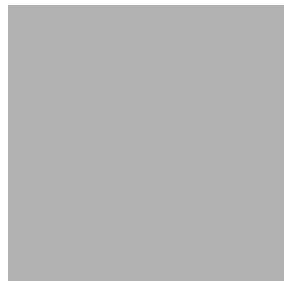


Quarterly Results January – March 2006



May 12th, 2006



Quarterly Results
January – March 2006

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Disclaimer

This document contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

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Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica's business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is unaudited and, therefore, is subject to potential future modifications.



Quarterly Results
January – March 2006

1Q06 financial highlights: an attractive growth profile...

€ in Millions
(% change y-o-y)

	Jan-March 2006	Jan-March 2005	% Change 1Q06/1Q05	% Change 1Q06/1Q05 ex-forex ¹	% Change 1Q06/1Q05 Organic ²
Revenues	12,036.4	8,278.8	+45.4%	+36.4%	+8.9%
Operating Income before D&A (OIBDA)	4,686.7	3,414.7	+37.3%	+29.1%	+6.2%
Operating Income (OI)	2,534.1	1,888.3	+34.2%	+28.0%	+13.8%
Net Income	1,273.5	912.2	+39.6%		
OpCF (OIBDA-CapEx)	3,379.5	2,673.6	+26.4%	+18.3%	+7.9%

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(1) Assuming constant exchange rates as of 1Q05.

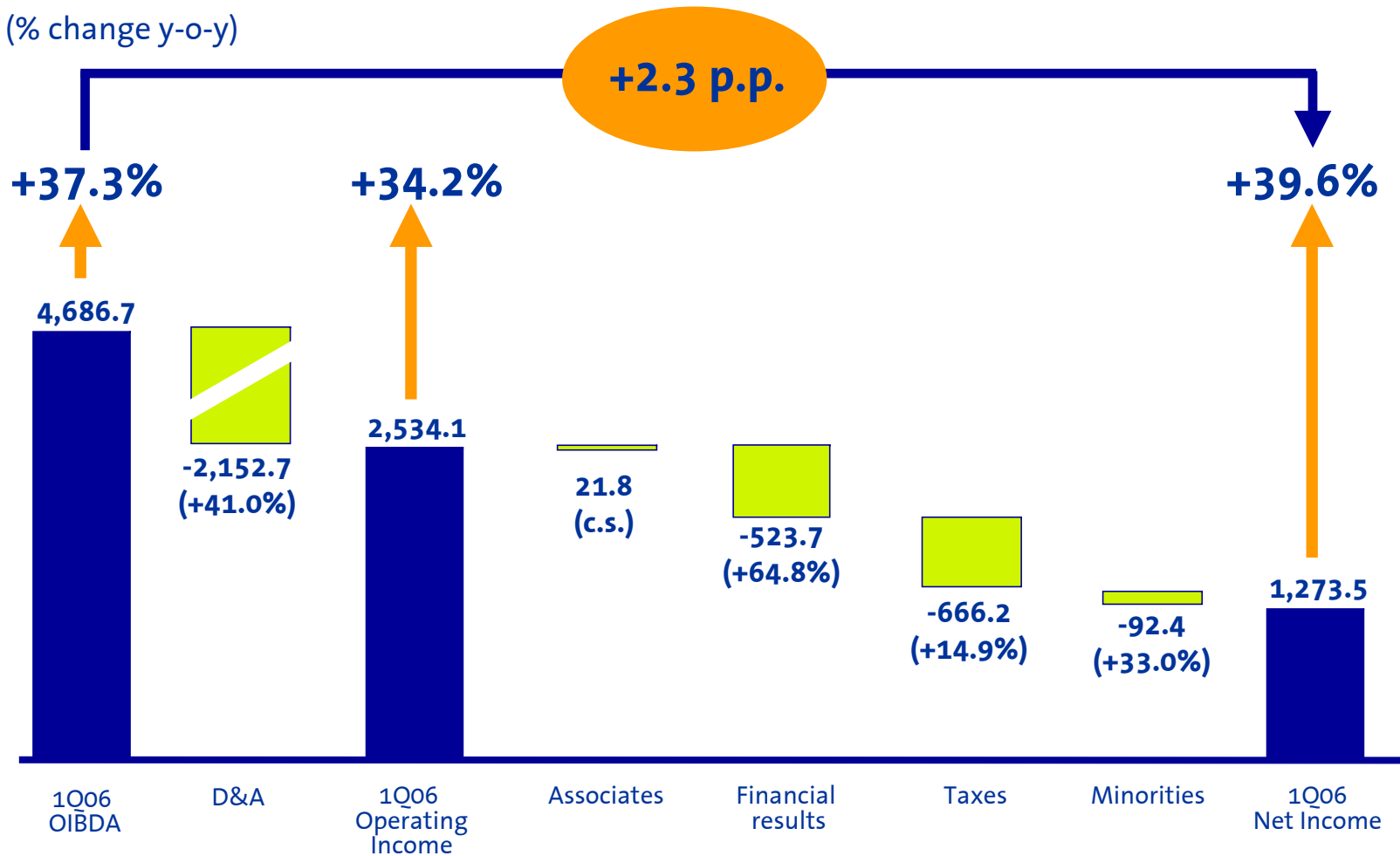
(2) Assuming constant exchange rates as of 1Q05. Incorporating Český Telecom and O2 from January and February 1st 2005, respectively



Quarterly Results
January – March 2006

...from top to bottom

€ in Millions
(% change y-o-y)



**1Q06 EPS REACHED 0.27 €,
EQUIVALENT TO A 43.8% ANNUAL GROWTH**

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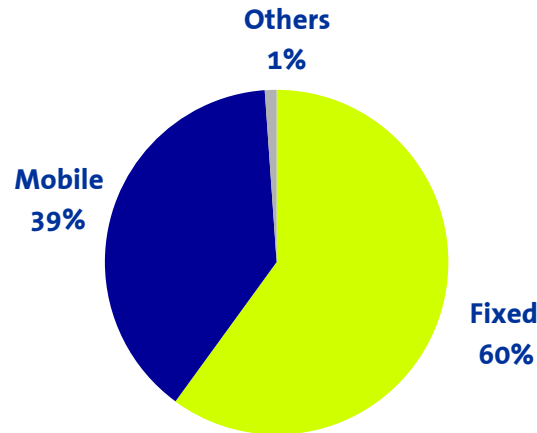
Quarterly Results
January – March 2006

The new dimension of Telefónica gives birth to a much more diversified group...

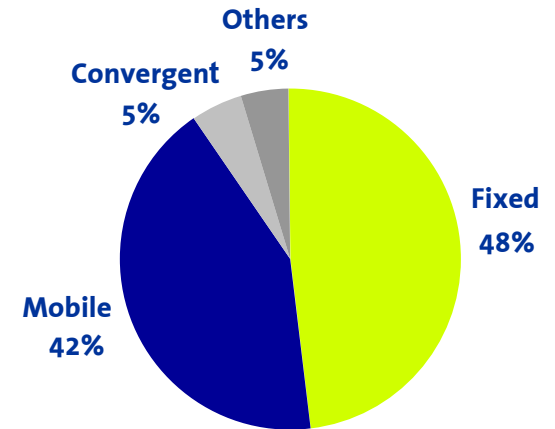
**Business
Diversification**

**Geographic
Diversification**

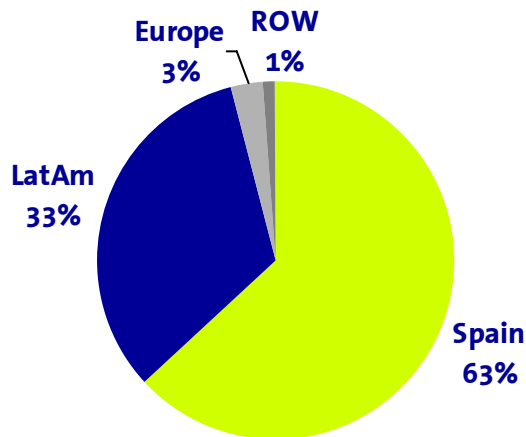
OIBDA 1Q05



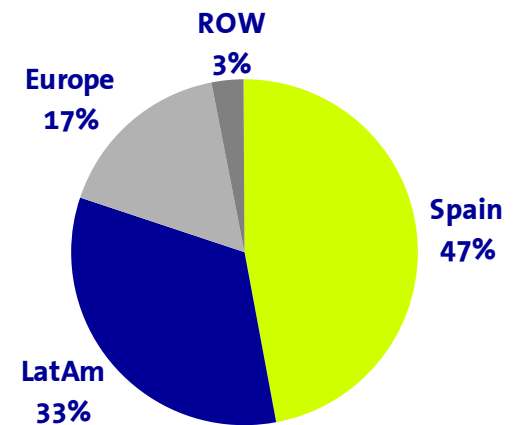
OIBDA 1Q06



OIBDA 1Q05



OIBDA 1Q06



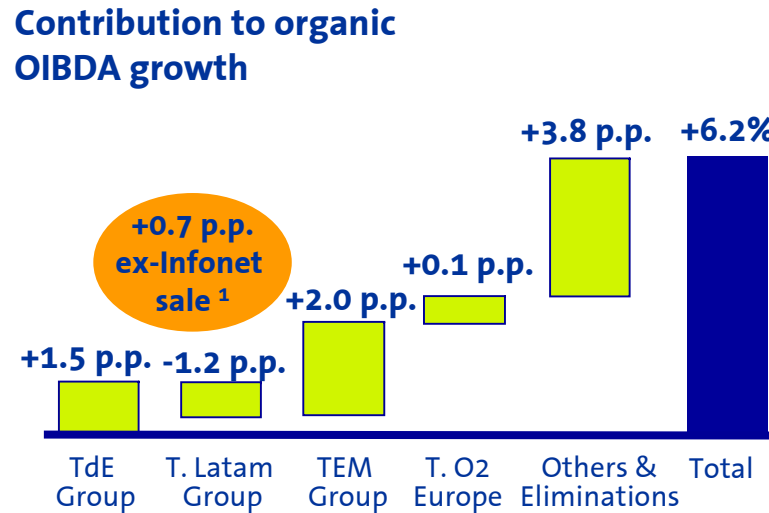
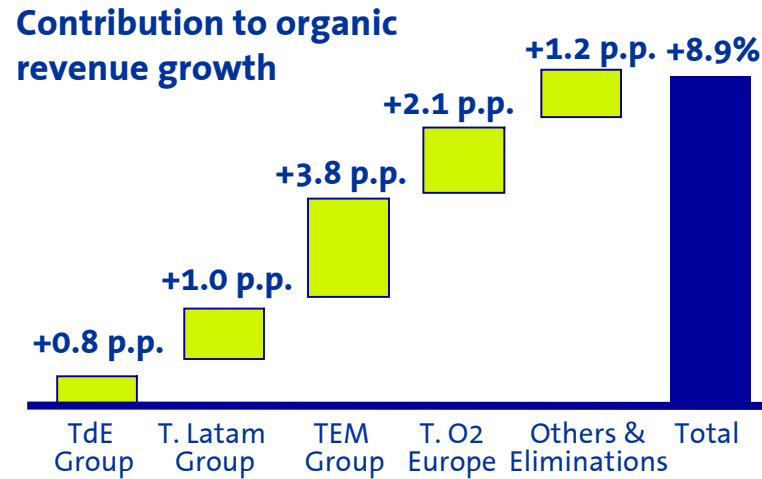
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Notes:
In 1Q06 Fixed includes TdE, T. LatAm and T. Deutschland; Mobile includes O2 mobile only businesses; and convergent is Cesky Telecom.



Quarterly Results
January – March 2006

...to consistently deliver sound organic revenue and OIBDA growth



**The value of
being
diversified**

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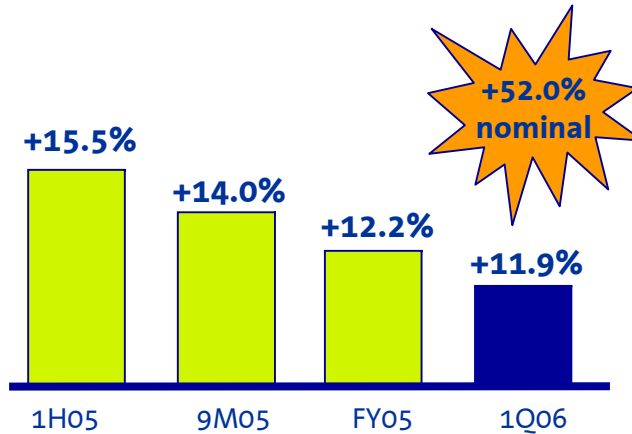
(1) T-Latam contribution excluding capital gains from the sale of Infonet registered in 2005 (80 M€) reached 0.7 p.p. out of a group organic growth of 8.3 p.p.



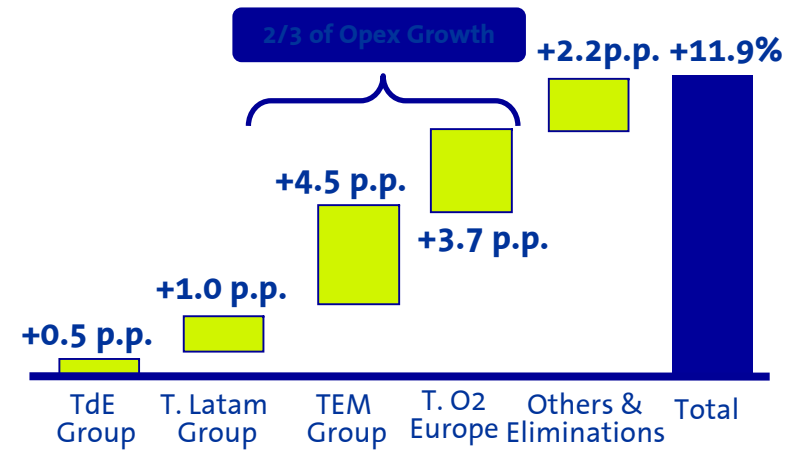
Quarterly Results
January – March 2006

A continuous effort on cost contention

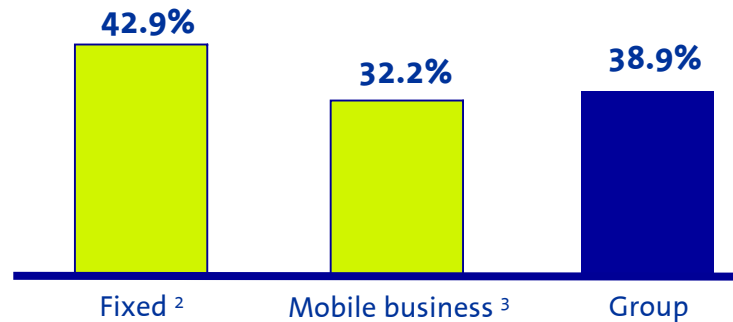
OpEx¹ Organic Growth



1Q06 Organic OpEx breakdown



1Q06 OIBDA Margin



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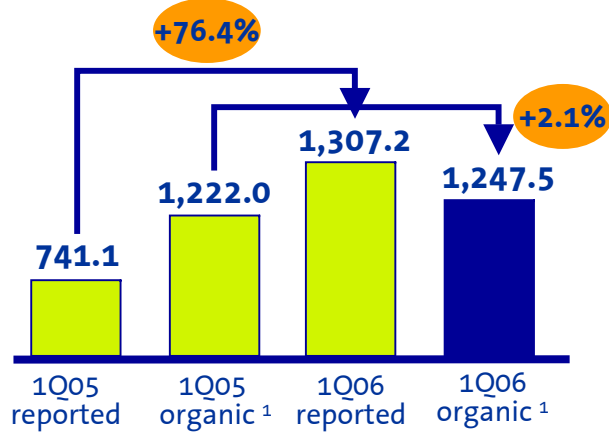
(1) Supplies, Personnel Expenses (ex-restructuring costs), External Services, Bad Debt Expenses and Taxes
 (2) Aggregate of TdE and T.Latam
 (3) Aggregate of TEM and O2 Group (Cesky Telecom and T. Deutschland are not included)



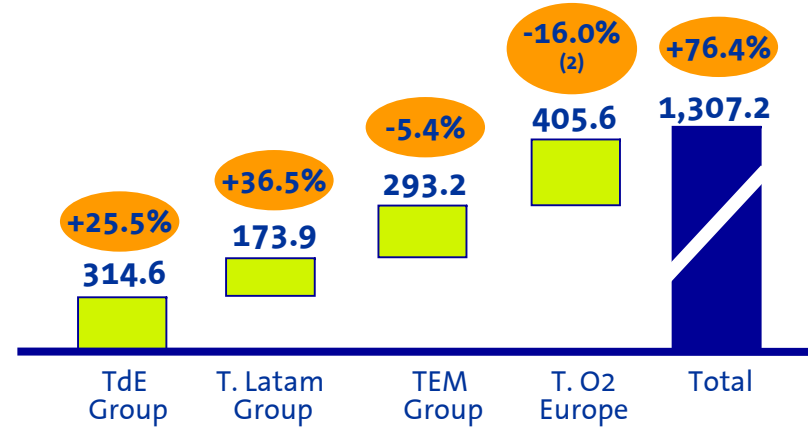
Quarterly Results
January – March 2006

Solid cash flow generation across all businesses

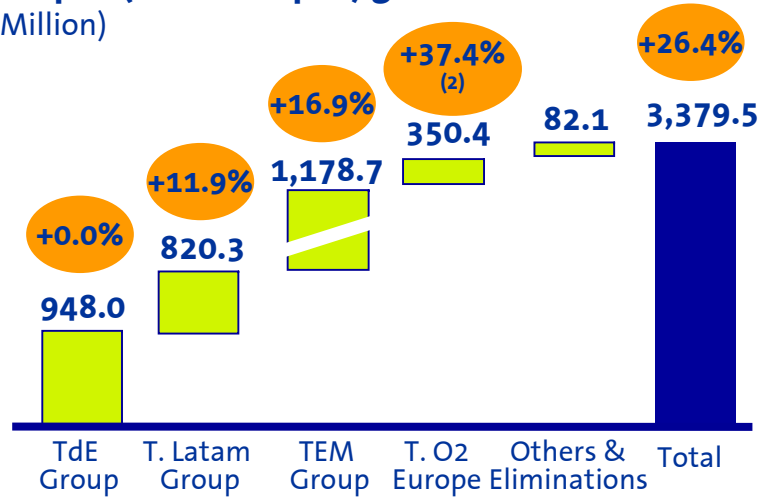
1Q06 CapEx Evolution
(€ in Million)



1Q06 CapEx breakdown
(€ in Million)



1Q06 OpCF (OIBDA-CapEx) growth
(€ in Million)



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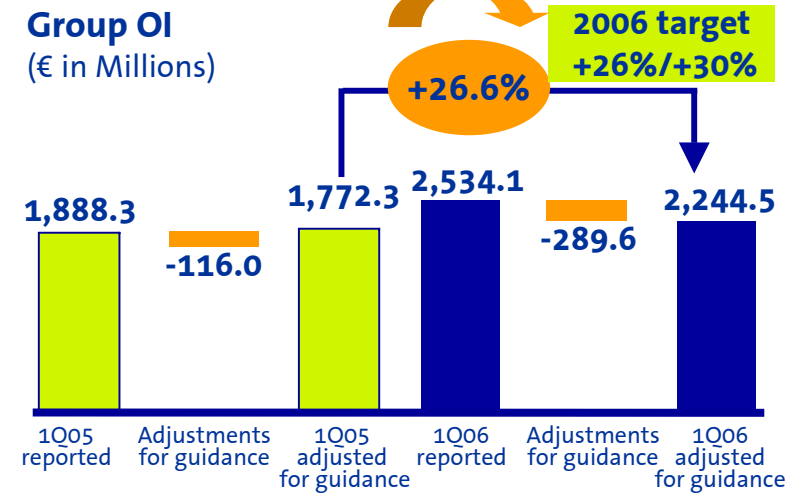
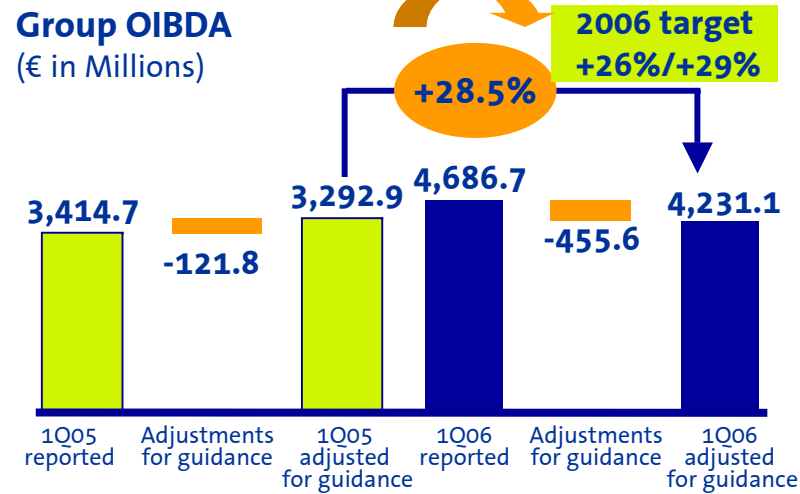
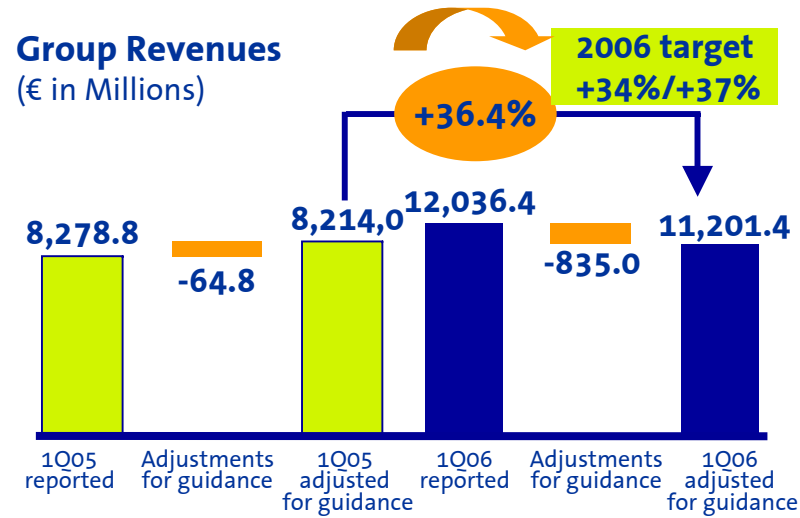
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(1) 1Q06 organic assumes foreign exchange rates as of 1Q05. 1Q05 organic includes O2 (Feb-Mar) and Cesky Telecom (Jan-Mar)
(2) Pro-forma



Quarterly Results
January – March 2006

1Q06 performance is in-line with year-end targets



Notes

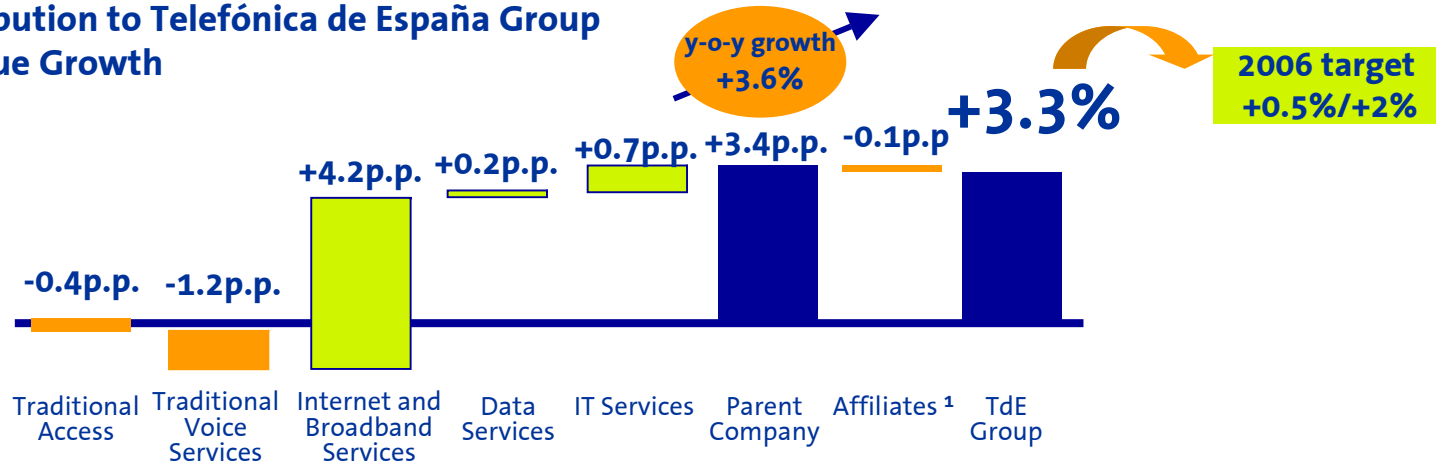
1Q06 adjusted for guidance assumes constant exchange rates as of 1Q05 and excludes TPI results. In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2006. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For homogeneous comparison TPI is also excluded from 1Q05 numbers, and the equivalent other exceptional revenues/expenses registered in 1Q05 are also deducted from reported figures in terms of guidance calculation.



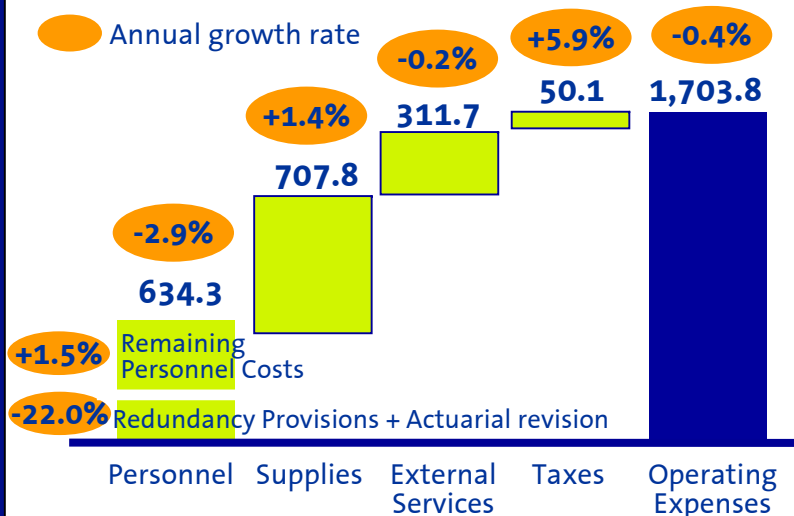
Quarterly Results
January – March 2006

Telefónica de España Group: sound revenues and OIBDA growth...

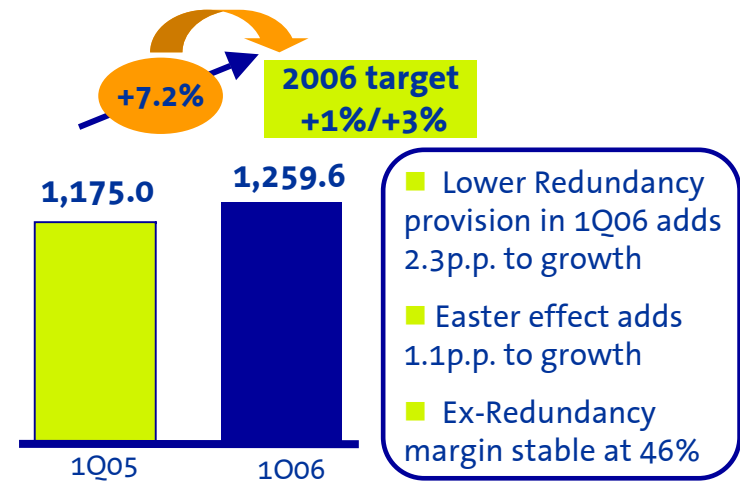
Contribution to Telefónica de España Group Revenue Growth



TdE Group OpEx Breakdown (€ in Millions)



TdE Group Adjusted OIBDA² (€ in Millions)



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(1) Telyco, TTP, T. Cable, Terra España
(2) Exclude other exceptional revenues/expenses not foreseeable in 2006. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses



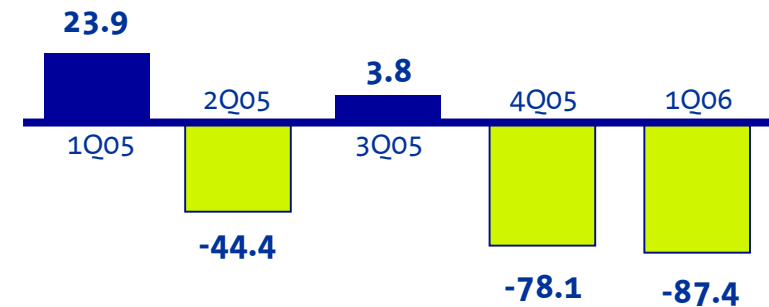
Quarterly Results
January – March 2006

...in a scenario where the pressure on the traditional business...

Accesses Evolution (in thousands)

	1Q06
<i>Fixed Telephony Access net losses</i>	27.1
<i>Full ULL net adds</i>	70.6
<i>Shared ULL net adds</i>	41.3
Fixed Telephony Access (1Q06)	16,108.5

Pre-selected Lines Net Adds (in thousands)



Estimated Traffic (Million minutes)

	1Q06	1Q05	% Change 1Q06/1Q05
OUTGOING	14,425	15,965	-9.6%
<i>Voice</i> ¹	11,275	11,366	-0.8%
National	8,747	8,822	-0.9%
International	492	462	+6.5%
F2M	1,339	1,386	-3.3%
IN ² & Others	697	697	+0.1%
Internet	3,150	4,599	-31.5%
INCOMING	11,907	13,284	-10.4%
TOTAL	26,333	29,249	-10.0%

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(1) Outgoing - Internet
(2) Intelligent Network



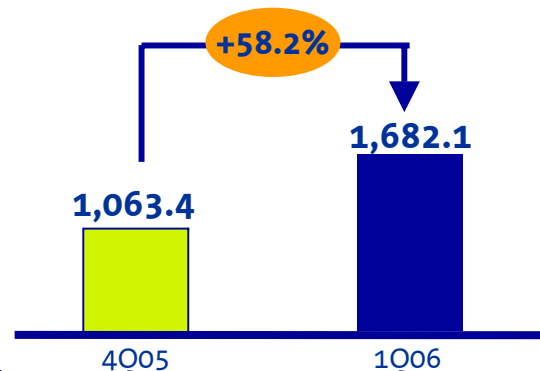
Quarterly Results
January – March 2006

...is being offset by the drive to develop broadband penetration

- Spanish market reaches 5.5 Million Internet BB accesses
- **+1.0 Mill.** IBB accesses during **last 6 months**: one of **HIGHEST GROWTH RATES IN EUROPE**
- Effort by Telefónica de España is driving BB penetration in Spain
- Internet Broadband **estimated market share slightly over 55%** end of 1Q06

**Telefónica push on 2P & 3P resulting in highest growth rates:
54% OF RETAIL IBB ACCESSES HAVE CONTRACTED DUO OR TRIO OFFERS**

2P & 3P Bundles
(thousands; end of period)



- **250,284 Pay TV clients** by 1Q06 end
- Estimated **7% share of Spanish Pay TV market**

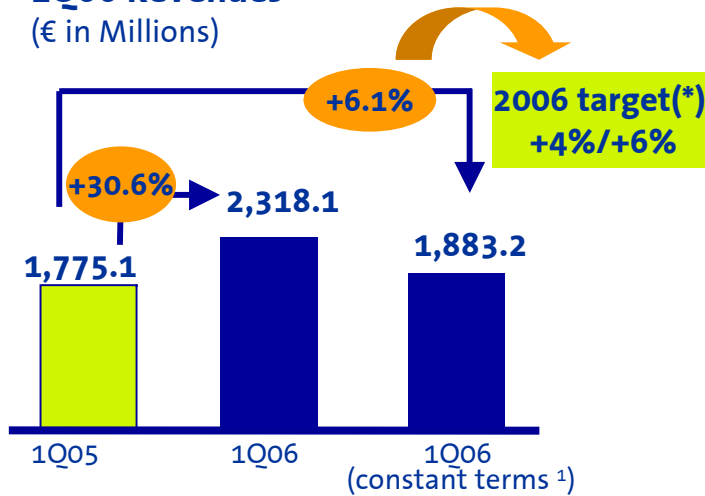
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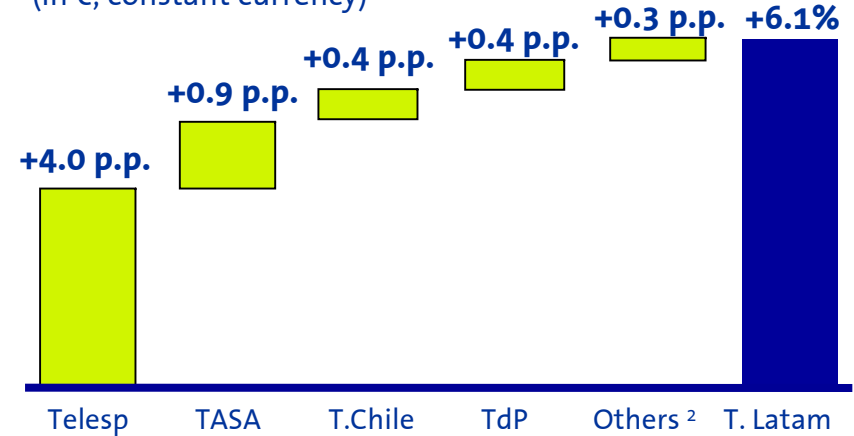
Quarterly Results
January – March 2006

Telefónica Latinoamérica: combining a positive top-line performance in all countries...

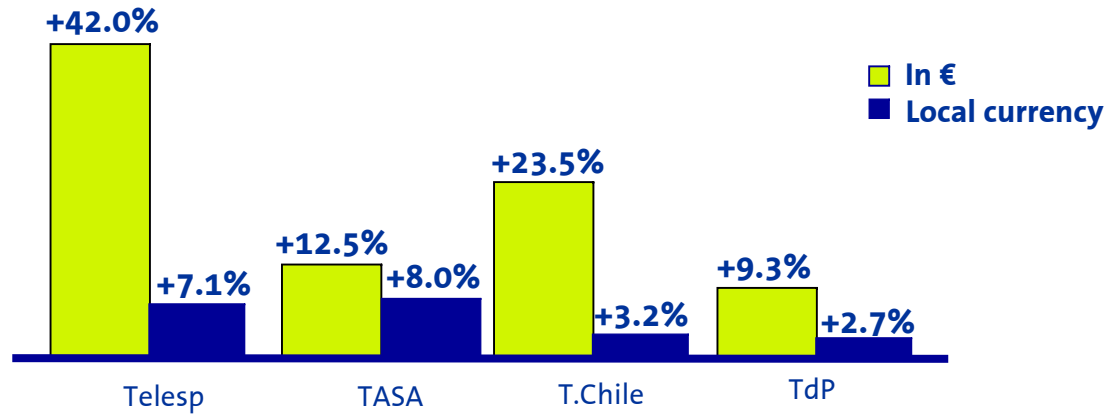
1Q06 Revenues
(€ in Millions)



1Q06 contribution to revenue growth by company
(in €, constant currency)



1Q06 Revenue growth by company



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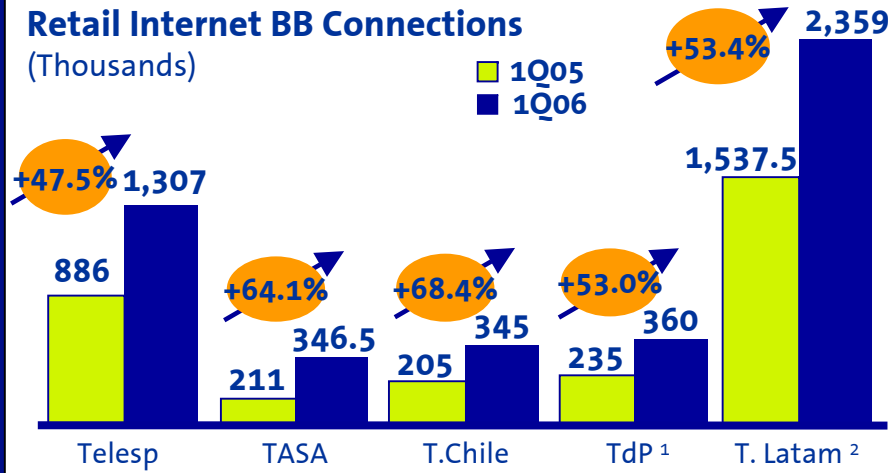
Local operators' revenues include data & IT revenues (formerly grouped under T. Empresas América) in 2005 and 2006. T. Latam includes Terra Latam unit since January 2005
 (1) Assuming constant exchange rates as of 1Q05 (as of 2005 for year-end target).
 (2) T. Empresas USA & Colombia, TIWS, Terra Latam, and Others & Eliminations



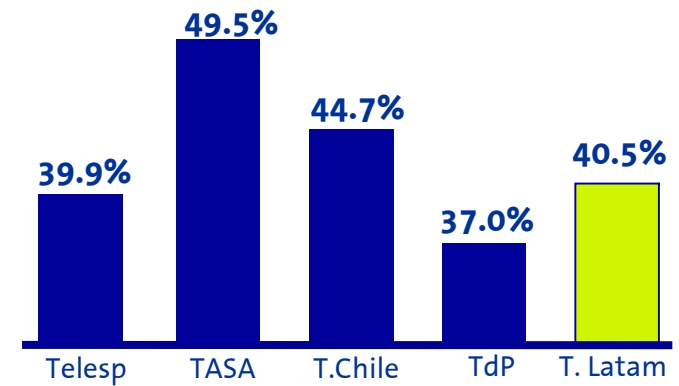
Quarterly Results
January – March 2006

...with broadband becoming a distinctive catalyst for growth...

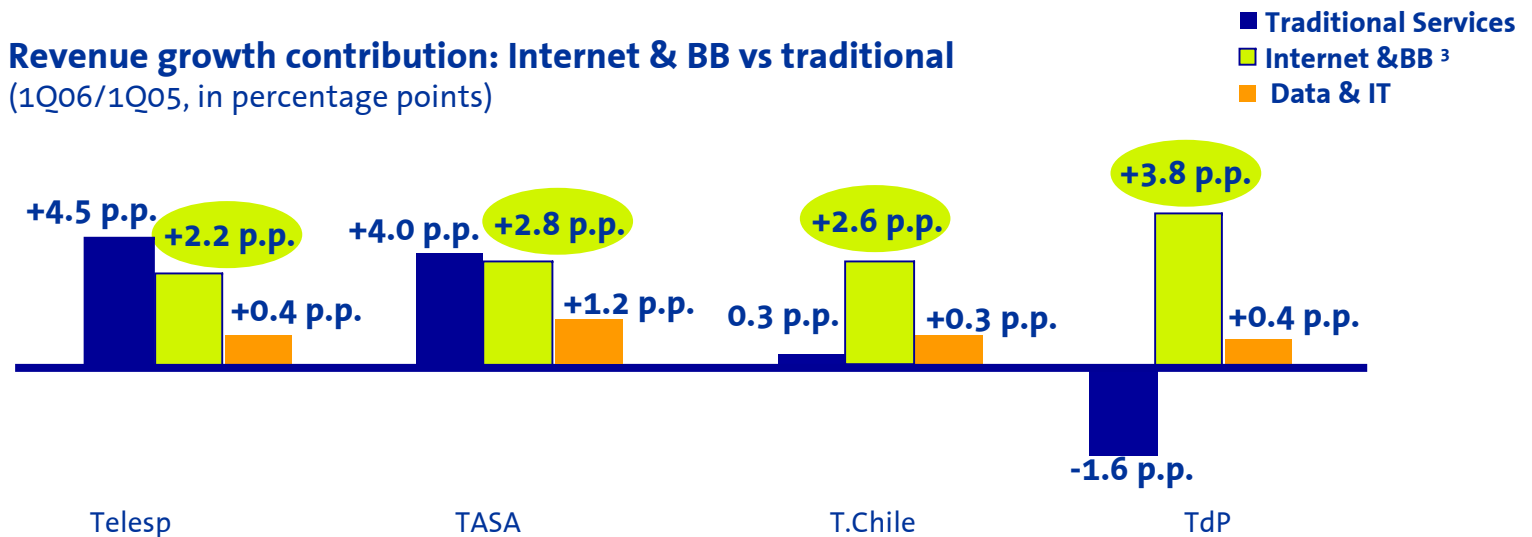
Retail Internet BB Connections
(Thousands)



Broadband revenue growth
(1Q06/1Q05, local currency)



Revenue growth contribution: Internet & BB vs traditional
(1Q06/1Q05, in percentage points)



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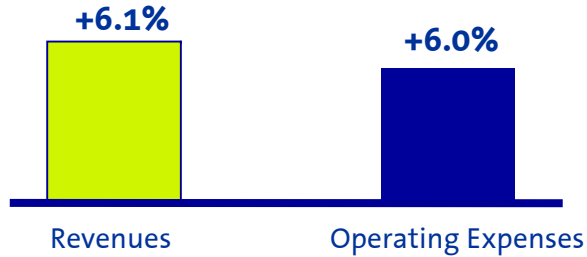
(1) Including cable modem
(2) Excluding Terra Latam
(3) TdP includes revenues from Cablemágico



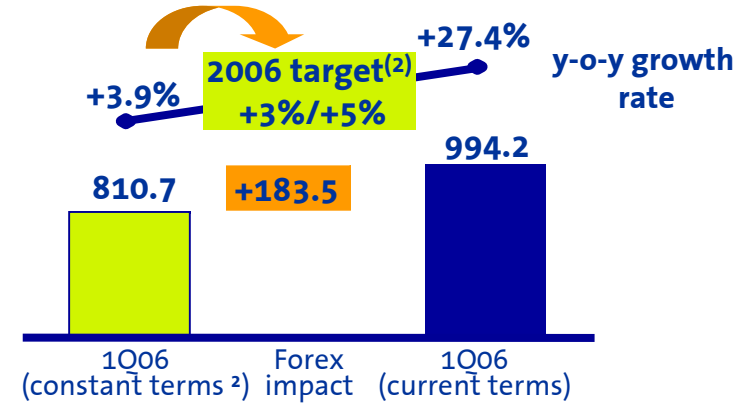
Quarterly Results
January – March 2006

...with a focus on efficiency through local and regional management

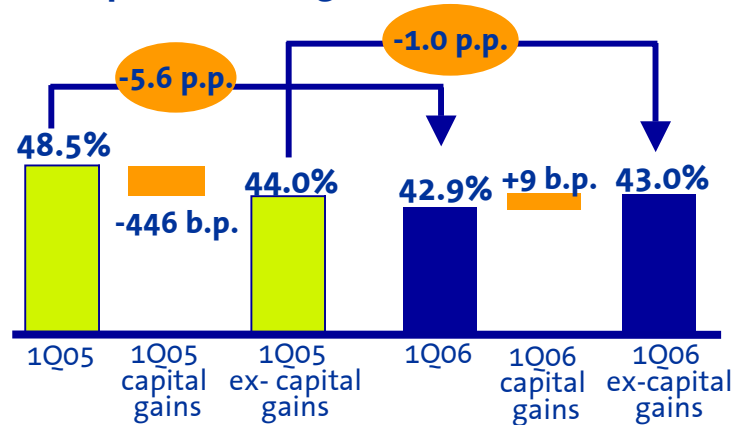
Evolution of revenues & costs ¹
(Local currency, 1Q06/1Q05)



Adjusted OIBDA ²
(€ in Millions)



Group OIBDA margin



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Local operators' OIBDA include data & IT revenues (formerly grouped under T. Empresas América). T. Latam includes Terra Latam unit since January 2005.

(1) Personnel (ex-restructuring costs), External Services, Supplies, Bad debt expenses and Other operating expenses

(2) Adjusted for exceptional revenues & expenses not foreseeable in 2006. 1Q06 and target refer to local currency (constant exchange rates)

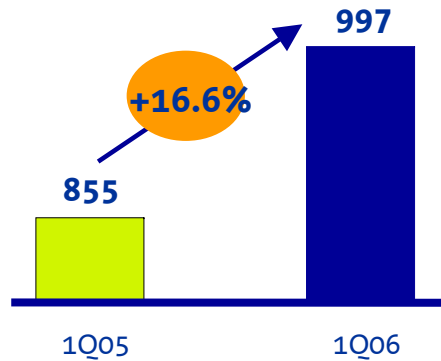


Quarterly Results
January – March 2006

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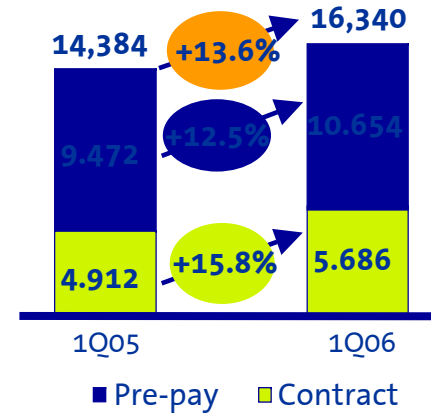
O2 UK: revenue growth underpinned by solid operating metrics

Service Revenues
(£ in Millions)



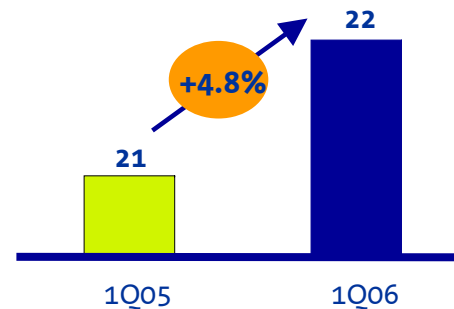
Stable SAC for both pre-pay and contract.

Evolution of client base
(in thousands)



- 359,000 net new customers in 1Q06, 51% on contract
- +29% in total gross adds y-o-y
- 6% cut in 12M blended rolling churn to 28%

Monthly ARPU
(£)



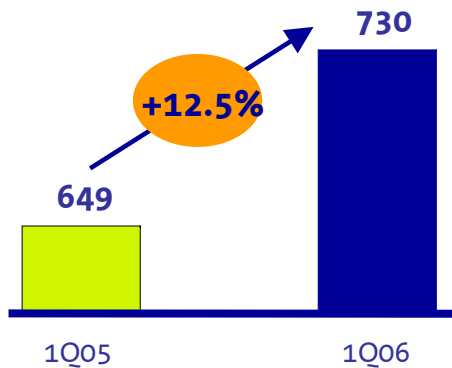
- Increasing weight of contract to close to 35% of client base
- +14% in MOU to 162 minutes per month
- Non-SMS data users grew 50% y-o-y



Quarterly Results
January – March 2006

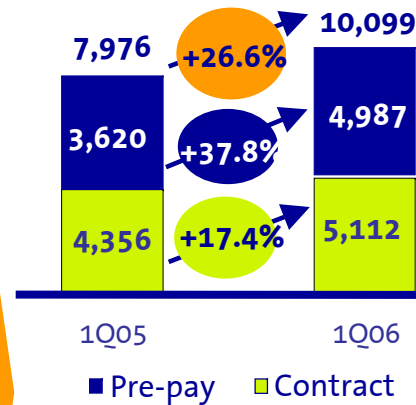
O2 Germany: top quality client growth in an increasingly competitive environment

Service Revenues
(€ in Millions)



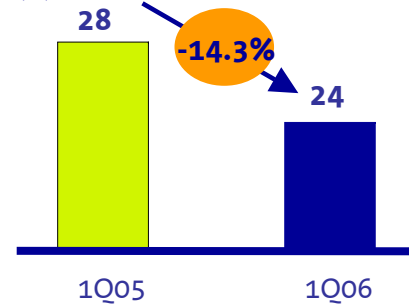
Stable SAC for both pre-pay and contract.

Evolution of client base
(in thousands)



- 330,000 net new customers in 1Q06
- 51% of total base on contract at the end of the quarter

Monthly ARPU
(€)



- +5% in MOU driven by new value propositions.
- Pressure by competition, change in mix and termination rate cuts

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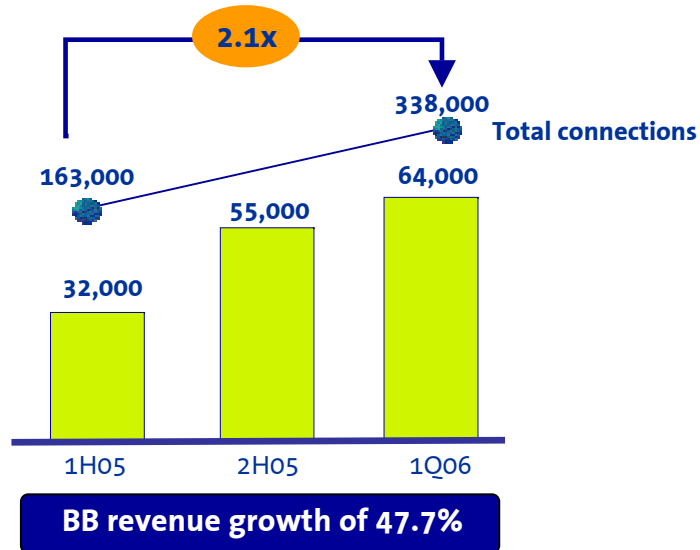


Quarterly Results
January – March 2006

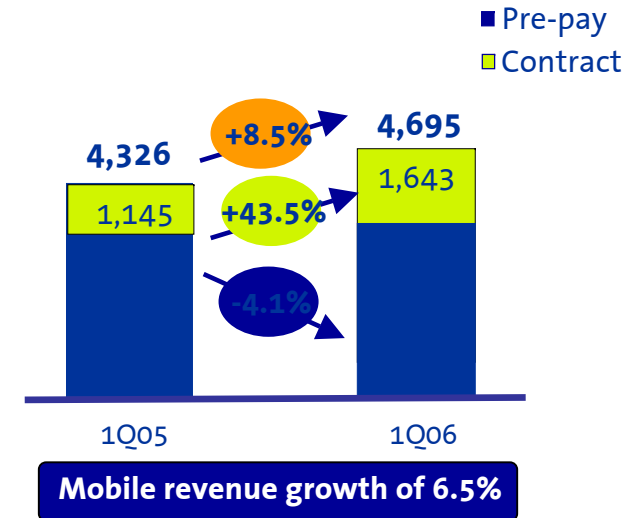
Cesky Telecom: a focus on broadband and mobile to grow top-line

€ in Millions (% change y-o-y)	Jan-March 2005	Jan-March 2006	% Change 1Q06/1Q05	% Change 1Q06/1Q05 Organic ¹
Revenues	490	515	+5.0%	+0.1%
OIBDA	237	252	+5.9%	+0.9%
OIBDA Margin	48.5%	48.9%	+0.4 p.p.	
Operating Income (OI)	81	106	+31.0%	+24.8%

Quarterly average BB net adds²



Evolution of mobile client base
(in thousands)



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(1) Assuming constant exchange rates as of 1Q06.
(2) Retail and wholesale ADSL connections



Quarterly Results
January – March 2006

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Progressing with O2 integration as planned, with key business initiatives already in execution mode

Functional Initiatives	Alignment of processes & systems	<ul style="list-style-type: none"> ■ Centralization of cash pooling ■ Single Brussels Office ■ Full agreement on brands for O2's markets
Business Initiatives	Mobile	Devices <ul style="list-style-type: none"> ■ Joint O2-TEF meetings with major suppliers at the CEO level ■ Harmonization of handset prices & gradual portfolio alignment ■ Alignment of hero devices program
		Roaming Wholesale <ul style="list-style-type: none"> ■ Joint negotiation with third parties ■ Effective management of intra-Group roaming traffic
		Roaming Retail <ul style="list-style-type: none"> ■ Targeted promotions (summer campaign) ■ Segmented value propositions (Business, Foreign residents)
		Technology <ul style="list-style-type: none"> ■ Joint negotiation of 2G & 3G network elements
Germany	<ul style="list-style-type: none"> ■ Telefónica Deutschland already managed by O2 Germany ■ TdE is supporting O2's convergent ADSL-Mobile forthcoming offers ■ Profit from the "Genion experience" as an alternative to fixed in other countries 	
International Traffic	<ul style="list-style-type: none"> ■ O2 to route international traffic via TIWS 	
Cesky Telecom	<ul style="list-style-type: none"> ■ Full control taken by O2: Peter Erskine (Executive Chairman, O2) has been appointed as Chairman of Cesky Telecom Supervisory Board and Jaime Smith (Executive Chairman, Cesky Telecom) has been appointed as member of O2's Executive Committee 	

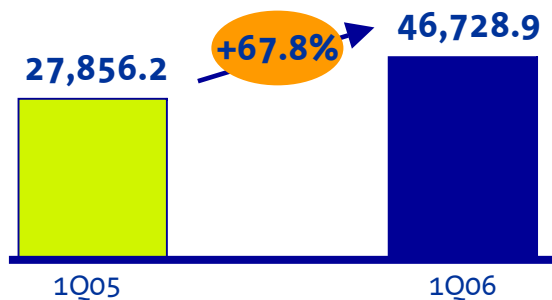


Quarterly Results
January – March 2006

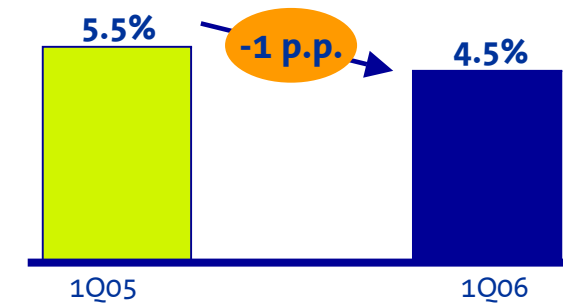
Actively managing liabilities to limit the impact of higher gearing

	1Q06	1Q05	
Net Interest Expenses	(519.0)	(380.5)	+36.4%
FX Results	(4.7)	62.8	
Reported Financial Expenses	(523.7)	(317.7)	+64.8%

Average Total Net Debt
(€ in Millions)



Evolution of Average Effective Debt Service Rate ¹



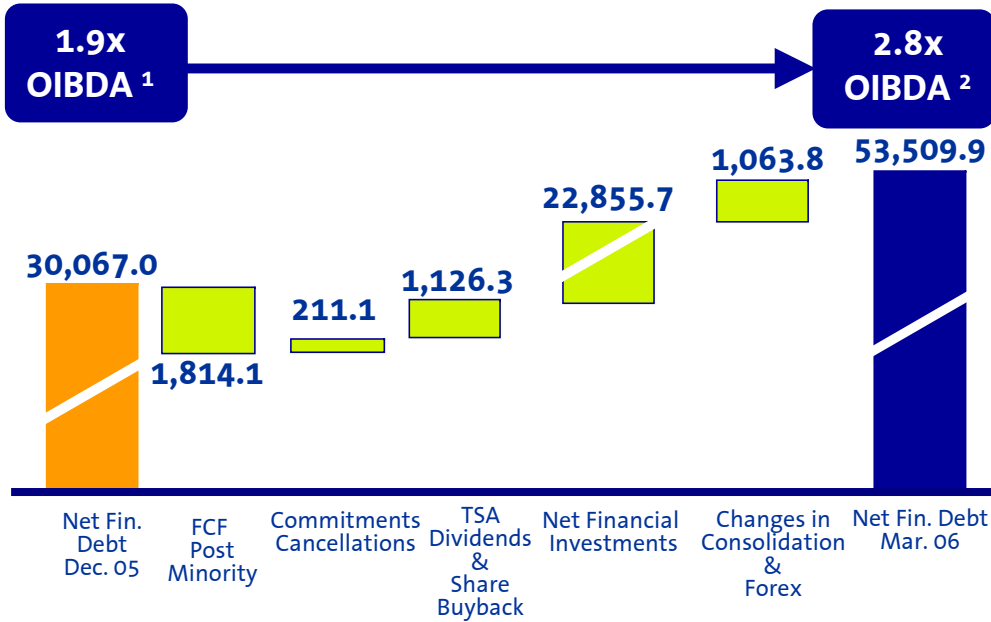
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Quarterly Results
January – March 2006

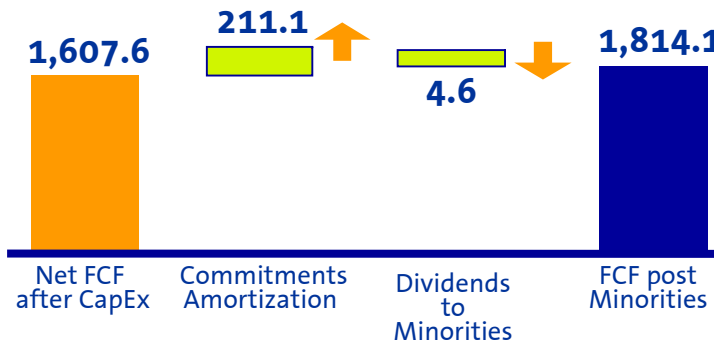
Cash Flow & Debt Reconciliation

Net Financial Debt Evolution in 1Q06 (€ in Millions)



62% of FCF post minorities devoted to dividends and share buyback

Adjusted FCF (€ in Millions)



Debt and Commitments Breakdown (€ in Millions)



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(1) OIBDA pro-forma including 12 months of Cesky Telecom
(2) 12 months rolling OIBDA including Cesky Telecom and O2



Quarterly Results
January – March 2006

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Conclusions

- We are posting a solid financial performance across the P&L, with organic top-line growth remaining robust in the high single digit range
- Our 1Q₀₆ key financial metrics fall comfortably within year-end guidance for all our businesses
- We have become a much more diversified group after the incorporation of O2, enhancing the stability of our growth profile, which remains a reference in the sector
- O2 retains its strong momentum within Telefónica, growing service revenues at double digit rates in the UK and Germany
- Our wireline operations continue to rank as industry benchmarks in terms of growth and profitability, with a clear leadership in broadband
- We continue to focus on local and regional management to derive further efficiencies and sustain margins

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