Quarterly Results
January – June 2006

Telefónica

July 27th, 2006

Telefónica, S.A.
Investor Relations

This presentation is being broadcast live on the Internet

Quarterly Results
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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 – June 2006

A very attractive set of financials in 1H06...

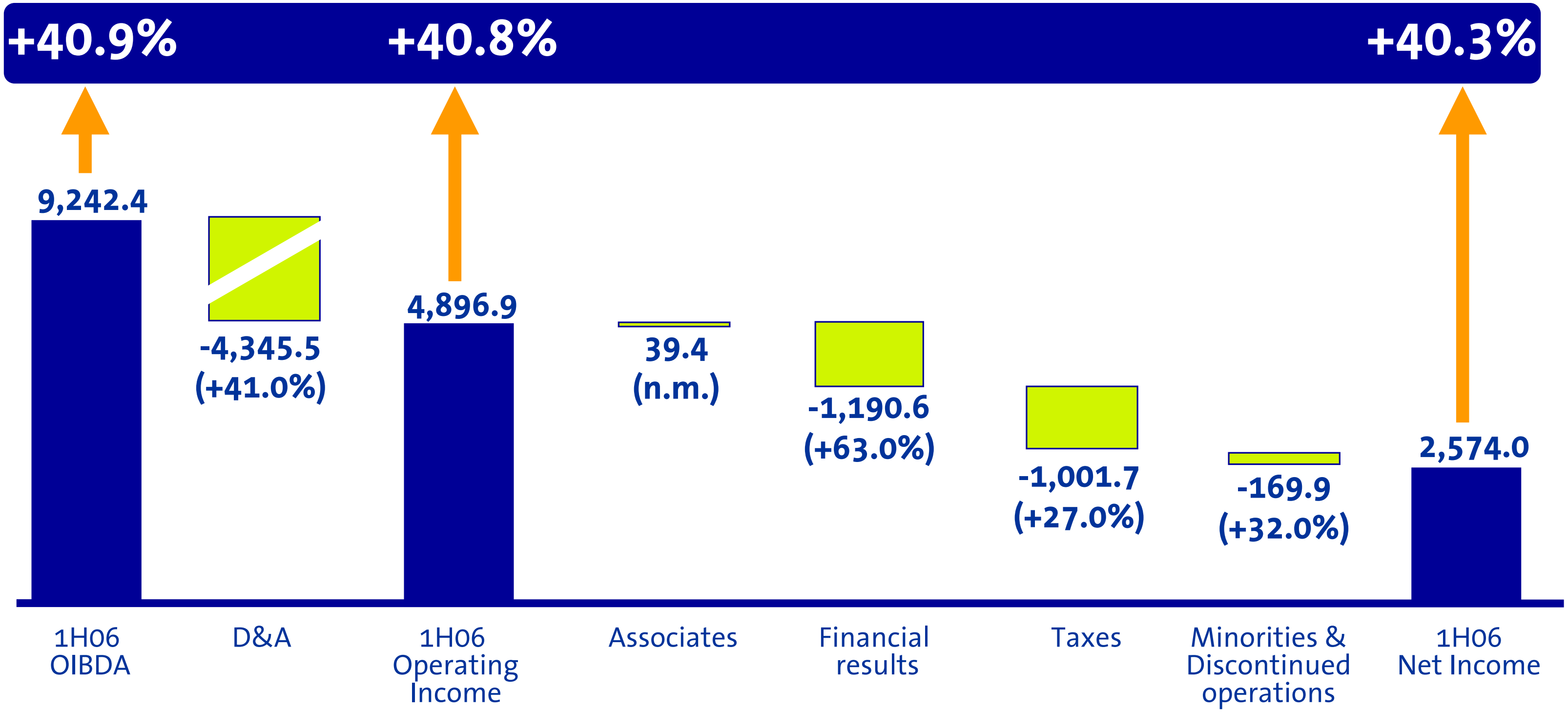
€ in Millions
(% change y-o-y)

	Jan-Jun 2006	Jan-Jun 2005	% Change 1H06/1H05	% Change 1H06/1H05 ex-forex [1]	% Change 1H06/1H05 Organic [2]
Revenues	25,162.5	17,186.4	+46.4%	+41.0%	+7.7%
Operating Income before D&A (OIBDA)	9,242.4	6,558.9	+40.9%	+35.4%	+7.4%
Operating Income (OI)	4,896.9	3,477.9	+40.8%	+36.6%	+16.5%
Net Income	2,574.0	1,835.1	+40.3%		
OpCF (OIBDA-CapEx)	6,220.8	4,664.0	+33.4%	+27.6%	+11.4%

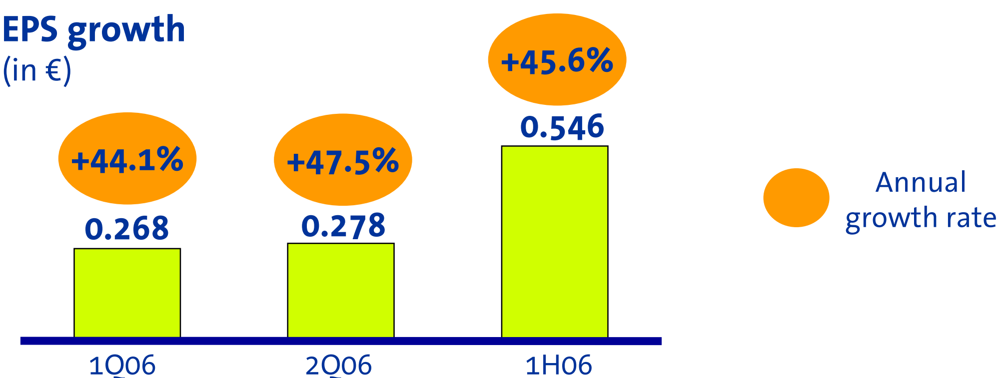
Note: TPI has been discontinued in 2006 and 2005 following Telefónica's acceptance of Yell's offer in July 4th
(1) Assuming constant exchange rates as of 1H05
(2) Assuming constant exchange rates as of 1H05. Incorporating Telefóica O2 Czech Republic and O2 from January and February 1st 2005, respectively, and excluding Colombia Telecom (consolidated since May 2006)

...from top to bottom

€ in Millions
(% change y-o-y)



EPS growth
(in €)



Note: TPI has been discontinued in 2006 and 2005 following Telefónica's acceptance of Yell's offer in July 4th

Quarterly Results
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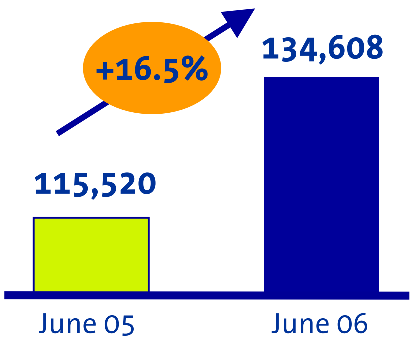
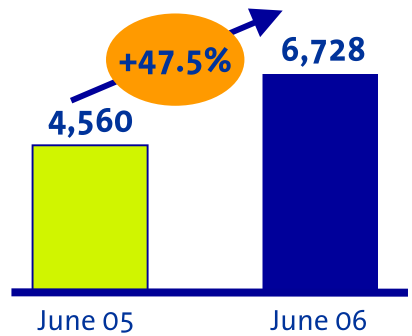
Healthy growth in clients to secure a distinctive top-line growth profile in the sector

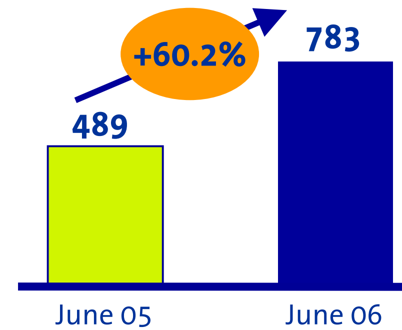
Mobile Accesses
(Organic[1] growth, thousands)



Retail Internet BB Accesses
(Organic[1] growth, thousands)

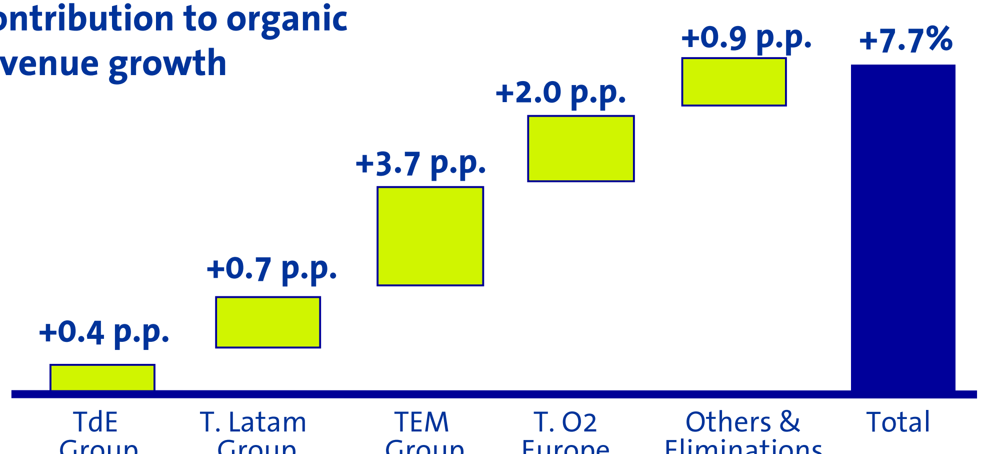


Pay TV Accesses
(Organic[1] growth, thousands)



12% organic annual growth in total accesses in 1H06

Contribution to organic revenue growth



(1) O2 and Telefónica O2 Czech Republic included in the June 05 figure. Colombia Telecom excluded from the June 06 figure.

Quarterly Results
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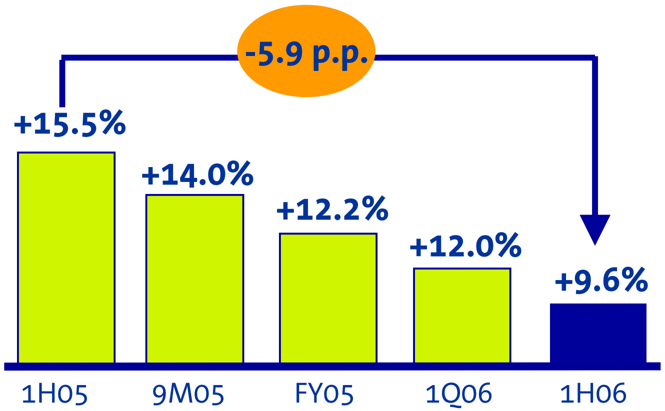
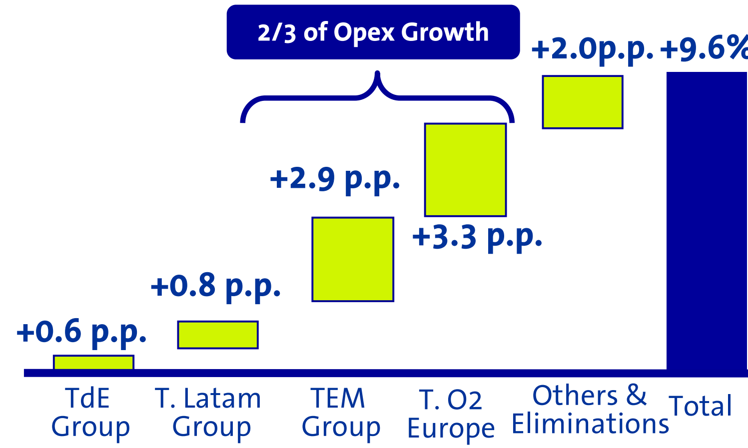
Deeper cost contention to drive profitability

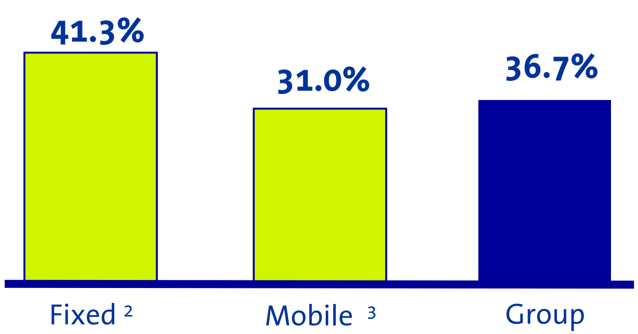
OpEx[1] Organic Growth



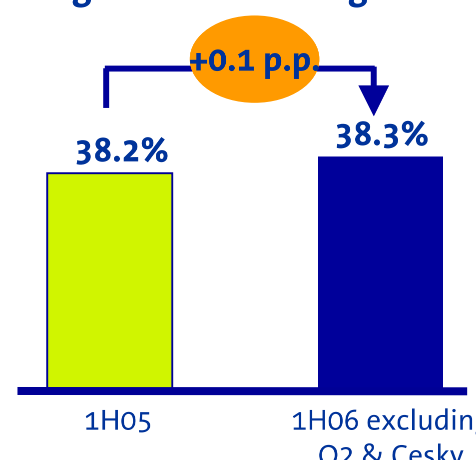
1H06 Organic OpEx[1] breakdown



1H06 OIBDA Margin



Organic OIBDA Margin evolution



(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 (Telefónica O2 Czech Republic and T. Deutschland are not included)

Quarterly Results
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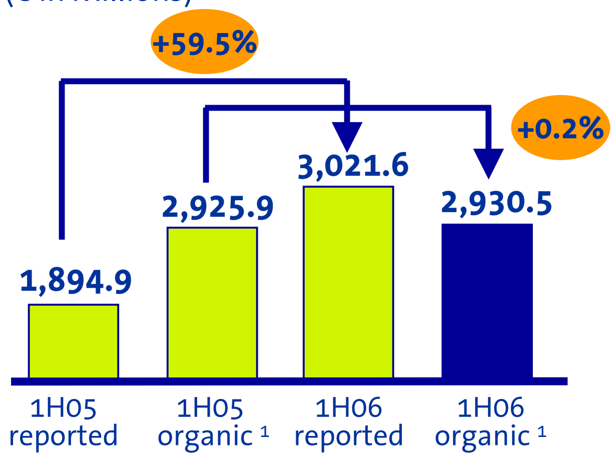
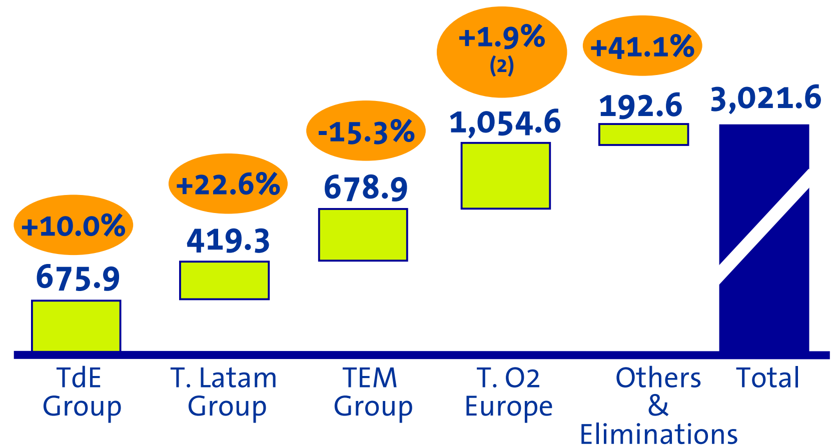
Cash flow remains solid across businesses

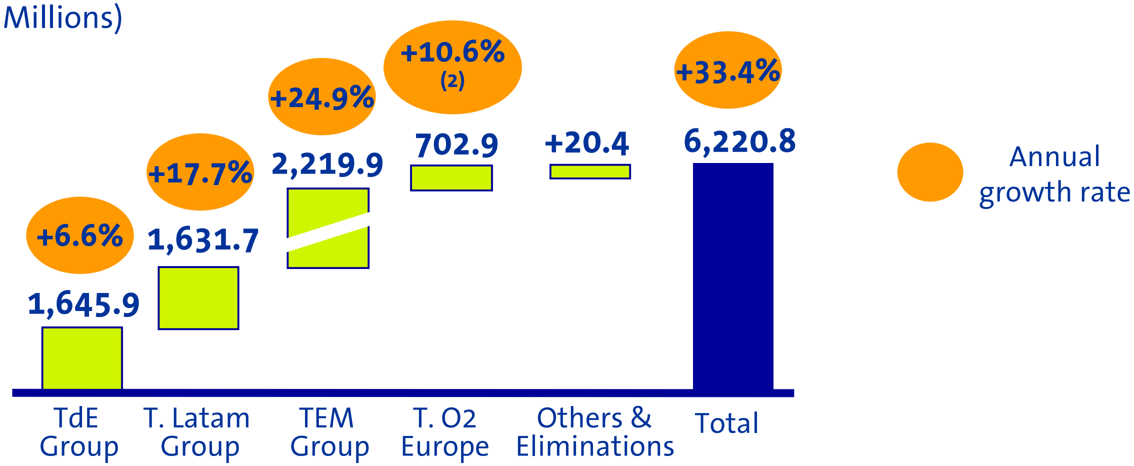
1H06 CapEx evolution
(€ in Millions)



1H06 CapEx breakdown
(€ in Millions)



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



(1) 1H06 organic assumes foreign exchange rates as of 1H05, and excludes Colombia Telecom (May-Jun). 1H05 organic includes O2 (Feb-Jun) and Telefónica O2 Czech Republic (Jan-Jun)
(2) Pro-forma

Quarterly Results
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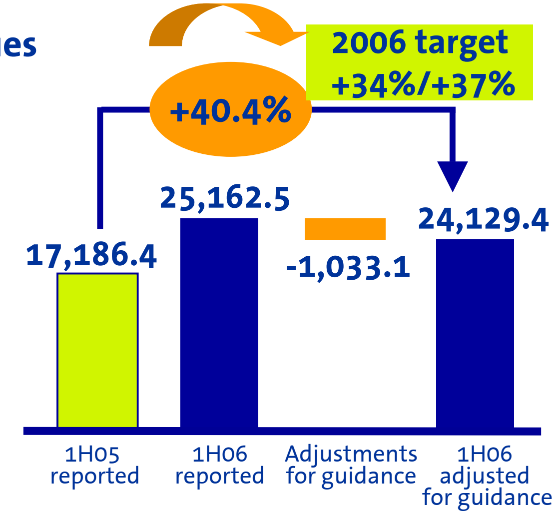
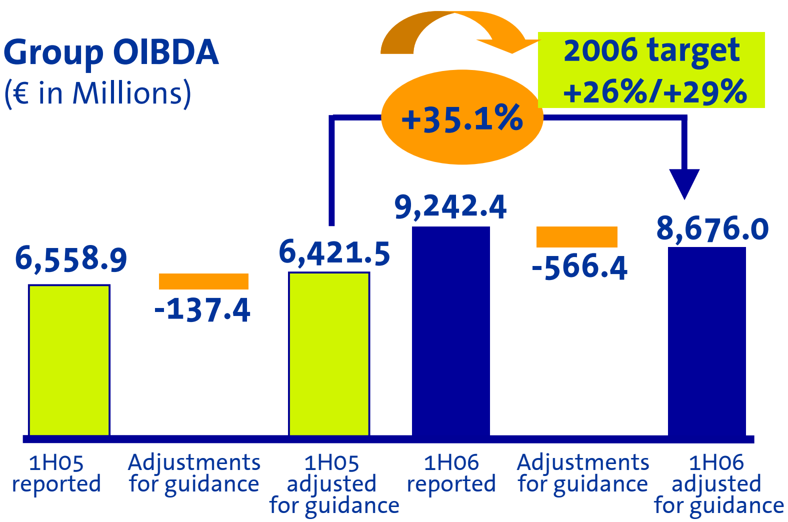
1H06 performance is in-line with year-end targets

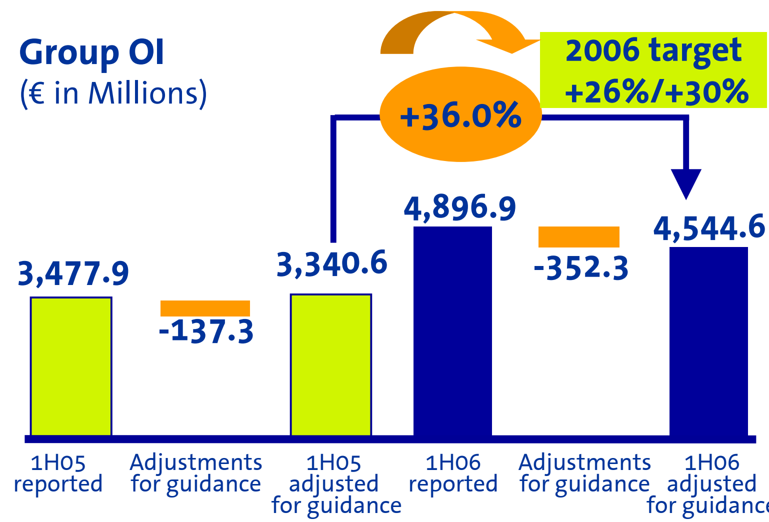
Group Revenues
(€ in Millions)



Group OIBDA
(€ in Millions)



Group OI
(€ in Millions)



Notes
1H06 adjusted for guidance assumes constant exchange rates as of 1H05 and excludes TPI and Colombia Telecom 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 1H05 numbers, and the equivalent other exceptional revenues/expenses registered in 1H05 are also deducted from reported figures in terms of guidance calculation.

Quarterly Results
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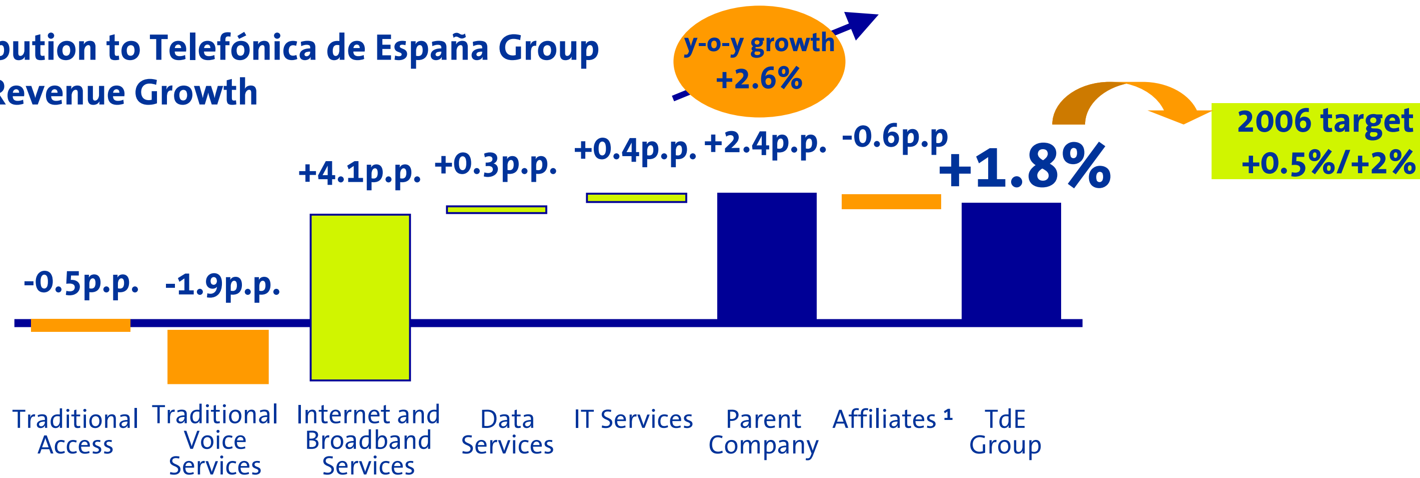
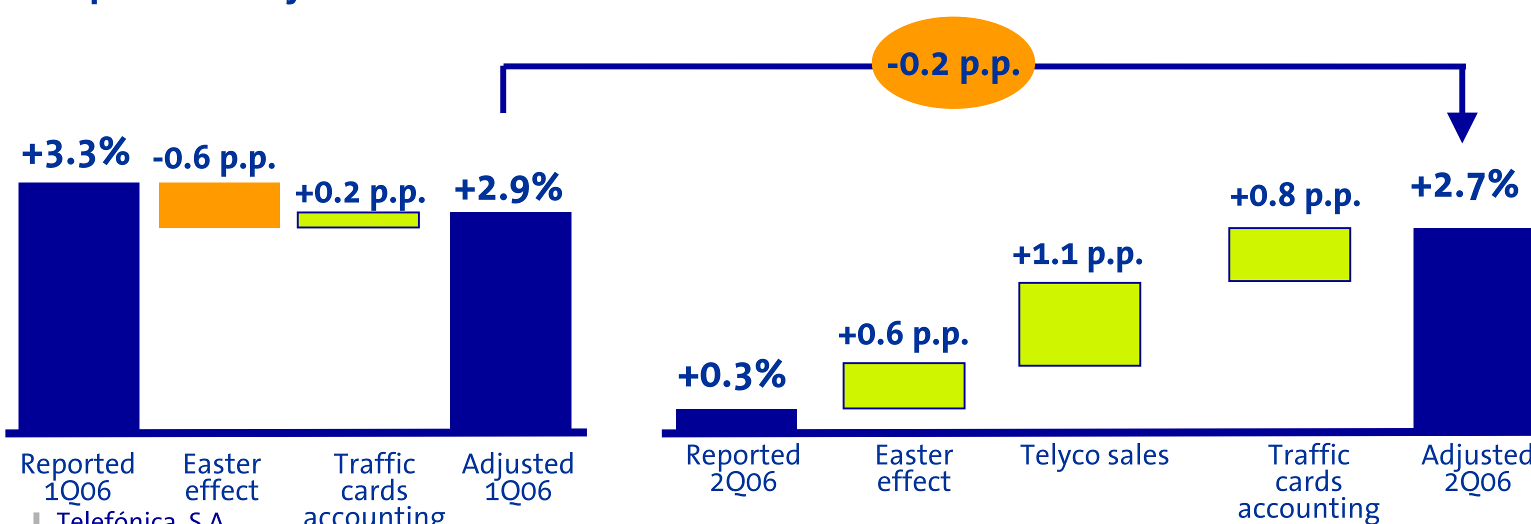
Telefónica de España Group: solid underlying revenue growth...

Contribution to Telefónica de España Group 1H06 Revenue Growth



TdE Group Quarterly Revenue Growth Reported & Adjusted



(1) Telyco, TTP, T. Cable, Terra España

Quarterly Results
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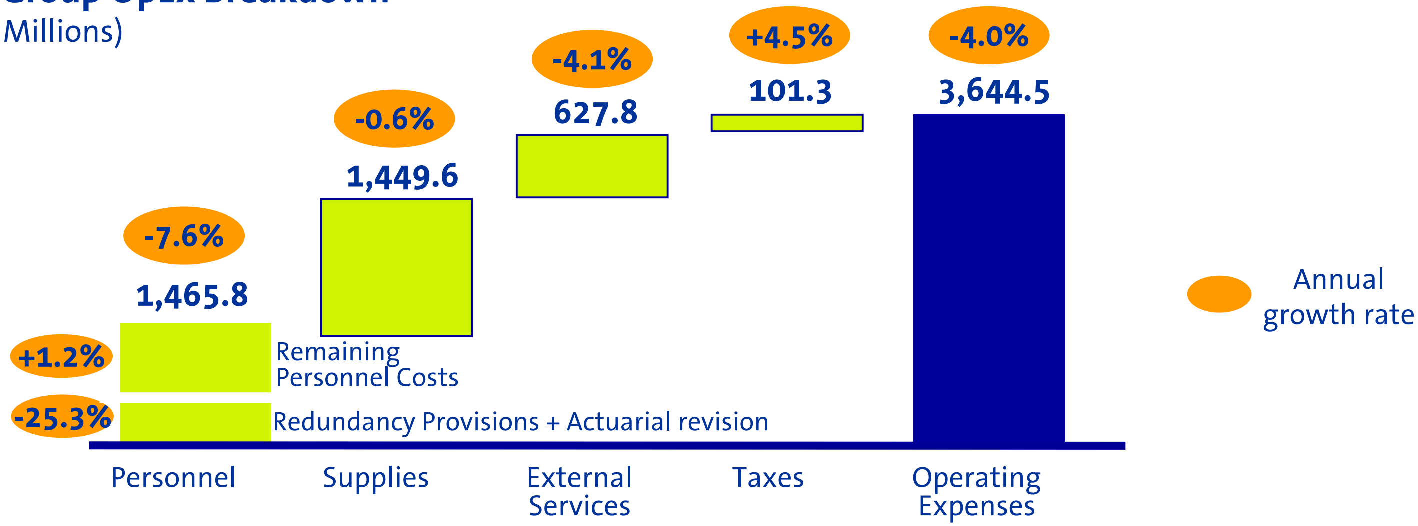
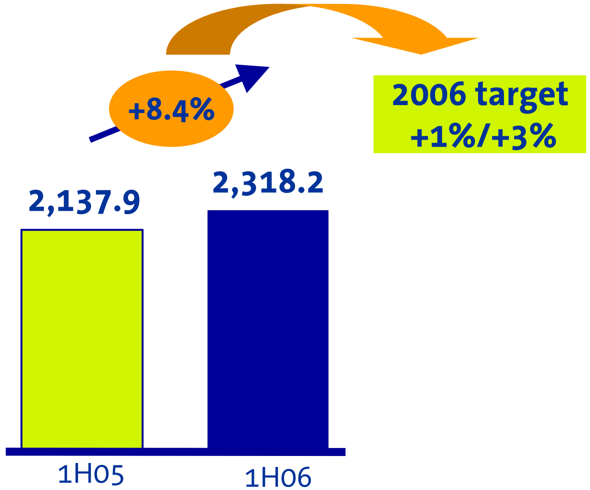
...matched with cost contention...

TdE Group OpEx Breakdown
(€ in Millions)



TdE Group Adjusted OIBDA[2] for guidance calculation
(€ in Millions)

Ex-Redundancy margin stable at 46%



- Lower Redundancy provision adds 6.2 p.p. to 1H06 growth ...
- ... partly offset by lower Real State sales and lower Public Subsidies

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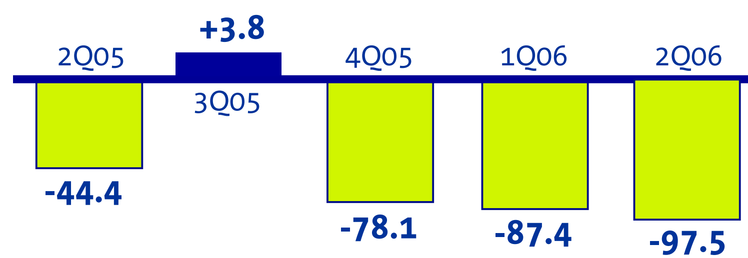
...in a scenario where the pressure on the traditional business...

Accesses Evolution (in thousands)	**2Q06**
Fixed Telephony Accesses (June-06)	16,019.7
Change vs. June-05 (%)	-1.3%
Fixed Telephony Access net losses	88.8
Full ULL net adds	65.9
Shared ULL net adds	65.7

Pre-selected Lines Net Adds
(in thousands)



Estimated Traffic (Million minutes)	**1H06**	**1H05**	**% Change 1H06/1H05**
OUTGOING	28,462	31,442	-9.5%
Voice [1]	**22,474**	**22,765**	**-1.3%**
National	17,320	17,512	-1.1%
International	1,004	965	+3.9%
F2M	2,740	2,876	-4.7%
IN [2] & Others	1,411	1,413	-0,1%
Internet	5,988	8,676	-31,0%
INCOMING	22,790	26,063	-12,6%
TOTAL	**51,253**	**57,504**	**-10,9%**

(1) Outgoing - Internet
(2) Intelligent Network

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

- Spanish market reaches 5.85 Million Internet BB accesses as of June 2006 with net adds of **+0.35 M.** Internet BB accesses in 2Q06.
- Telefónica de España Internet Broadband connectivity ARPU down 9% from June 2005

Telefónica push on 2P & 3P resulting in highest growth rates:

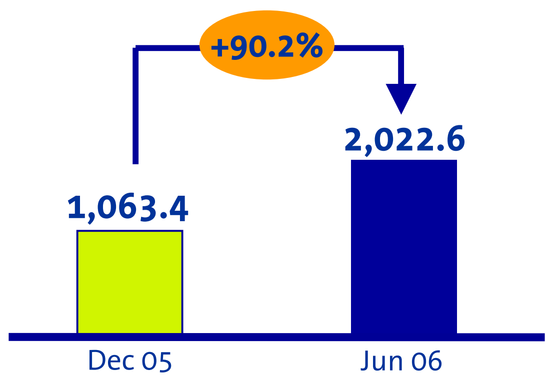
61% OF RETAIL IBB ACCESSES HAVE ALREADY DUO OR TRIO OFFERS

- **Net adds of 340,528 DUOS & TRIOS in 2Q06**

vs.

- **Net adds of 177,394 Retail IBB accesses in 2Q06**

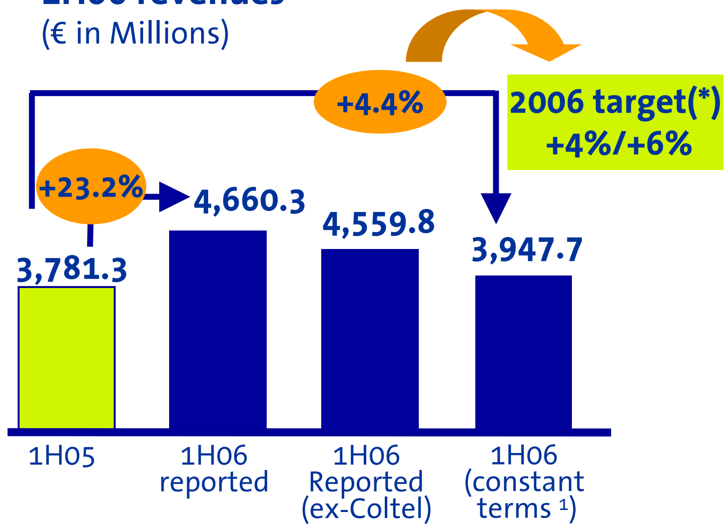
2P & 3P Bundles
(thousands; end of period)



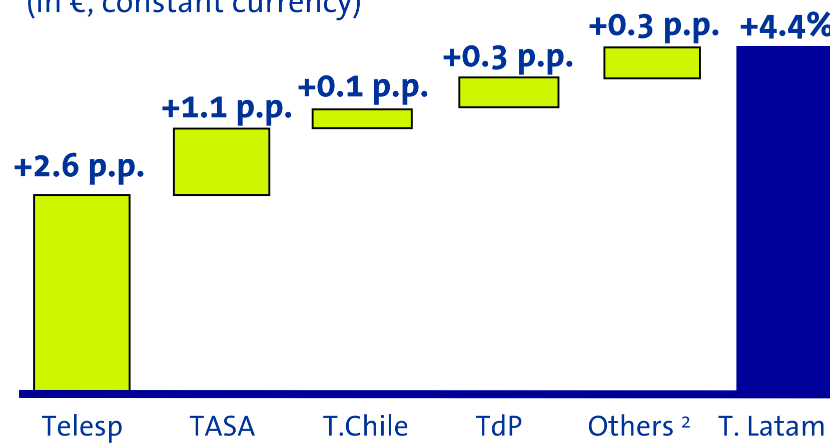
- Internet BB **estimated market share at 55%** end of 2Q06
- **267,473 Pay TV clients** by 2Q06 end
- Estimated **8% share of Spanish Pay TV** market

Telefónica Latinoamérica: sustaining top-line growth across the region…

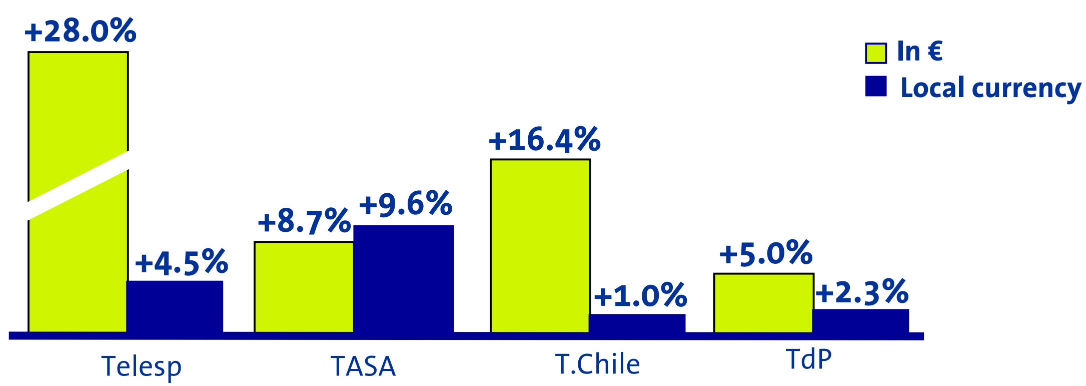
1H06 revenues
(€ in Millions)



1H06 contribution to revenue growth by company
(in €, constant currency)



1H06 revenue growth by company



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 1H05 (as of 2005 for year-end target). Excluding changes in consolidation.
(2) T. Empresas USA & Colombia, TIWS, Terra Latam, and Others & Eliminations

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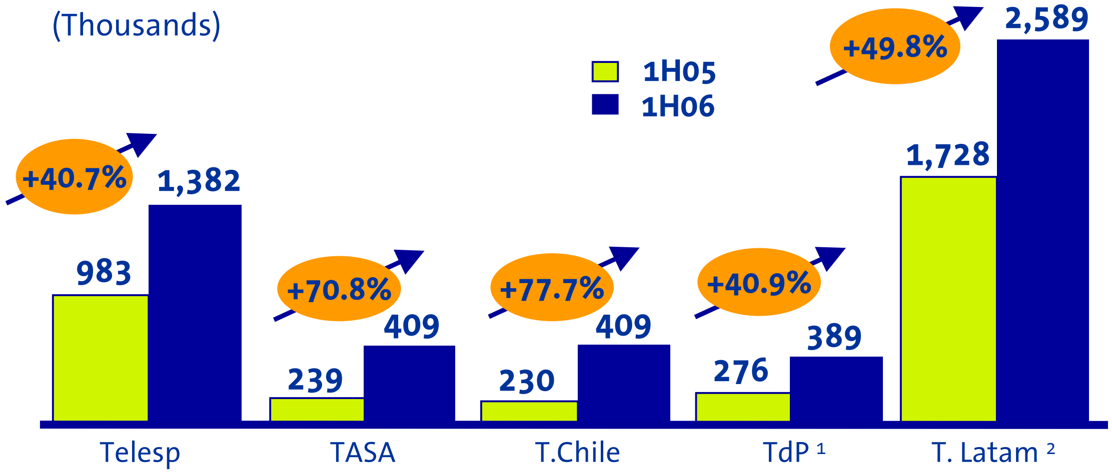
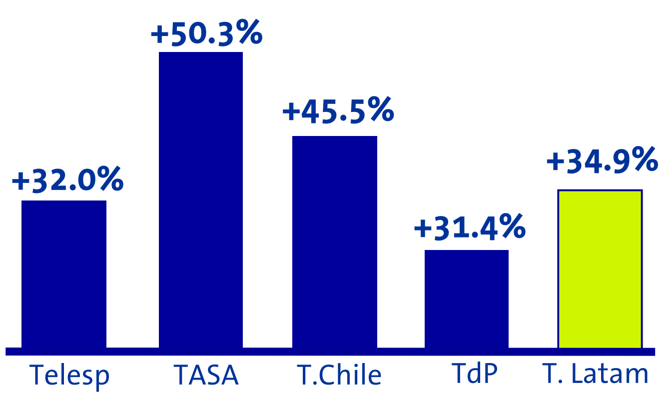
...by capitalizing on broadband development...

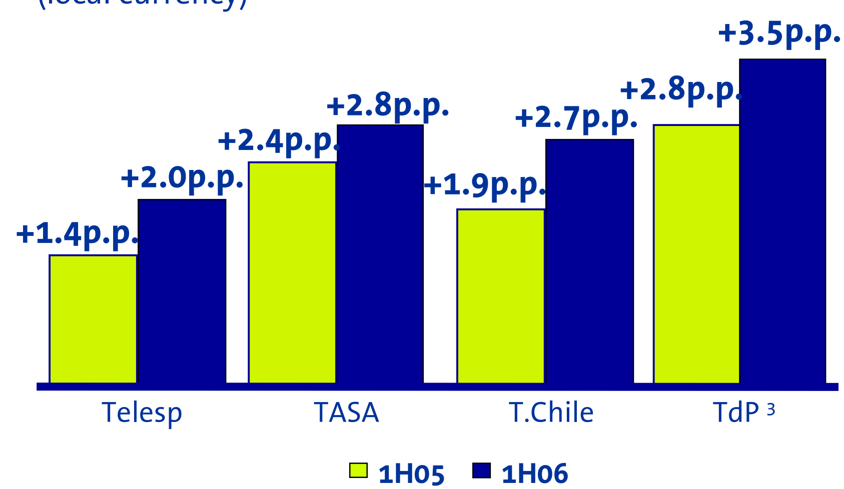
Retail Internet BB Connections
(Thousands)



Broadband revenue growth
(1H06/1H05, local currency)



Contribution of Internet&BB to revenue growth
(local currency)



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

Quarterly Results
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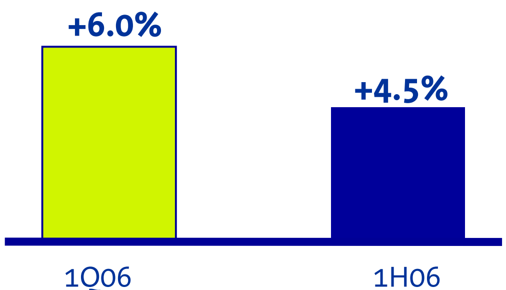
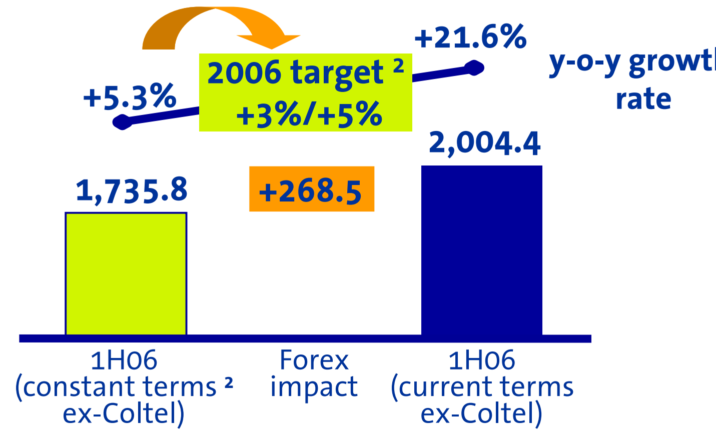
...while keeping a focus on efficiency through local and regional management

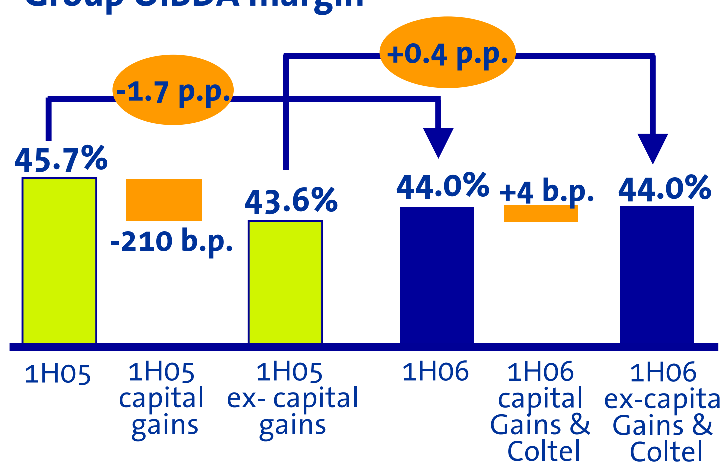
Operating expenses growth[1]
(Local currency)



Adjusted OIBDA [2]
(€ in Millions)



Group OIBDA margin

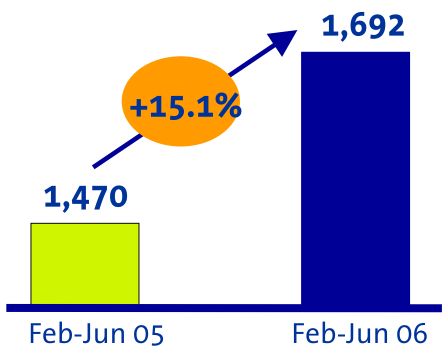


Local operators' OIBDA include data & IT revenues (formerly grouped under T. Empresas América). T. Latam includes Terra Latam unit since January 2005.
(1) Personnel (ex-restructuring costs), External Services, Supplies, Bad debt expenses and Other operating expenses
(2) Adjusted for exceptional revenues & expenses not foreseeable in 2006. 1H06 and target refer to local currency (constant exchange rates). Excluding changes in consolidation, namely Coltel (46.7 M€)

Quarterly Results
January – June 2006

O2 UK: revenue growth underpinned by strong customer and ARPU growth

Service Revenues
(£ in Millions)



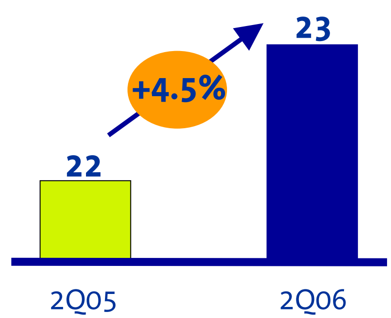
Broadly stable blended SAC

Feb-Jun OIBDA margin at 27.6%

Evolution of client base
(in thousands)

- **474,000 net new subs. in 2Q06, more than double 2Q05 figure**
- **+29% in total gross adds y-o-y in 2Q06**
- **6 p.p. drop in blended rolling churn to 28%**

Average Revenue per User
(Quarterly monthly average, in £)



- **35% of clients on contract vs. 34% end of 2Q05**
- **+13% increase in MOU[1] to 169 minutes per month**
- **+9% increase in data ARPU[1] y-o-y**

(1) Quarterly Monthly Average (£)

Quarterly Results
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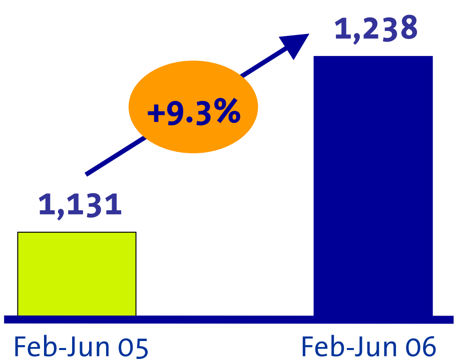
O2 Germany: solid client growth offsets pressures on ARPU

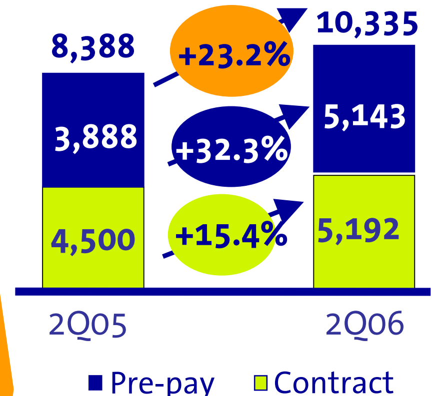
Service Revenues
(€ in Millions)



Stable SAC for contract, reduced SAC on prepay

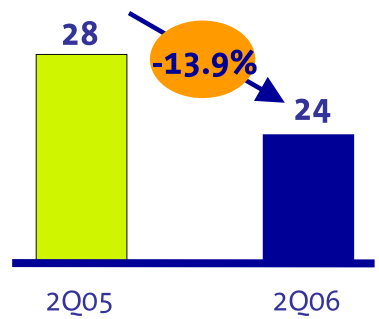
Feb-Jun OIBDA margin at 25.0%

Evolution of client base
(in thousands)



- **236,000 net new clients in 2Q06**
- **50.2% of total base on contract at the end of 2Q06 (53.6% end 2Q05)**
- **Stable Blended rolling churn**

Average Revenue per User
(Quarterly monthly average, in €)



- **+5% in MOU[1] driven by new value propositions (+14% on contract)**
- **Pressure by competition, change in mix and termination rate cuts**

(1) Quarterly Monthly Average

Quarterly Results
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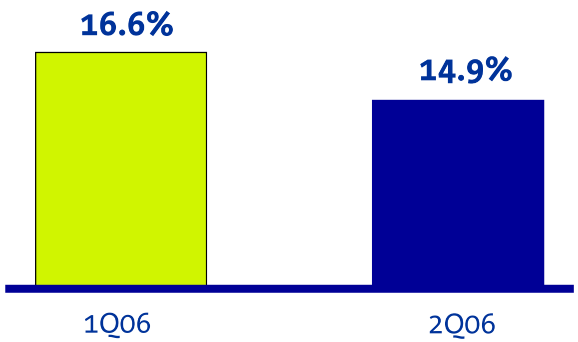
The solid performance of UK leads us to upgrade its service revenue guidance

Service Revenue Growth O2 UK



- Strong client growth (474k added in 2Q06 vs 359k in 1Q06)
- Churn control through branding & loyalty schemes
- ARPU uplift based on a solid value proposition

UPGRADED FROM

+6%/+9%

TO

+8%/+11%

WE REITERATE OUR GUIDANCE FOR "LOW DOUBLE DIGIT" GROWTH IN SERVICE REVENUES IN GERMANY AND STABLE MARGINS FOR BOTH THE UK AND GERMAN OPERATIONS

Quarterly Results
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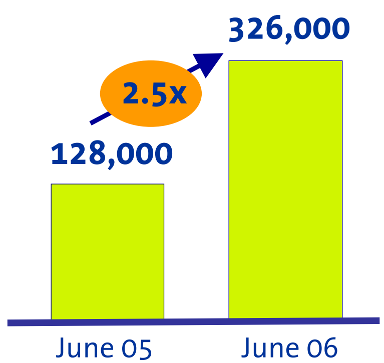
T. O2 Czech Republic: underlying trend on track with guidance

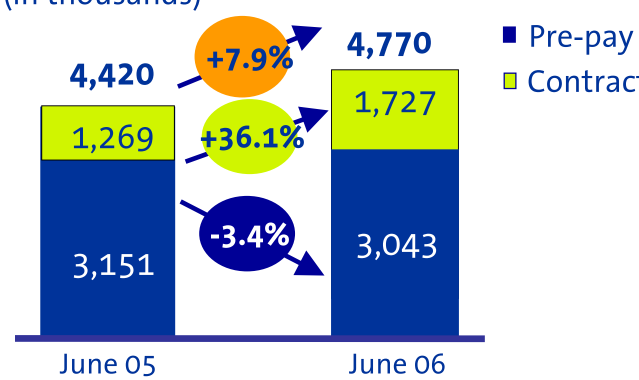
€ in Millions (% change y-o-y)	Jan-Jun 2005	Jan-Jun 2006	% Change 1H06/1H05	% Change 1H06/1H05 local currency
Revenues	998.0	1,048.9	**+5.1%**	**-0.1%**
OIBDA	458.3	509.1	**+11.1%**	**+5.2%**
OIBDA Margin	45.9%	48.5%	**+2.6 p.p.**	
Operating Income (OI)	152.0	212.7	**+40.0%**	**+32.6%**

Evolution of Retail Internet & BB customer base



BB revenue growth of 52.4% in local currency

Evolution of mobile client base
(in thousands)



Mobile revenue growth of 5.0% in local currency

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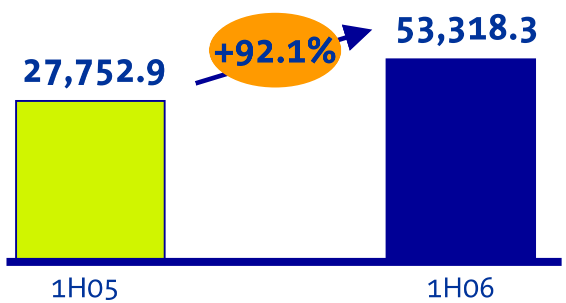
Note
Local currency revenue growth is based on total revenues, including non-operating revenues.

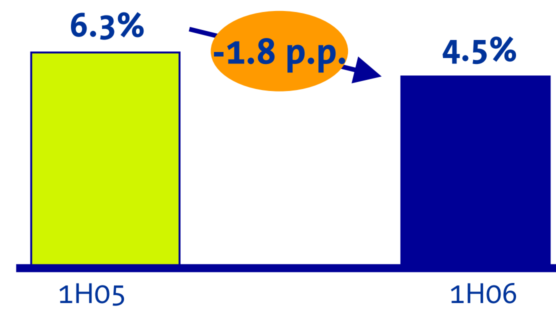
Actively managing liabilities to limit the impact of higher gearing

	1H06	1H05	
Net Interest Expenses	(1,192.4)	(871.6)	+36.8%
FX Results	1.8	141.1	
Reported Financial Expenses	(1,190.6)	(730.5)	+63.0%

Average Total Net Debt
(€ in Millions)



Evolution of Average Effective Debt Service Rate [1]



- 12 billion € of secured financing this year, with >10 years average maturity
- Average debt maturity has increased to 6 years

(1) Reported Net financial expenses excluding fx results / Average total net debt

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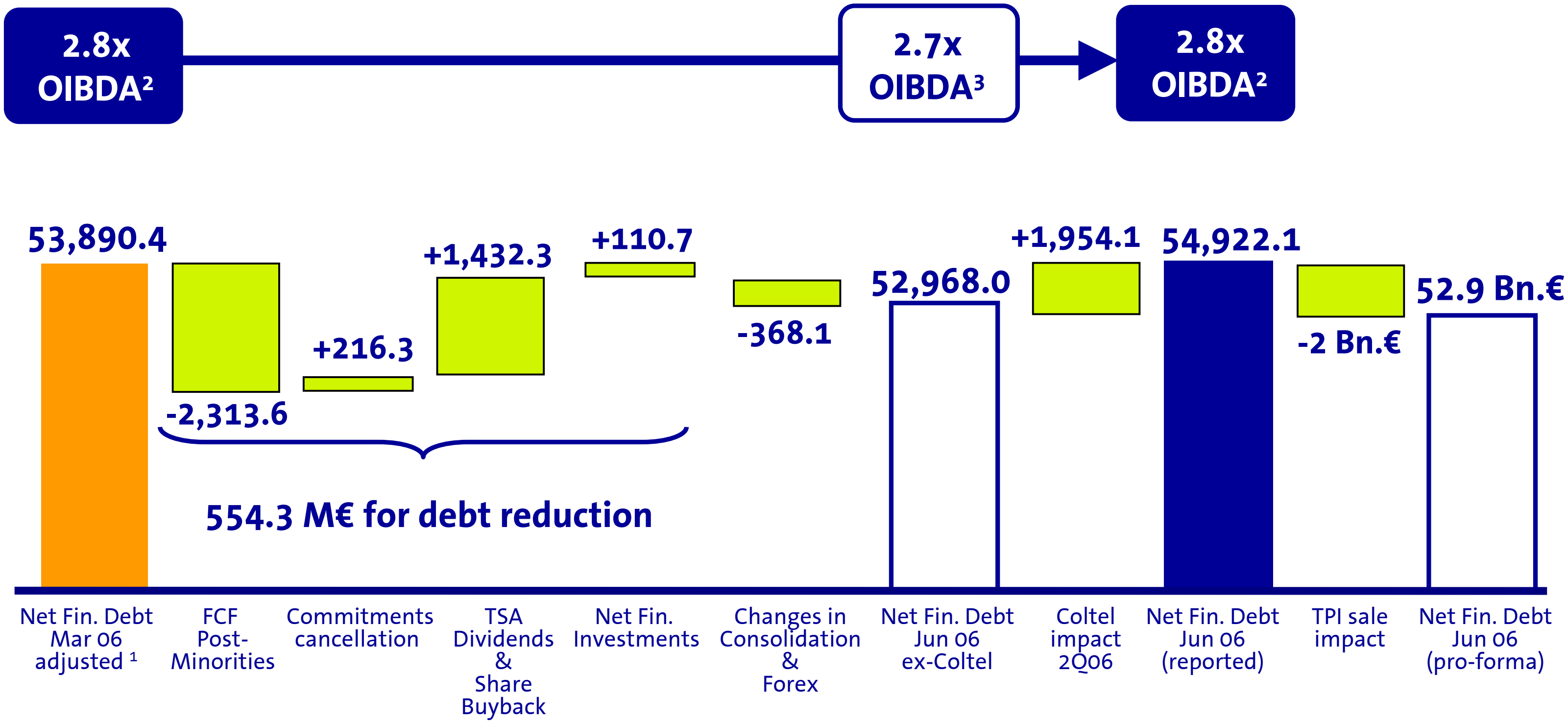
Cash Flow & Debt: starting to de-lever

2Q06 Net Financial Debt Evolution
(€ in Millions)



- Keeping leverage constant at 2.8x OIBDA since March, despite Colombia Telecom acquisition
- The TPI sale, which was agreed in the 2Q06 although cashed-in in the 3Q06, will reduce debt by an additional 2 billion €

(1) Including 380.5 M€ last payment for O2, effective in the 2Q06
(2) Based on 12 months rolling OIBDA including Telefónica O2 Czech Republic, O2, and Colombia Telecom
(3) Based on 12 months rolling OIBDA including Telefónica O2 Czech Republic and O2

Quarterly Results
January – June 2006

Conclusions

- Financial performance remains solid across the P&L, with high single digit organic revenues and OIBDA growth
- Underlying margins are sustained despite strong subscriber growth and intense competitive environments
- Top-line growth is being successfully transferred down the P&L, with EPS up 46% year-on-year
- First half key financial metrics are well in-line with Group guidance for 2006
- Wireline divisions are driving broadband penetration in their markets, retaining their position as sector benchmarks in terms of growth and profitability
- O2 retained its distinctive growth profile and outperformed in the UK, leading us to revise UK sales growth upwards

Telefónica