

Quarterly Results

January – December 2005



March 1st, 2006



Full Year Results
Jan – Dec 2005

Telefonica

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.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ materially from those expressed in our forward looking statements.

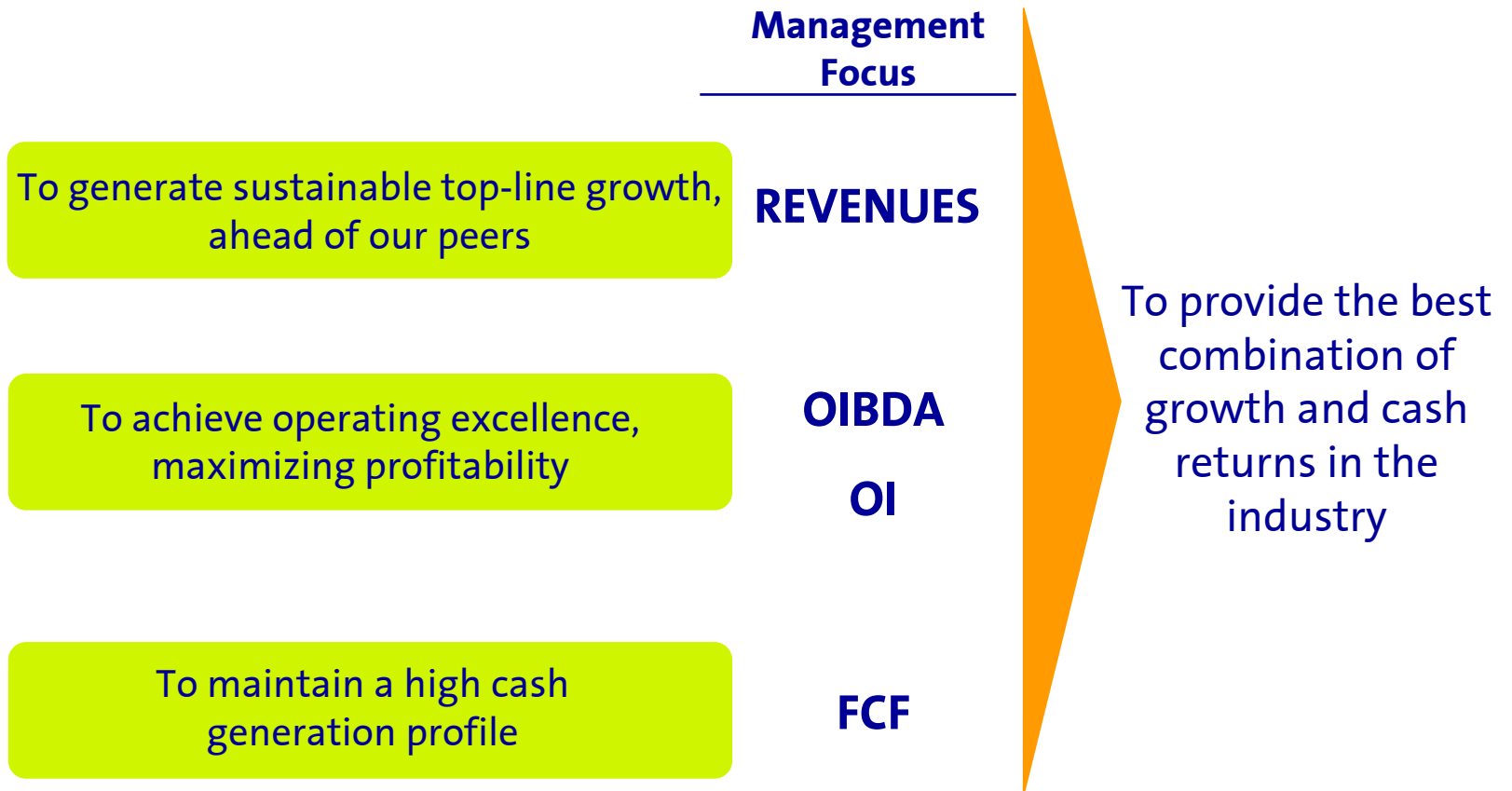
Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect 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. 2004 financial results were originally prepared under Spanish GAAP and have been translated into IFRS for comparison purposes only.



Full Year Results
Jan – Dec 2005

We have a consistent and clear framework to manage our operations



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Full Year Results
Jan – Dec 2005

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FY05 Financial Highlights: Building an Attractive Growth Profile...

€ in Millions
(% change y-o-y)

Management Focus		Jan-Dec 2005	Jan-Dec 2004	% Change FY05/FY04	% Change FY05/FY04 Organic ⁽¹⁾
Top-line growth	Revenues	37,882.1	30,280.9	+25.1%	+9.3%
	Operating Income before D&A (OIBDA)	15,276.4	12,222.0	+25.0%	+9.9%
Operating Excellence	Operating Income (OI)	8,558.8	6,556.0	+30.5%	+21.7%
	Net Income	4,445.8	3,175.7	+40.0%	
High cash generation profile	OpCF (OIBDA-CapEx)	9,917.7	8,454.9	+17.3%	

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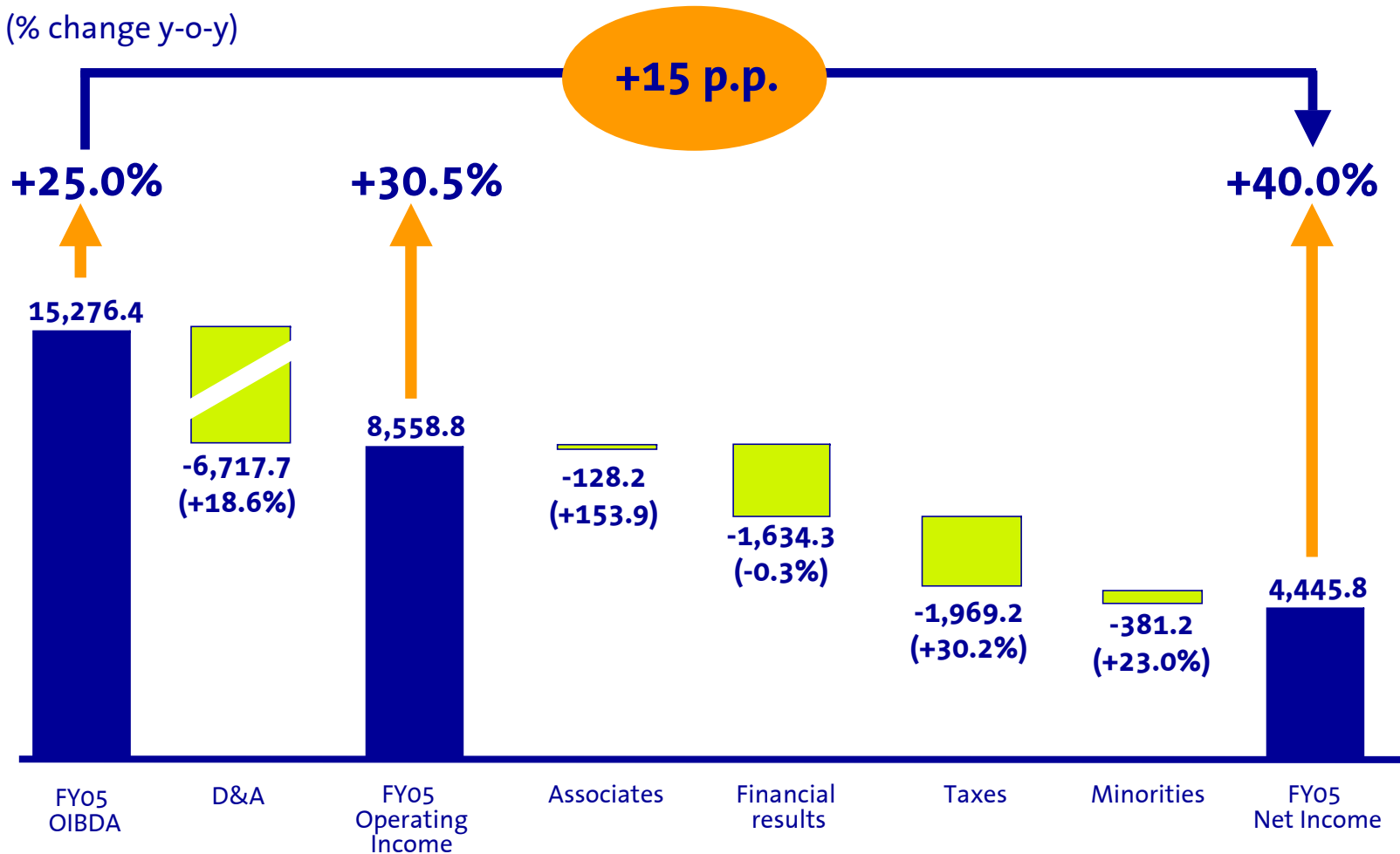
(1) Assuming constant exchange rates as of 2004. Incorporating the assets acquired to BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela into the mobile business and Atrium into Telefónica Latinoamérica's Group, from January 1st 2004. Including Český Telecom from July 1st 2004

...from top to bottom...



Full Year Results
Jan – Dec 2005

€ in Millions
(% change y-o-y)



Net Income above 4.9 Billion € excluding the IPSE write-down and TdE's redundancy provision ⁽¹⁾

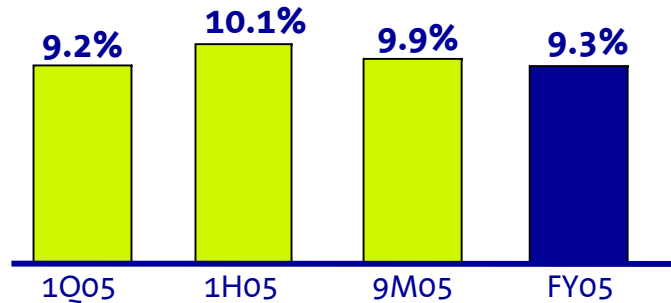




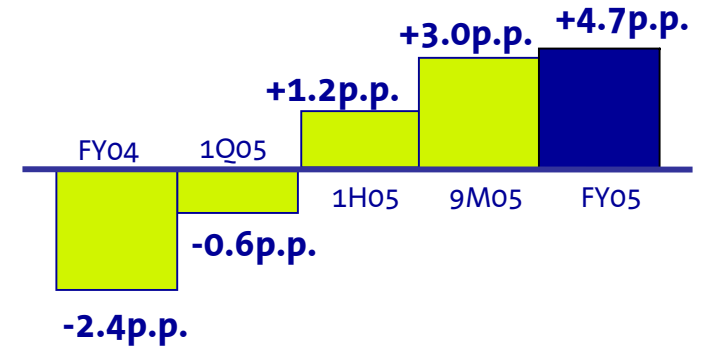
Full Year Results
Jan – Dec 2005

Our revenue growth is underpin by the strong performance of all our businesses...

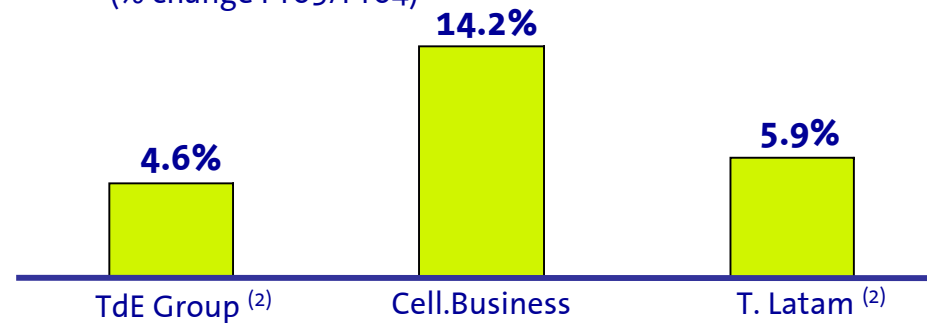
Group Organic Revenue Growth ⁽¹⁾



Forex Impact on revenues in 2005



Organic Revenue Growth by business lines ⁽¹⁾
(% change FY05/FY04)



Growing our customer base and ARPUs

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(1) Assuming constant exchange rates as of 2004. Incorporating the assets acquired to BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela into the mobile business and Atrium into Telefónica Latinoamérica's Group, from January 1st 2004. Including Český Telecom from July 1st 2004

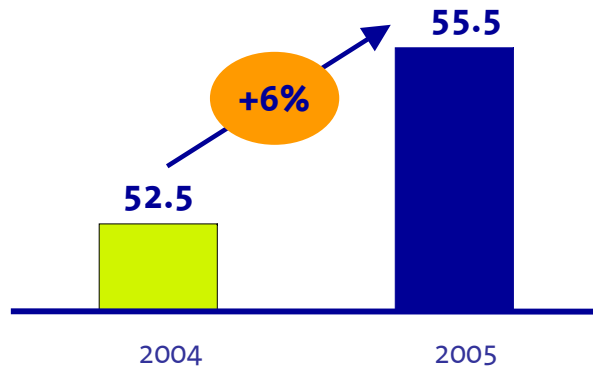
(2) Excluding 2H05 revenues of Terra's Spanish and Latam units, which consolidate under TdE and T.Latam since July 2005, respectively



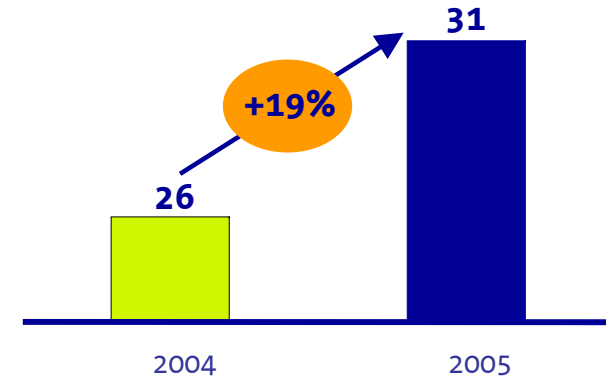
Full Year Results
Jan – Dec 2005

...based on the expansion of the portfolio of services we are selling for the benefit of total ARPU...

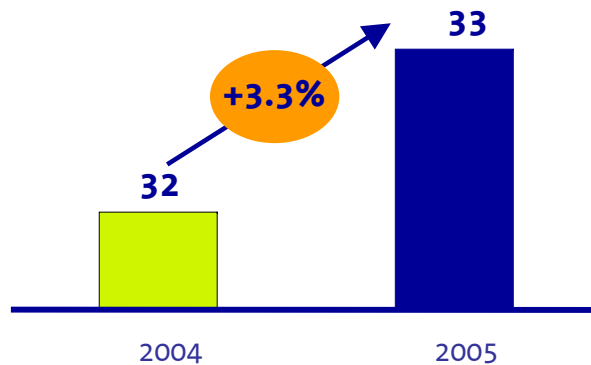
Telefónica de España total ARPU
(€)



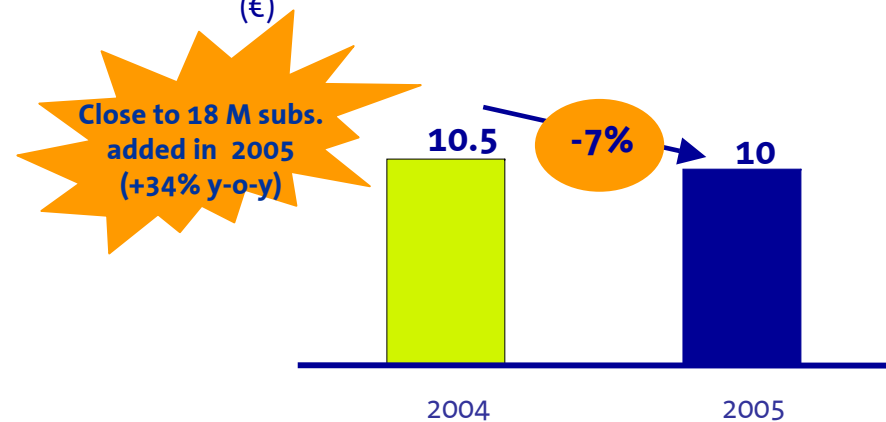
Telefónica Latinoamérica total ARPU ¹
(€)



Telefónica Móviles España total ARPU
(€)



Telefónica Móviles Latam total ARPU
(€)



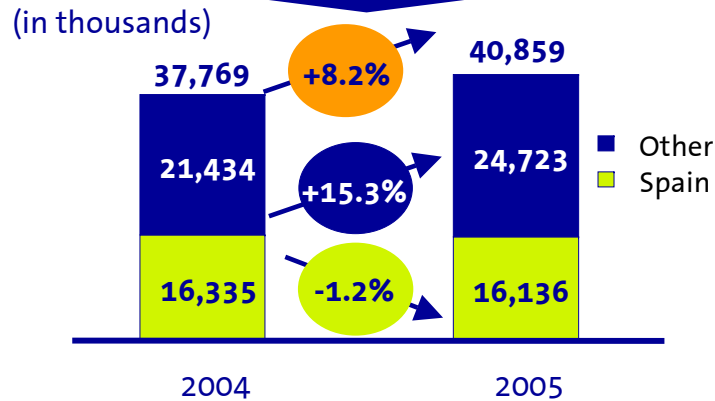
Telefónica



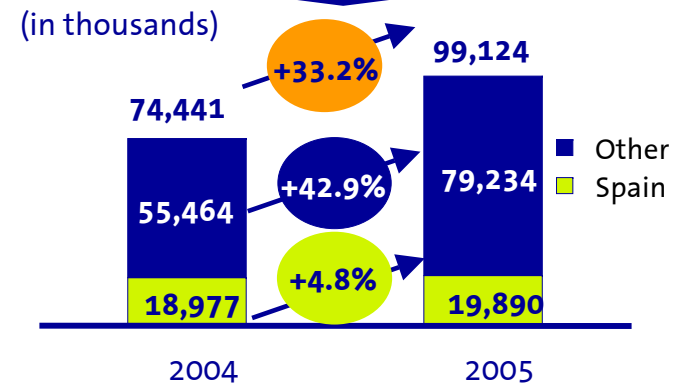
Full Year Results
Jan – Dec 2005

...and the increase of our client base, as we have successfully exploited the industry's growth levers

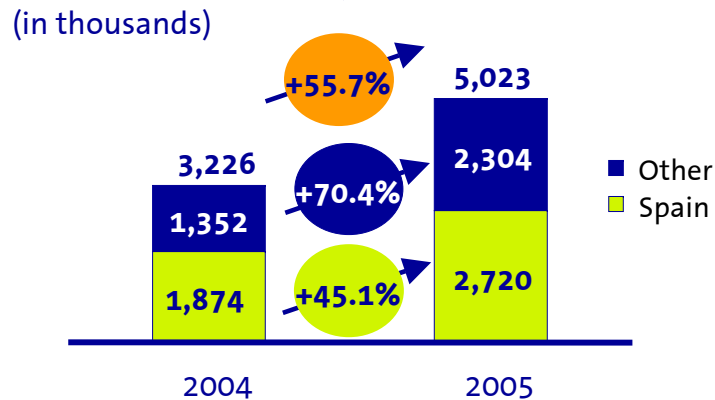
GROUP FIXED CLIENTS



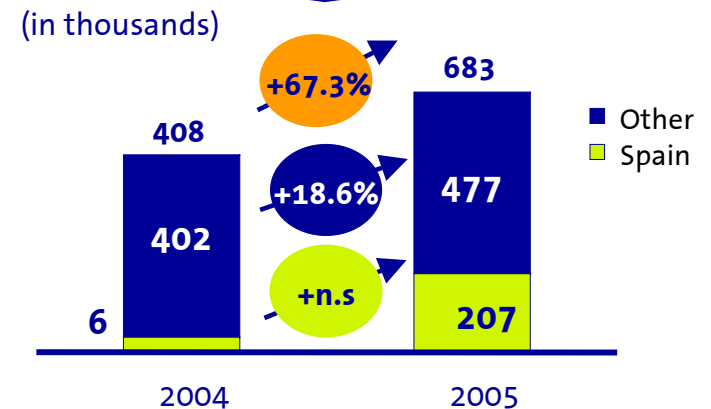
MOBILE COMMUNICATIONS CLIENTS



RETAIL FIXED BROADBAND CLIENTS



PAY-TV CLIENTS



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Note: 2005 figures include Český Telecom

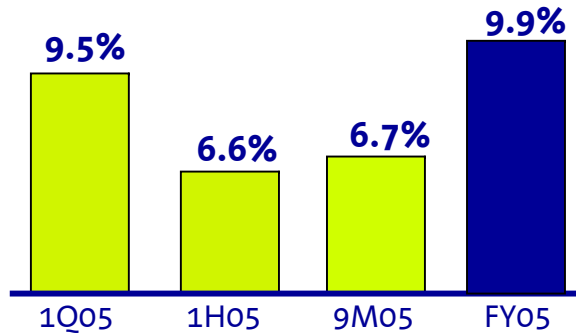


Full Year Results
Jan – Dec 2005

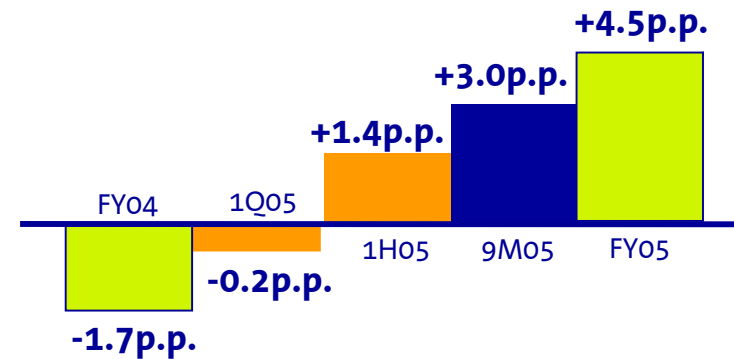
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We have kept a strong hold on costs across the year to retain benchmark profitability

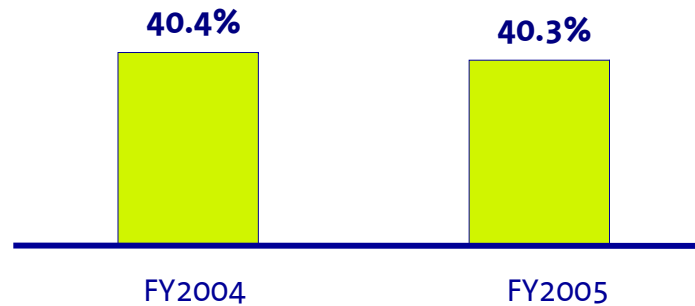
Group Organic OIBDA Growth ⁽¹⁾



Forex Impact on OIBDA in 2005



Group OIBDA Margin



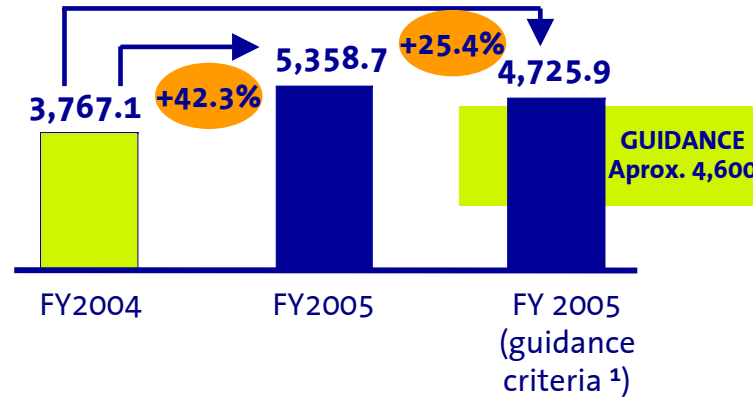
(1) Assuming constant exchange rates as of 2004. Incorporating the assets acquired to BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela into the mobile business and Atrium into Telefonica Latinoamerica's Group, from January 1st 2004. Including Český Telecom from July 1st 2004



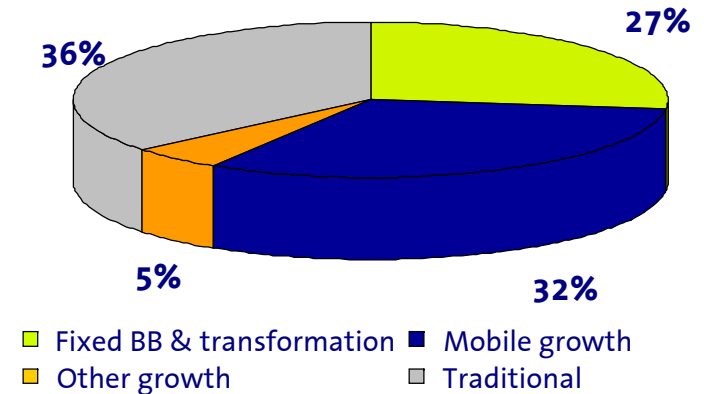
Full Year Results
Jan – Dec 2005

We are generating healthy cash flow while investing for future growth

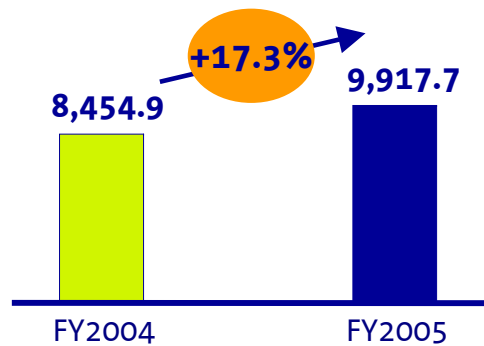
Group CapEx
(€ in Millions)



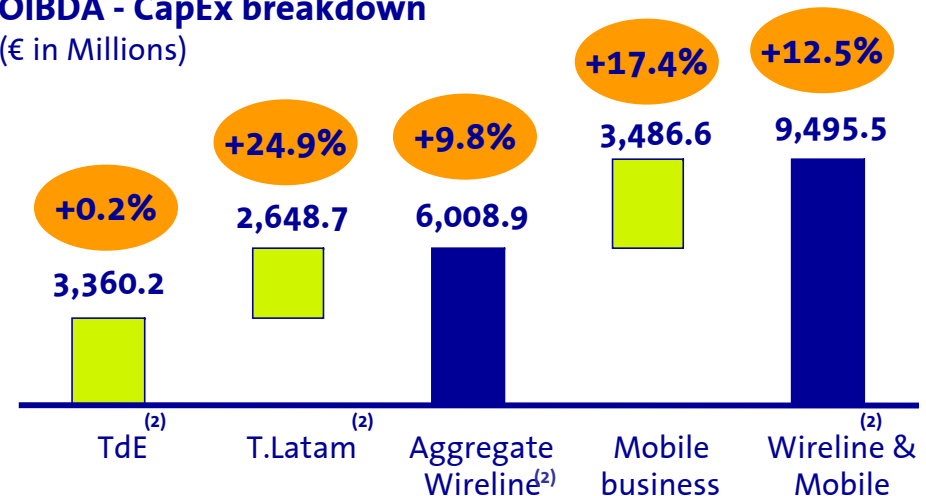
2005 Group CapEx breakdown
(€ in Millions)



Group OIBDA - CapEx
(€ in Millions)



OIBDA - CapEx breakdown
(€ in Millions)



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(1) Assuming constant exchange rates as of 2004. Excluding Český Telecom

(2) Including Terra's Spanish & Latam units, respectively, since July 2005. For T.Latam, 2005 and 2004 OIBDA exclude capital gains from the sale of Telinver (directories in Argentina, 48.4 M€) and of CTC mobile unit (425.5 M€), respectively, as they are intra-group benefits, 2005 OIBDA includes capital gains from the sale of Infonet (80.0 M€)

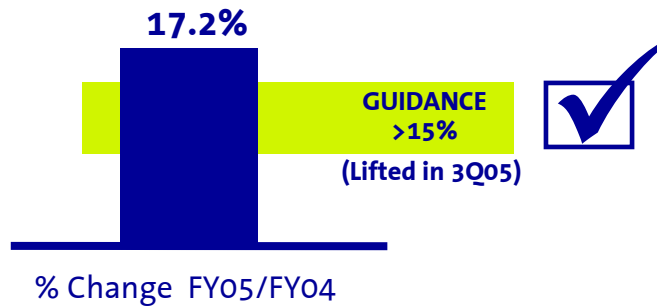


Full Year Results
Jan – Dec 2005

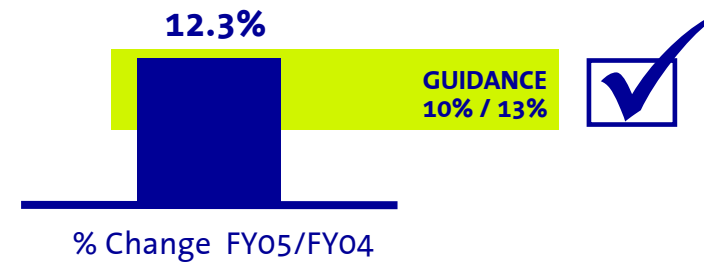
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A performance that meets guidance by far, even after an upgrade, at the Group level...

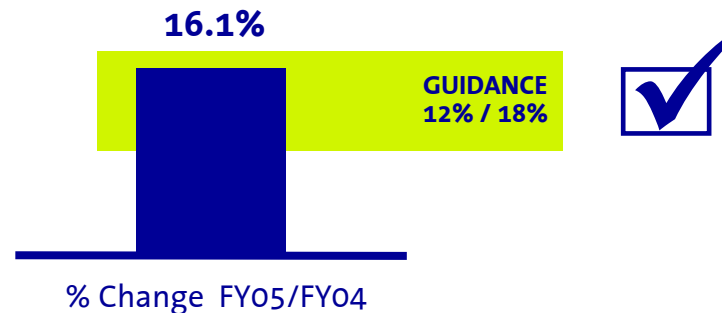
Revenue Growth ⁽¹⁾
(guidance criteria)



OIBDA Growth ⁽¹⁾
(guidance criteria)



OI Growth ⁽¹⁾
(guidance criteria)

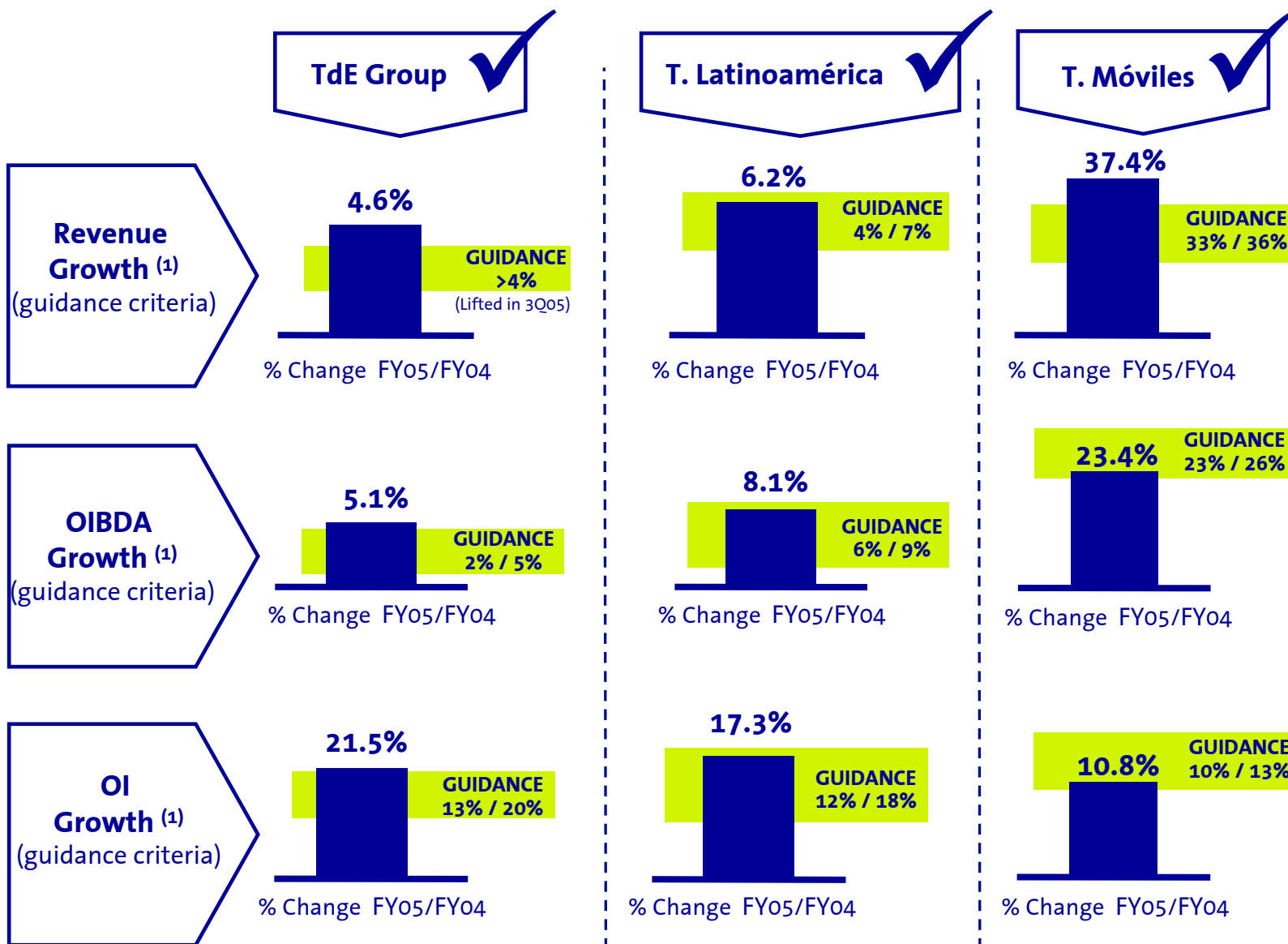


(1) 2005 adjusted for guidance assumes constant exchange rates as of 2004. All figures exclude changes in consolidation, other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (T.Latam). In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2005. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For homogeneous comparison the equivalent other exceptional revenues/expenses registered in 2004 are also deducted from reported figures in terms of guidance calculation



Full Year Results
Jan – Dec 2005

...with all our major business lines delivering



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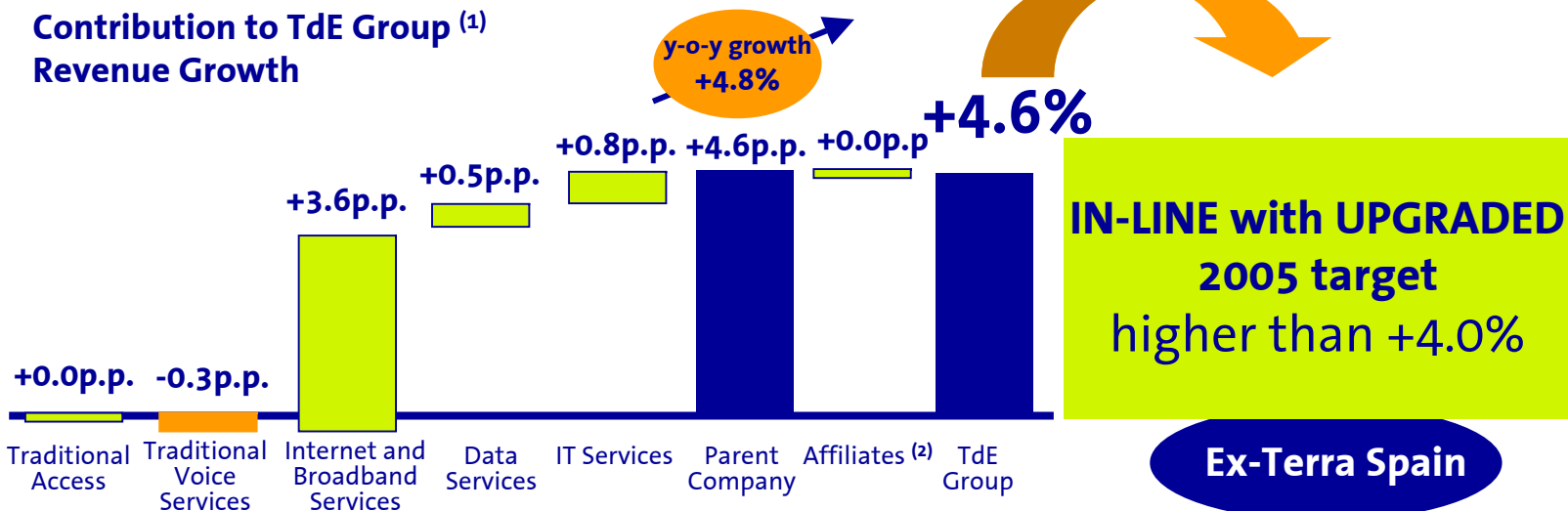
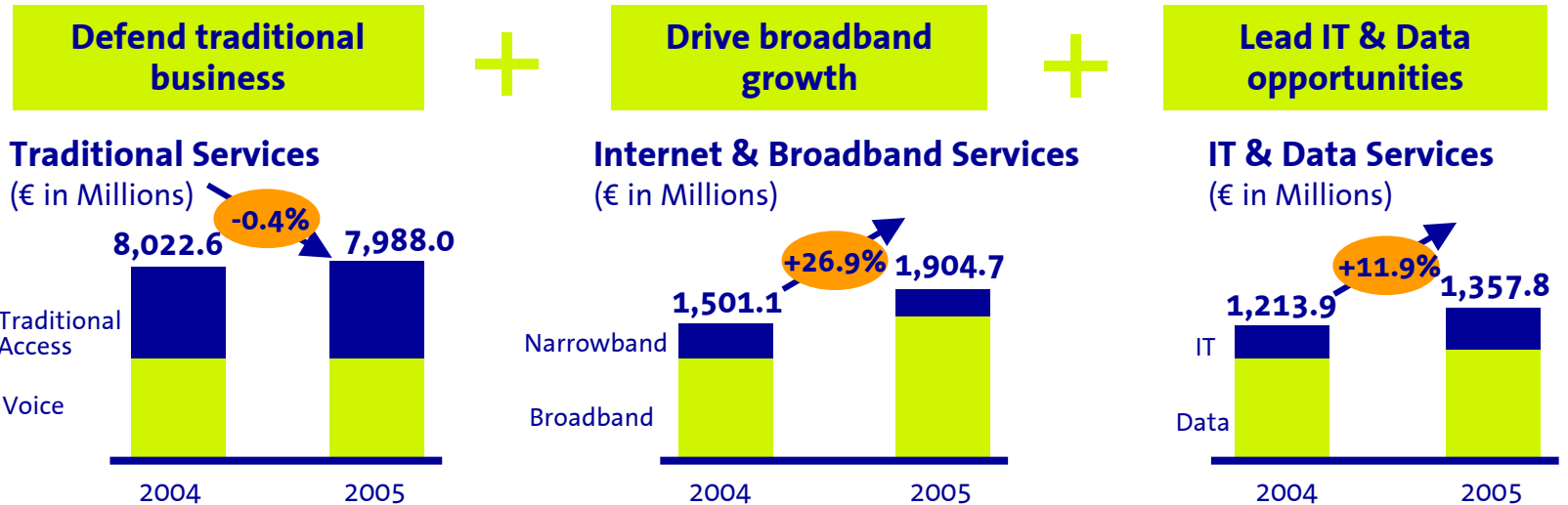
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(1) 2005 adjusted for guidance assumes constant exchange rates as of 2004. All figures exclude changes in consolidation, other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (T.Latam). In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2005. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For homogeneous comparison the equivalent other exceptional revenues/expenses registered in 2004 are also deducted from reported figures in terms of guidance calculation



Full Year Results
Jan – Dec 2005

Telefónica de España Group: In line with Upgraded Revenue Guidance



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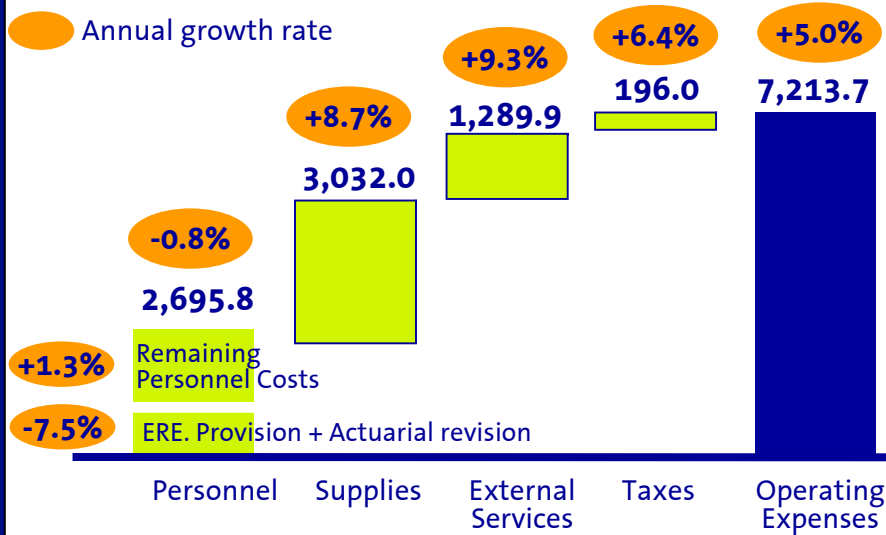
(1) Excluding revenues from Terra Spanish Unit (21.6 M€ in Jul-Dec 2005), which is consolidated under TdE Group since July 2005
(2) Telyco, TTP, T. Cable



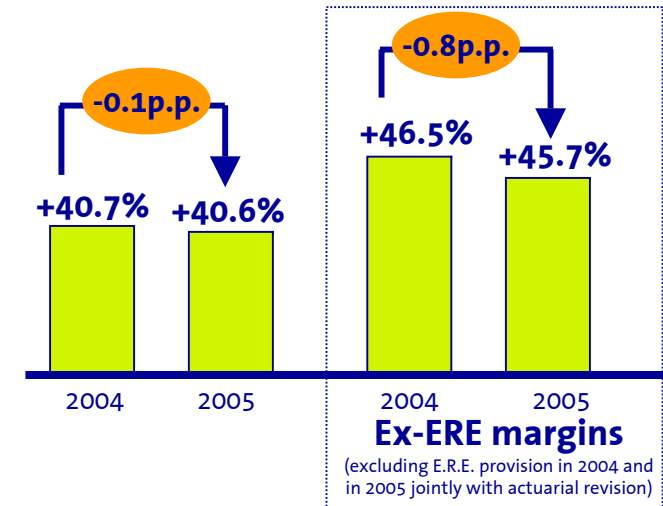
Full Year Results
Jan – Dec 2005

... and at top end of OIBDA guidance despite commercial effort

TdE Group OpEx Breakdown (€ in Millions)



TdE Group OIBDA Margin



TdE Group OIBDA Guidance (€ in Millions)

	OIBDA	Adjustments for guidance calculations	
2004	4,560.0	-69.7	4,490.3
2005	4,766.8	-45.9	4,720.8
Growth	+4.5%		+5.1%

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Note: ERE correspond to TdE redundancy Program

TdE Group OIBDA growth contribution vs. Guidance



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Full Year Results
Jan – Dec 2005

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Telefónica de España Parent: Traditional Services

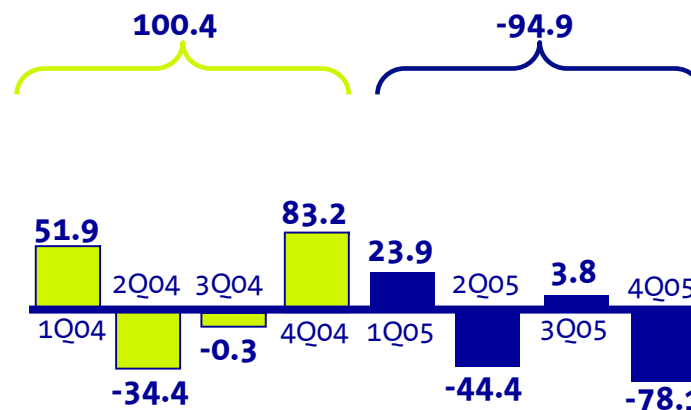
Accesses Evolution

(in thousands)

	FY2005
Fixed Telephony Access net losses	199.2
Full ULL net adds	77.3
Shared ULL net adds	241.4
Fixed Telephony Access (EOY)	16,135.6

Pre-selected Lines Net Adds

(in thousands)



Estimated Traffic

(Million minutes)

	2005	2004	% Change 2005/2004
OUTGOING	59,418	68,787	-13.6%
Voice ⁽¹⁾	43,932	47,334	-7.2%
Local	22,209	24,929	-10.9%
Provincial	5,417	6,053	-10.5%
DLD	5,899	6,242	-5.5%
International	1,967	1,734	+13.5%
F2M	5,684	5,777	-1.6%
IN ⁽²⁾ & Others	2,755	2,600	+6.0%
Internet	15,486	21,453	-27.8%
INCOMING	50,789	54,239	-6.4%
TOTAL	110,207	123,026	-10.4%

(1) Outgoing - Internet
(2) Intelligent Network

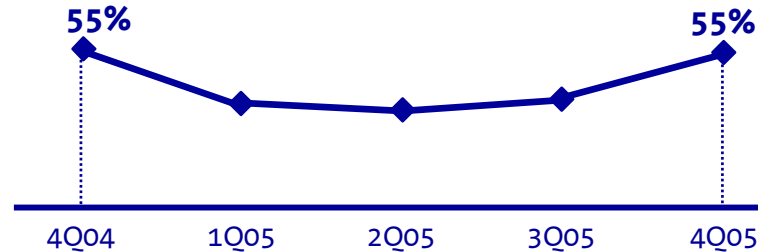
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Full Year Results
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Telefónica de España: Strong Growth of Internet BB While Recovering Market Share

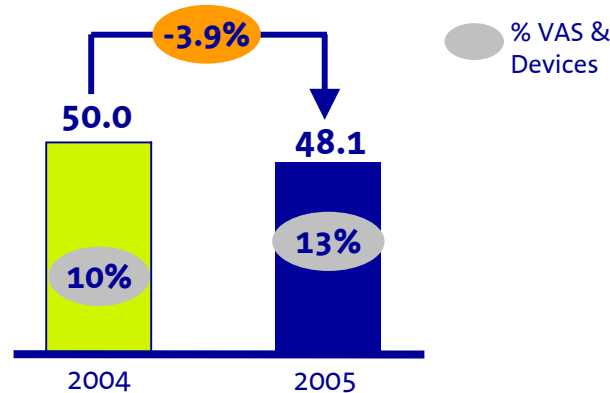
Retail Internet BB Market Share ⁽¹⁾



- Spanish market reaches some 5 Million Internet BB accesses
- 4Q05 +0.5 Mill. IBB accesses: **HIGHEST GROWTH EVER** during a quarter in Spain
- Telefónica de España pushing for IBB growth:
 - Dúos & Tríos launched end 3Q05
 - Commercial focus on IMAGENIO

Telefónica is driving Internet Broadband penetration growth while maintaining market share

ADSL Retail ARPU, TdE Parent (€)



ARPU from VAS & Devices (ex-connectivity) grew by 26% in 2005

IMAGENIO CLIENTS



Target of 200.000 Imagenios by 2005 year end ACCOMPLISHED

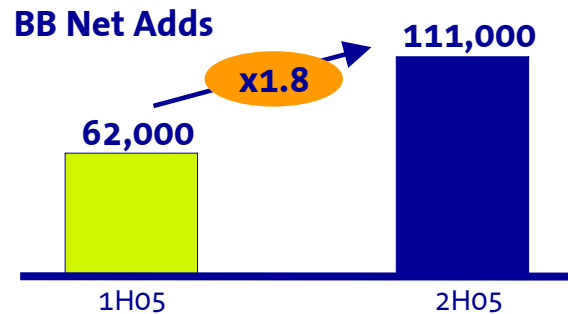




Full Year Results
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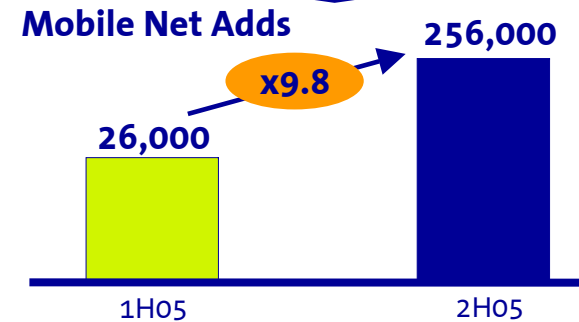
Český Telecom: Managing a rapid turn-around since takeover

FIXED Fully developing broadband



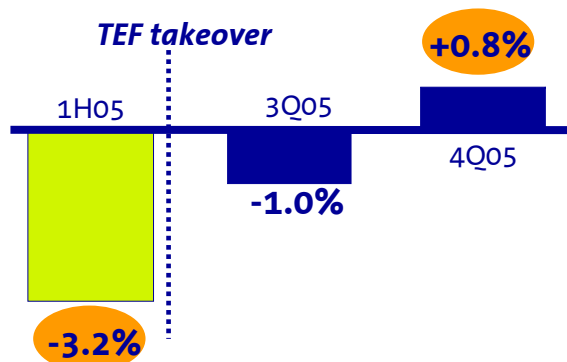
Growing ADSL market share
to a stable 80%

MOBILE Regaining leadership

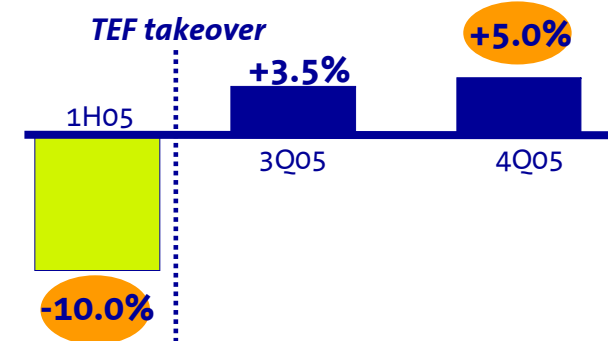


#1 position by market
share of customers & revenues

Annual Revenue Growth ⁽¹⁾ (Local currency)



Annual OIBDA Growth ⁽¹⁾ (Local currency)



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(1) Restated to adapt to IFRS guidelines as applied at the Telefónica Group. Revenues also includes non-operating revenues. OIBDA adjusted by non-recurring items

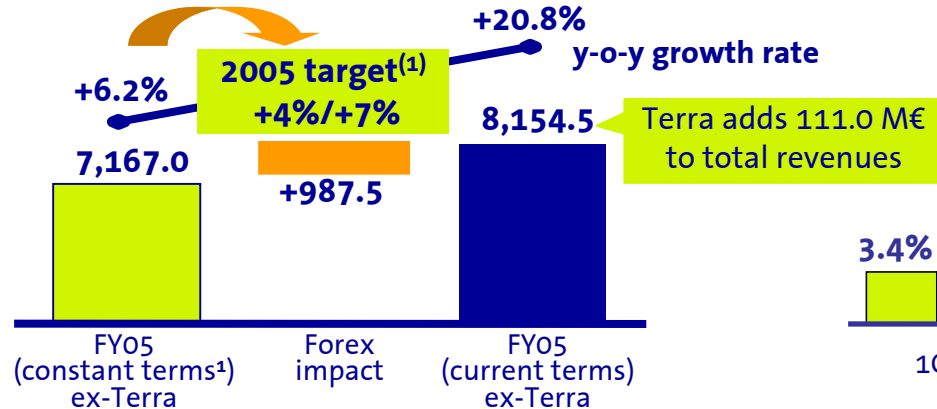


Full Year Results
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Telefónica Latinoamérica: Growing Solidly across Regions...

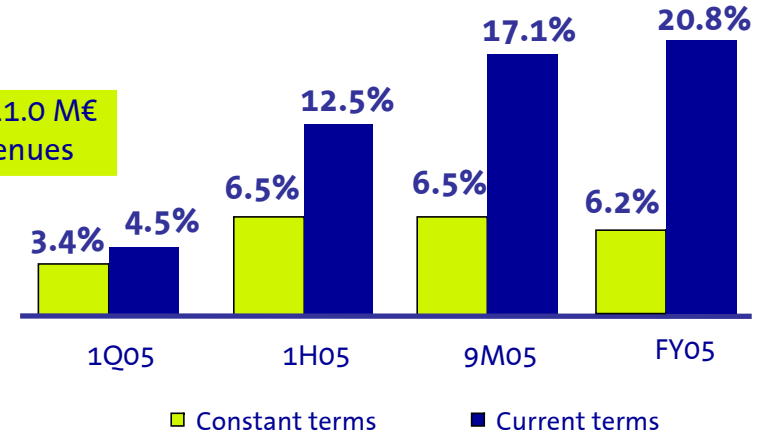
Revenues

(€ in Millions)



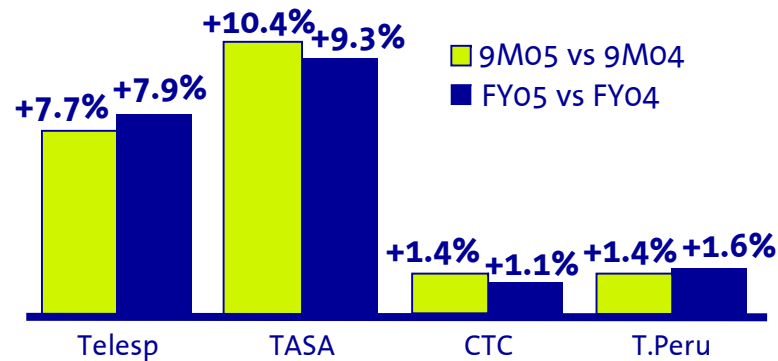
Revenue Growth Rate

(% annual change, ex-Terra)



Revenue Growth by Operating Company

(Local currency)



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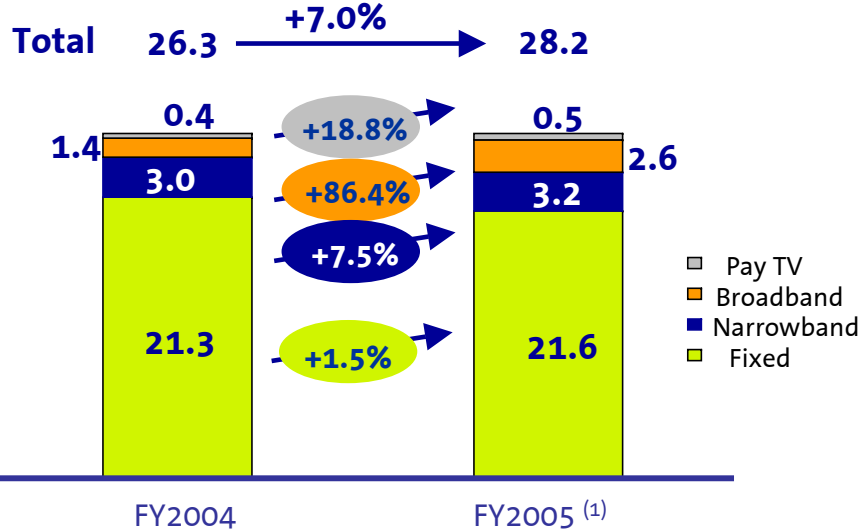
Note: Excluding Terra's Latam unit, which is consolidated under T.Latam since July 2005
(1) Assuming constant exchange rates as of 2004 and excluding changes in consolidation other than Atrium



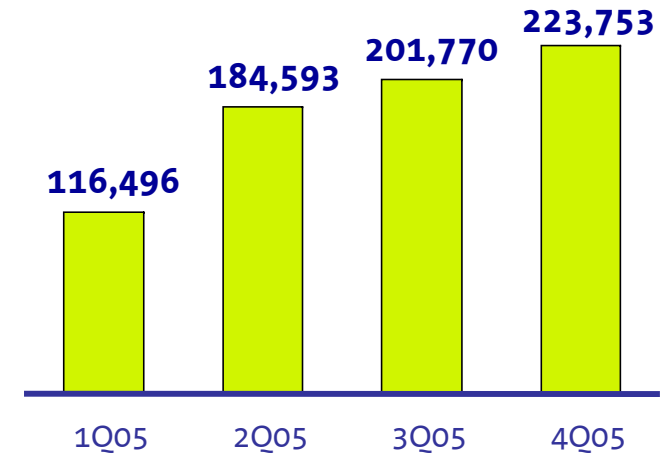
Full Year Results
Jan – Dec 2005

...By Leveraging on Both Traditional and Broadband Services...

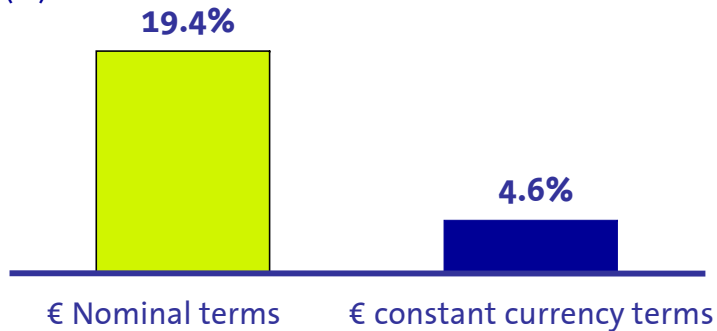
2005 total accesses
(in Millions)



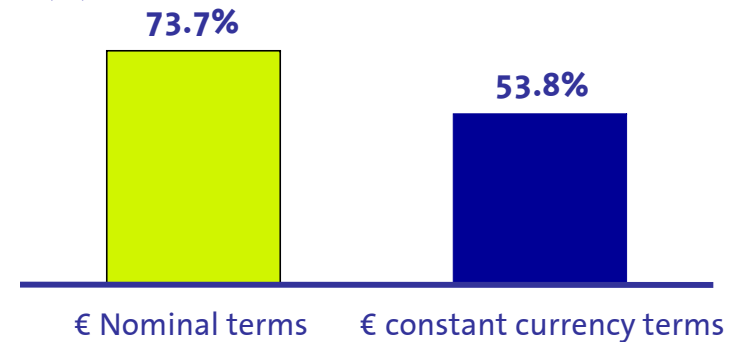
2005 retail BB net adds



2005 Traditional revenue growth
(%)



2005 Broadband revenue growth
(%)



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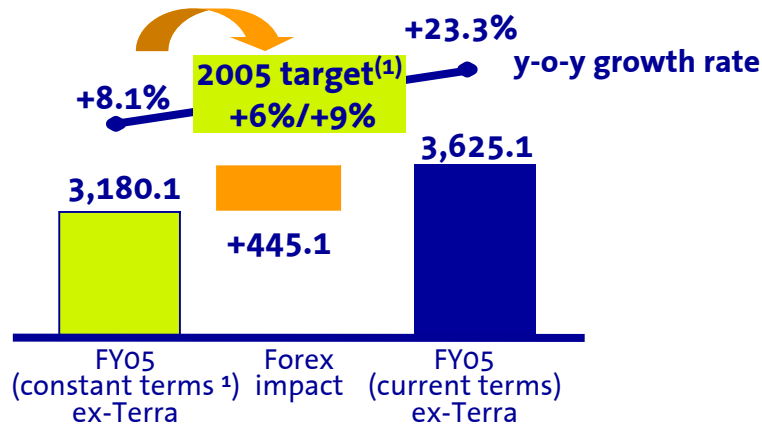
(1) Including Terra Latam



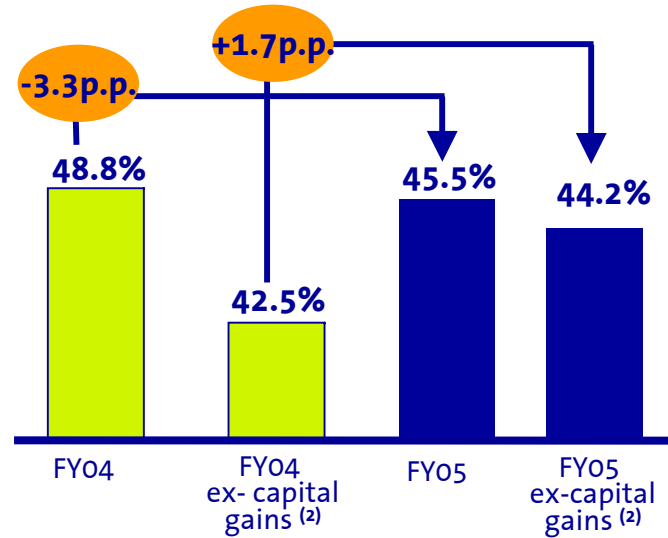
Full Year Results
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...While Keeping Profitability High in Our Way to Reinforce our Market Positions

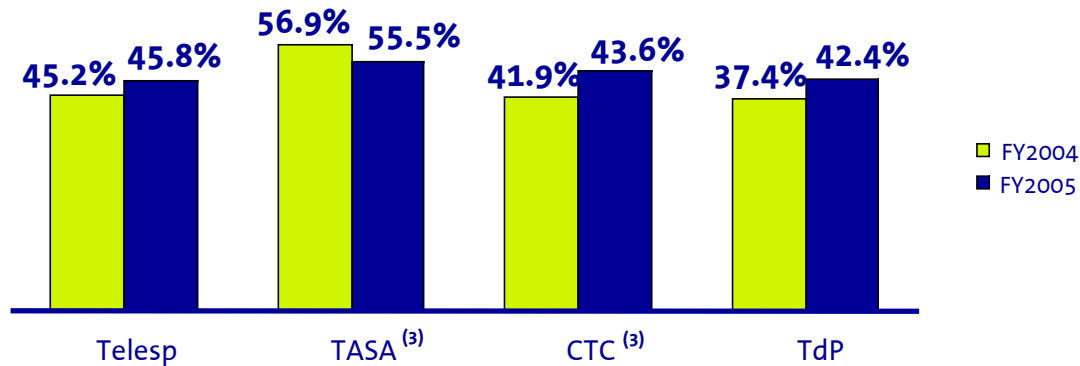
Adjusted OIBDA ⁽¹⁾
(€ in Millions)



Group OIBDA margin



OIBDA Margin by Company



Note: Including Terra's Latam unit since July 2005, except for OIBDA guidance calculation

(1) Adjusted for exceptional revenues & expenses not foreseeable in 2005. 2005 and target refer to local currency (constant exchange rates as of 2004) and exclude changes in consolidation other than Atrium

(2) 107.1 M€ mainly from the sale of Infonet in 2005, and 428.8 M€ mainly from the sale of CTC mobile unit in 2004, respectively

(3) For TASA, margins are net of F2M interconnection. For CTC, excluding extraordinary non-cash charge related to ILD and voluntary retirement program in 2005 and the capital gain related to the sale of CTC Mobile unit in 2004.

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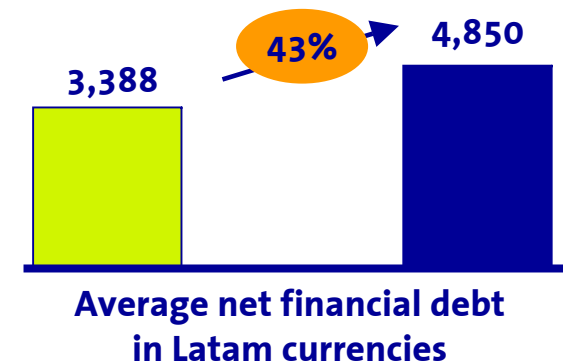
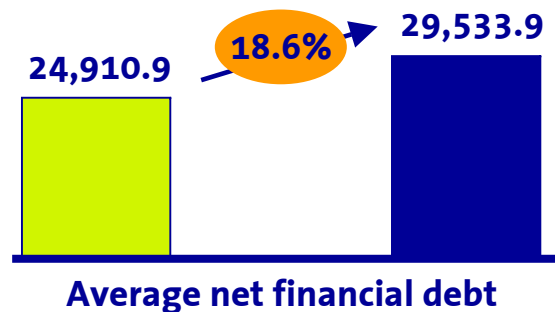


Full Year Results
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An Active Management of Liabilities to Limit the Impact of Higher Gearing

	FY05	FY04	
Net Interest Expenses	(1,796.3)	(1,462.1)	22.9%
FX Results	162.0	(177.0)	
Reported Financial Expenses	(1,634.3)	(1,639.1)	-0.3%

- Higher net interest expenses due to higher total debt and higher debt in Latam currencies (following cellular companies acquisitions and currencies appreciation)



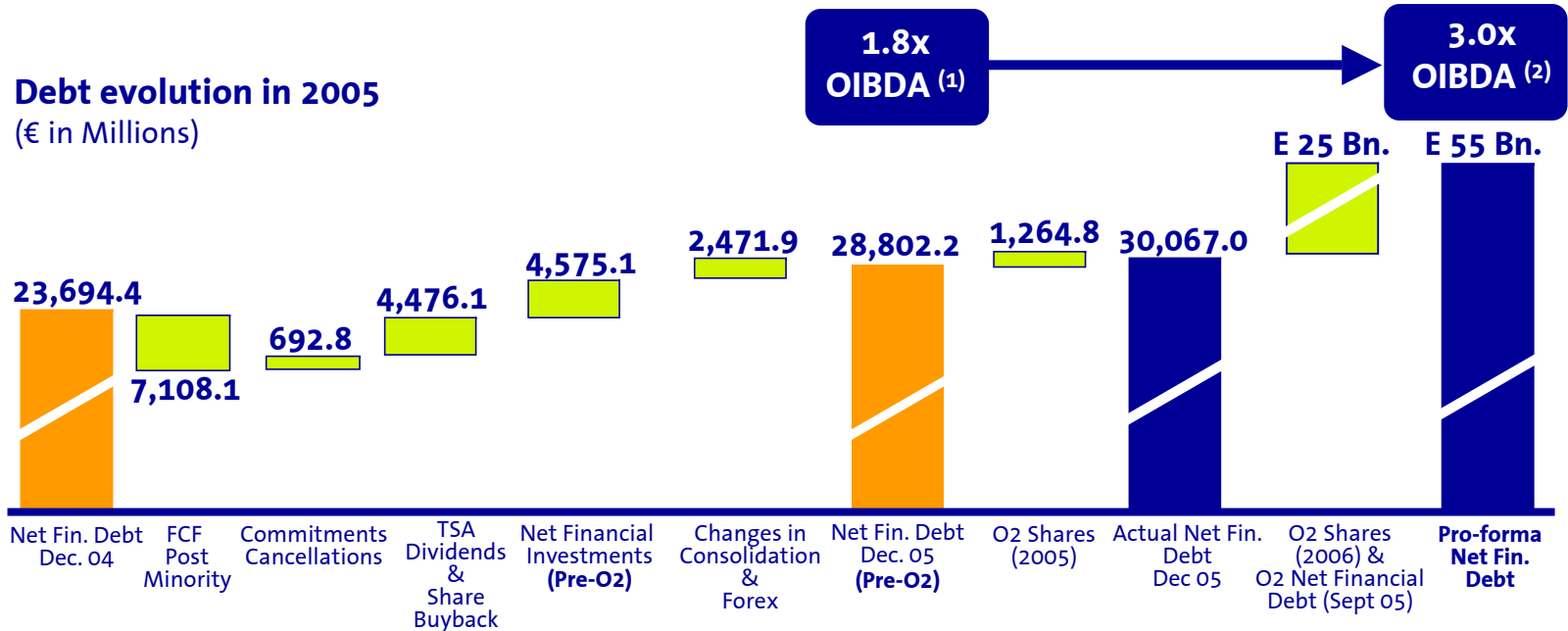
- Positive FX results mainly from the USD and MXN appreciation vs. Euro impacting inter-company loans open positions

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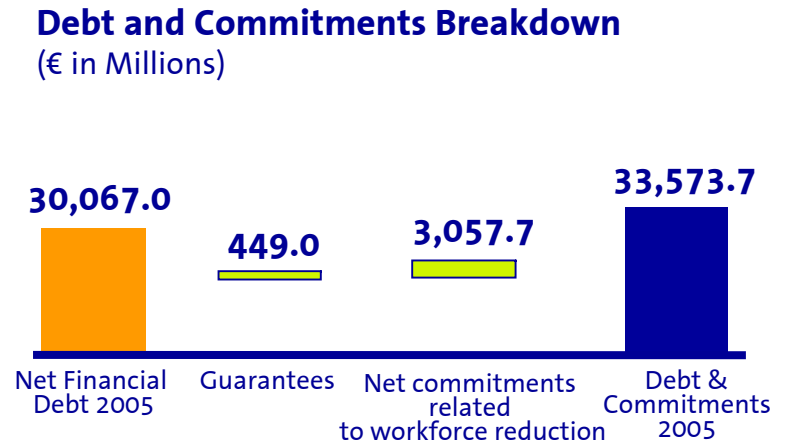
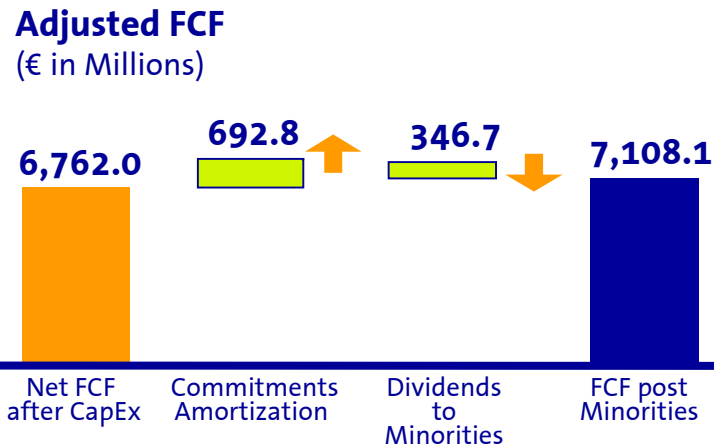


Full Year Results
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Cash Flow & Debt Reconciliation



63% of FCF post minorities devoted to dividends and share buyback



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

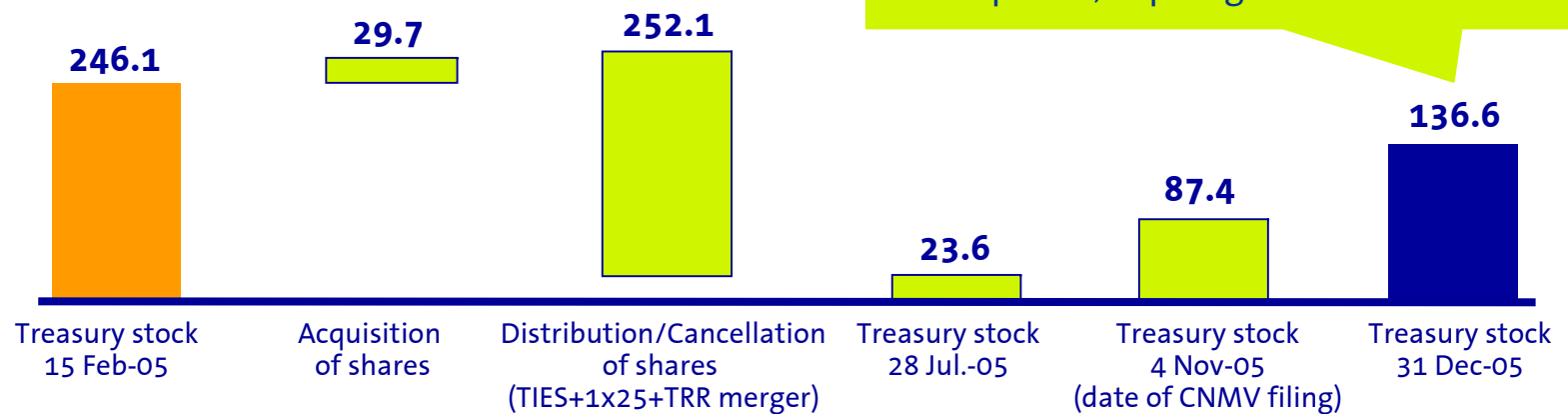


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Jan – Dec 2005

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Share Buyback Program Progress Report

Evolution of Shares in Treasury (in Millions)



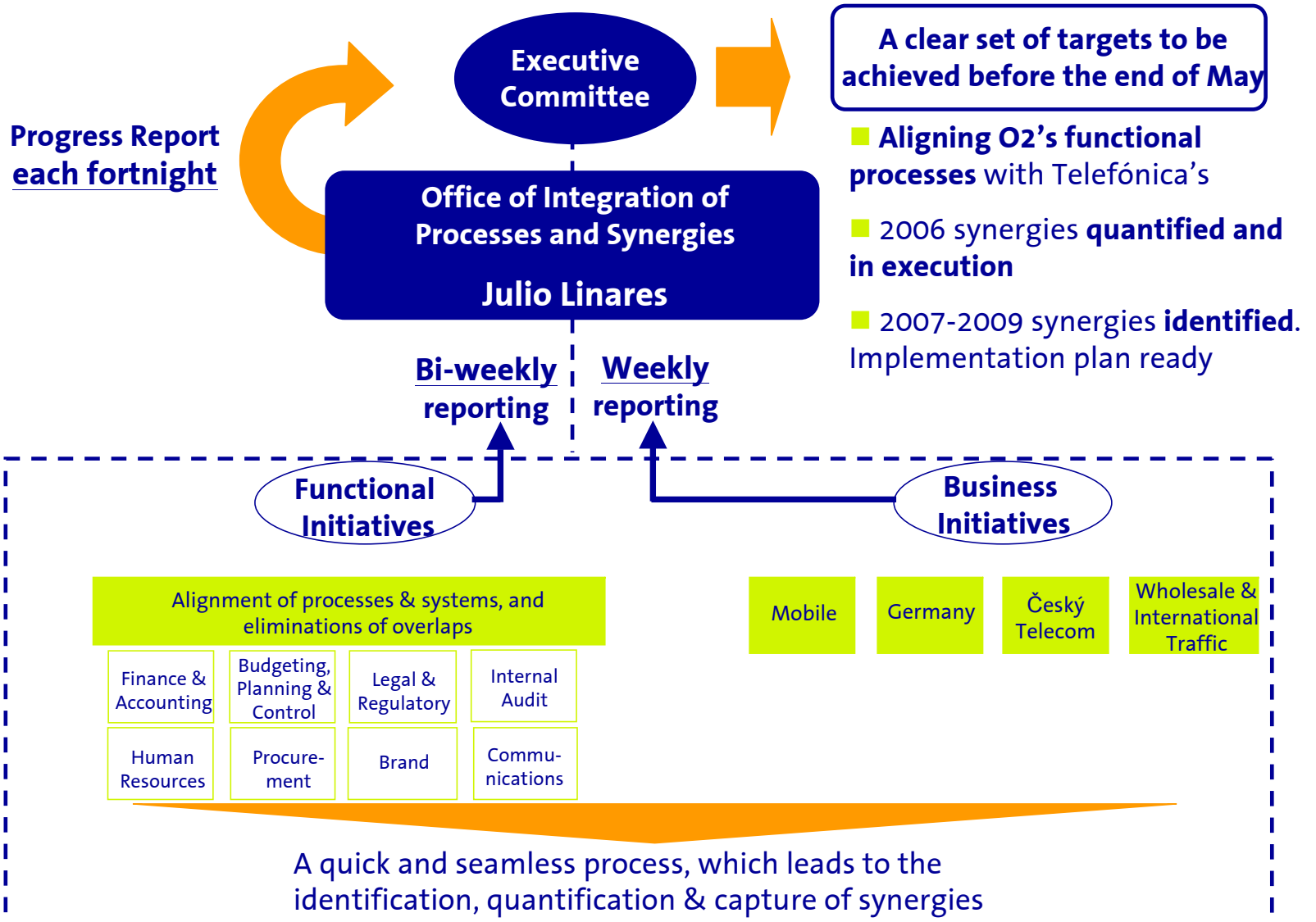
- 2.8% of capital held in treasury
- An additional 39 million shares currently in call options, expiring in 2006

■ **PRINCIPLES: 6 BILLION EUROS UNTIL END 2007 (START IN MAY 2005), SENSITIVE TO CASH FLOW GENERATION AND SHARE PRICE**



Full Year Results
Jan – Dec 2005

O2: an ambitious integration/alignment process that is running at full speed...



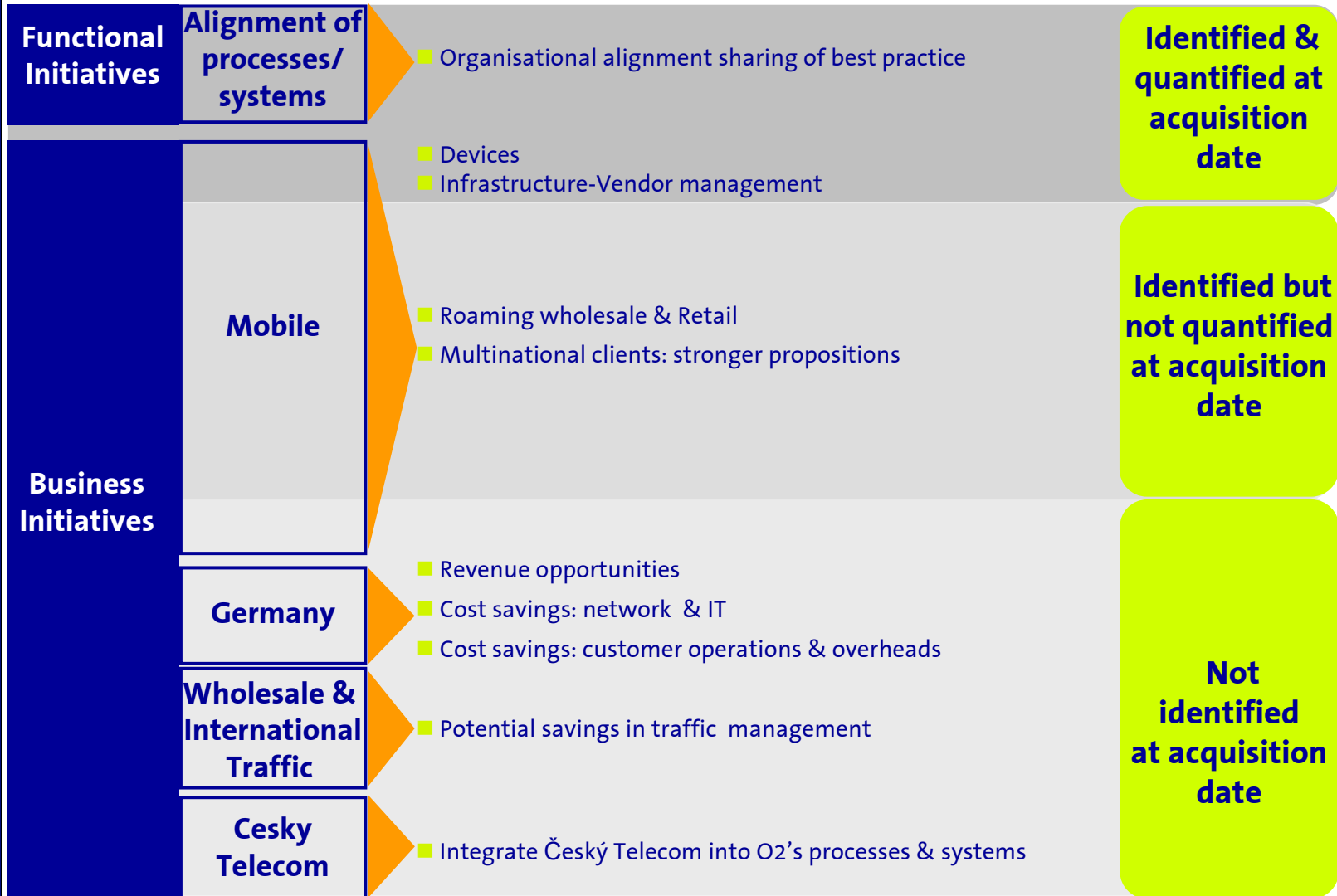
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...with all teams working on 2006 synergies, with a primary focus on “Quick Wins”



Full Year Results
Jan – Dec 2005

Telefonica





Full Year Results
Jan – Dec 2005

Telefonica

We are expanding Český Telecom expected synergies by additionally integrating fixed and mobile within the O2 Group

Extract full synergies from the integration into TEF



Exploit the opportunity of CT-Eurotel full integration

- **PRODUCT DEVELOPMENT, MARKETING AND R&D**
IPTV, UMTS, IP based VAS, content, integrated solutions

- **PROCUREMENT**
Substantial OpEx and CapEx savings

- **TECHNOLOGY AND SOFTWARE PLATFORMS**
Integration & Optimization, next generation services

- **PROCESSES AND ORGANIZATIONAL REDESIGN**
Enhance operating efficiency and achieve best industry benchmarks

- **IMPROVE THE VALUE PROPOSITION**
Convergent/bundled products, one-stop shop, single contact for customer care

- **BENEFIT FROM EFFICIENT SALES**
Cross-selling & Up-selling, Improved retention

- **EXTRACT OPEX SYNERGIES**
Sales & Marketing, Network, IT, Support & Headquarter functions

■ **TOTAL EXPECTED SYNERGIES (NPV): APROX. 2.5x SAVINGS ALREADY COMMUNICATED (250-280 M€) TO REACH A NEW TARGET OF AROUND 625-700 M€**

■ **NEUTRAL OIBDA IMPACT IN YEAR 1 (2006)**

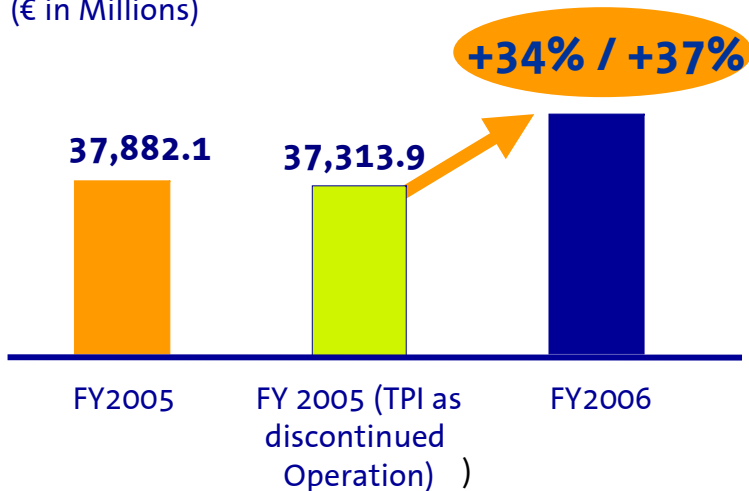
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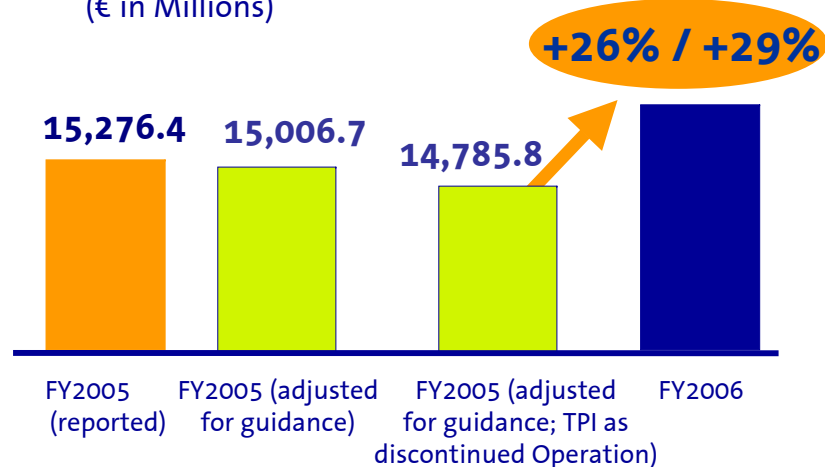
Full Year Results
Jan – Dec 2005

An attractive Group guidance for 2006...

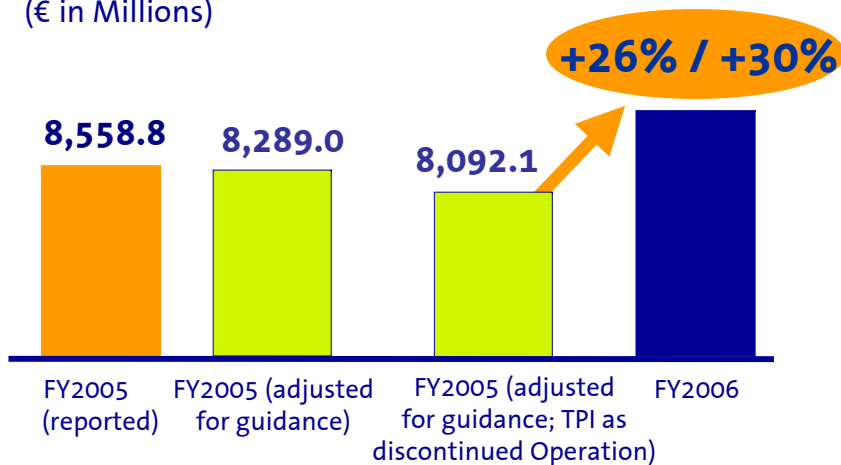
Group Revenues
(€ in Millions)



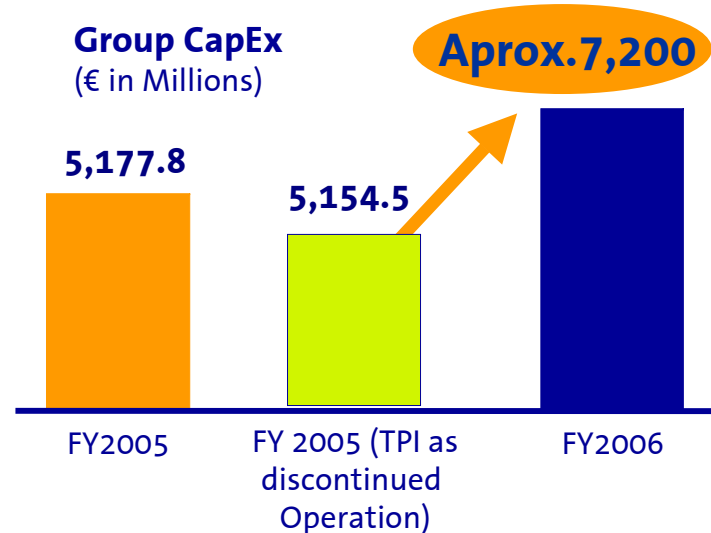
Group OIBDA
(€ in Millions)



Group OI
(€ in Millions)



Group CapEx
(€ in Millions)



Base Reported numbers include six months of Český Telecom (consolidated since July 2005) and include TPI as a discontinued operation. 2006 guidance assumes constant exchange rates as of 2005. All figures exclude changes in consolidation, other than O2 (Feb-Dec 06 included). In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2006. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures. The assignment of O2's goodwill is not included in OI guidance calculation.

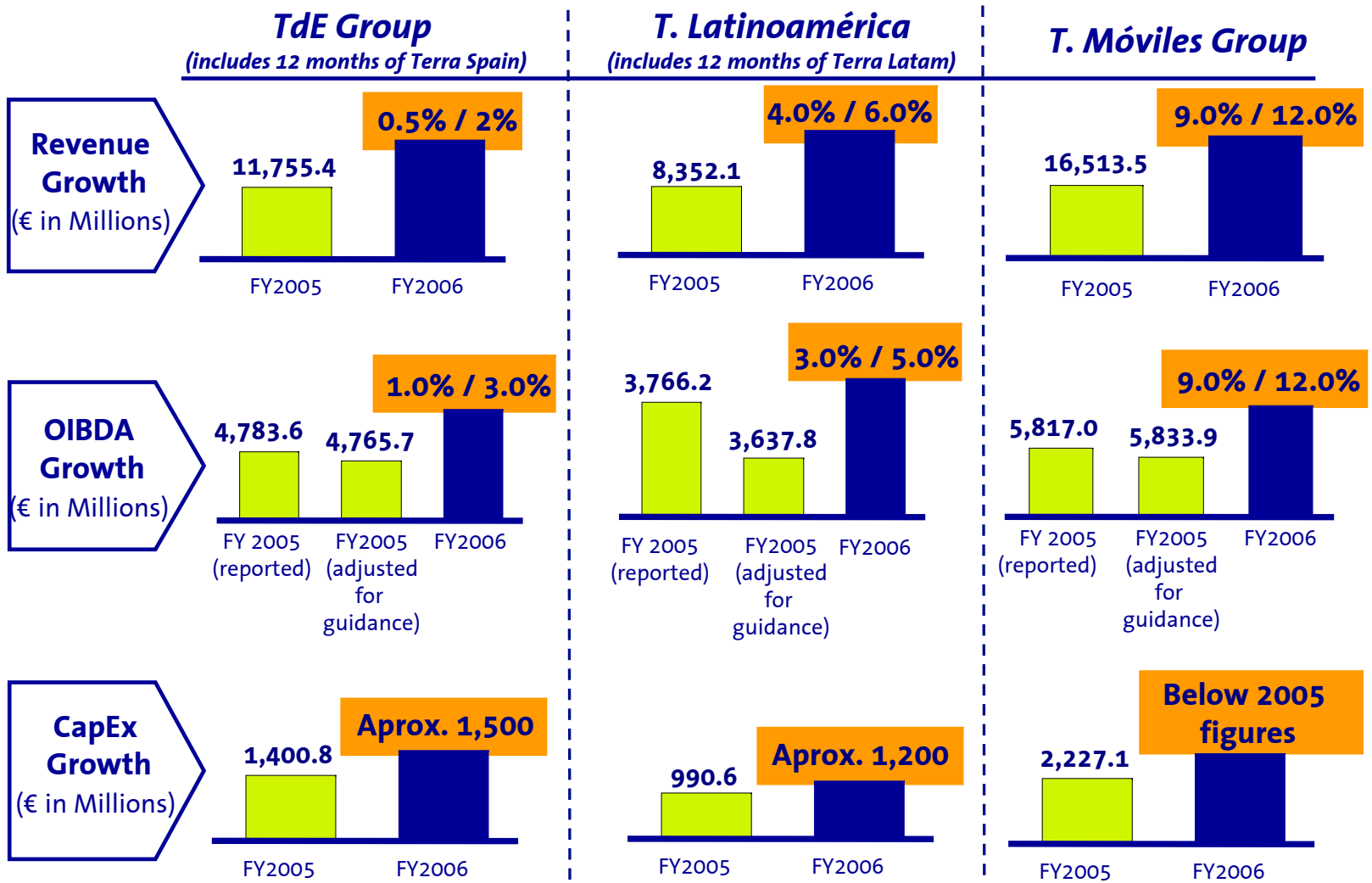
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Full Year Results
Jan – Dec 2005

...both for our long-established fixed & mobile businesses...



TdE and T.Latam reported numbers include Terra's Spanish and Latam units since January 2005, respectively. 2006 guidance assumes constant exchange rates as of 2005, and exclude changes in consolidation. Operating Income before D&A exclude other exceptional revenues/expenses not foreseeable in 2006. TdE's Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For comparison, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures.





Full Year Results
Jan – Dec 2005

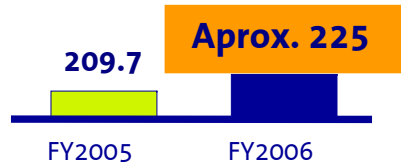
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...as well as for our newly managed O2 division

Český Telecom

We expect to stop the decline of revenues and OIBDA in 2006 and reach the same level as in 2005

CapEx Growth
(€ in Millions)

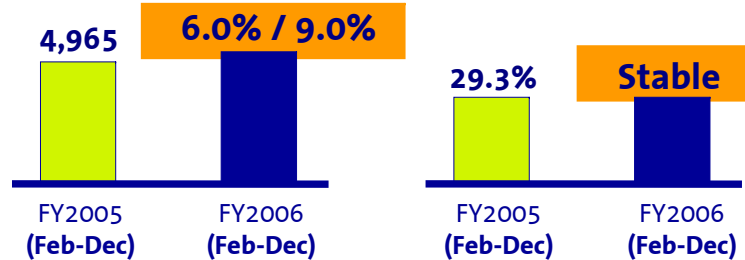


O2 Group

O2 UK

Service Revenue Growth
(€ in Millions)

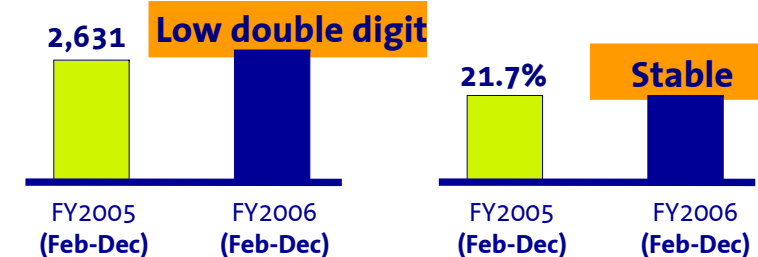
OIBDA Margin
(%)



O2 Germany

Service Revenue Growth
(€ in Millions)

OIBDA Margin
(%)



We expect O2 Group to spend 2.0-2.3 Bn.€ in CapEx in 2006 (Feb-Dec)

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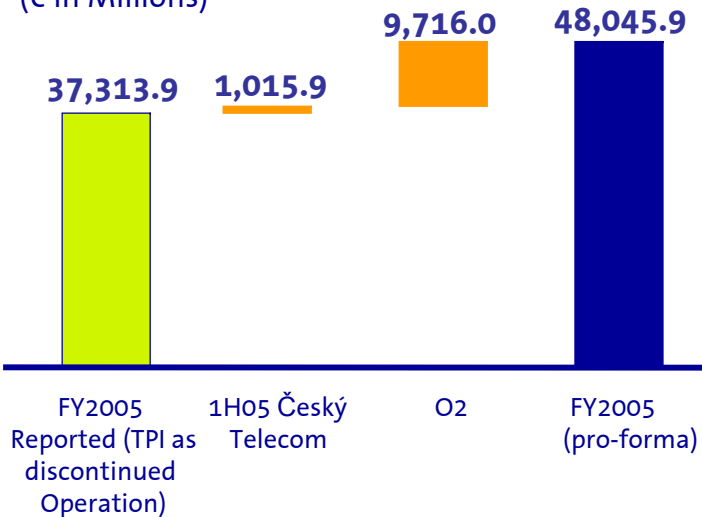
2006 guidance assumes constant exchange rates as of 2005, and exclude changes in consolidation. Operating Income before D&A exclude other exceptional revenues/expenses not foreseeable in 2006. For comparison, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures. O2 Group do not include Český Telecom and Telefonica Deutschland, and O2 Germany doesn't incorporate Telefonica Deutschland. For O2 fiscal year corresponds to the February-December period



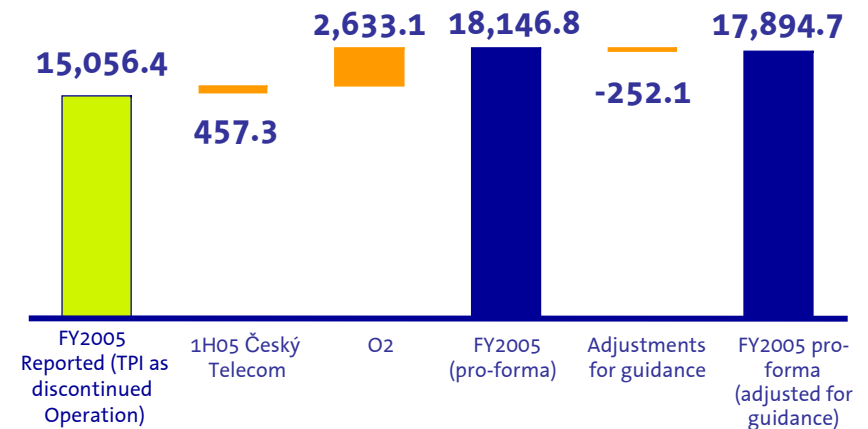
Full Year Results
Jan – Dec 2005

A view on Telefónica's 2005 key pro-forma metrics

Group Revenues
(€ in Millions)



Group OIBDA
(€ in Millions)



Pro-forma numbers include 12 months of Český Telecom (consolidated in the Group since July 2005) and 11 months of O2 (February-December 2005) as the company will start to be incorporated into Telefónica's accounts in February 2006



Full Year Results
Jan – Dec 2005

Telefonica

Conclusions

- Our management of operations, centred on top-line growth, efficiency, and cash generation is proving to be successful across the P&L, with Net Income increasing by 40%
- We have kept organic growth at unparalleled levels, backed by the strong performance in subscribers and ARPUs for all divisions
- We have met our 2005 financial commitments by far, after being one of the few incumbents raising guidance last year
- We have retain healthy margins and operating cash flow generation, even in a context of renewed commercial efforts and higher CapEx to lead the development of growth opportunities in our markets
- We are successfully turning around Cesky Telecom, a proof of our capacity to generate tangible benefits from integrating acquisitions fast

In a nutshell, we are proving to be the best combination of growth and cash returns in the industry

Telefónica
