G services in Chile, during the fourth quarter of 2007. At December 31, 2008, Claro Chile had 1,405 employees.

Claro Chile s principal competitors are Entel PCS and Movistar, a subsidiary of Telefónica Móviles.

Claro Chile holds a concession covering the entire Chilean territory. The concession was awarded in June 1997 and covers a 30-year period. The concession contains coverage, reporting and service requirements. The Chilean Transportation and Communications Ministry (*Ministerio de Transporte y Telecomunicaciones*) is in charge of supervising the telecommunications industry in Chile. It is authorized to foreclose and sell the shares of a concessionaire in case of specified breaches of the terms of the concession.

In May 2006, Claro Chile acquired from Telefónica Móviles a concession for the use of 25 megahertz within the 850 megahertz frequency, which permits Claro Chile to increase the wireless services it provides. The term of this concession is for a 25-year period for the Metropolitan area and Region V and for an indefinite period for the rest of Chile.

Paraguay (AMX Paraguay)

In July 2005, we began providing wireless services in Paraguay through AMX Paraguay, S.A., or AMX Paraguay.

AMX Paraguay provides nationwide wireless service in Paraguay under the Claro brand. During the first quarter of 2008, we re-branded our services in Paraguay to Claro, from CTI Móvil. We own 100 % interest in AMX Paraguay, which we acquired in July 2005 from Hutchison Telecom. We began including the results of AMX Paraguay in our audited consolidated financial statements in August 2005. AMX Paraguay had approximately 0.4 million wireless subscribers as of December 31, 2008.

At December 31, 2008, AMX Paraguay had approximately 8.2% share of the Paraguayan wireless market and was the third largest wireless operator in Paraguay measured by the number of subscribers.

AMX Paraguay offers basic cellular service through a variety of rate plans and also offers prepaid services. Prepaid customers represented 71.3% of AMX Paraguay s total subscribers as of December 31, 2008. In addition, AMX Paraguay offers value added services.

AMX Paraguay s cellular network uses GSM technology and covers approximately 100% of Paraguay s population. AMX Paraguay is expanding its nationwide GSM network in Paraguay. AMX Paraguay began offering 3G services in Paraguay, using a new UTMS/HSDPA network, during the fourth quarter of 2007 and continued the expansion of the 3G network during 2008. At December 31, 2008, AMX Paraguay had 72 employees.

AMX Paraguay s principal competitors are: Telecel (Milicom International), Nucleo, a subsidiary of Personal, the wireless operator of Telecom Argentina, and Hola Paraguay (KDDI Corporation).

AMX Paraguay holds a PCS 1900 spectrum license and a data transmission license covering Paraguay s three most populated cities, Asunción, Encarnación and Ciudad del Este. The licenses were granted in December 2003 and October 2004, respectively, and each covers a 5-year period. The licenses are renewable, subject to regulatory approval, and contain coverage, reporting and service requirements. In July 2008, AMX Paraguay renewed the PCS 1900 license, with nationwide coverage for a 5-year period. The National Telecommunications Commission of Paraguay (*Comisión Nacional de Telecomunicaciones de Paraguay*) is in charge of supervising the telecommunications industry in Paraguay. It is authorized to cancel licenses in case of specified breaches of the terms of a license.

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AM Wireless Uruguay

In June 2004, we acquired a 20-year license to operate three broad-band PCS frequencies in Uruguay at a cost U.S.$18.1 million (Ps. 173 million). We began providing wireless services in Uruguay in December 2004, through AM Wireless Uruguay, S.A., or AM Wireless Uruguay. AM Wireless Uruguay uses GSM technology to provide service to its customer base. AM Wireless Uruguay began offering 3G services in Uruguay, using a new UMTS/HSDPA network, during the fourth quarter of 2007, and continued the expansion of the 3G network in 2008. As of December 31, 2008, AM Wireless Uruguay had approximately 0.8 million wireless subscribers. AM Wireless Uruguay had 183 employees at December 31, 2008.

During the first quarter of 2008, we re-branded our services in Uruguay to Claro, from CTI Móvil.

As of December 31, 2008, AM Wireless Uruguay had approximately a 22.7% share of the Uruguayan wireless market. AM Wireless Uruguay offers basic cellular services through a variety of rate plans and prepaid services. Prepaid customers represented 82% of total subscribers as of December 31, 2008.

AM Wireless Uruguay s principal competitors are: Movistar, a subsidiary of Telefónica Móviles and Ancel, a company controlled by the Uruguayan government.

The Regulatory Unit of Communications Services (*Unidad Reguladorada de Servicios de Comunicaciónes*) is in charge of supervising the telecommunications industry in Uruguay.

Colombia (Comcel)

Comunicación Celular S.A., or Comcel, provides wireless telecommunications services in the eastern, western and Caribbean regions of Colombia. We have operated in the eastern and western regions of Colombia since 2002 and in the Caribbean region since February 2003. We own approximately 99.4% of the share capital of Comcel.

At December 31, 2008, Comcel had approximately 27.4 million subscribers, compared to 22.3 million subscribers at December 31, 2007, and believed it had a 67.4% share of the wireless market. During the first quarter of 2008, Comcel began offering 3G services in Colombia under a new UMTS/HSDPA network. Comcel was the first operator to offer 3G services in Colombia. Comcel s UMTS/HSDPA network currently covers 599 urban sites in Colombia, which account for approximately 63.5% of the country s population.

Comcel offers basic cellular service through a variety of rate plans and also offers prepaid service. Prepaid customers represented 86.7% of Comcel s total subscribers as of December 31, 2008. Purchasers of Comcel s Amigo kit for prepaid service receive a cellular phone together with airtime included, enabling the customer to activate wireless service without contracts, monthly fees or credit checks. Comcel markets its services through independent local distributors and a direct sales force. In addition, Comcel and its distributors have arrangements with various supermarkets for the distribution of all of Comcel s basic services and products as well as the provision of technical service and assistance. The Amigo prepaid card is available in more than 63,704 locations nationwide and there are more than 232,648 virtual points of sale. Comcel s strategy is to continue to expand its customer base through the build-out of its network.

At December 31, 2008, Comcel had 3,681 employees.

In each of the three regions of Colombia, we compete with Telefónica Móviles and Colombia Móvil, a consortium acquired by Millicom in 2006. Colombia Móvil started nationwide commercial operations in November 2003. Comcel also competes with traditional fixed-line telephone service operators. In addition, Comcel faces competition from alternative wireless services, including mobile radio and paging services, rural wireless operators and trunking services. These competing wireless services are widely used in Colombia as a substitute for fixed-line services.

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The Ministry of Communications and the CRT are responsible for regulating and overseeing the telecommunications sector, including cellular operations. The Ministry of Communications, which granted the cellular concessions in 1994, supervises and audits the performances of the concessionaires legal and contractual obligations. The activities of Comcel are also supervised by the Colombian Superintendency of Industry and Commerce (*Superintendencia de Industria y Comercio or SIC*), which enforces antitrust regulations, promotes free competition in the marketplace and protects consumer rights.

In March 2009, the CRT issued a series of resolutions stating that Comcel has a dominant position in Colombia s market for outgoing mobile services. Under Colombian law, a market participant is considered to have a dominant position in a specified market if the regulators determine that it has the capacity to control the conditions in that market. The CRT made its determination based on Comcel s traffic, revenues and subscriber base. The resolutions also included regulations that would require Comcel to charge rates (excluding access fees) for mobile-to-mobile calls outside the Comcel network (off net) that are no higher than the fees charged for mobile-to-mobile calls within the Comcel network (on net). CRT would monitor the rates by reviewing Comcel s average revenue per minute on a quarterly basis. The resolutions did not present a timetable for implementation of the regulations. In April 2009, Comcel filed a request for review of the resolutions (*recurso de reposición*) with the CRT. See Legal Proceedings Comcel Dominant Position under Item 8.

Comcel holds ten-year concessions, acquired in 1994, to provide wireless telecommunications services in the eastern, western and Caribbean regions of Colombia. Under the terms of the concessions, Comcel is required to make quarterly royalty payments to the Ministry of Communications based on its revenues. Under the terms of an agreement entered into in March 2004, the Ministry of Communications has agreed to renew Comcel s concessions through 2014.

Andean Region

Ecuador (Conecel)

Consorcio Ecuatoriano de Telecomunicaciones, S.A., or Conecel, is a wireless telecommunications operator in Ecuador. We own 100% of the share capital of Conecel.

At December 31, 2008, Conecel had approximately 8.3 million subscribers, compared to approximately 7 million at December 31, 2007, representing a 70.7% share of the Ecuadorian wireless market. Prepaid customers represented 88.7% of Conecel s total subscribers as of December 31, 2008.

Conecel owns and operates a cellular network that uses a GSM technology. In November 2007, it launched a new UMTS/HSDPA network. The GSM network provides nationwide coverage and the UMTS network covers the three largest cities (Quito, Guayaquil and Cuenca), which together account for approximately 35% of Ecuador s population.

At December 31, 2008, Conecel had 1,879 employees.

Conecel s principal competitor is Telefónica Móviles (Otecel Móviles), which following the purchase of the Bell South properties in Ecuador in 2004 offers wireless local, national and international long-distance and public telephone services in Ecuador.

Conecel is subject to regulation from:

- the National Telecommunications Counsel (*Consejo Nacional de Telecomunicaciones*, or Conatel), which is responsible for policy-making in the telecommunications area;
- the National Telecommunications Secretariat (*Secretaría Nacional de Telecomunicaciones,* or Senatel), which is responsible for executing Conatel s resolutions; and

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the Telecommunications Agency (*Superintendencia de Telecomunicaciones* or Suptel), which monitors the use of authorized frequencies and compliance with concession provisions.

In 2006, Conecel obtained a concession to operate 10 megahertz on the 1900 megahertz (Sub Band E-E) radio spectrum. This included a concession for PCS services granted in August 2008 that expires in August 2023, and concessions for data transmission and Internet services granted in May 2002 that expire in May 2017. In August 2008, Conecel made an initial payment of U.S.$289 million (Ps. 3,140 million) upon the renewal of the concession for PCS services. In addition, Conecel committed to make annual payments equal to 3.93% of its operating revenues for each year during the term of the concession. These annual payments include a contribution to a government fund for the provision of telecommunications services to the poor. The new PCS concession allows us to provide 3G services and contains stricter quality of service requirements regarding issues such as number of successful call completions, average delivery time of SMS services, area coverage and service.

Peru (América Móvil Perú)

In August 2005, we began providing wireless services in Peru through América Móvil Perú, S.A.C., or América Móvil Perú.

América Móvil Perú provides nationwide wireless service in Peru under the Claro brand. We own a 100 % interest in América Móvil Perú, which we acquired in August 2005 from TIM International N.V., a member of the Telecom Italia group, for a purchase price of 407 million (330 million after net debt adjustments) (Ps. 4,762 million). We began including the results of América Móvil Perú in our consolidated financial statements in September 2005. América Móvil Perú had approximately 7.2 million wireless subscribers as of December 31, 2008.

At December 31, 2008, América Móvil Perú had approximately 38.9% share of the Peruvian wireless market and was the second largest wireless operator in Peru measured by the number of subscribers.

América Móvil Perú began providing services in certain regions of Peru in 2001. América Móvil Perú offers basic cellular service through a variety of rate plans and also offers prepaid services. Prepaid customers represented 88.9% of América Móvil Perú s total subscribers as of December 31, 2008. In addition, América Móvil Perú offers long distance and value added services.

América Móvil Perú s cellular network uses GSM technology and covers approximately 83.76% of Peru s population. América Móvil Perú has the largest GSM coverage among all mobile operators in Perú. América Móvil Perú was the first operator to offer 3G services. During the second quarter of 2008, América Móvil Perú began offering 3G services under a new UMTS/HSDPA network using 850 Mhz band B and Segment B (total 25 Mhz). América Móvil Perú s UMTS/HSDPA network currently covers the country s six largest cities (Lima, Arequipa, Cuzco, Trujillo, Chiclayo and Piura). At December 31, 2008, América Móvil Perú had 1,701 employees.

América Móvil Perú s principal competitor is Movistar Perú, a subsidiary of Telefónica Móviles.

América Móvil Perú holds concessions to provide mobile, PCS,fixed, long-distance and value added services covering all departments in Perú. The concessions were awarded by the Ministry of Transportation and Communications (*Ministerio de Transportación y Comunicaciones*) in May 2000, March 2001 and December 2002, respectively, and each covers a 20-year period . The concessions contain coverage, reporting and service requirements. The Supervising Entity of Private Investment in Telecommunications of Peru (*Organismo Supervisor de Inversión Privada en Telecomunicaciones del Perú*) is in charge of supervising the telecommunications industry in Peru. The Ministry of Transportation and Communications (*Ministerio de Transportación y Comunicaciones*) is authorized to cancel the concessions in case of specified breaches of the terms of a concession.

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According to Peruvian regulations, mobile number portability should be implemented by January 2010.

Central America

El Salvador (CTE)

Compañía de Telecomunicaciones de El Salvador, S.A., or CTE, and its subsidiaries provide fixed, mobile and other telecommunications services in El Salvador. In October 2003, we acquired a 51% interest in CTE from France Telecom and certain other investors. In December 2004, we acquired an additional 41.54% interest in CTE from the government of El Salvador. As a result of the two transactions and a number of public market transactions in El Salvador, we had a 95.8% interest in CTE at December 31, 2008.

At December 31, 2008, CTE had approximately 0.8 million fixed-line subscribers and a market share of approximately 81.8%.

CTE s wireless business is operated by its wholly-owned subsidiary CTE Telecom Personal S.A. de C.V. under the brand name Claro. The Claro cellular network uses GSM digital technology and covers approximately 95.3% of the Salvadorean population. At December 31, 2008, Claro had approximately 1.8 million wireless subscribers, which we estimate represents a market share of approximately 23.7%. Claro offers both prepaid and postpaid plans.

CTE offers a variety of services through its fixed-line and wireless networks, including Internet access, data transmission and satellite television, and also sells handsets and related products. CTE also operates a telephone directory business in El Salvador and offers fixed-line services in Guatemala. CTE markets and distributes its services and products directly to customers and also employs a network of independent distributors for services and products other than basic telephony, such as prepaid calling cards and handsets. At December 31, 2008, CTE and its subsidiaries had approximately 2,509 employees.

CTE is the principal provider of fixed-line services in El Salvador. CTE s principal competitor in the wireless sector is Telemovil, an affiliate of Millicom International, with a market share of approximately 42%. CTE also competes with Telefónica de El Salvador, an affiliate of Telefónica Móviles, Digicel, which is owned by a consortium of international investors and Intelfon.

CTE s business is subject to comprehensive regulation and oversight by the Salvadorean Energy and Telecommunications Agency (*Superintendencia General de Electricidad y Telecomunicaciones*). CTE holds a concession from the Salvadorean government to operate its nationwide fixed-line network and Claro holds a nationwide PCS 1900 concession to operate its cellular network.

Guatemala (Telgua)

Telecomunicaciones de Guatemala, S.A., or Telgua, is a fixed-line telecommunications operator in Guatemala that was privatized in November 1998. Telgua also provides wireless, Internet, cable television, paging, data transmission and other services in Guatemala. We own approximately 99.3% of the stock of Telgua.

At December 31, 2008, and December 31, 2007 Telgua had approximately 1.1 million fixed-line subscribers, a market share of approximately 92.2%.

Telgua s wireless business is operated under the brand name Claro. Claro s cellular network uses CDMA digital technology and overlaid GSM technology. Telgua s network covers approximately 83% of its population. At December 31, 2008, Claro had approximately 3.9 million wireless subscribers, representing a market share of approximately 34.7%.

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Telgua offers a variety of services through its fixed-line and wireless networks, including Internet access, data transmission, cable television, two-way communication systems used mainly for group communication, and dispatch applications, or trunking, and also sells handsets and related products. Telgua markets and distributes its services and products directly to customers and also employs a network of independent distributors for services and products other than basic fixed-line telephony, such as prepaid calling cards and handsets.

Telgua continues to be the principal provider of fixed-line services and is the second largest mobile operator in Guatemala. Telgua s competitors in the wireless sector are Millicom (Tigo), who are the market leaders with 45% market share, and Telefónica Móviles (Movistar).

At December 31, 2008, Telgua had 2,643 employees.

Telgua s business is subject to comprehensive regulation and oversight by the Guatemalan Telecommunications Agency (*Superintendencia de Telecomunicaciones*) under the General Telecommunications Law (*Ley General de Telecomunicaciones*). As of May 2006, Telgua s business is subject to regulation under certain dispositions of the free trade agreement among the Dominican Republic, Central American countries, including Guatemala, and the United States. Telgua holds a license from the Guatemalan government to operate its nationwide fixed-line network and numerous licenses to operate its cellular network on different frequencies and in different regions.

Nicaragua (ENITEL and ESTESA)

In December 2003, the Nicaraguan Government accepted our bid to acquire a 49% interest in Empresa Nicaragüense de Telecomunicaciones, S.A., or ENITEL, for a purchase price of U.S.$49.6 million (Ps. 646 million). We consummated this acquisition in January 2004. ENITEL provides fixed, mobile and other telecommunications services in Nicaragua. In August 2004, we acquired an additional 50.03% interest in ENITEL from Megatel LLC and certain other investors for a price of U.S.$128 million (Ps. 1,666 million).

At December 31, 2008, ENITEL had approximately 2.1 million wireless subscribers, which we estimate represents approximately 69.6% of the wireless market in Nicaragua, and approximately 0.3 million fixed-line subscribers, which represents 100% of the fixed-line market in Nicaragua.

ENITEL s wireless network uses GSM digital technology and covers approximately 74% of the Nicaraguan population and is operated under the brand name Claro. ENITEL is also a major provider of fixed-line services in Nicaragua. ENITEL offers a variety of services through its fixed-line and wireless networks, including Internet access and data transmission, and also sells handsets and related products. ENITEL markets and distributes its services and products directly to customers and also employs a network of independent distributors for services and products other than basic telephony, such as prepaid calling cards and handsets.

At December 31, 2008, ENITEL had 2,073 employees.

The principal competitor of ENITEL in the Nicaraguan wireless sector is Telefónica Móviles (Movistar), which has a market share of approximately 30%.

ENITEL s business is subject to comprehensive regulation and oversight by the Nicaraguan Telecommunications Agency *(Instituto Nicaragüense de Telecomunicaciones y Correos)* under the General Telecommunications and Postal Services Law *(Ley General de Telecomunicaciones y Servicios Postales).*

In August 2008, we acquired a 100% interest in Estesa Holding Corp., or ESTESA, a provider of cable television, broadband residential and corporate data services in Nicaragua.

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Honduras (Sercom Honduras)

As part of the same transaction in which we agreed to purchase the additional 50.03% of ENITEL, we agreed to acquire all of the shares of Megatel de Honduras, S.A. de C.V., now called Servicios de Comunicaciones de Honduras, S.A. de C.V., or Sercom Honduras, which provides wireless and other telecommunications services in Honduras under the brand name Claro. The acquisition of Megatel de Honduras, S.A. de C.V. closed in June 2004.

At December 31, 2008, Sercom Honduras had approximately 1.4 million wireless subscribers, representing approximately 25% of the wireless market in Honduras. The Company uses GSM technology to provide service to its customer base. At December 31, 2008, Sercom Honduras had approximately 644 employees.

The principal competitor of Sercom Honduras in the Honduran wireless sector is Celtel, an affiliate of Millicom International, which has a market share of approximately 69%. Digicel, an additional competitor, entered the Honduras wireless market in October 2008.

Sercom Honduras business is subject to comprehensive regulation and oversight by the Honduran Telecommunications Agency (*Comisión Nacional de Telecomunicaciones*, or CONATEL) under the Telecommunications Law (*Ley Marco del Sector de Telecomunicaciones*).

Panama

In May 2008, Claro Panamá, S.A., or Claro Panamá, our Panamanian subsidiary, obtained a license for the provision of mobile voice, data and video services in Panama. The license grants the right for use of 30 megahertz in the 1900 megahertz band for a 20-year period. We paid U.S.$86 million (Ps. 894 million) for the license. In March 2009, Claro Panamá began providing wireless services in Panama.

On March 31, 2009, Claro Panamá had approximately 3,302 wireless subscribers. Claro Panamá uses GSM technology to provide service to its customer base. At March 31, 2009, Claro Panamá had approximately 111 employees.

Teléfonica Móviles (Movistar) and Cable & Wireless currently provide wireless services in Panama, and Digicel acquired a license to provide services in May 2008.

Claro Panamá s business is subject to comprehensive regulation and oversight by the National Authority of Public Services (*Autoridad Nacional de Servicios Públicos).*

United States (TracFone)

TracFone Wireless, Inc., or TracFone, is engaged in the sale and distribution of prepaid wireless service and wireless phones throughout the United States, Puerto Rico and the U.S. Virgin Islands. We own 98.2% of the capital stock of TracFone. We first acquired a controlling interest in TracFone in February 1999.

TracFone currently offers its prepaid wireless service and wireless handsets throughout the United States using an extensive distribution network. TracFone prepaid service is marketed and sold under the TracFone, Net10 and SafeLink wireless brands. At December 31, 2008, TracFone had approximately 11.2 million subscribers, including all three brands, all of which are prepaid subscribers, and is the largest operator in the U.S. prepaid cellular market. TracFone s subscriber base increased by approximately 17.6% in 2008.

TracFone does not own any wireless telecommunications facilities or hold any wireless licenses. Instead, it purchases airtime through agreements with approximately 12 wireless service providers and resells airtime to customers. Through these agreements, TracFone has a nationwide network covering virtually all areas in which wireless services are available. Customer usage is controlled using patented, proprietary software installed in each phone TracFone sells, and TracFone provides customer service and manages customers as though it were a network-based carrier. TracFone has entered into agreements with Nokia, Motorola, LG, Samsung and Kyocera to enable them to include TracFone s software in various handsets they produce. TracFone s business model does not require any significant recurring capital expenditures. TracFone sells handsets through a variety of U.S. retail stores and sells its prepaid airtime through a large number of independent retailers throughout the United States.

As of December 31, 2008, TracFone had 594 employees.

TracFone competes with the major U.S. wireless operators and other mobile virtual network operators. As the prepaid market has grown in the U.S., many of these entities have increased their focus on prepaid wireless services and can be expected to continue to do so in the future. TracFone is subject to the jurisdiction of the U.S. Federal Communications Commission, or FCC, and to certain U.S. telecommunications laws and regulations. TracFone is not required to procure wireless licenses to carry out its business.

Caribbean

Dominican Republic (Codetel)

Compañía Dominicana de Teléfonos, C. por A., or Codetel, provides fixed-line and wireless services in the Dominican Republic.

Codetel provides nationwide fixed-line and wireless services in the Dominican Republic under the Codetel and Claro brands, respectively. We own 100 % interest in Codetel, which we acquired on December 1, 2006 from Verizon Communications, Inc. for a purchase price of U.S.$2.42 billion (Ps. 27,557 million) (U.S.$2.02 billion (Ps. 23,121 million) before net cash adjustments). We began including the results of Codetel in our audited consolidated financial statements in December 2006.

Codetel had approximately 3.9 million wireless subscribers and 0.8 million fixed line subscribers as of December 31, 2008. At December 31, 2008, Codetel had approximately 56.3% share of the Dominican fixed line market and was the largest fixed line operator in the Dominican Republic measured by the number of subscribers. Codetel had a 80.5% share of the wireless market and was the largest wireless operator in the Dominican Republic at December 31, 2008.

Codetel began providing services in the Dominican Republic in 1930. It offers a variety of services through its fixed-line and wireless networks, including Internet access and data transmission, and also sells handsets and related products. It also offers basic cellular service through a variety of rate plans and also offers prepaid services. Prepaid customers represented 88.5% of Codetel s total wireless subscribers as of December 31, 2008. In addition, Codetel offers long distance and value added services.

Since May 1991, Codetel uses CDMA technology to provide wireless services to approximately 95% of the Dominican Republic s population. Since May 2007, Codetel has also used a GSM technology network that covers approximately 97% of the Dominican Republic s population. Codetel has a 3G network in place covering the most important cities and providing more than 1,400 kilometers of road coverage. At December 31, 2008, Codetel had 3,109 employees.

Codetel s principal wireless competitor is France Telecom (Orange). Tricom is Codetel s principal fixed-line competitor.

Codetel holds concessions to provide telecommunication services covering the whole territory of the Dominican Republic. The first concession was awarded by the Dominican government in 1930. The latest concession was awarded by the Dominican government in 1995 for a 20-year period retroactive as of April 1990,

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with automatic 20-year renewals. The concessions do not contain coverage, reporting or service requirements. The Dominican Institute of Telecommunications (*Instituto Dominicano de las Telecomunicaciones* or Indotel) is in charge of supervising the telecommunications industry in the Dominican Republic. Indotel is authorized to cancel the concessions in case of specified breaches of the terms of a concession.

Jamaica (Oceanic)

Oceanic Digital Jamaica Limited, or Oceanic, provides wireless and value-added services in Jamaica.

Oceanic provides nationwide wireless services in Jamaica under the Claro brand. We own 99.4% interest in Oceanic, which we acquired on November 5, 2007 for a purchase price of U.S.$75.1 million (Ps. 800 million) (U.S.$73.6 million (Ps. 796 million) before net cash adjustments). We began including the results of Oceanic in our audited consolidated financial statements in December 2007.

Oceanic had approximately 0.2 million wireless subscribers as of December 31, 2008, all of which were prepaid customers. At December 31, 2008, Oceanic had approximately 9.5% share of the Jamaican wireless market.

Oceanic began providing services in Jamaica in November 2001. It offers a variety of services through its wireless networks, including web access, and also sells handsets and related products. In addition, Oceanic offers long distance and value added services, such as SMS, web access and Push to Talk.

Oceanic s cellular network uses CDMA technology and covers approximately 62% of Jamaica s population. We are currently deploying GSM and UMTS networks, which are expected to cover at least 85% of the Jamaican population by the end of 2008. At December 31, 2008, Oceanic had 198 employees.

Oceanic s principal competitors are Digicel and Cable & Wireless Jamaica, rebranded as LIME.

Oceanic holds concessions to provide wireless services covering all of Jamaica. The concessions contain coverage, reporting and service requirements. The Office of Utilities Regulator (OUR) is in charge of supervising the telecommunications industry in Jamaica. The OUR is authorized to cancel the concessions in case of specified breaches of the terms of a concession.

Puerto Rico (TELPRI)

In April 2007, we began providing fixed-line and wireless services in Puerto Rico through Telecomunicaciones de Puerto Rico, Inc. or TELPRI.

On March 30, 2007, we acquired control of 100% of the issued and outstanding shares of common stock of TELPRI for an aggregate purchase price of U.S.$1.89 billion (Ps. 20,946 million) (U.S.$2.21 billion (Ps. 25,050 million) before net debt adjustments). We acquired 62.01% of TELPRI s share capital from Verizon Communications, Inc., 28% from the Puerto Rico Telephone Authority, 12.99% from Popular Inc. and 7% from an employee stock ownership plan. TELPRI provides island-wide fixed-line services under the Puerto Rico Telephone (PRT) brand and wireless services under the Claro brand.

TELPRI began providing services in Puerto Rico in 1914 and is the leading full service telecommunications provider on the island offering fixed and mobile services, long distance (local, USA, international), broadband and value-added services island-wide through an advanced 100% digital infrastructure. The Claro brand offers video, voice and data services and has both post and prepaid rate plans.

At December 31, 2008, TELPRI had approximately 833,000 fixed-line subscribers and 686,000 wireless subscribers. On the fixed line side, TELPRI has an estimated 88% share of the residential market making it the

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largest fixed line operator on the island. At December 31, 2008, TELPRI s Claro had approximately 29.7% share of the Puerto Rican wireless market. Postpaid customers represented 72.6% of total subscriber base as of December 31, 2008.

TELPRI is a major provider of fixed-line services in Puerto Rico. TELPRI also offers basic cellular service through a variety of rate plans and also offers prepaid services. Postpaid customers represented 72.6% of TELPRI s total subscribers as of December 31, 2008. In addition, TELPRI offers long distance and value added services.

TELPRI deployed a GSM network with UMTS/HSDPA capabilities in late 2007 and is currently migrating its wireless customers on the previous CDMA network. The wireless market on the island is highly competitive with AT&T, Centennial, Sprint, T-Mobile and Open Mobile as TELPRI s competitors. AT&T is the largest wireless operator in Puerto Rico, with TELPRI in a close second position. In the fixed-line business Puerto Rico Telephone s principal competitors are Centennial Wireline, Worldnet Communications and other competitive local exchange carriers that resell PRT s services.

TELPRI holds concessions to provide PCS and long-distance services on the island. The concessions contain coverage, reporting and service requirements. The FCC and the Telecommunications Regulatory Board of Puerto Rico oversee and regulate the telecommunications industry in Puerto Rico. The FCC has the authority to cancel the concessions in case of specified breaches of the terms.

At December 31, 2008, TELPRI had 4,223 employees.

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OTHER INVESTMENTS

Our principal investments in affiliates other than our subsidiaries are described below. Financial information provided for these affiliates has been prepared in accordance with Mexican FRS and restated in constant pesos as of December 31, 2008. We can give no assurance as to the extent, timing or cost of future international investments, and such investments may involve risks to which we have not previously been exposed.

Telvista

We own a 45.0% interest in Telvista, a Delaware corporation that operates call centers in the United States.

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CAPITAL EXPENDITURES

The following table sets forth our consolidated capital expenditures (in nominal amounts) for each year in the three-year period ended December 31, 2008. The table below includes capital expenditures in property, plant and equipment. We have also dedicated resources to acquire new companies and licenses and increase our interest in some of our subsidiaries, which in 2008, 2007 and 2006 amounted to Ps. 13,737 million, Ps. 26,045 million and Ps. 24,165 million, respectively. See Liquidity and Capital Resources Capital Requirements under Item 5.

	Year ended December 31,(1)		
	2006	2007	2008(2)
	(millions of nominal pesos)		
Transmission and switching equipment	Ps. 30,316	Ps. 32,100	Ps. 50,278
Other	3,368	2,522	6,856
Total capital expenditures	Ps. 33,684	Ps. 34,622	Ps. 57,134

(1) Figures reflect amounts accrued for each period.
(2) As of December 31, 2008, we had not disbursed Ps. 30,190 million of our capital investments in 2008, of which Ps. 29,159 million will be disbursed in 2009 and Ps. 1,031 million will be disbursed in 2010.

Our capital expenditures during 2008 related primarily to expanding the capacity of our GSM networks, expanding our third generation UMTS/HSDPA network coverage throughout our principal markets in Latin America, acquiring or renewing licenses principally in Brazil, Ecuador, Puerto Rico and Panama. We have budgeted capital expenditures of approximately U.S.$3 billion for the year ending December 31, 2009, but this budgeted amount could change as we re-evaluate our expenditure needs during the year or as a result of any acquisitions. We expect that our capital expenditures during 2009 will primarily relate to the expansion and upgrading of our cellular infrastructure. We expect to spend approximately 19.8% of our budgeted capital expenditures in Mexico and the United States, 53.3% in South America, 13.4% in Central America and 13.5% in the Caribbean.

We expect to finance our capital expenditures for 2009 with funds generated from operations and, depending on market conditions and our other capital requirements, new debt financings.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with our audited consolidated financial statements and the notes thereto included in this annual report. Our financial statements have been prepared in accordance with Mexican FRS, which differs in certain respects from U.S. GAAP. Note 22 to the audited consolidated financial statements provides a description of the principal differences between Mexican FRS and U.S. GAAP, as they relate to us, a reconciliation to U.S. GAAP of income and total stockholders equity, a description of how operating income under U.S. GAAP was determined and cash flow statements for the years ended 2006 and 2007 under U.S. GAAP.

Under Mexican FRS, our financial statements for periods ending prior to January 1, 2008 recognized the effects of inflation on financial information. Inflation accounting under Mexican FRS had extensive effects on the presentation of our financial statements through 2007. See Inflation Accounting below and Note 2(f) to our audited consolidated financial statements.

The following discussion analyzes certain operating data, such as ARPUs, MOUs and churn rate, that is not included in our financial statements. We calculate ARPUs for a given period by dividing service revenues for such period by the average number of subscribers for such period. The figure includes both prepaid and postpaid customers. We calculate churn rate as the total number of customer deactivations for a period divided by total subscribers at the beginning of such period.

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We provide this operating data because it is regularly reviewed by management and because management believes it is useful in evaluating our performance from period to period. We believe that presenting information about ARPUs and MOUs is useful in assessing the usage and acceptance of our products and services, and that presenting churn rate is useful in assessing our ability to retain subscribers. This additional operating information may not be comparable with similarly titled measures and disclosures by other companies.

We count our wireless subscribers by the number of lines activated. We continue to count postpaid subscribers for the length of their contracts. We disconnect, or churn, our postpaid subscribers at the moment they voluntarily discontinue their service or following a prescribed period of time after they become delinquent. We disconnect our prepaid subscribers after a period of four months after they discontinue using our service, so long as they have not activated a calling card or received traffic. We calculate our subscriber market share by comparing our own subscriber figures with the total market subscriber figures periodically reported by the regulatory authorities in the markets in which we operate. We understand that these regulatory authorities compile total market subscriber figures based on subscriber figures provided to them by market participants, and we do not independently verify these figures.

Inflation Accounting

Through the end of 2007, Mexican FRS required us to recognize certain effects of inflation in our financial statements. They also required us to present financial statements from prior periods in constant pesos as of the end of the most recent period presented. We present financial information for 2008 in nominal pesos and financial information for 2007 and 2006 in constant pesos as of December 2007.

Cessation of inflation accounting under Mexican FRS

Mexican FRS changed beginning on January 1, 2008, and the inflation accounting methods summarized below no longer apply, except where the economic environment qualifies as inflationary for purposes of Mexican FRS. The environment is inflationary if the cumulative inflation rate equals or exceeds an aggregate of 26% over three years (equivalent to an average of 8% in each year). Based on current forecasts, we do not expect the Mexican economic environment to qualify as inflationary in 2009, but that could change depending on actual economic performance.

As a result, we present financial statements without inflation accounting beginning in 2008. We have not adjusted the financial statements for prior periods to give retrospective effect to the cessation of inflation accounting. In this respect, our financial statements for 2008 are not comparable to those for prior periods. In comparing our results for 2008 to results for prior periods, the most important effects of the cessation of inflation accounting, and of related changes in other accounting standards, are as follows:

- We no longer recognize monetary gain and loss attributable to the effects of inflation on our monetary assets and liabilities.

- We no longer adjust the carrying values of nonmonetary assets for inflation and currency variations.

- We no longer re-express results of prior periods. Financial information for dates and periods prior to 2008 continues to be expressed in constant pesos as of December 31, 2007.

- We express results in nominal pesos rather than constant pesos.

Effects of inflation accounting on U.S. GAAP reconciliation for periods prior to 2008

The effect of inflation accounting under Mexican FRS in 2007 and 2006 has not been reversed in the reconciliation to U.S. GAAP of net income and total stockholders equity, except with respect to the methodology for restatement of imported telephone plant. See Note 22 to our audited consolidated financial statements.

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Changes in Mexican FRS

Note 1z.2 to our audited consolidated financial statements discusses new accounting pronouncements under Mexican FRS that came into force in 2008 and that will come into force in 2009. The pronouncements that became effective on January 1, 2008, were fully implemented in the financial statements included in this annual report. In 2009, other pronouncements might affect certain aspects of our financial statements. The 2008 accounting pronouncements were applied on a prospective basis and prior years financial statements have not been adjusted. As a result, our financial statements for 2008 may not be comparable to our financial statements of prior years.

Transition to IFRS

Beginning with the year ended December 31, 2012, Mexican issuers with securities listed on a Mexican securities exchange will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Issuers may voluntarily report using IFRS before the change in the reporting standards becomes mandatory. We plan to begin presenting financial statements in accordance with IFRS for 2012 at the latest.

Overview

Trends in Operating Results

We have experienced significant growth in our operating revenues (10.9% in 2008, 28.2% in 2007 and 23.6% in 2006) and operating income (12.2% in 2008, 39.6% in 2007 and 66.3% in 2006) in recent years. Besides acquisitions, the principal factors affecting our operating revenues and operating income relate to growth in subscribers and traffic. Traffic can grow as a result of increased usage by existing customers or as a result of subscriber growth or both. In addition, currency fluctuations between the Mexican peso and the currencies of our non-Mexican subsidiaries affect our results of operations as reported in Mexican pesos.

We have generally experienced both increased usage and subscriber growth in recent periods. Due principally to competitive pressures, we generally have not increased prices in recent periods. In many of our markets, we have introduced promotions and discount packages that tend to result in higher MOUs and lower ARPUs. In addition, interconnection rates have been reduced in many of our markets. During 2008, for example, interconnection rates in Mexico and Colombia declined by 11% and 50%, respectively, as compared to 2007 levels. We expect the trend of declining prices to slow in 2009, but we also expect pressure on ARPUs as a result of the economic crisis. Traffic increases may not continue to fully offset further price or rate declines, which may adversely affect our revenues and operating income.

At December 31, 2008, we had approximately 182.7 million wireless subscribers, as compared to 153.4 million at December 31, 2007, a 19.1% increase. During 2007, we experienced a 28.6 million or 23.0% increase in wireless subscribers. During 2006, we experienced a 31.4 million or 33.7% increase in wireless subscribers. Subscriber growth during 2008, 2007 and 2006 was substantially attributable to organic growth rather than acquisitions of new companies. We experienced subscriber growth in every segment, with the largest amounts attributable to Brazil (8.5 million net new subscribers or 29% of total net new subscribers), Colombia (5.5 million net new subscribers or 17% of total net new subscribers) and Mexico (6.3 million net new subscribers or 22% of total net new subscribers). The rate of organic growth in subscribers in 2009 may be adversely affected by the economic crisis.

We believe that many of the markets we serve provide opportunities for continued growth, and as subscribers and traffic increase, we generally expect to report higher revenue and operating income (before depreciation and amortization) as a result of economies of scale. These effects can be partly or wholly offset, however, by the effects of competition on prices and on subscriber acquisition costs. Our operating margins, particularly in certain geographic segments, have tended to decline during periods of accelerated subscriber growth because of the costs of acquiring new subscribers, which include subsidies for equipment purchases and activation commissions. As our subscriber base grows and new subscribers represent a lower fraction of our subscriber base, our operating margins have generally improved, although we cannot give assurances that this improvement will continue.

We have launched and are actively promoting 3G and value-added services in all of our markets. The introduction of 3G services in our markets contributed to an increase of 31.1% and 24.05% in data revenues in 2007 and 2008, respectively. Data revenues accounted for 13.5% of service revenues in 2008, as compared to 12.4% in 2007. We expect that data revenues as a percentage of our service revenues will continue to increase as 3G services are more widely adopted.

The market and competitive conditions are independent in the different markets in which we operate, and they are sometimes subject to rapid change.

Effects of Recent Acquisitions

During the last three years, we made significant acquisitions. The consolidation of these companies affects the comparability of our recent results. We accounted for all of these acquisitions using the purchase method, and the results of each acquired company were consolidated in our financial statements as from the month following the consummation of its acquisition. Our audited consolidated financial statements reflect the consolidation of these companies as follows:

- Codetel (from December 2006);
- TELPRI (from April 2007);
- Oceanic (from December 2007); and
- ESTESA (from September 2008).

Our only significant new acquisition in 2008 was ESTESA, a cable television and internet services provider in Nicaragua. On August 7, 2008, we acquired 100% of the capital stock of ESTESA Holding Corp. for an aggregate purchase price of U.S.$47.8 million (Ps. 485 million) before net debt and U.S.$58.8 million (Ps. 597 million) including net debt.

Geographic Segments

We have operations in eighteen countries, which are grouped for financial reporting purposes in nine geographic segments. Segment information is presented in Note 20 to our audited consolidated financial statements included in this annual report. Mexico is our largest single geographic market, accounting for 39.1% of our total operating revenues in 2008 and 30.9% of our total wireless subscribers at December 31, 2008. The percentage of our total operating revenues represented by Mexico decreased in 2006 and 2007, as a result of acquisitions outside Mexico and faster organic revenue growth outside Mexico, but this trend was offset in 2008 by the appreciation of the Mexican peso against the currencies of some of the other currencies in which we operate. We expect that our non-Mexican operations will continue to grow faster than Mexico, though exchange rate variations may affect the comparison in any given year.

Brazil is our second most important market in terms of revenues and subscribers, accounting for 20.4% of our total operating revenues in 2008 and 21.2% of our total wireless subscribers at December 31, 2008. We have made significant investments in Brazil in recent periods, through acquisitions and expansions of our networks, and the importance of our Brazilian operations has increased significantly with respect to our overall results.

Our Colombian operations have experienced accelerated subscriber growth in recent years, and as a result Colombia has become our third largest market in terms of revenues (9.5% in 2008) and subscribers (15.0% in 2008).

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The table below sets forth the percentage of our revenues and total wireless subscribers represented by each of our operating segments for the periods indicated.

	2006		2007		2008	
	% Revenues	% Subscribers[1]	% Revenues	% Subscribers[1]	% Revenues	% Subscribers[1]
Mexico	46.6	34.6	40.8	32.6	39.1	30.9
Brazil	16.9	19.1	18.7	19.7	20.4	21.2
Southern Cone[2]	8.5	10.6	8.7	11.3	8.8	10.7
Colombia	9.2	15.6	9.5	14.6	9.5	15
Andean Region[3]	5.3	7.2	5.2	8.1	5.8	8.5
Central America[4]	7.0	4.7	5.4	5.3	4.6	5
United States	6.1	6.3	5.0	6.2	4.8	6.1
Dominican Republic	0.4	1.7	3.5	1.7	3.3	2.1
Caribbean[5]			3.2	0.5	3.7	0.5
	100%	100%	100%	100%	100%	100%

(1) As of December 31.
(2) Includes our operations in Argentina, Chile, Paraguay and Uruguay.
(3) Includes our operations in Ecuador and Peru.
(4) Includes our operations in El Salvador, Guatemala, Honduras, Nicaragua and Panama. We began operations in Panama in 2008.
(5) Includes our operations in Puerto Rico and Jamaica.

Our subsidiaries report significantly different operating margins. In 2008, Mexico, Colombia and the Dominican Republic reported operating margins higher than our consolidated operating margin, while the other segments reported lower operating margins.

The factors that drive financial performance can differ for our operations in different countries, depending on the subscriber acquisition costs, competitive situation, regulatory environment (including fees and revenue-based payments related to our concessions), economic factors, interconnection rates, capital expenditures requirements, debt profile and many other factors. Accordingly, our results of operations in each period reflect a combination of different effects in the different countries.

Effects of Economic Conditions and Exchange Rates

Our results of operations are affected by economic conditions in Mexico, Brazil, Colombia and the other countries in which we operate. The current recessionary environment in every country in which we operate may also impact our results of operations. In periods of slow economic growth, demand for telecommunications services tends to be adversely affected.

Effects of Exchange Rates

Our results of operations are also affected by changes in currency exchange rates. As discussed above, currency variations between the Mexican peso and the currencies of our non-Mexican subsidiaries, especially the Brazilian real and the Colombian peso, affect our results of operations as reported in Mexican pesos.

Changes in the value of the various operating currencies of our subsidiaries against the U.S. dollar also result in exchange losses or gains on our net U.S. dollar-denominated indebtedness and accounts payable. Appreciation of these currencies against the U.S. dollar generally results in foreign exchange gains, while depreciation of these currencies against the U.S. dollar generally results in foreign exchange losses. We recorded foreign exchange losses of Ps. 13,686 million in 2008. We recorded foreign exchange gains of Ps. 2,463 million in 2007 and Ps. 2,321 million in 2006. Changes in exchange rates also affect the fair value of derivative instruments that we use to manage our currency risk exposures. We recognized Ps. 7,497 million in fair value gains on derivatives in 2008, partly offsetting our foreign exchange losses.

Effects of Regulation

We operate in a regulated industry. Although currently we are free to set end prices to our wireless customers, our results of operations and financial condition have been and will continue to be affected by regulatory actions and changes. In recent periods, for example, regulators have imposed or promoted decreases to interconnection rates, and we expect further decreases in interconnection rates in Mexico and Colombia. Lower interconnection revenues have often been offset by increased traffic resulting from lower effective prices to customers, but this may change.

In addition, some jurisdictions may impose specific regulations on wireless carriers that are deemed dominant. Although we are not currently subject to any regulations or restrictions as a result of our market position, we are one of the subjects in ongoing general market investigations in Mexico to ascertain whether one or more cellular operators have substantial market power in one or more sectors of the telecommunications industry. In March 2009, the Colombian telecommunications regulatory agency, CRT, found Comcel to have a dominant position in Colombia s market for outgoing mobile services and imposed specific regulations on our fees. Comcel is challenging these resolutions in administrative proceedings. Adverse determinations in any of these proceedings could result in specific dominant carrier regulations with respect to tariffs, quality of service and information. See Legal Proceedings Telcel Cofeco under Item 8 and Information of the Company Mexican Operations Regulation Interconnection Fees , February 2009 Interconnection Plan and Non-Mexican Operations Colombia under Item 4.

Composition of Operating Revenues

Most of our operating revenues (86.3% in 2008) are comprised of service revenues. Of our service revenues, the largest portion (33.3% in 2008) is from airtime charges for outgoing calls. We also derive a significant portion of our revenues from interconnection charges billed to other service providers for calls completed on our network. The primary driver of usage charges (airtime and interconnection charges) is traffic, which, in turn, is driven by the number of customers and by their average usage. Postpaid customers generally have an allotment of airtime each month for which they are not required to pay usage charges. Service revenues also include (1) monthly subscription charges paid by postpaid customers, (2) long-distance charges and (3) charges for value-added and other services, such as roaming, call forwarding, call waiting, call blocking and short text messaging.

Revenues from sales of prepaid services are deferred and recognized as airtime is used or when it expires, and are included under usage charges. Monthly basic rent under post-paid is billed in arrears based on the plan and package rates approved and correspond to services rendered, except in Mexico and Colombia, where basic monthly rent is billed one month in advance. Revenues are recognized at the time services are provided. Billed revenues for the service not yet rendered are recognized as deferred reveneues.

We also have sales revenues from selling handsets and other equipment. Most of our new subscribers purchase a handset, and although we also sell new handsets to existing customers, changes in sales revenues are driven primarily by the number of new customers. The pricing of handsets is not geared primarily to making a profit from handset sales, because it also takes account of the service revenues that are expected to result when the handset is used.

Seasonality of our Business

Our business has been subject to a certain degree of seasonality, characterized by a higher number of new clients during the fourth quarter of each year. We believe this is driven by the Christmas shopping season.

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Consolidated Results of Operations

Operating Revenues

Operating revenues increased by 10.9% in 2008. The Ps. 34,075 million total increase was attributable to increases in service revenues (Ps. 31,814 million) and in equipment revenues (Ps. 2,261 million). We experienced subscriber growth in all of our markets for wireless services.

Service revenues increased by 11.9% in 2008. The total increase of Ps. 31,813 million in service revenues reflects principally increased traffic and subscriber growth (Ps. 28,122 million), as our wireless subscriber base increased by 19.1%. The balance of the increase in service revenues reflects increases due to exchange rate variation (Ps. 7,021 million) and to the effect of consolidating Puerto Rico for the full year (Ps. 3,039 million), offset in part by the effect of inflation accounting on 2007 revenues (Ps. 6,370 million). This was partly offset by lower ARPUs attributable principally to promotions and discount packages, lower interconnection rates in some markets and a growing proportion of prepaid subscribers, who generate less revenue per line than postpaid subscribers.

Equipment revenues accounted for Ps. 2,261 million, or 5.0%, of the Ps. 34,075 million increase in operating revenues in 2008. This primarily reflects subscriber growth. Equipment revenues as a percentage of total revenues decreased from 14.5% in 2007 to 13.7% in 2008.

In 2007, our operating revenues increased by Ps. 68,575 million, or 28.2%, compared to 2006. This increase reflected principally subscriber growth and increased traffic. In addition, the increase in revenues during 2007 reflected the consolidation of our operations in the Dominican Republic and Puerto Rico in late 2006 and early 2007, respectively (which accounted for, about Ps. 18,999 million (or 7.8%) of the increase) and the appreciation of many of our operating currencies, particularly the Colombian peso and the Brazilian real, against the Mexican peso (which accounted for about Ps.1,855 million (or 0.8%) of the increase). Absent effects from acquisitions and exchange rate changes, our operating revenues during 2007 would have increased by 19.6%.

Operating Costs and Expenses

Cost of services and equipment Cost of services and equipment represented 42.2% of operating revenues in 2008, 42.5% of operating revenues in 2007 and 46.7% of operating revenues in 2006. Cost of services and equipment increased by 10.3% in 2008 and 16.7% in 2007. The stability in cost of services and equipment relative to revenues in 2008 compared to 2007 reflects efficiencies, principally in infrastructure costs and equipment costs, and reductions in interconnection rates and long distance charges in some of our markets, which were partially offset by increases in revenue-based payments for our concessions due to higher revenues and by costs incurred in renewing some of our concessions.

Cost of equipment was Ps. 75,117 million in 2008 and Ps. 69,980 million in 2007 and primarily represents the cost of handsets sold to subscribers. Equipment costs increased by 7.3% in 2008 and by 8.1% in 2007. Our cost of equipment exceeded our equipment revenues by 36.7% during 2008 and 35.3% during 2007, since we subsidize the cost of equipment for new subscribers.

Cost of services increased by 13.6% in 2008, to Ps. 8,514 million. This increase in cost of services was greater than the growth in service revenues, which increased by 11.9% in 2008. Cost of services increased faster than service revenues primarily due to increases in revenue-based concession payments in Mexico, the fee for renewal of our concession in Ecuador, infrastructure costs, employee salary increases and infrastructure maintenance costs**.** Cost of services increased by 28.0% in 2007 compared to 2006, while service revenues increased by 31.4% during the same period.

Commercial, administrative and general Commercial, administrative and general expenses represented 18.0% of operating revenues in 2008, 17.2% of operating revenues in 2007 and 16.7% of operating revenues in 2006. On an absolute basis, commercial administrative and general expenses increased by 16.3% in 2008 and

31.9% in 2007. The increase in commercial, administrative and general expenses in 2008 principally reflects higher advertising expenses as a result of the launch of our 3G services in many of our markets, higher commissions paid to our distributors, establishment of new customer service centers, payments related to our concessions in Mexico and Ecuador and an increase in our uncollectible accounts resulting from a change to more conservative collection policies than in prior years.

Telcel, like other Mexican companies, is required by law to pay to its employees, in addition to their agreed compensation and benefits, profit sharing in an aggregate amount equal to 10% of Telcel s taxable income. Conecel, our Ecuadorian subsidiary, is also required to pay employee profit sharing, at a rate of 15% of Conecel s taxable income. We recognize these amounts under commercial, administrative and general costs.

Depreciation and amortization Depreciation and amortization increased by 3.4% in 2008 and by 44.9% in 2007. As a percentage of revenues, depreciation and amortization decreased from 13.0% in 2007 to 12.0% in 2008. The increases in depreciation and amortization in 2008 and 2007 reflect the substantial investments made in our networks, particularly in connection with the launch and expansion of GSM services in many of our markets. In 2007, we also experienced an increase in depreciation and amortization as a result of the shortening of useful lives and faster depreciation of TDMA and GSM equipment in certain markets, particularly in Colombia and Brazil, due to expected migration of customers to third generation technologies. This change resulted in an increase in our depreciation expense for 2007 of Ps. 5,796 million.

Operating Income

Operating income increased by 12.2% in 2008 and 39.6% in 2007. All of our segments reported operating income in 2008. Operating margin (operating income as a percentage of operating revenues) was 27.6% in 2008, 27.3% in 2007 and 25.1% in 2006. Improvements in our operating margin reflect principally the increase in service revenues.

Financing (Income) Cost

Under Mexican FRS, financing cost reflects interest income, interest expense, foreign exchange gain or loss and other financing costs. Through 2007 it also included gain or loss attributable to the effects of inflation on monetary assets and liabilities.

We had financing cost of Ps. (13,865) million in 2008, as compared to financing cost of Ps. (387) million in 2007 and Ps. (28) million in 2006. The increase in financing cost in 2008 reflects principally (a) foreign exchange losses of Ps. 13,686 million due principally to the depreciation of the Mexican peso against the U.S. dollar, (b) net other financing income of Ps. 6,358 million, primarily due to fair value gains on currency derivatives and (c) no monetary gains or losses, due to the cessation of inflation accounting under Mexican FRS, as compared to a monetary gain of Ps. 5,038 million in 2007.

The increase in financing cost in 2007 reflects principally an increase in net other financing costs of Ps. 1,744 million, which more than offset an increase in net monetary gain of Ps. 1,190 million. The increase in net other financing costs includes losses on the value in our investment in U.S. Commercial Corp., which amounted to Ps. 1,363 million 2007 and Ps. 1,375 million in 2006. (In December 2007, we donated our 19.7% interest in U.S. Commercial Corp. to Fundación Carso, S.A. de C.V. See Related Party Transactions Transactions with Other Affiliates under Item 7.)

For 2008 and 2007, changes in the components of financing cost were as follows:

Net interest expense increased by 38.0% in 2008 and decreased by 1.1% in 2007. The increase in 2008 was primarily attributable to increased net debt resulting from increased capital expenditures. The slight decrease in 2007 was primarily attributable to a decrease in interest expense because of a change in Mexican FRS that required the capitalization of interest and other financing costs relating to debt incurred to finance capital expenditures.

We had a net foreign exchange loss of Ps. 13,686 million in 2008, compared to a gain of Ps. 2,463 million in 2007, and a gain of Ps. 2,321 million in 2006. The foreign exchange loss in 2008 was primarily attributable to the depreciation of the Mexican peso against the U.S. dollar and was partly offset by gains on currency derivatives described below. The foreign exchange gain in 2007 was primarily attributable to appreciation of the Mexican peso against the U.S. dollar and of the Brazilian real and the Colombian peso against the Mexican peso and the U.S. dollar.

In 2008, following the cessation of inflation accounting under Mexican FRS, we did not record monetary gains or losses. See Inflation Accounting in this Item 5. In 2007, we reported a Ps. 5,038 million net monetary gain, as compared to Ps. 3,848 million in 2006. The increase in 2007 was primarily related to higher inflation in many of our markets, as well as an increase in our average net indebtedness.

We reported a net other financing gain of Ps. 6,358 million in 2008, compared to a cost of Ps. 3,153 million in 2007 and Ps. 1,409 million in 2006. Net other financing costs include fair value gains and losses of financial instruments, commissions, fair-value gains and losses on investments, and gains and losses on the sale of investments. In 2008, our net financing gains were principally attributable to a net fair value gain on our currency derivatives of Ps. 7,497 million. In 2007, our net financing costs were principally attributable to the write-off of our investment in U.S. Commercial Corp. and fair value losses on our derivative instruments.

We capitalized financing cost of Ps. 7,054 million in 2008 and Ps. 1,158 million in 2007, in each case related to our plant, property and equipment.

Income Tax

Our effective rates of provisions for corporate income tax as a percentage of pretax income were 25%, 27.7% and 27.7% for 2008, 2007, and 2006, respectively. Our effective rate in 2008 includes the reversal of the valuation allowance corresponding to tax losses. The statutory rate of Mexican corporate income tax was 28% in 2008, 28% in 2007 and 29% in 2006.

In 2008, Mexico introduced a new flat rate business tax (Impuesto Empresarial a Tasa Única or IETU). IETU is calculated by reference to the income derived from the transfer of goods, the lease of assets and the rendering of services. The rate for 2008 and 2009 is 16.5% and 17%, respectively. Thereafter, the rate will be 17.5%.

Other Income (Expense), Net

In 2008, we recorded net other expense of Ps. 2,327 million, compared to net other expense of Ps. 3,713 million in 2007, and net other income of Ps. 484 million in 2006. The expense in 2008 reflects principally an impairment of goodwill in Honduras and the accrual for interest and penalties for certain tax contingencies in Brazil. The expense in 2007 reflects principally our decision to discontinue the use of certain TDMA equipment in Colombia and Ecuador.

Equity in Results of Affiliates

Our proportionate share of the results of equity-method affiliates resulted net gains of Ps. 109 million in 2008**,** net gains of Ps. 58 million in 2007 and Ps. 38 million in 2006. The net gains in 2008 and 2007 reflect principally our share of the net gains reported by Telvista.

Net Income

We had net income of Ps. 59,486 million in 2008, Ps. 58,588 million in 2007 and Ps. 44,422 million in 2006. The increase in net income in 2008 principally reflected our increase in operating income, which was partially offset by an increase in our exchange losses**.** The increase in net income in 2007 principally reflected our increased operating income, which was partially offset by an increase in our income tax expense. The increase in net income in 2006 reflects principally the increase in operating income.

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Results of Operations by Geographic Segment

We discuss below the operating results of our subsidiaries that provide telecommunication services in our principal markets. All amounts discussed below are presented in accordance with Mexican FRS. Note 2(a)(ii) to our audited consolidated financial statements included in this annual report describes how we translate the financial statements of our non-Mexican subsidiaries. Exchange rate changes between the Mexican peso and those currencies affect our reported results in Mexican pesos and the comparability of reported results between periods.

The following table sets forth the exchange rate used to translate the results of our significant non-Mexican operations, as expressed in Mexican pesos per foreign currency unit, and the change from the rate used in the prior year.

	Mexican pesos per foreign currency unit					
	2006	% Change	2007	% Change	2008	% Change
Guatemalan quetzal	1.4324	1.6%	1.4239	(0.6)%	1.7398	22.2%
U.S. dollar[1]	10.881	1.5	10.8662	(0.1)	13.5383	24.6
Brazilian real	5.0893	11.2	6.1345	20.5	5.7930	(5.6)
Colombian peso	0.0049	4.2	0.0054	10.2	0.006	11.1
Argentine peso	3.5535	0.5	3.4506	(2.9)	3.9207	13.6
Dominican peso	0.322		0.316	(1.9)	0.382	20.8

(1) The U.S. dollar is the sole monetary instrument and unit of account and the main currency for transaction purposes in Ecuador and Puerto Rico.

Note 20 to our audited consolidated financial statements includes certain financial information of our operations by country. Except as discussed below, the following discussion is based on the segment data included in that note.

The following table sets forth the number of subscribers and the rate of subscriber growth by geographic segment during the last three years.

	Number of subscribers (in thousands) as of December 31,[1]					
	2006	% Change	2007	% Change	2008	% Change
Wireless						
Mexico	43,190	20.3%	50,011	15.8%	56,371	12.7
Brazil	23,881	28.0	30,228	26.6	38,731	28.1
Southern Cone[2]	13,247	49.7	17,290	30.5	19,591	13.3
Colombia	19,521	41.7	22,335	14.4	27,390	22.6
Andean Region[3]	9,026	49.2	12,391	37.3	15,482	25.0
Central America[4]	5,875	48.9	8,157	38.8	9,158	12.3
Dominican Republic[5]	2,140		2,682	25.3	3,877	44.6
Caribbean[6]			814		932	14.5
United States	7,897	28.7	9,514	20.5	11,192	17.6
Total wireless	124,777	33.7	153,422	23.0	182,724	19.1
Fixed						
Central America[7]	2,097	5.1	2,197	4.8	2,242	2.0
Dominican Republic[5]	734		748	1.9	772	3.1
Caribbean[6]			920		833	(9.5)
Total Fixed	2,831	41.8	3,866	36.5	3,846	(0.5)
Total Lines	127,608	33.9	157,287	23.3	186,570	18.6

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(1) Includes total subscribers of all consolidated subsidiaries in which we hold an economic interest.
(2) Includes Argentina, Chile, Paraguay and Uruguay.
(3) Includes Ecuador and Peru .
(4) Includes El Salvador, Guatemala, Honduras and Nicaragua.
(5) We began consolidating our Dominican operations in 2006.
(6) Includes Puerto Rico and Jamaica. We began consolidating our Puerto Rican and Jamaican operations in 2007.
(7) Includes El Salvador, Guatemala and Nicaragua.

The table below sets forth the operating revenues and operating income represented by each of our operating segments for the periods indicated.

	(2008 in millions of pesos, previous years in millions of constant pesos as of December 31, 2007)					
	2006		2007		2008	
	Operating Revenues	Operating Income	Operating Revenues	Operating Income	Operating Revenues	Operating Income
Mexico[1]	Ps. 123,716	Ps. 50,195	Ps. 144,895	Ps. 59,160	Ps. 166,582	Ps. 60,911
Brazil	41,048	(4,315)	58,304	607	70,484	1,584
Southern Cone[2]	20,602	1,355	27,236	2,690	30,541	5,701
Colombia	22,252	4,766	29,614	7,616	32,621	10,955
Andean Region[3]	12,865	2,794	16,210	3,724	20,217	5,284
Central America[4]	17,115	5,105	16,917	4,697	16,051	3,029
United States	14,747	758	15,603	1,503	16,545	943
Dominican Republic	986	282	10,990	3,945	11,240	3,373
Caribbean[5]			9,779	1,331	12,883	1,611

(1) Includes our operations in Mexico and our corporate operations and assets.
(2) Includes our operations in Argentina, Chile, Paraguay and Uruguay.
(3) Includes our operations in Ecuador and Peru.
(4) Includes our operations in El Salvador, Guatemala, Honduras and Nicaragua.
(5) Includes our operations in Puerto Rico and Jamaica.

Mexico

Operating revenues in Mexico increased by 6.5% in 2008 and by 12.1% in 2007, benefiting from subscriber growth and increases in traffic. Service revenues increased by 6.3% in 2008 and by 12.9% in 2007, reflecting growth in revenues from value-added services, airtime and monthly rent, partially offset by a decrease in interconnection revenues due to lower interconnection fees which were not compensated by volume. Equipment revenues in Mexico in 2008 increased by 7.4% in 2008 and by 8.9% in 2007, principally due to lower handset acquisition costs partially offset by subsidies of 3G handsets for new subscribers. The number of subscribers in Mexico increased by 12.7% in 2008 and by 15.8% in 2007.

Average MOUs per subscriber increased by 21.7% in 2008 and by 26.5% in 2007. ARPUs decreased by 7.5% in 2008 and by 5.0% in 2007. If revenues for 2007 had been expressed in nominal pesos, ARPUs would have decreased by 5.4% in 2008. During both years, we lowered the price of some of our services through new commercial plans and promotions, which contributed to the increase in subscribers and MOUs but had a negative impact on ARPUs. In addition, in 2007 and 2008, our ARPUs were negatively affected by lower interconnection rates and an increase in the share of our total traffic represented by data services, such as SMS messaging and other 3G services, which on average generate lower revenues per minute of use than voice services. Reductions in interconnection tariffs also resulted in lower interconnection revenues. The churn rate for our Mexican operations was 3.3% in 2008, 3.4% in 2007 and 3.2% in 2006.

Operating income increased by 4.6% in 2008 and by 19% in 2007. Our operating margin was 45.8% in 2008 and 46.6% in 2007. The decrease in our operating margin in 2008 is due principally to an increase in our uncollectible accounts and employee profit sharing. While operating revenues increased by 6.5% in 2008, our operating costs and expenses increased by 10.2% in 2008. In 2007, we were able to increase our subscriber base and traffic without significantly increasing (on a proportional basis) our subscriber acquisition and publicity costs. Finally, depreciation and amortization expenses of our Mexican operations decreased as a percentage of its operating revenues, from 6.3% in 2007 to 6.2% in 2008.

For Mexico, the financial information set forth in Note 20 to our audited financial statements includes revenues and costs from group corporate activities, such as licensing fees and group overhead expenses. The discussion above refers to our operating results in Mexico and excludes the results of our group corporate activities.

Brazil

Operating revenues in Brazil increased by 20.9% in 2008 and 42.0% in 2007. The increase in 2008 was primarily attributable to increased traffic and subscriber growth and data revenues. The number of our subscribers in Brazil increased by 8.5 million subscribers in 2008, to approximately 38.7 million subscribers as of December 31, 2008. The 6.0% appreciation of the Brazilian real against the Mexican peso in 2008 also contributed to the increase in operating revenues, as 6.9% of the 20.9% increase in operating revenues was due to the currency effect. The increase in operating revenue in 2007 was primarily attributable to increased traffic and subscriber growth. The 13% appreciation of the Brazilian real against the Mexican peso in 2007 also contributed to the increase in operating revenues in 2007, as more than one-fourth of the increase (12.7% out of 42.0%) was due to currency effects. The number of subscribers increased by 6.3 million subscribers in 2007, to approximately 30.2 million subscribers.

Average MOUs per subscriber increased by 20.7% in 2008 and by 2.6% in 2007. ARPUs decreased by 3.1% in 2008 and increased by 17.6% in 2007. Calculated in nominal Brazilian reais, ARPUs decreased by 1.0% in 2008. The increase in average MOUs during 2008 and 2007 as well as the decrease in ARPUs during 2008 reflects the impact on traffic of our lowering of prices through new commercial plans and promotions for our 3G services. The increase in ARPUs during 2007 was primarily attributable to increased traffic and the effect of the appreciation of the Brazilian real against the Mexican peso. Our churn rate was 2.7% in 2008 and 2.0% in 2007.

Operating income increased by 161% in 2008. The increase in 2008 is due primarily to the effect in 2007 of higher depreciation expense resulting from shortening the useful lives of certain TDMA assets. We reported operating income in 2007 after an operating loss in 2006, reflecting primarily improvement in our cost management, in particular with respect to interconnection and collection costs and improvement in the efficiency of our billing efforts. Operating income in 2007 also reflected an increase in depreciation expense of Ps. 2,740 million attributable to shortening the useful lives of certain TDMA assets. Operating margin (2.24% in 2008 and 1.04% in 2007) continues to be affected by a high level of depreciation and amortization expenses relative to revenues due to the significant expenses incurred to deploy networks. Depreciation and amortization expenses represented 21.4% of our operating revenues in 2008 and 23.9% in 2007.

Southern Cone Argentina, Chile, Paraguay and Uruguay

Our operating revenues in Argentina, Chile, Paraguay and Uruguay increased by 12.1% in 2008 and 32.2% in 2007. The increase in 2007 and 2008 was attributable primarily to subscriber growth. The number of subscribers increased by 2.3 million subscribers in 2008, to approximately 19.6 million subscribers at year-end. Since 2007, our postpaid subscriber base has grown at a faster rate than our prepaid subscriber base. The currency effects between the Argentine peso and the Mexican peso did not have a significant effect on our operating revenues in 2008.

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Average MOUs per subscriber increased by 2.3% in 2008 and decreased by 5.2% in 2007. ARPUs decreased by 4.7% in 2008 and by 3.8% in 2007. Expressed in nominal local currencies, ARPUs increased by 3.6% in 2008. The increase in MOUs in 2008 principally reflected a decrease in prices due to promotions and airtime subsidies including free calls to friends and family. The decline in MOUs and ARPUs in 2007 principally reflected subscriber growth. We also experienced a slight decrease in our churn rate, from 2.5% in 2007 to 2.0% in 2008.

Operating income increased by 112% in 2008. This reflected principally both a significant increase in our operating revenues and a reduction in the commissions payable to our distributors.

Colombia

Operating revenues increased by 10.2% in 2008 and by 33.1% in 2007. The increase in operating revenues in 2008 and 2007 was attributable principally to subscriber growth, increased traffic, the appreciation of the Colombian peso against the Mexican peso and increased revenue from long distance charges. The Colombian peso appreciated 11.9% against the Mexican peso in 2008, and currency appreciation accounted for approximately 6.5% of the increase in revenues during 2008. Also, we began providing long distance services in Colombia in 2008. These factors more than offset a decrease in interconnection tariffs of 50% in Colombia beginning in December 2007. In 2008, the number of subscribers in Colombia increased by 22.6%, to approximately 27.4 million at year-end. In 2007, the number of subscribers in Colombia increased by 14.4%.

Average MOUs per subscriber increased by 28.7% in 2008 and by 10.9% in 2007. ARPUs decreased by 4.7% in 2008 and increased by 12.9% in 2007. Calculated in nominal Colombian pesos, ARPUs decreased by 9.0% in 2008. The increase on average MOUs per subscriber in 2008 reflected primarily the reduction in prices for our voice and data services. The decrease in ARPUs during 2008 reflected principally the lowering of our prices for voice and data services through promotions and lower rates. The increase in ARPUs in 2007 reflected principally the appreciation of the Colombian peso against both the U.S. dollar and the Mexican peso. A substantial majority of our subscriber growth in 2008 was attributable to an increase in prepaid customers, which generate on average less minutes of use and revenues than postpaid customers. Our churn rate increased from 2.3% in 2007 to 2.4% in 2008.

Our operating income increased by 43.8% in 2008 and by 59.8% in 2007. Our operating margin was 33.6% in 2008 and 25.7% in 2007. The increase in operating margin during 2008 resulted principally from a reduction in subscriber acquisition costs and the effect in 2007 of higher depreciation expense resulting from shortening the useful lives of certain GSM assets. In Colombia, we generate more traffic to other operators than we receive from them. Operating income in 2007 reflects an increase in depreciation expense of Ps. 3,296 million as a result of the shortening of useful lives and faster depreciation of GSM equipment in certain markets due to the expected migration of customers to 3G technologies.

Andean Region Ecuador and Peru

Operating revenues in Ecuador and Peru increased by 24.7% in 2008 and by 26.0% in 2007. The increase in operating revenues in 2008 and 2007 was attributable principally to subscriber growth and increased traffic. Currency effects contributed to 1.5% of the growth in operating revenues in 2008. In 2008, the number of subscribers increased by 24.9% to approximately 15.5 million at year-end. In 2007, the number of subscribers increased by 37.3%.

Average MOUs per subscriber increased by 27.3% in 2008 and 7.8% in 2007. ARPUs decreased by approximately 3.0% in 2008 and decreased by approximately 12.2% in 2007. The decline in ARPUs during 2008 and 2007 reflected principally subscriber growth and a reduction in our rates per minute. Our churn rate decreased from 2.8% in 2007 to 2.4% in 2008.

Operating income increased by 41.8% in 2008 and by 33.3% in 2007. Our operating margin was 26.1% in 2008 and 23.0% in 2007. The increase in operating margin during 2008 resulted from an increase in revenues, partially offset by a Ps. 136 million income-based payment related to our concession in Ecuador. The increase in operating margin during 2007 resulted principally from a combination of factors, including lower expenses and lower handset acquisition costs.

Central America El Salvador, Guatemala, Honduras, Nicaragua and Panama

Operating revenues in El Salvador, Guatemala, Honduras, Nicaragua and Panama decreased by 5.1% in 2008 and by 1.2% in 2007. The decrease reflected principally a decrease in nearly all sources of operating revenue as a result of a decrease in our share of the market. In 2008, the number of wireless subscribers in Central America increased by 12.3%, to 9.1 million at year-end. The number of fixed line subscribers increased by 2.0%, to approximately 2.2 million at year-end. In 2008, wireless services accounted for approximately 52.5% of our operating revenues, and fixed-line and other services for approximately 47.5%, as compared to 50.5% and 49.5%, respectively, in 2007. In March 2009, we began operations and reporting revenues in Panama.

Average MOUs decreased by a 13.4% in 2008 and by 7.3% in 2007. ARPUs decreased by 23.5% in 2008 and by 18.5% in 2007. These declines primarily reflected increased competition for wireless customers in the region.

Operating income decreased by 35.5% in 2008 and by 8.0% in 2007. Operating margin was 18.9% in 2008 and 27.7% in 2007. The decrease in operating income and margin in 2008 reflected principally increased network maintenance costs and acquisition costs related to triple-play. The decrease in operating income and margin in 2007 reflected principally lower revenues and increased subscriber acquisition costs, particularly in equipment subsidies and advertising costs.

United States

Operating revenues in the United States increased by 6.0% in 2008 and 5.8% in 2007. The increase in operating revenues in 2008 and 2007 was attributable principally to subscriber growth and increased traffic. In 2008, the number of TracFone subscribers increased by 17.6% to approximately 11.2 million as of December 31, 2008, and in 2007, the number of TracFone subscribers increased by 20.5%, to approximately 9.5 million as of December 31, 2007.

Average MOUs per subscriber increased by 5.6% in 2008 and increased by 9.1% in 2007. ARPUs declined by approximately 9.0% in 2008 and 10.7% in 2007. The decline in ARPUs in 2008 and 2007 was primarily attributable to the increasing portion of TracFone s traffic that is comprised of digital traffic, which results in lower revenues per minute than analog traffic. The churn rate decreased from 4.6% in 2007 to 3.8% in 2008.

Operating income was Ps. 943 million in 2008 and Ps. 1,503 million in 2007. TracFone s operating margin decreased from 9.6% in 2007 to 5.6% in 2008. The decrease in operating margin principally reflected increased commercial expenses.

Dominican Republic

Operating revenues in the Dominican Republic increased by 2.3% in 2008. The increase reflected principally subscriber growth in the wireless market and improved service promotions. In 2008, the number of wireless subscribers in the Dominican Republic increased by 14.5%. The number of fixed line subscribers increased by 3.1%. In 2008, wireless services accounted for approximately 43.8% of our operating revenues, and fixed-line and other services for approximately 56.2%, as compared to 38.7% and 61.3%, respectively, in 2007.

Average MOUs decreased by a 6.7% in 2008. ARPUs decreased by a 15.5% in 2008. These declines primarily reflected promotions and airtime subsidies and a growing proportion of prepaid subscribers, who generate less revenue per line than postpaid subscribers.

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Operating income decreased by 14.5% in 2008. Operating margin was 30.0% in 2008 and 35.9% in 2007. The decrease in operating income and margin in 2008 reflected principally the growing proportion of our prepaid subscribers, which resulted in increased subscriber acquisition costs, equipment subsidies and customer service expenses.

We began consolidating the results of our operations in the Dominican Republic in December 2006.

Puerto Rico and Jamaica

Operating revenues in Puerto Rico were Ps. 12,737 million for the year ended December 31, 2008, of which Ps. 4,207 million (32.9%) corresponded to wireless services and Ps. 8,561 million (67.1%) corresponded to fixed line services. From April through December 2007, operating revenues in Puerto Rico were Ps. 9,766 million, of which Ps. 3,091 million (31.6%) corresponded to wireless services and Ps. 6,675 million (68.4%) corresponded to fixed line services. During 2008, operating income in Puerto Rico was Ps. 1,846 million, representing a 14.5% margin, as compared to operating income of Ps. 1,347 million in 2007, representing a 13.8% operating margin.

Operating revenues in Jamaica were Ps. 147 million for the year ended December 31, 2008. During 2008, operating loss in Jamaica was Ps. 234 million. During December 2007, operating revenues in Jamaica were Ps. 14 million and operating loss was Ps. 16 million.

We began consolidating the results of our Puerto Rican operations in April 2007. We purchased Oceanic in November 2007, and we started consolidating our Jamaican operations in December 2007.

Liquidity and Capital Resources

Principal Uses of Cash

We generate substantial resources from our operations. On a consolidated basis, operating activities provided Ps. 87,464 million in 2008 and Ps. 100,580 million in 2007. Our cash and cash equivalents amounted to Ps. 22,092 million at December 31, 2008, compared to Ps. 11,972 million as of December 31, 2007. We believe that our working capital is sufficient for our present requirements. We use the cash that we generate from our operations primarily for the following purposes:

- We must make substantial capital expenditures to continue expanding and improving our networks in each country in which we operate. In 2008 and 2007, we invested approximately Ps. 57,134 million and Ps. 34,622 million respectively, in plant, property and equipment. As of December 31, 2008, we had not disbursed Ps. 30,190 million of our investments in 2008, of which Ps. 29,159 million will be disbursed in 2009 and Ps. 1,031 million will be disbursed in 2010. We have budgeted capital expenditures for 2009 to be approximately U.S.$ 3 billion (Ps. 40,500 million). See Capital Expenditures under Item 4.

- During 2008, we spent approximately Ps. 13,737 million to acquire or renew licenses, principally Ps. 8,830 million to acquire additional spectrum in Brazil, Ps. 3,001 million to renew our concession in Ecuador and Ps. 896 million to acquire a license in Panama. The amount we spend on acquisitions and licenses varies significantly from year to year, depending on acquisition opportunities, concession renewal schedules and needs for more spectrum.

- We must pay interest on our indebtedness and repay principal when due. As of December 31, 2008, we had Ps. 26,731 million of principal due in 2009, but in February 2009 we paid U.S.$1,350 million of our U.S.$2,000 million revolving facility and we have almost no additional maturities for indebtedness denominated in foreign currencies for 2009 and 2010.

- If we have resources after meeting our obligations and capital expenditure requirements, we may pay dividends, or repurchase our own shares from time to time. We paid Ps. 8,815 million in dividends in 2008 and Ps. 41,298 million in dividends in 2007, and our shareholders have approved the payment of a Ps. 0.30 dividend per share in 2009. Dividends for 2007 included an extraordinary dividend of Ps. 1.0 per share paid in November 2007, for a total of Ps. 35,023 million. We also spent (including commissions and value-added taxes) Ps. 41,633 million repurchasing our own shares in the open market in 2008 and Ps. 12,717 million in 2007. Our shareholders have authorized additional repurchases, and whether we do so will depend on considerations including market price and our other capital requirements. We have made additional repurchases in 2009.

The following table summarizes certain contractual liabilities as of December 31, 2008. Our purchase obligations and approximately 59.8% of our debt described below are denominated in U.S. dollars. The table does not include accounts payable or pension liabilities, and amounts set forth in the table do not include interest and do not give effect to hedging transactions.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years (in millions)	4-5 years	After 5 years
Contractual obligations as of December 31, 2008:					
Equipment leases	Ps. 1,478	Ps. 764	Ps. 714		
Real estate leases	17,655	3,887	6,518	Ps. 5,078	Ps. 2,172
Short-term debt(1)	26,731	26,731			
Long-term debt(1)	116,755		36,591	13,970	66,194
Purchase obligations(2)	32,440	29,329	1,371	340	1,400
Total	Ps. 195,059	Ps. 60,711	Ps. 45,194	Ps. 19,388	Ps. 69,766

(1) Excludes interest payments, as they are set at floating rates.

(2) See discussion below.

Other than the amounts described in the table above, we had no other outstanding material purchase commitments as of DecembeD>0.81 $0.34 $(0.36)

Diluted earnings per share

$0.78 $0.33 $(0.36)

Shares used in basic earnings per share	112,423,158	112,023,419	120,771,786
Shares used in diluted earnings per share	117,636,085	117,749,743	120,771,786

The accompanying notes are an integral part of these consolidated financial statements.

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KNIGHT TRADING GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the Years Ended December 31, 2002, 2003 and 2004

	Class A Common Stock		Treasury Stock		Additional Paid-In	Retained	Unamortized Stock-based	Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Earnings	Compensation	Income	Total
Balance, January 1, 2002	124,158,570	$ 1,241,586		$	$ 335,796,119	$ 504,472,861	$ (672,763)	$ (6,581,379)	$ 834,256,424
Net Loss						(43,241,664)			(43,241,664)
Translation adjustment arising during period, net of taxes								3,212,494	3,212,494
Total comprehensive income						(43,241,664)		3,212,494	(40,029,170)
Common stock repurchased			(7,975,723)	(41,237,968)					(41,237,968)
Stock options exercised	57,250	573			410,615				411,188
Income tax benefit stock awards exercised					98,645				98,645
Stock based compensation	489,467	4,894	1,128,256	5,814,676	2,967,013	(690,197)	(6,118,770)		1,977,616
Change in ownership of minority investors					939,034				939,034
Balance, December 31, 2002	124,705,287	1,247,053	(6,847,467)	(35,423,292)	340,211,426	460,541,000	(6,791,533)	(3,368,885)	756,415,769
Net Income, less loss on translation adjustment						41,894,005			41,894,005
Loss recognized on translation adjustment, net of taxes						(3,368,885)		3,368,885	
Total comprehensive income						38,525,120		3,368,885	41,894,005
Common stock repurchased			(6,413,521)	(34,297,186)					(34,297,186)
Stock options exercised	2,598,861	25,989			14,977,298				15,003,287
Income tax benefit stock awards exercised					7,433,289				7,433,289

Stock based compensation	882,912	8,829	184,483	925,220	8,275,392	(9,364)	(5,517,463)		3,682,614
Balance, December 31, 2003	128,187,060	1,281,871	(13,076,505)	(68,795,258)	370,897,405	499,056,756	(12,308,996)		790,131,778
Net Income						91,392,027			91,392,027
Common stock repurchased			(7,344,500)	(78,841,155)					(78,841,155)
Stock options exercised	4,527,202	45,272			27,163,276				27,208,548
Income tax benefit stock awards exercised					11,392,768				11,392,768
Stock based compensation	1,251,251	12,512	(249,317)		17,998,263		(4,796,850)		13,213,925
Balance, December 31, 2004	133,965,513	$ 1,339,655	(20,670,322)	$ (147,636,413)	$ 427,451,712	$ 590,448,783	$ (17,105,846)	$	$ 854,497,891

The accompanying notes are an integral part of these consolidated financial statements.

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KNIGHT TRADING GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2004	**2003**	**2002**
Cash flows from operating activities			
Net income (loss)	$ 91,392,027	$ 38,525,120	$ (43,241,664)
Income (loss) from discontinued operations, net of taxes	100,903,791	(13,016,202)	(4,886,091)
(Loss) income from continuing operations, net of taxes	(9,511,764)	51,541,322	(38,355,573)
Adjustments to reconcile (loss) income from continuing operations, net of taxes to net cash provided by operating activities			
Depreciation and amortization	14,045,623	19,201,293	26,488,123
Income tax benefit on stock awards exercised	11,392,768	7,433,289	98,645
Stock based compensation	10,003,722	2,787,656	1,977,618
Deferred income taxes	(8,314,351)	(1,272,126)	(3,614,441)
Writedown of assets and lease loss accrual	3,810,453	16,507,981	15,422,860
International charges			31,220,875
Minority interest in losses of consolidated subsidiaries			(5,100,496)
(Increase) decrease in operating assets			
Securities owned	(53,234,639)	(57,861,893)	273,713,668
Receivable from brokers and dealers	(39,861,433)	(142,691,409)	254,262,595
Receivable from discontinued operations	43,529,819	34,519,958	(34,467,466)
Other assets	(11,535,788)	16,042,436	(46,398,279)
Increase (decrease) in operating liabilities			
Securities sold, not yet purchased	48,301,776	88,403,414	(259,192,739)
Payable to brokers and dealers	61,667,776	(2,121,212)	(169,653,917)
Accrued compensation expense	29,029,978	43,755,914	732,751
Accrued expenses and other liabilities	(13,206,974)	3,656,391	(5,926,875)
Net cash provided by operating activities	86,116,966	79,903,014	41,207,349
Cash flows from investing activities			
Proceeds from sale of Derivative Markets business	230,380,605		
Purchases of fixed assets and leasehold improvements	(40,115,585)	(6,282,808)	(9,611,184)
Investment in Deephaven sponsored funds	(17,724,890)	(48,917,063)	(97,768,807)
Purchases, net of proceeds, from strategic investments	(8,967,094)	(2,604,114)	1,324,993
Purchase of business, net of cash acquired		(11,373,570)	
Net cash provided by (used in) investing activities	163,573,036	(69,177,555)	(106,054,998)
Cash flows from financing activities			
Stock options exercised	27,192,742	14,865,537	411,188
Cost of common stock repurchased	(78,841,155)	(34,297,186)	(41,237,968)
Purchase of shares from minority investors in Knight Roundtable Europe Limited	(2,500,000)		
Net cash used in financing activities	(54,148,413)	(19,431,649)	(40,826,780)

Increase (decrease) in cash and cash equivalents	195,541,589	(8,706,190)	(105,674,429)
Net cash provided by (used in) discontinued operations		22,074,708	(2,249,266)
Cash and cash equivalents at beginning of the year	249,997,693	236,629,175	344,552,870
Cash and cash equivalents at end of the year	$ 445,539,282	$ 249,997,693	$ 236,629,175
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 339,231	$ 123,893	$ 242,671
Cash paid for income taxes	$ 26,917,732	$ 21,391,344	$ 12,379,867
Supplemental disclosure of noncash investing activities			
Goodwill		$ 869,583	
Intangible assets		11,300,000	
Other assets		5,714,261	
Receivable from brokers and dealers		6,497,124	
Accrued compensation expense		(2,280,533)	
Other net liabilities		(10,726,865)	
Cash paid for purchase of business, net of cash acquired		$ 11,373,570	

The accompanying notes are an integral part of these consolidated financial statements.

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KNIGHT TRADING GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of the Business

Knight Trading Group, Inc. and its subsidiaries (the Company) have two operating business segments, Equity Markets and Asset Management, and a Corporate segment. The Company s operating business segments from continuing operations comprise the following operating subsidiaries:

Asset Management

Deephaven Capital Management LLC (Deephaven) is the investment manager and sponsor of the Deephaven investment funds (the Deephaven Funds). Deephaven also has a U.K. registered broker-dealer subsidiary, which is regulated by the Financial Services Authority (FSA) in the U.K.

Equity Markets

Knight Equity Markets, L.P. (KEM) operates as a market maker in over-the-counter (OTC) equity securities, primarily those traded in the Nasdaq stock market and on the OTC Bulletin Board (OTCBB). Additionally, in December 2003, KEM acquired the business of Donaldson & Co., Incorporated (Donaldson), a firm that offers soft dollar and commission recapture services. KEM is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD), the National Stock Exchange and the Pacific Stock Exchange.

Knight Capital Markets LLC (KCM) operates as a market maker in the Nasdaq Intermarket, the over-the-counter market for New York Stock Exchange (NYSE) and American Stock Exchange (AMEX) listed securities. KCM is a broker-dealer registered with the SEC and is a member of the NASD.

Knight Equity Markets International Limited (KEMIL) is a U.K. registered broker-dealer that provides execution services for European institutional and broker-dealer clients in U.S. and European equities. KEMIL is regulated by the FSA and is a member of the London Stock Exchange.

For segment reporting purposes, corporate overhead expenses, which primarily consists of compensation for certain senior executives and other individuals employed at the corporate holding company, legal and other professional expenses relating to corporate matters, investor and public relations expenses and directors and officers insurance, and investment income earned on strategic investments and the corporate investment in the Deephaven Funds are included within the Corporate business segment.

Discontinued Operations

The Company completed the sale of its Derivative Markets business to Citigroup Financial Products Inc. (Citigroup) for approximately $237 million in cash as of the close of business on December 9, 2004. The final purchase price is subject to adjustment based on the final determination of the book value of the Derivative Markets business at the time the deal closed. In accordance with generally accepted accounting principles (GAAP), the results of the Derivative Markets segment have been included within discontinued operations for all periods presented. For a further discussion of the sale of the Company s Derivative Markets business and its associated accounting treatment, see Footnote 10 Discontinued Operations.

2. Significant Accounting Policies

Basis of consolidation and form of presentation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

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Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash and cash equivalents

Cash and cash equivalents include money market accounts, which are payable on demand, or short-term investments with an original maturity of less than 30 days. The carrying amount of such cash equivalents approximates their fair value due to the short-term nature of these instruments.

Market-making activities

Securities owned and securities sold, not yet purchased, which primarily consist of listed and OTC equities, are carried at market value and are recorded on a trade date basis. Net trading revenue (trading gains, net of trading losses) and commissions (which includes commission equivalents earned on institutional client orders) and related expenses are also recorded on a trade date basis. In 2004, the Company changed its classification of certain transaction-related regulatory fees. These fees are now included within Execution and clearance fees. In prior periods, these fees were netted within Net trading revenue. The transaction-related regulatory fees were $18.3 million, $23.0 million and $13.9 million in 2004, 2003 and 2002, respectively. The Company also changed the classification of revenues from transactions that generate commission equivalents from inclusion in Net trading revenues to inclusion in Commissions and fees as commission equivalents are similar in nature to commissions on agency transactions. Commission equivalents for 2004, 2003 and 2002 were $140.2 million, $116.8 million and $50.4 million, respectively. As a result of these changes, prior period amounts have been reclassified to conform to current period presentation.

Payments for order flow represent payments to broker-dealer clients for directing their order executions to the Company. Soft dollar and commission recapture expense represents payments to institutions in connection with soft dollar and commission recapture programs. The Company s clearing agreements call for payment or receipt of interest income, net of interest expense, for facilitating the settlement and financing of securities transactions.

Asset management fees

The Company earns asset management fees for sponsoring and managing the Deephaven Funds. Such fees are recorded monthly as earned and are calculated as a percentage of the Deephaven Funds monthly net assets, plus a percentage of a new high net asset value (the Incentive Allocation Fee), as defined, for any six month period ended June 30th or December 31st. A new high net asset value is generally defined as the amount by which the net asset value of the Deephaven Funds exceeds the greater of either the highest previous net asset value in the Deephaven Funds or the net asset value at the time each investor made a purchase. The Incentive Allocation Fee may increase or decrease during the year based on the performance of the Deephaven Funds. If Deephaven s Market Neutral Master Fund, which contains the majority of assets under management, recognizes a loss in the second half of a calendar year, the Incentive Allocation Fee is recalculated on an annual rather than a semi-annual basis. As such, the Incentive Allocation Fee may be negative for certain periods, but not lower than zero on a year-to-date basis.

Estimated fair value of financial instruments

The Company s securities owned and securities sold, not yet purchased are carried at market value, which is estimated using market quotations available from major securities exchanges, clearing brokers and dealers. Management estimates that the fair values of other financial instruments recognized on the Consolidated Statements of Financial Condition (including receivables, payables and accrued expenses) approximate their carrying values, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

Accounting for derivatives

The Company s derivative financial instruments, primarily comprising listed options and futures, are all held for trading purposes and are carried at market value. These financial instruments primarily related to the Company s Derivative Markets business and are included in Assets and Liabilities within Discontinued Operations on the Consolidated Statements of Financial Condition.

Goodwill and Intangible Assets

The Company applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 142 *Goodwill and Other Intangible Assets,* which requires that goodwill and intangible assets with an indefinite useful life no longer be amortized, but instead, be tested for impairment annually or when an event occurs or circumstances change that signify the existence of impairment. Other intangible assets are amortized on a straight line basis over their useful lives.

Strategic investments

Strategic investments include equity ownership interests of less than 20% in financial services-related businesses and are accounted for under the equity method or at fair value. The equity method of accounting is used for investments in limited partnerships and limited liability corporations. Investments that are classified as available-for-sale, which include the Company s investments in Nasdaq and the International Securities Exchange (ISE), are reported at fair value with unrealized gains and losses excluded from earnings and reported, net of applicable taxes, within Additional paid-in capital on the Consolidated Statements of Financial Condition. The fair value of investments for which a quoted market or dealer price is not available for the size of the Company s investment, is based on management s estimate. Among the factors considered by management in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuations in the near term. The valuations of strategic investments are reviewed by management on an ongoing basis.

Minority interest

Minority interest represented minority owners share of net income or losses and equity in the Company s majority-owned consolidated subsidiaries.

Treasury stock

The Company records its purchases of treasury stock at cost as a separate component of Stockholders equity. The Company obtains treasury stock through purchases in the open market or through privately negotiated transactions.

Foreign currencies

The functional currency of the Company s consolidated foreign subsidiaries is the U.S. dollar. Assets and liabilities in foreign currencies are translated into U.S. dollars using current exchange rates at the date of the Consolidated Statements of Financial Condition. Revenues and expenses are translated at average rates during the periods. Gains or losses resulting from foreign currency transactions are included in Investment income and other on the Company s Consolidated Statements of Operations. Prior to its liquidation, Knight Securities Japan s (KSJ) functional currency was the Japanese yen. The foreign exchange gains and losses resulting from the translation of the financial statements of KSJ were included within a separate component of Stockholders

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equity until KSJ s liquidation. As discussed in Footnote 10 Discontinued Operations, in the second quarter of 2003, KSJ ceased its operations, and its results, including the effects of translation, are included with Income (loss) from discontinued operations, net of tax on the Consolidated Statements of Operations.

Depreciation, amortization and occupancy

Fixed assets are being depreciated on a straight-line basis over their estimated useful lives of three to seven years. Leasehold improvements are being amortized on a straight-line basis over the shorter of the life of the related office lease or the expected useful life of the assets. The Company records rent expense on a straight-line basis over the lives of the leases. The Company capitalizes certain costs associated with the acquisition or development of internal-use software and amortizes the software over its estimated useful life of three years, commencing at the time the software is placed in service.

Writedown of fixed assets

Writedowns of fixed assets are recognized when it is determined that the fixed assets are no longer actively used and are determined to be impaired. The amount of the impairment writedown is determined by the difference between the carrying amount and the fair value of the fixed asset. In determining the impairment, an estimated fair value is obtained through research and inquiry of the market. Fixed assets are reviewed for impairment on a quarterly basis.

Lease loss accrual

It is the Company s policy to identify excess real estate capacity and where applicable, accrue for such future costs. In determining the accrual, a nominal cash flow analysis is performed for lease losses initiated prior to December 31, 2002, the effective date of SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (which requires the accrual of future costs to be made using a discounted cash flow analysis for lease losses initiated after such date), and costs related to the excess capacity are accrued.

Income taxes

The Company records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Deferred tax assets and liabilities are included in Other assets and Accrued expenses and other liabilities, respectively on the Consolidated Statements of Financial Condition.

Discontinued Operations

In accordance with SFAS No. 144, *Accounting for the Disposal of Long-Lived Assets*, all of the assets and liabilities within a separate business segment or reporting unit that has been disposed of through closure or sale, or is classified as held for sale, are disclosed separately as Assets or Liabilities within discontinued operations on the Statements of Financial Condition for all periods presented. The assets and liabilities are deemed to be held for sale upon management s approval and commitment to a plan to dispose of or sell the business segment or reporting unit. Also, the revenues and expenses associated with these business segments or reporting units are included within Income (loss) from discontinued operations, net of tax, on the Statements of Operations for all periods presented. Additionally, in accordance with the provisions of SFAS 144, the Company ceases amortizing long-lived assets while they are classified as held for sale.

Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for its stock option plans. As options are granted at the then market value, no compensation expense has been recognized for the fair values of the options granted to employees.

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Had compensation expense for the Company s options been determined based on the fair value at the grant dates in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company s net income and earnings per share amounts for the years ended December 31, 2004, 2003 and 2002, respectively, would have been as follows (in millions, except per share data):

	2004	2003	2002
Net income (loss), as reported	$ 91.4	$ 38.5	$ (43.2)
Pro forma compensation expense determined under fair value based method, net of tax	(6.7)	(9.4)	(12.6)
Pro forma net income (loss)	84.7	29.1	(55.8)
Basic earnings per share, as reported	0.81	0.34	(0.36)
Diluted earnings per share, as reported	0.78	0.33	(0.36)
Pro forma basic earnings per share	0.75	0.26	(0.46)
Pro forma diluted earnings per share	0.72	0.25	(0.46)

The fair value of each option granted is estimated as of its respective grant date using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003	2002
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	40%	65%	65%
Risk-free interest rate	3.8%	3.0%	3.0%
Expected life (in years)	4	4	4

The Company records the fair market value of restricted awards on the date of grant as unamortized stock-based compensation in Stockholders equity and amortizes the balance to compensation expense ratably over the vesting period.

Other

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

3. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased are carried at market value and consist of the following (in millions):

	December 31,	December 31,

	2004	2003
Securities owned:		
Equities	$ 245.5	$ 190.0
U.S. government obligations	9.0	11.2
	$ 254.5	$ 201.2
Securities sold, not yet purchased:		
Equities	$ 221.4	$ 173.1
	$ 221.4	$ 173.1

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4. Receivable from/Payable to Brokers and Dealers

At December 31, 2004 and 2003, amounts receivable from and payable to brokers and dealers consist of the following (in millions):

	December 31, 2004	December 31, 2003
Receivable:		
Clearing brokers	$ 141.0	$ 180.9
Securities failed to deliver	64.5	19.5
Securities borrowed	35.0	1.5
Other	4.4	3.0
	$ 244.9	$ 205.0
Payable:		
Clearing brokers	$ 47.7	$ 15.0
Securities failed to receive	40.7	11.6
Other	0.1	0.1
	$ 88.5	$ 26.8

In 2004, the Company established a full reserve of $6.5 million against a receivable from a trading counterparty related to a trading dispute. This dispute is now the subject of an NASD arbitration claim filed by KEM, as well as a declaratory judgment action by a customer of the counterparty.

5. Goodwill and Intangible Assets

The Company adopted the provisions of SFAS No. 142 *Goodwill and Other Intangible Assets* as of January 1, 2002. This statement established new standards for accounting for goodwill and intangible assets acquired outside of, and subsequent to, a business combination. Under the new standards, goodwill and intangible assets with indefinite useful lives are no longer being amortized, but are tested for impairment annually or when an event occurs or circumstances change that signify the existence of impairment. As part of the test for impairment, the Company considers the profitability of the respective segment or reporting unit, an assessment of the fair value of the respective segment or reporting unit as well as the overall market value of the Company compared to its net book value.

In June 2004, the Company tested for the impairment of goodwill and intangible assets and concluded that there was no impairment. The goodwill balance of $19.2 million at December 31, 2004, related to the Equity Markets segment. Goodwill is net of accumulated amortization of $21.9 million recorded through December 31, 2001, the effective date the Company adopted SFAS No. 142. In the first half of 2004, the Company acquired all of the ownership interests of the minority owners of Knight Roundtable Europe Limited (KREL) (which is the Company s subsidiary that owns KEMIL) for $2.5 million, which was recorded as goodwill and is attributable to the Equity Markets business segment.

At December 31, 2004, the Company had intangible assets, net of accumulated amortization, of $11.5 million, all included within the Equity Markets business segment. Substantially all of the intangible assets, net of accumulated amortization, of $11.4 million, resulted from the purchase of the business of Donaldson and primarily represent customer relationships. The carrying value of these intangible assets is being amortized over the remaining useful lives, which have been determined to range from five to thirty years.

In 2004, the Company recorded amortization expense from continuing operations, related to its intangible assets of $605,000. The estimated amortization expense relating to the intangible assets for each of the next five years approximates $620,000 for the next four years and $558,000 in the fifth year.

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The chart below summarizes the activity of the Company s Goodwill and Intangible assets, net of accumulated amortization, from continuing operations, for 2003 and 2004 (in millions):

	Equity Markets	
	Goodwill	Intangible Assets
Balance at January 1, 2003	$ 13.1	$
Purchase of Donaldson	3.6	12.0
Amortization expense		(0.0)
Balance at December 31, 2003	16.7	12.0
Purchase of shares from minority investors in KREL and other intangibles	2.5	0.2
Amortization expense		(0.6)
Balance at December 31, 2004	$ 19.2	$ 11.5

6. Investment in Deephaven Sponsored Funds and Strategic Investments

The Company s subsidiary, Deephaven, is the investment manager and sponsor of the Deephaven Funds, which engage in various trading strategies involving equities, debt instruments and derivatives. The underlying investments in the Deephaven Funds are carried at market value. Of the $3.6 billion of assets under management in the Deephaven Funds as of December 31, 2004, the Company had an investment of $215.3 million. On January 1, 2005, the Company invested an additional $100 million into the Deephaven Funds. Additionally, Other assets on the Consolidated Statements of Financial Condition at December 31, 2004 and December 31, 2003 included $19.9 million and $3.5 million, respectively, of investments in the Deephaven Funds related to employee deferred compensation plans. In addition, certain officers, directors and employees of the Company had direct investments of approximately $5.2 million in the Deephaven Funds, in the aggregate, as of December 31, 2004.

Strategic investments, which primarily include the Company s investments in Nasdaq and the ISE, are reviewed on an ongoing basis to ensure that the fair values of the investment have not been impaired. In accordance with this policy, the Company wrote down its investment in Nasdaq, to fair value, resulting in an impairment charge of $6.8 million in the first quarter of 2003.

7. Significant Clients

The Company considers significant clients to be clients who account for 10% or more of the total U.S. equity dollar value traded by the Company during the period. One customer accounted for approximately 11.8% of the Company s U.S. equity dollar value traded. Payments for order flow to this firm for U.S. equity order flow amounted to $19.8 million during 2004.

The Company s corporate investment in the Deephaven Funds of $215.3 million accounted for 6.0% of total assets under management as of December 31, 2004. One institutional investor accounted for more than 10% of the Deephaven Funds assets under management, with 13.2% as of December 31, 2004.

8. International Charges

No charges related to continuing international operations were incurred during 2004 and 2003. During 2002, the Company incurred charges of $31.2 million related to its continuing international businesses primarily due to the reduction of its European operations including the closure of its European market-making operations. The charges consisted of $13.1 million related to the writedown of our investments in Nasdaq Europe, $7.4 million related to the writedown of fixed assets that are no longer actively used, $6.4 million related to contract settlements and terminations, $4.2 million related to the writedown of excess real estate capacity and $0.1 million related to other charges.

9. Writedown of Assets and Lease Loss Accrual

Writedown of assets and lease loss accrual from continuing operations during 2004, 2003 and 2002 were $3.8 million, $16.5 million, and $15.4 million, respectively. The charges in 2004 consist of $3.8 million of costs associated with excess real estate capacity.

The charges in 2003 primarily consist of $9.6 million of lease loss accruals related to costs associated with excess real estate capacity, primarily in Jersey City, NJ and $6.8 million related to the writedown of our strategic investment in Nasdaq to fair value.

The charges in 2002 consist of $8.9 million related to costs associated with excess real estate capacity, $3.6 million related to the writedown of fixed assets that are no longer actively used and $2.9 million related to the writedown of impaired strategic investments to fair value.

10. Discontinued Operations

Derivative Markets

The Company completed the sale of its Derivative Markets business to Citigroup for approximately $237 million in cash as of the close of business on December 9, 2004. The final purchase price is subject to adjustment based on the final determination of the book value of the Derivative Markets business at the time the deal closed. The decision to sell the Derivative Markets business was based on a review of the overall options industry, the capital and risk required to maintain this business successfully and the business role in the Company s long-term strategy.

In accordance with SFAS No. 144, *Accounting for the Disposal of Long-Lived Assets*, all of the assets and liabilities within Derivative Markets designated as held for sale are disclosed separately as Assets or Liabilities within discontinued operations on the Statements of Financial Condition for 2003. Additionally, the revenues and expenses associated with these businesses as well as all costs associated with the sale transaction have been included in Income (loss) from discontinued operations, net of tax on the Consolidated Statements of Operations for all periods presented. For the year ended December 31, 2004, the net gain on the sale of the Derivative Markets business of $80.0 million is included in Income (loss) from discontinued operations, net of tax.

Equity Markets Knight Securities Japan

On March 31, 2003, the Company and its joint venture partner, Nikko Cordial Group, announced that KSJ would cease its operations. KSJ s business plan was significantly impaired due to changes in market structure, the withdrawal of Nasdaq Japan, poor market conditions and limited market-making opportunities in Japan. As a result, trading operations ceased at KSJ on May 2, 2003. After the cessation of trading, the parties liquidated KSJ, and all charges related to this liquidation were incurred during the second quarter of 2003.

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The revenues and results of operations of the discontinued operations for 2004, 2003, and 2002 are summarized as follows (in millions):

	2004
	Derivative Markets
Revenues	$ 176.8
Pre-tax income from discontinued operations, before sale of business	35.5
Pre-tax gain on sale of Derivative Markets business, net of transaction related costs	128.5
Pre-tax income from discontinued operations	164.0
Income tax expense	63.1
Income from discontinued operations, net of tax	$ 100.9

	2003		
	Derivative Markets	Equity Markets (KSJ)	Total
Revenues	$ 147.1	$ 0.9	$ 148.1
Pre-tax (loss) from discontinued operations before minority interest	(17.4)	(16.1)	(33.6)
Minority interest in losses of KSJ		6.5	6.5
Pre-tax (loss) from discontinued operations	(17.4)	(9.7)	(27.1)
Income tax (benefit)	(6.5)	(7.6)	(14.1)
(Loss) from discontinued operations, net of tax	$ (10.9)	$ (2.1)	$ (13.0)

	2002		
	Derivative Markets	Equity Markets (KSJ)	Total
Revenues	$ 139.5	$ 4.5	$ 144.0
Pre-tax (loss) from discontinued operations before minority interest	(0.4)	(9.9)	(10.3)
Minority interest in losses of KSJ		3.9	3.9
Pre-tax (loss) from discontinued operations	(0.4)	(5.9)	(6.3)
Income tax (benefit)	(1.4)		(1.4)

Income (loss) from discontinued operations, net of tax	$ 1.0	$ (5.9)	$ (4.9)

The Loss from discontinued operations, net of tax for 2003 includes $7.6 million in income tax benefits related to cumulative losses at KSJ. As tax benefits could not be recognized until there were offsetting profits or the commencement of the liquidation process, no tax benefit had previously been accrued. Additionally, included in the loss from the Derivative Markets business in 2003 is $18.5 million, net of tax, in charges primarily related to the impairment of intangible assets.

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The Consolidated Statements of Financial Condition include Assets within discontinued operations and Liabilities within discontinued operations. The net balance of these items represents the adjusted book value of the discontinued operations in accordance with the sale of the Derivative Markets business. The major asset and liability classes included within these categories at December 31, 2003 are as follows (in millions):

	December 31, 2003
Cash and cash equivalents	$ 12.2
Securities owned, held at clearing brokers, at market value	2,823.9
Receivable from brokers and dealers	64.8
Other assets	37.3
Total assets within discontinued operations	$ 2,938.2
Securities sold, not yet purchased	$ 2,485.0
Payable to Knight Trading Group	43.5
Accrued compensation expense	22.4
Payable to brokers and dealers	286.9
Accrued expenses and other liabilities	13.8
Total liabilities within discontinued operations	$ 2,851.7

11. Fixed Assets and Leasehold Improvements

Fixed assets and leasehold improvements comprise the following (in millions):

	Depreciation Period	December 31, 2004	2003
Computer hardware and software	3 years	$ 90.1	$ 80.2
Leasehold improvements	Life of Lease	45.5	16.8
Telephone systems	5 years	7.6	5.6
Furniture and fixtures	7 years	7.0	5.9
Trading systems	5 years	1.8	1.8
Equipment	5 years	1.8	7.4
		153.9	117.7
Less Accumulated depreciation and amortization		99.9	88.9
		$ 54.0	$ 28.7

12. Commitments and Contingent Liabilities

In the ordinary course of business, the nature of the Company s business subjects it to claims, lawsuits, regulatory examinations and other proceedings. The results of these matters cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on the Company s results of operations in any future period and a material judgment could have a material adverse impact on the Company s financial condition and results of operations. However, it is the opinion of management, after consultation with legal counsel that, based on information currently available, the ultimate outcome of these matters will not have a material adverse impact on the business, financial condition, operating results or liquidity of the Company although they might be material to operating results for any particular period, depending, in part, upon operating results for that period.

The Company leases office space under noncancelable operating leases. The office leases contain certain escalation clauses whereby the rental commitments may be increased if certain conditions are satisfied and

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specify yearly adjustments to the lease amounts based on annual adjustments to the Consumer Price Index. Rental expense, from continuing operations, under the office leases was $9.8 million, $9.5 million and $13.0 million in 2004, 2003 and 2002, respectively, and is included in Occupancy and equipment rentals on the Consolidated Statements of Operations.

The Company leases certain computer and other equipment under noncancelable operating leases. In addition, the Company has entered into guaranteed employment contracts with certain of its employees. As of December 31, 2004, future minimum rental commitments under all noncancelable office, computer and equipment leases (Operating Leases), and guaranteed employment contracts longer than one year (Other Obligations) were as follows (in millions):

Lease & Contract Obligations

	Operating Leases	Other Obligations	Total
Year ending December 31, 2005	$ 14.6	$ 15.9	$ 30.5
Year ending December 31, 2006	10.6	15.7	26.3
Year ending December 31, 2007	9.8		9.8
Year ending December 31, 2008	9.3		9.3
Year ending December 31, 2009	8.9		8.9
Thereafter through September 30, 2021	108.5		108.5
	$ 161.7	$ 31.6	$ 193.3

During the normal course of business, the Company collateralizes certain leases, employment agreements or other contractual obligations through letters of credit or segregated funds held in escrow accounts. As of December 31, 2004, the Company has provided a $9.0 million letter of credit, collateralized by U.S. Treasury Bills, as a guarantee for one of the Company s lease obligations.

The Company entered into long-term employment contracts with the senior management team of Deephaven (the Deephaven managers). These employment agreements, which became effective on January 1, 2004, are for three-year terms and include an option for renewal by the Deephaven managers through 2009 under certain circumstances. Pursuant to the terms of a simultaneously executed option agreement between the Company and the Deephaven managers, in the event of a change of control of the Company during the initial three-year employment term, the Deephaven managers would have the option (the Option) to obtain a 51% interest in Deephaven in exchange for the termination of their employment contracts and associated profit-sharing bonuses, which in the aggregate range from 42% to 50% of the pre-tax, pre-profit sharing profits of Deephaven during the term of the agreements, subject to meeting certain annual guaranteed amounts. If a change of control of the Company were to occur, and if the Deephaven managers exercised the Option, the Company would retain a 49% interest in Deephaven. In addition, during the life of the Option, the agreements provide that the Company may not sell Deephaven without the approval of the Deephaven managers.

13. Regulatory Charges and Related Matters

In March 2004, Knight Securities L.P., (KSLP, now known as KEM) received Wells Notices from the staffs of the SEC s Division of Enforcement and from NASD s Department of Market Regulation. On July 7, 2004, the Company announced that KSLP had reached an agreement in principle with the staffs of the SEC and NASD to settle the investigations covered by these Wells Notices, which remained subject to the drafting of settlement papers and final approval by the SEC and NASD. On December 16, 2004, the Company announced that KSLP concluded its settlement with the SEC and NASD (collectively the Settlement).

The Settlement related to certain institutional trade activity, conduct and supervision that occurred in 1999 through 2001; and books and records, document production and record-keeping deficiencies. The Settlement took

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the form of administrative orders, in which KSLP neither admitted nor denied the findings. The Settlement resolves the matters for which KSLP received Wells Notices from the staffs of the SEC and NASD but does not address the Wells Notices received by four former employees of KSLP. On March 7, 2005, NASD announced it had charged Kenneth Pasternak, former CEO of KSLP, and John Leighton, former head of KSLP s institutional sales desk, in an administrative complaint alleging supervisory violations in connection with fraudulent sales to institutional customers in 1999 and 2000.

The terms of the Settlement provided that KSLP disgorge $41.1 million in institutional trading profits, and pay approximately $13.2 million in interest and $25.0 million in penalties, for a total of $79.3 million, which is recorded as Regulatory charges and related matters on the Consolidated Statements of Operations. The Company did not record a tax benefit for the $25.0 million penalty. The amount was paid in full in the fourth quarter of 2004.

14. Earnings per Share

Basic earnings per common share (EPS) have been calculated by dividing net income (loss) by the weighted average shares of Class A Common Stock outstanding during each respective period. Diluted EPS reflects the potential reduction in EPS using the treasury stock method to reflect the impact of common share equivalents if stock awards such as stock options and restricted stock were exercised or converted into common stock.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2004, 2003 and 2002 (in millions, except per share data):

	For the years ended December 31,					
	2004		2003		2002	
	Numerator/ net income	Denominator/ shares	Numerator/ net income	Denominator/ shares	Numerator/ net (loss)	Denominator/ shares
Income (loss) and shares used in basic calculations	$ 91.4	112.4	$ 38.5	112.0	$ (43.2)	120.8
Effect of dilutive stock based awards		5.2		5.7		
Income (loss) and shares used in diluted calculations	$ 91.4	117.6	$ 38.5	117.7	$ (43.2)	120.8
Basic earnings per share		$ 0.81		$ 0.34		$ (0.36)
Diluted earnings per share		$ 0.78		$ 0.33		$ (0.36)

For the year ended December 31, 2002, 1,374,689 shares of common stock equivalents were not included in the calculation of weighted average shares for diluted EPS because the Company incurred losses during the period and the effect of their inclusion would be anti-dilutive.

15. Employee Benefit Plan

The Company sponsors 401(k) profit sharing plans (the Plans) in which substantially all of its employees are eligible to participate. Under the terms of the Plans, the Company is required to make annual contributions to the Plans equal to 100% of the contributions made by its employees, up to certain limits. The total expense, from continuing operations, recognized with respect to the Plans and included in Employee compensation and benefits on the Consolidated Statements of Operations, was as follows (in millions):

For the year ended December 31, 2002	$ 4.5
For the year ended December 31, 2003	3.1
For the year ended December 31, 2004	3.5

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16. Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return as well as combined state income tax returns in certain jurisdictions. In other jurisdictions, the Company and its subsidiaries file separate company state income tax returns.

The provision (benefit) for income taxes consists of:

	2004	2003	2002
Current:			
U.S. federal	$ 15,206,032	$ 28,830,944	$ (19,418,669)
U.S. state and local	2,561,717	5,226,905	1,485,156
	17,767,749	34,057,849	(17,933,513)
Deferred:			
U.S. federal	(6,336,479)	(622,943)	1,379,950
U.S. state and local	(1,977,872)	(649,183)	(3,527,811)
	(8,314,351)	(1,272,126)	(2,147,861)
Provision (benefit) for income taxes	$ 9,453,398	$ 32,785,723	$ (20,081,374)

The following table reconciles income tax at the U.S. federal statutory rate to the Company s income tax expense (benefit):

	2004	2003	2002
Income tax (benefit) at the U.S. federal statutory rate	$ (20,430)	$ 29,514,465	$ (22,238,105)
U.S. state and local income tax (benefit), net of U.S. federal income tax effect	379,499	2,951,447	(1,270,749)
Non-U.S. operations			1,779,048
Nondeductible charges	9,564,961	1,011,925	317,687
Other, net	(470,632)	(692,114)	1,330,745
Income tax (benefit)	$ 9,453,398	$ 32,785,723	$ (20,081,374)

Included within Nondeductible charges in the chart above is the effect of the $25.0 million penalty related to the regulatory charges described in Footnote 13, for which no tax benefit was recorded.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company s deferred tax assets and liabilities at December 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
Deferred tax assets:			
Employee compensation and benefit plans	$ 13,105,246	$ 4,004,685	$ 1,251,164
Fixed assets and other amortizable assets	7,548,323	6,371,649	5,522,787
Reserves	8,424,607	9,201,229	7,413,823
Valuation of investments	2,703,355	2,791,714	504,946
State net operating loss carryforwards, net of federal	3,320,831	2,720,220	2,499,216
Total deferred tax assets	35,102,362	25,089,497	17,191,936
Deferred tax liabilities:			
Valuation of investments	10,913,634	9,215,120	2,589,685
Total deferred tax liabilities	10,913,634	9,215,120	2,589,685
Net deferred tax assets	$ 24,188,728	$ 15,874,377	$ 14,602,251

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At December 31, 2004, the Company had net operating loss carryforwards for state income tax purposes. The estimated amount of such carryforwards ranged by jurisdiction up to approximately $80 million. These state net operating loss carryforwards expire in 2011 and 2012.

17. Long-Term Incentive Plans

The Company has established the Knight Trading Group, Inc. 1998 Long Term Incentive Plan, the Knight Trading Group, Inc. 1998 Nonemployee Director Stock Option Plan and the Knight Trading Group, Inc. 2003 Equity Incentive Plan (collectively, the Plans). The purpose of the Plans is to provide long-term incentive compensation to employees and directors of the Company. The Plans are administered by the Compensation Committee of the Company s Board of Directors, and allow for the grant of options, restricted stock and restricted stock units (collectively, the awards), as defined by the Plans. The maximum number of shares of Class A Common Stock reserved for the grant of options and awards under the Plans is now 37,819,000, subject to adjustment, of which, 8,259,980 are available for grant at December 31, 2004. In addition, the Plans limit the number of options or shares that may be granted to a single individual and the Plans also limit the number of shares of restricted stock that may be awarded. See the table below for a reconciliation of activity of the Plans and awards available for future grants.

The Company s policy is to grant options for the purchase of shares of Class A Common Stock at not less than market value, which the Plans define as the average of the high and low sales prices on the date prior to the grant date. Options generally vest over a three or four-year period and expire on the fifth or tenth anniversary of the grant date, pursuant to the terms of the agreements. Restricted stock awards generally vest over three years. The Company has the right to fully vest employees in their option grants and awards upon retirement and in certain other circumstances. The following is a reconciliation of option activity for the Plans for 2004 and 2003, and a summary of options outstanding and exercisable at December 31, 2004:

	2004		2003	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding, January 1.	19,525,279	$ 8.39	23,446,681	$ 9.67
Granted at market value	2,526,021	10.31	2,587,238	6.99
Exercised	(4,527,202)	6.01	(2,598,861)	5.77
Surrendered.	(736,214)	11.16	(3,909,779)	16.84
Outstanding at December 31.	16,787,884	$ 9.20	19,525,279	$ 8.39
Vested at December 31	10,297,784	$ 10.42	9,938,528	$ 10.19
Available for future grants at December 31*	8,259,980		11,356,003	
Weighted average fair value of grants during the year (at market value, based on Black-Scholes)		$ 4.57		$ 4.01

* - represents both options and awards available for grant

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding At 12/31/04	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/04	Weighted-Average Exercise Price
$ 3.64-$4.22	4,204,969	2.59	$ 4.16	2,294,665	$ 4.16
$ 4.25-$6.37	4,764,293	2.81	5.61	3,132,890	5.73
$ 6.54-$7.25	2,266,931	2.30	7.23	2,240,265	7.24
$ 7.71-$14.75	3,779,721	7.48	10.40	867,994	10.65
$15.28-$29.72	809,970	2.36	19.49	799,970	19.53
$30.44-$71.38	962,000	4.90	40.31	962,000	40.31

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The Company applies APB 25 and related interpretations in accounting for its stock option plans. As options are granted at the then market value, no compensation expense has been recognized for the fair values of the options granted to employees.

The Company granted a total of 1,262,071 restricted shares of Class A Common Stock to certain current employees of the Company under the Plans in 2004. At December 31, 2004, the Company had 2,254,412 restricted shares outstanding, in aggregate, both under and outside of the Plans. The Company recognizes compensation expense for the fair values of the restricted shares of Class A Common Stock granted to employees ratably over the vesting period. The restricted stock requires future service as a condition of the vesting of the underlying shares of common stock. In 2004, the Company recorded compensation expense, from continuing operations, of $9.2 million for its outstanding restricted shares and $768,000 related to the accelerated vesting of employee options. These amounts have been included in Employee compensation and benefits in the Consolidated Statements of Operations. Additionally, the Company recorded $2.6 million of expense related to the vesting of restricted stock and $641,000 related to the accelerated vesting of employee options for employees within the Derivative Markets business segment. These expenses are included in Income (loss) from discontinued operations, net of tax on the Consolidated Statements of Operations.

On December 11, 2002, the Company filed with the SEC a Tender Offer Statement on Schedule TO and associated documents relating to an offer to exchange certain outstanding vested and unvested options granted under the Plans (the Exchange Program). To be eligible for the Exchange Program the options had to have an exercise price of at least $14.00 and be held by current employees who had not received an option grant since June 1, 2002. Members of the Company s Board of Directors and executive officers were excluded from participating in the Exchange Program.

The offering under the Exchange Program expired on January 17, 2003. A total of 1,436,750 options to purchase one share were cancelled. Approximately 1.8 million options were eligible to be exchanged. In accordance with the Exchange Program, 524,380 options to purchase one share were granted to current employees on July 21, 2003, a date that was over six months and one day after the Company cancelled the options. Under the Exchange Program, for every two-and-a-half options to purchase one share tendered for exchange, a new option to purchase one share was issued. The new options were issued at a price not less than the market value on the issuance date and have a two year vesting period. The Exchange Program was structured to comply with FASB Interpretation (FIN) 44 *Accounting for Certain Transactions involving Stock Compensation an interpretation of APB 25* in order to achieve the same accounting treatment as the original option grants that were tendered for exchange.

18. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

As a market maker of equities, the majority of the Company s securities transactions are conducted as principal or riskless principal with broker-dealer and institutional counterparties primarily located in the United States. The Company clears the majority of its securities transactions through clearing brokers. Foreign transactions are settled pursuant to a global custody and clearing agreement with a major U.S. bank. Substantially all of the Company s credit exposures are concentrated with its clearing brokers and the bank (the clearing agents). These clearing agents may re-hypothecate certain securities held on behalf of the Company. Additionally, pursuant to the terms of the agreement between the Company and the clearing agents, the clearing agents have the right to charge the Company for all losses that result from a counterparty s failure to fulfill its contractual obligations. The Company has the ability to pursue collection from or performance with regard to this right. The Company s policy is to monitor the credit standing of the clearing brokers and all counterparties with which it conducts business.

Securities sold, not yet purchased represent obligations to purchase such securities (or underlying securities) at a future date. The Company may incur a loss if the market value of the securities subsequently increases.

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The Company currently has no loans to any former or current executive officers or directors.

19. Net Capital Requirements

As registered broker-dealers, KEM and KCM are subject to the SEC s Uniform Net Capital Rule, which requires the maintenance of minimum net capital. Additionally, KEMIL is subject to regulatory requirements of the FSA. As of December 31, 2004, the Company was in compliance with its capital adequacy requirements.

The following table sets forth the net capital levels and requirements for the following significant broker-dealer subsidiaries at December 31, 2004 (in millions):

Entity	Net Capital	Minimum Net Capital	Excess Net Capital
KEM	$ 129.2	$ 6.9	$ 122.3
KCM	36.9	4.0	32.9
KEMIL	10.5	7.9	2.6

20. Business Segments

The Company currently has two operating business segments from continuing operations, Equity Markets and Asset Management, and a Corporate segment. The Equity Markets segment primarily represents market-making in U.S. equities. The Asset Management segment consists of investment management and sponsorship of the Deephaven Funds. The Corporate segment includes corporate overhead expenses, which primarily consist of compensation for certain senior executives and other individuals employed at the corporate holding company, legal and other professional expenses relating to corporate matters, investor and public relations expenses and directors and officers insurance. The Corporate segment also includes the investment and investment income earned on strategic investments and the Company s corporate investment in the Deephaven Funds.

In 2004, the Company sold one of its business segments, Derivative Markets. In accordance with SFAS No. 144, *Accounting for the Disposal of Long-Lived Assets,* all of the assets and liabilities within Derivative Markets designated as held for sale are disclosed separately as Assets or Liabilities within discontinued operations on the Consolidated Statements of Financial Condition for all periods presented. Additionally, the revenues and expenses associated with these businesses have been included within Income from discontinued operations, net of tax on the Consolidated Statements of Operations for all periods presented. For a discussion of discontinued operations as well as a breakout of discontinued operations by business segment, see Footnote 10, Discontinued Operations.

Effective in the fourth quarter of 2004, the Company instituted a new segment reporting format to remove from its operating business segments all corporate overhead expenses, investment income earned on strategic investments and the corporate investment in the Deephaven Funds. Prior to this change, corporate overhead expenses and investment income earned on strategic investments were allocated to the operating business segments based upon the Company s allocation methodologies, generally based on each segment s respective usage or other appropriate measure. Additionally, prior to the change, the investment income earned on the Deephaven Funds was fully allocated to the Asset Management segment. This change to segment reporting was made in order to better reflect management s approach to operating and directing the businesses after the sale of the Derivative Markets business segment. Prior period segment data has been restated to conform to the 2004 presentation.

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The Company s revenues, (loss) income from continuing operations before income taxes and minority interest and total assets by segment are summarized below (amounts in millions).

	Equity Markets[1]	Asset Management	Corporate	Eliminations[2]	Consolidated Total
For the year ended December 31, 2004:					
Revenues	$ 531.7	$ 78.2	$ 16.6	$ (0.7)	$ 625.8
(Loss) income from continuing operations before income taxes	(12.8)	29.6	(16.9)		(0.1)
Total assets[3]	795.4	76.8	519.3		1,391.5
For the year ended December 31, 2003:					
Revenues	$ 459.6	$ 58.4	$ 28.5	$ (0.6)	$ 545.9
Income (loss) from continuing operations before income taxes	56.0	29.5	(1.2)		84.3
Total assets[3]	704.3	57.9	300.9		1,063.1
For the year ended December 31, 2002:					
Revenues	$ 348.8	$ 38.8	$ 13.3	$ (2.9)	$ 398.0
(Loss) income from continuing operations before income taxes	(50.1)	15.9	(29.3)		(63.5)
Total assets[3]	543.8	36.4	258.4		838.6

[1] - (Loss) income from continuing operations before income taxes (Pre-tax income) for the year ended December 31, 2004 includes $3.8 million in Writedown of assets and lease loss accrual (described in Footnote 9) and $79.3 million in Regulatory charges and related matters (described in Footnote 13). Pre-tax income for December 31, 2003 includes $16.5 million in Writedown of assets and lease loss accrual. Pre-tax income for December 31, 2002 includes $31.2 million and $12.5 million in International charges and Writedown of assets and lease loss accrual, respectively (described in Footnotes 8 and 9, respectively).

[2] - Eliminations primarily represent management fees earned by certain of the Company s subsidiaries for management services provided to other subsidiaries.

[3] - Total assets do not include Assets within discontinued operations of $2.94 billion and $2.41 billion at December 31, 2003 and 2002, respectively.

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21. Condensed Financial Statements of Knight Trading Group, Inc. (parent only)

Presented below are the Condensed Statements of Financial Condition, Operations and Cash Flows for the Company on an unconsolidated basis.

Statements of Financial Condition

Knight Trading Group, Inc. (parent only)

	December 31, 2004	December 31, 2003
Assets		
Cash and cash equivalents	$ 207,502,727	$ 27,478,567
Securities owned, at market value	8,895,742	11,145,841
Investments in subsidiaries, equity method	663,471,746	691,650,064
Investments in Deephaven sponsored funds	59,666,741	36,167,366
Strategic investments	9,682,070	2,757,337
Receivable from subsidiaries		45,627,072
Other assets	28,320,343	182,664
Total assets	$ 977,539,369	$ 815,008,911
Liabilities and Stockholders Equity		
Liabilities		
Accrued compensation expense	$ 21,423,293	$ 13,471,543
Accrued expenses and other liabilities	2,539,649	2,283,450
Payable to subsidiaries	52,964,083	
Income taxes payable	46,114,453	9,122,140
Total liabilities	123,041,478	24,877,133
Total stockholders equity	854,497,891	790,131,778
Total liabilities and stockholders equity	$ 977,539,369	$ 815,008,911

The accompanying notes are an integral part of these condensed financial statements.

Statements of Operations

Knight Trading Group, Inc. (parent only)

	For the years ended December 31,		
	2004	2003	2002
Revenues			
Equity earnings (losses) of subsidiaries	$ 87,783,829	$ 27,570,951	$ (42,382,841)
Corporate management fees	29,445,158	24,432,677	34,240,628
Investment income and other	7,359,866	17,029,237	9,952,197
Total revenues	124,588,853	69,032,865	1,809,984
Expenses			
Compensation expense	22,175,453	20,279,738	22,903,028
Professional fees	4,873,597	3,840,406	6,386,355
Business development	2,001,365	2,218,373	3,512,812
International charges			3,967,264
Other	4,498,769	3,552,477	7,392,619
Total expenses	33,549,184	29,890,994	44,162,078
Income (loss) before income taxes	91,039,669	39,141,871	(42,352,094)
Income tax (benefit) expense	(352,358)	616,751	889,570
Net income (loss)	$ 91,392,027	$ 38,525,120	$ (43,241,664)

The accompanying notes are an integral part of these condensed financial statements.

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Statements of Cash Flows

Knight Trading Group, Inc. (parent only)

	For the year ended December 31,		
	2004	**2003**	**2002**
Cash flows from operating activities			
Net income (loss)	$ 91,392,027	$ 38,525,120	$ (43,241,664)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Equity earnings of subsidiaries	(87,783,829)	(27,570,951)	42,382,841
Income tax credit from stock options exercised	11,392,768	7,433,289	98,645
Stock based compensation	2,932,288	1,193,725	1,977,616
Amortization	23,333		
International charges			3,967,264
(Increase) decrease in operating assets			
Securities owned	2,250,099	1,723,427	13,535,707
Receivable from subsidiaries	45,627,072	(45,898,322)	31,149,230
Income taxes receivable		22,327,416	(22,327,416)
Other assets	(28,144,909)	25,891,868	(3,593,196)
Increase (decrease) in operating liabilities			
Accrued compensation expense	7,951,750	2,759,123	(2,055,042)
Accrued expenses and other liabilities	256,199	(418,469)	(856,725)
Payable to subsidiaries	54,370,363	(10,232,621)	10,232,621
Income taxes payable	36,992,313	9,122,140	(1,621,256)
Net cash provided by operating activities	137,259,474	24,855,745	29,648,625
Cash flows from investing activities			
Investment in Deephaven sponsored funds	(23,499,375)	112,520,639	(148,688,005)
Purchases, net of proceeds, from strategic investments	(6,924,733)	(532,379)	(2,224,958)
Dividends received from subsidiaries	138,349,426	58,810,327	208,150,242
Capital contributions to subsidiaries	(13,512,219)	(176,141,254)	(29,799,939)
Net cash provided by (used in) investing activities	94,413,099	(5,342,667)	27,437,340
Cash flows from financing activities			
Stock options exercised	27,192,742	15,003,287	411,188
Cost of common stock repurchased	(78,841,155)	(34,297,186)	(41,237,968)
Net cash (used in) financing activities	(51,648,413)	(19,293,899)	(40,826,780)
Increase in cash and cash equivalents	180,024,160	219,179	16,259,185
Cash and cash equivalents at beginning of the year	27,478,567	27,259,388	11,000,203
Cash and cash equivalents at end of the year	$ 207,502,727	$ 27,478,567	$ 27,259,388
Supplemental disclosure of cash flow information:			

Cash paid for interest	$ 189,241	$ 106,353	$ 242,273
Cash paid for income taxes	$ 26,917,732	$ 21,391,344	$ 12,379,867

The accompanying notes are an integral part of these condensed financial statements.

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KNIGHT TRADING GROUP, INC.

(Parent Only)

NOTES TO CONDENSED FINANCIAL STATEMENTS

A. General

The condensed financial statements of Knight Trading Group, Inc. (parent only; the Parent Company) should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto.

B. Income taxes

As stated in Footnote 16, the Company and its subsidiaries file a consolidated federal income tax return as well as combined state income tax returns in certain jurisdictions. In other jurisdictions, the Company and its subsidiaries file separate state income tax returns. As such, both federal and state income taxes are accrued at the subsidiary level and are included in Equity earnings (losses) of subsidiaries on the Condensed Financial Statements. Income tax expense included on the Condensed Financial Statements represents only the income taxes attributable to the Parent Company.

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Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosures***

None

Item 9A. ***Controls and Procedures***

(a) Disclosure Controls and Procedures. Knight s management, with the participation of Knight s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Knight s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, Knight s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, Knight s disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. There have not been any changes in Knight s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, Knight s internal control over financial reporting.

PAR T III ITEMS 10, 11, 12, 13 and 14

The Company s Proxy Statement for its 2005 Annual Meeting of Stockholders, which, when filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, will be incorporated by reference in this Annual Report on Form 10-K pursuant to General Instruction G(3) of Form 10-K, provides the information required under Part III (Items 10, 11, 12, 13 and 14).

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this report:

Consolidated Financial Statements and Financial Statement Schedules. See Part II Item 8, Financial Statements and Supplementary Data

(c) INDEX TO EXHIBITS

NUMBER ASSIGNED TO EXHIBIT (I.E. 601 OF REGULATION S-K)	DESCRIPTION OF EXHIBITS
2.1	Agreement and Plan of Merger, dated as of November 17, 1999, by and among KT Holding Company, a Delaware corporation, KT Acquisition I Corp., a Delaware corporation, AH Acquisition I L.L.C., a Delaware limited liability company, Knight/Trimark Group, Inc., a Delaware corporation, Arbitrade Holdings LLC, a Delaware limited liability company, Tarmachan Capital Management, Inc., Tarmachan Capital Co., Deephaven, Inc., Gildor Trading, Inc., Irvin Kessler, Efraim Gildor, Peter Hajas, Merrill Ferguson and Mark Lyons, as amended by Amendment Number One thereto on December 14, 1999 (without exhibits). (Incorporated herein by reference to Exhibit 2.1 to Knight s Current Report on Form 8-K (Commission file number 001-14223), dated January 6, 2000.)

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NUMBER ASSIGNED TO EXHIBIT (I.E. 601 OF REGULATION S-K)	DESCRIPTION OF EXHIBITS
2.2	Asset Purchase Agreement, dated as of August 8, 2004, by and among Citigroup Financial Products Inc. and KFP Holdings I LLC, Knight Financial Products LLC and Knight Execution Partners LLC. (Incorporated herein by reference to Exhibit 2.1 to Knight s Current Report on Form 8-K (Commission file number 001-14223), dated August 9, 2004).
2.3	Amendment No. 1 to the Asset Purchase Agreement by and among Citigroup Financial Products Inc. and KFP Holdings I LLC, Knight Financial Products LLC and Knight Execution Partners LLC dated December 9, 2004. (Incorporated herein by reference to Exhibit 2.2 to Knight s Current Report on Form 8-K (Commission file number 001-14223), December 15, 2004).
3.1	Amended and Restated Certificate of Incorporation of Knight/Trimark Group, Inc. (Incorporated herein by reference to Exhibit 3.1 to Knight s Current Report on Form 8-K (Commission file number 001-14223), dated January 6, 2000.)
3.2**	Amended and Restated By-Laws of the Registrant dated January 19, 2005
10.1	Lease Agreement between Newport L.P.-I, Inc. and Knight Securities, L.P. dated December 6, 1994 (the Knight Lease Agreement) for office space situated in Newport Office Tower, 525 Washington Boulevard, Jersey City, New Jersey 07310. (Incorporated herein by reference to Exhibit 10.3 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)
10.2	Amendment to the Knight Lease Agreement, dated May 28, 1996. (Incorporated herein by reference to Exhibit 10.4 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)
10.3	Second Amendment to the Knight Lease Agreement, dated September 30, 1997. (Incorporated herein by reference to Exhibit 10.5 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)
10.4	Third Amendment to the Knight Lease Agreement, dated March 18, 1998. (Incorporated herein by reference to Exhibit 10.6 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)
10.5	Lease Agreement between Nestle USA, Inc. and Trimark Securities L.P., dated March 20, 1996, for the office space situated at 100 Manhattanville Road, Purchase, New York 10577. (Incorporated herein by reference to Exhibit 10.7 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)
10.6	License Agreement between Automated Securities Clearance, Ltd. and Knight Securities, L.P., dated April 5th, 1995. (Incorporated herein by reference to Exhibit 10.8 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)
10.7	Master Program Product License Agreement between TCAM Systems, Inc. and Trimark Securities, Inc. dated May 1, 1990. (Incorporated herein by reference to Exhibit 10.9 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)

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NUMBER ASSIGNED TO EXHIBIT (I.E. 601 OF REGULATION S-K)	DESCRIPTION OF EXHIBITS
10.8*	Form of Registrant s 1998 Long Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.15 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)
10.9*	Form of Registrant s 1998 Nonemployee Director Stock Option Plan. (Incorporated herein by reference to Exhibit 10.16 to Amendment 1 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on May 22, 1998.)
10.10	Form of Contribution Agreement. (Incorporated herein by reference to Exhibit 10.19 to Amendment 6 to the Registration Statement on Form S-1 (Registration number 333-51653), filed with the SEC on July 6, 1998.)
10.11	Clearing Agreement between Knight Securities, L.P. and Broadcort Capital Corp. (the Knight Clearing Agreement), dated September 28, 1999. (Incorporated herein by reference to Exhibit 10.1 to Knight s Quarterly Report on Form 10-Q (Commission file number 001-14223), for the quarter ended September 30, 1999.)
10.12	Amendment to the Knight Clearing Agreement, dated October 18, 1999. (Incorporated herein by reference to Exhibit 10.2 to Knight s Quarterly Report on Form 10-Q (Commission file number 001-14223), for the quarter ended September 30, 1999.)
10.13	Lease Agreement between Newport Office Center IV, Co., LLC and Knight Securities, L.P., dated May 11, 2000, for office space situated at 545 Washington Boulevard, Jersey City, New Jersey 07310. (Incorporated herein by reference to Exhibit 10.25 to Knight s Annual Report on Form 10-K (Commission file number 001-14223), for the fiscal year ended December 31, 2002.)
10.14	Form of Indemnification Contract entered into by the Registrant s Board of Directors. (Incorporated herein by reference to Exhibit 10.26 to Knight s Quarterly Report on Form 10-Q (Commission file number 001-14223), for the quarter ended June 30, 2003.)
10.15*	Separation and Release Agreement, dated June 11, 2003, between Anthony M. Sanfilippo and Knight Trading Group, Inc. (Incorporated herein by reference to Exhibit 10.27 to Knight s Quarterly Report on Form 10-Q (Commission file number 001-14223), for the quarter ended June 30, 2003.)
10.16*	Amended and Restated 2003 Equity Incentive Plan of the Registrant. (Incorporated herein by reference to Exhibit 10.28 to Knight s Quarterly Report on Form 10-Q (Commission file number 001-14223), for the quarter ended June 30, 2003.)
10.17*	Employment Agreement, dated as of May 30, 2002, between Thomas M. Joyce and Knight Trading Group, Inc. (Incorporated herein by reference to Exhibit 10.01 to Knight s Quarterly Report on Form 10-Q (Commission file number 001-14223), for the quarter ended June 30, 2002.)
10.18	U.S. Securities and Exchange Commission Order (Incorporated herein by reference to Exhibit 10.1 to Knight s Current Report on Form 8-K (Commission file number 001-14223), dated December 17, 2004.)
10.19	NASD Letter of Acceptance, Waiver and Consent (Incorporated herein by reference to Exhibit 10.2 to Knight s Current Report on Form 8-K (Commission file number 001-14223), dated December 17, 2004.)

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NUMBER ASSIGNED TO EXHIBIT (I.E. 601 OF REGULATION S-K)	DESCRIPTION OF EXHIBITS
10.20**	Option Agreement among Deephaven Holdings, LLC, Deephaven Capital Management, LLC, Knight Trading Group, Inc., KFP Holdings I LLC and Colin Smith, Matthew Halbower and Shailesh Vasundhra, dated October 21, 2003.
21.1**	Subsidiaries of the Registrant as of December 31, 2004.
24.1**	Powers of Attorney (included on signature page).
31.1**	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement identified in compliance with Item 15(c) of the rules governing the preparation of this report.

** Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Jersey City, State of New Jersey, on this 15th day of March, 2005.

KNIGHT TRADING GROUP, INC.

By: /s/ THOMAS M. JOYCE

Chairman of the Board and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas M. Joyce and John B. Howard, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Name	Title	Date
/s/ THOMAS M. JOYCE **Thomas M. Joyce**	Chairman of the Board and Chief Executive Officer	March 15, 2005
/s/ JOHN B. HOWARD **John B. Howard**	Senior Managing Director and Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2005
/s/ CHARLES V. DOHERTY **Charles V. Doherty**	Director	March 15, 2005
/s/ WILLIAM L. BOLSTER	Director	March 15, 2005

William L. Bolster		
/s/ GARY R. GRIFFITH	Director	March 15, 2005
Gary R. Griffith		
/s/ ROBERT M. LAZAROWITZ	Director	March 15, 2005
Robert M. Lazarowitz		
/s/ THOMAS C. LOCKBURNER	Director	March 15, 2005
Thomas C. Lockburner		
/s/ RODGER O. RINEY	Director	March 15, 2005
Rodger O. Riney		