TELEFONICA S A
Form 6-K
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of June, 2006

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant s name into English)

Gran Vía, 28

28013 Madrid, Spain

3491-459-3050

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F X Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes No X

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes No X

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

Telefónica, S.A.

This Form 6-K is incorporated by reference into the registration statement of Telefónica, S.A. and Telefónica Emisiones S.A.U. filed with the Securities and Exchange Commission on April 12, 2006 (File No. 333-133251).

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Exhibit No.	Description of Exhibit
4.1	Form of debt indenture including form of debt securities of Telefónica Emisiones S.A.U. and guarantees relating thereto between Telefónica Emisiones S.A.U., Telefónica, S.A., as guarantor, and JP Morgan Chase Bank, National Association, as trustee
25.1	Statement of eligibility of JPMorgan Chase Bank, National Association, as trustee, under the Trust Indenture Act of 1939 on Form T-1 relating to the debt indenture

Item 1

Dividend Increase and Share Buyback Program

At its investor conference held in Valencia, Spain on May 25-26, 2006, César Alierta, Chairman of Telefónica, S.A., announced that Telefónica will submit to its Board of Directors a proposal to pay an interim dividend of 0.30 euros per share, to be paid in November 2006. This payment is intended to be followed by an additional 0.30 euros per share to be paid in the first half 2007. Additionally, Telefónica announced that by 2009 it intends to double its dividend per share from the 0.50 reported for 2005, subject to market conditions and Telefónica s financial condition.

Furthermore, Telefónica confirmed its intention to complete its current share buyback program, according to which Telefónica is committed to repurchase shares in the aggregate amount of 2.7 billion before the end of 2007, depending on cash-flow generation and share price performance.

FORWARD-LOOKING STATEMENTS

This release contains forward-looking statements. These statements are statements that are not historical facts, and are based on management s current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "proposes", "expects", "plans", "intends", "intention" and similar expressions, as they relate to Telefónica, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends are examples of forward-looking statements. Such statements reflect the current views of Telefónica's management and are subject to a number of risks and uncertainties, including those that are set forth in Item 3.D of Telefónica's annual report filed on Form 20-F on April 12, 2006. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

Item 2

Rating Agencies Revise Outlook for Telefónica

On May 26, 2006, Standard & Poor s Ratings Services ("**Standard & Poor s**") announced that it has revised its rating outlook to negative from stable for Telefónica. Additionally, Standard & Poor s affirmed its BBB+ long-term corporate credit, bank loan, and senior unsecured debt ratings on Telefónica and its A-2 short-term corporate credit and CP ratings on Telefónica.

In its statement, Standard & Poor s cited, among others, Telefónica s continuing financial policy aggressiveness, as reflected by the announcement of an increase in its dividend, and a high debt level, as reasons for the negative outlook. Standard and Poor s also noted in its statement that the long-term rating could be reduced by one level if, over the next 18 months, Telefónica fails to show good progress in deleveraging.

Similarly, on May 30, 2006, Moody s Investors Service ("**Moody s**") revised its rating outlook to negative from stable for Telefónica. At the same time, Moody s affirmed the Baa1 senior unsecured rating, the Baa2 senior subordinated debt rating, the Baa3 preferred stock rating and the Prime-2 short term ratings of Telefónica.

In its statement, Moody s noted that the change in outlook from stable to negative is based on: (i) the limited remaining headroom under the Baa1 rating for any further uses of free cash flow beyond what has been announced and the risk of failing to achieve the deleveraging objective as a result of any deviations from the plan; (ii) the limited room for deviations in operating performance whereby Moody s expects Telefónica to continue to pursue a growth strategy and to improve shareholder remuneration, while capital expenditure will increase and the competitive environment and organic growth in mature markets become increasingly challenging; (iii) Moody s concern about Telefónica s refinancing risk concentration of almost EUR 20 billion through 2008, recognizing the fact that the company has a plan in place to adequately manage it; (iv) the integration risk resulting from the numerous and substantial acquisitions in a short period of time and (v) the uncertainties regarding the execution of the disposals of certain assets as planned to mitigate the funding needs associated with the proposed plan to invest a maximum net amount of EUR 1.5 billion.

These security ratings reflect the views of the rating agencies. A more complete explanation of the significance of these ratings may be obtained from Standard & Poor s and Moody s, respectively. Such ratings are not a recommendation to buy, sell or hold securities. Any rating can be revised upward or downward or withdrawn at any time by a rating agency if it decides that the circumstances warrant the change. Each rating should be evaluated independently of any other rating.

Item 3

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January-March 2006

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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. The financial information presented herein is subject to rounding.

This financial information is presented on the basis of accounting principles generally accepted in International Financial Reporting Standards (IFRS). Certain accounting practices applied by the Group that conform with generally accepted accounting principles in IFRS may not conform with generally accepted accounting principles in other countries.

TELEFÓNICA GROUP

Market Size

(Data in thousands)

TELEFÓNICA GROUP ACCESSES

Unaudited figures (thousands)

January - March	2006	2005	% Chg
Final Clients Accesses	184,161.0	129,312.3	42.4
Fixed telephony accesses (1)	40,914.4	37,712.7	8.5
Internet and data accesses	11,198.5	9,719.9	15.2
Narrowband	4,760.3	5,504.4	(13.5)
Broadband (2)	6,262.9	4,029.7	55.4
Other (3)	175.2	185.7	(5.7)
Cellular accesses	131,308.5	81,438.3	61.2
Pay TV	739.6	441.4	67.6
Wholesale Accesses	1,897.9	1,501.9	26.4
Unbundled loops	556.1	193.4	187.5
Shared UL	320.3	93.2	243.8
Full UL	235.8	100.2	135.2
Wholesale ADSL (4)	1,286.0	1,258.8	2.2
Other (5)	55.9	49.7	12.4
Total Accesses	186,058.9	130,814.2	42.2

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included.
(2) ADSL, satelite, optical fibre, cable modem and broadband circuits.
(3) Remaining non-broadband final client circuits.
(4) Includes T. Deutschland connections resold on a retail basis.
(5) Circuits for other operators.
Note: Cellular accesses, Fixed telephony accesses and Broadband accesses include MANX customers.

TELEFÓNICA GROUP

Financial Highlights

The most relevant factors of Telefónica Group results for the January-March 2006 period are the following:

- **Strong growth in net income and basic earnings per share:**

- Basic earnings per share amounted to 0.268 euros/share and recorded a 43.8% year-on-year increase since 0.186 euros/share.
- Total net income stood at 1,273.5 million euros, 39.6% up on that of March 2005.

- **Solid increase in revenues +45.4%, Operating Income before Depreciation and Amortisation (OIBDA +37.3%) and Operating Income (OI +34.2%) in comparison with March 2005:**

- All lines of business recorded higher revenues, OIBDA and OI than those of the first quarter of the previous year.
- Significant contribution of changes in the consolidation perimeter: 02 in February 2006 and Cesky Telecom in July 2005.
- Positive contribution of exchange rates, adding 9.0 percentage points to the growth of revenues, 8.1 percentage points to OIBDA and 6.2 percentage points to OI.

- **Significant organic growth[1] in operations due to the solid progress of business: revenues +8.9%, OIBDA +6.2% and OI +13.8%.**
- **Continued progress in the Group's efficiency, reflected by the operating margins and the increased operating free cash flow:**

- 26.4% increase in the operating free cash flow (OIBDA-CapEx), amounting to 3,379.5 million euros.
- OIBDA margin stood at 38.9%.
- The fast integration of purchased assets began to deliver tangible scale benefits.

- **Greater balance in exposure by regions and businesses following the acquisitions made.**
- **Total accesses reached 186.1 million and increased 42.2% in relation to January-March 2005 thanks to the growth in cellular accesses (131.3 million, +61.2%) and retail Internet broadband connections (6.3 million, +55.4%) due to the bet for growth through the higher commercial activity delivered:**

- O2 Group and Cesky Telecom contributed with 36.4 million accesses.

1

Assuming constant exchange rates and including the consolidation of Cesky Telecom in January-March 2005 and the O2 Group in February and March 2005.

TELEFÓNICA GROUP

Consolidated Results

The results obtained by Telefónica Group and the management report included in this report are based on the actions carried out by the various business units in the Group and which constitute the units over which management of these businesses is conducted. This implies a presentation of results based on the actual management of the various businesses in which Telefónica Group is present, instead of adhering to the legal structure observed by the participating companies.

In this sense, income statements are presented by businesses, which basically implies that each business line participate in the companies that the Group holds in the corresponding business, independently of the legal structure.

It should be emphasized that this presentation by businesses in no case alters the total results obtained by Telefónica Group. These results are incorporated from the date of effective acquisition of the holding.

The results of the Telefónica de España Group and the Telefónica Latinoamérica Group include the results from Terra Networks operations as of 1st January 2005. Hence, Terra España, Azeler and Maptel results are included in the Telefónica de España Group, whereas the Terra results in Latin America are included in the Telefónica Latinoamérica Group.

As of 1st February 2006, the results of the O2 Group are consolidated into Telefónica O2 Europe business line. This business line is integrated by the assets of O2 Group, Cesky Telecom (during the July-December 2005 period it was an independent business line) and Telefónica Deutschland (in 2005 it was included in Other companies of the Telefónica Group).

The results of Telefónica Group corresponding to the first quarter of 2006 recorded a solid growth in all business lines (revenues up 45.4% year-on-year), mainly supported by the expansion of the client base achieved thanks to the strong commercial activity delivered. The Company's profitability reached an outstanding level, OIBDA increasing by 37.3% in comparison with March 2005 and OI by 34.2%, whereas the effective management of operations led to a 26.4% growth in the operating free cash flow (OIBDA-CapEx). As a result of all this, the net income exceeded 1,270 million euros, 39,6% higher than that obtained in the first three months of 2005, and the basic earnings per share amounted 0.268 euros versus the 0.186 euros earnings per share achieved during the first quarter of 2005 (+43.8%).

As of the end of March, Telefónica Group's total number of accesses reached 186.1 million, a year-on-year increase of 42.2%, with cellular and retail Internet broadband accesses being the main contributors to this performance. Of the total number of accesses, 184.2 million correspond to final client accesses and 1.9 million to wholesale accesses.

Telefónica Group's cellular accesses totalled 131.3 million at 31st March 2006, equivalent to a 61.2% year-on-year increase. The strong commercial activity in the Telefónica Móviles Group's operating markets, with a net gain over the quarter of 4.1 million clients allowed to manage a 98.5 million client base, equivalent to a 21.0% year-on-year growth. In Telefónica O2 Europe, cellular accesses amounted to 32.8 million, of which 4.7 million belong to Cesky Telecom and 28.1 million to O2 Group.

The number of retail Internet broadband accesses stood at 6.3 million (4.0 million at 31st March 2005), constituting one of the main driving forces of the growth of the fixed operators. The figure has exceeded the 3 million mark in Spain, up 46.8% up over the first quarter of 2005, and in Latin America it has reached 2.9 million (+50.2% year-on-year).

Revenues

of Telefónica Group over the first three months of the year amounted 12,036.4 million euros and recorded a year-on-year growth of 45.4%, supported by the general growth in every business lines. This increase it is also affected by the first consolidation of O2 Group as of February 2006 and Cesky Telecom as of July 2005 as well as the appreciation of the Latin American currencies in relation to the euro. Therefore, the organic growth[1] of revenues stands at 8.9%.

1

Assuming constant exchange rates and including the consolidation of Cesky Telecom in January-March 2005 and the O2 Group in February and March 2005.

The main contributor to Telefónica Group's revenues continued to be Telefónica Móviles Group, which ended the quarter with a growth in revenues of 17.7% versus March 2005 reaching 4,327.3 million euros, due to the increase in the total number of clients and traffic. By country, the evolution of revenues from Venezuela (+58.9% in local currency), Spain (+4.4%), Argentina (+38.0% in local currency) and Chile (+17.3% in local currency) must be highlighted.

Telefónica Latinoamérica Group's revenues in the January-March 2006 period reached 2,318.1 million euros, a 30.6% year-on-year increase impacted very positively by the exchange rate effect, which contributed with 24.5 percentage points to revenue growth. In constant euros, the year-on-year variation reached 6.1%. Telesp is the operator that contributed the most to revenue growth with a 7.1% increase in local currency thanks to the good performance of the traditional business and the Internet business (narrowband + broadband).

Telefónica de España Group's revenues totalled 2,944.3 million euros, up 3.3% versus those obtained in the first three months of 2005 pushed by Broadband revenues (+35.0%) that more than offset the fall in revenues from traditional voice services (-2.6%) and traditional access (-1.7%).

Telefónica O2 Europe, constituted by the O2 Group from February to March 2006, Cesky Telecom and Telefónica Deutschland from January to March 2006 contributed with 2,409.2 million euros of revenues. Among the companies, it should be enhanced the service revenue growth of O2 UK during the first three months of 2006 (+17% year-on-year in local currency), O2 Germany (+13% year-on-year) and the moderate growth of Cesky Telecom (+0.5% in local currency).

Following the acquisitions made by the Telefónica Group during 2005, consolidated revenues reflected a greater geographic diversification, decreasing revenues from Spain to 40.7% (56.6% one year ago) as of March 31th 2006 and those from Latin America to 36.6% (39.6% twelve months ago) due to the greater weight of Europe, excluding Spain (21.8% compared with 2.9% at March 2005). The UK accounted for 9.5% of total revenues, Germany for 5.1% and the Czech Republic 4.2%. Brazil remained almost stable in terms of its contribution (-0.5 percentage points to 16.1%) to consolidated revenues.

Operating expenses

accumulated over the quarter increased by 50.3% versus March 2005 reaching 7,505.7 million euros. This increase was affected by the positive impact of exchange rates, the inclusion of assets from the 02 Group and Cesky Telecom and the continued commercial efforts

made to attract greater growth in cellular telephony and broadband and to lead innovation in products and services. The performance of the main expense concepts was as follows:

- **Supplies expenses**
  (3,512.6 million euros) increased by 66.1% versus the first quarter of 2005 (57.2% in constant euros), basically as a consequence of the changes in the accounting consolidation perimeter, the Telefónica Latinoamérica Group (higher interconnection costs, particularly in Brazil) and the Telefónica Móviles Group (more handsets purchases and higher commercial activity).
- **Personnel expenses**
  for the first three months of the year (1,679.8 million euros) increased by 29.4% (+22.6% assuming constant exchange rates), basically as a consequence of the average workforce increase (+24.0% reaching 219,357 employees) due to the O2 and Cesky acquisition and the increase of Atento Group´s number of employees (excluding Atento Telefonica´s workforce increases 21.9% to 122,884 employees). During the first quarter of 2006, 286 employees joined the Telefónica de España 2003-2007 Redundancy Plan and 25 employees joined the Terra España Redundancy Plan, reaching the provision 94.9 million euros.
- **External services expenses**

(2,096.5 million euros) increased by 47.6% in comparison with March 2005 (36.9% excluding the exchange rate effect), basically due to greater commercial expenses in Telefónica Móviles and to the changes in the consolidation perimeter, particularly that of the O2 Group.

On the other hand, at the end of the quarter, Telefónica Group accounted for a gain for the **sale of fixed assets** of 151.6 million euros (120.6 million euros in January-March 2005), mainly corresponding to the sale of shares in Sogecable following the take-over bid presented by Prisa Group.

The described development of revenues and expenses during the first quarter of the year placed **operating income before depreciation and amortisation (OIBDA)** at 4,686.7 million euros, 37.3% up on the same period of the previous year, although organic growth[2] stood at 6.2%. The OIBDA margin of the Telefónica Group amounted to 38.9% at March end, 2.3 percentage points down on the same period last year.

2

Assuming constant exchange rates and including the consolidation of Cesky Telecom in January-March 2005 and the O2 Group in February and March 2005.

By business lines, the Telefónica Móviles Group had an absolute OIBDA of 1,471.9 million euros (+11.7% year on year) in the first three months of the year, representing 31.4% of the total OIBDA (38.6% at March 2005). The OIBDA margin stood at 34.0%, 1.8 percentage points down on January-March 2005 due to the heavy influence by the commercial activity in very competitive environments.

The Telefónica Latinoamérica Group's OIBDA (21.2% of consolidated OIBDA vs. 25.2% at March 2005) amounted 994.2 million euros, 15.5% up from that obtained in the first three months of 2005. In constant euros, the OIBDA increased by 3.9%, eliminating the capital gains accounted from the sale of Infonet during the first quarter of the previous year. The OIBDA margin, excluding the result from the disposal of assets during both periods, reached 43.0% versus the 44.0% of the previous year.

Telefónica de España Group, with a contribution to consolidated OIBDA that fell to 26.9% from the 35.1% of the previous year, obtained an OIBDA of 1,262.6 million euros during the first three months of 2006. This was a 5.3% increase versus March 2005 thanks to the cost containment (operating expenses -0.4%) and to efficiency. The OIBDA margin stood at 42.9%, 0.8 percentage points higher than that of March 2005. Excluding the Redundancy Plan provisions in both periods, the margin in relation to revenues would have dropped by 0.2 percentage points to 46.1% as of the end of the first quarter of 2006.

Telefónica O2 Europe (constituted by the O2 Group in February and March 2006, Cesky Telecom and Telefónica Deutschland in January-March 2006) reaches an OIBDA of 756.0 million euros.

Following the same path of revenues Telefónica Group's OIBDA reflected the greater diversification of the Telefónica Group into geographic areas by increasing its Europe contribution. By the end of the quarter, the contribution of Spain fell 15.9 percentage points to 47.1% whereas that of Europe

(excluding Spain) represents 16.9% (2.8% twelve months ago). UK contributed with 6.5% of the consolidated OIBDA in the first quarter, the Czech Republic 5.4% and Germany 2.9%. Thanks to the contribution of the Latin American BellSouth operators acquired in 2004 and 2005, Latin America maintains its contribution in 33.5%. The contribution of Brazil fell by 1.0 percentage point reaching 16.7% of total OIBDA in March 2006.

Depreciation and amortization grew 41.0% year-on-year to total 2,152.7 million euros during the first quarter of the year. This increase is basically due to the first consolidation of the O2 Group and Cesky Telecom, the latter contributing with 38.4 million euros associated to the amortisation of the allocated assets in the acquisition process and the increased amortisation in the Telefónica Latinoamérica Group (+23.1%) and the Telefónica Móviles Group (+16.8%), both positively impacted by the exchange rate effect. At organic level[3], there was a 1.8% drop due primarily to the decreased amortisation of Telefónica de España Group (-13.9%).

The consolidated **operating income (OI)** over the first three months of the year amounted to 2,534.1 million euros, up 34.2% on that obtained in the same period of 2005. The organic growth[3] declines to 13.8%, which was higher than the growth in OIBDA (+6.2%).

The accumulated **result of associated companies** reached 21.8 million euros as of the end of March 2006, compared with the 9.1 million euros loss in January-March 2005. Most notable in this year-on-year sign change is the greater contribution of Portugal Telecom. To a lesser extent, the reduction in losses attributable to IPSE-2000 and the positive contribution of the Medi Telecom consortium in comparison with the negative contribution of the first quarter of the previous year must be noted.

Net financial expenses

amounted 523.7 million euros in the first quarter 2006, 64.8% year-on-year increase (206.0 million euros) compared with the comparable figure of 2005 (317.7 million euros). The interest rates expenses grew by 220.4 million euros due to the 67.8% growth in the average net debt versus 2005.

The **net free cash flow after CapEx** generated by the Telefónica Group in the first quarter 2006 amounted 1,814.1 million euros, of which 1,126.3 million euros were dedicated to the buyout out treasury stock in Telefónica, S.A. and 211.1 million euros to the cancellation of commitments, mainly headcount reduction program. Since the financial investments in the period (net of the sale of real state and the O2 cash in the moment of the acquisition) totalled 22,855.7 million euros, mainly because of the O2 take over (purchases of O2 shares in the stock market began in 2005), the net financial debt has been increased by 22,379.0 million euros.

3

Assuming constant exchange rates and including the consolidation of Cesky Telecom in January-March 2005 and the O2 Group in February and March 2005.

Telefónica Group's **net financial debt** at the end of March 2006 stood at 53,509.9 million euros. Along with the aforementioned effect (increase of 22,379.0 million euros), another two effects have to be added: i) increase of 1,590.4 million euros due to the changes in the perimeter of consolidation and others effects over the financial statements, mainly the incorporation of O2 gross debt and ii) reduction of 526.6 million euros as a consequence of the effects of the exchange rates on net financial debt not denominated in euros. This results in an increase of the net financial debt of 23,442.9 million euros versus the 2005 net financial debt figure (30,067.0 million euros).

The taxable rate accrued during the first quarter of the year stood at 33% due to an increase in the **tax provision** to 666.2 million euros, although the cash outflow for the Telefónica Group will be further reduced as negative tax bases are compensated for.

The **results attributed to minority interests** provided a negative 92.4 million euro provision toward the net profit of the Telefónica Group for the January-March 2006 period, with a 33.0% year-on-year increase that can basically be explained by the stake of minority interests in the net income of Cesky Telecom, given that it was not included in the accounting consolidation perimeter during the first quarter of 2005.

As a result of the entries explained, the **consolidated net income** of the Telefónica Group for the first three months of the year totalled 1,273.5 million euros, a year-on-year growth of 39.6% (912.2 million euros).

Finally, Telefónica Group's **CapEx** for the first quarter of 2006 amounted 1,307.2 million euros and recorded a strong year-on-year growth (+76.4%) as a result of greater investments in broadband in the fixed telephony business in both Spain and South America and the first consolidation of the O2 Group and Cesky Telecom. The organic growth[4] would stand at 2.1%. However, it should be noted that there is a strong cyclical component of the investments, so that this performance cannot be extrapolated to the full year.

4

Assuming constant exchange rates and including the consolidation of Cesky Telecom in January-March 2005 and the O2 Group in February and March 2005.

TELEFÓNICA GROUP

Financial Data

TELEFóNICA GROUP

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - March		
	2006	2005	% Chg

Revenues	12,036.4	8,278.8	45.4
Operating income before D&A (OIBDA)	4,686.7	3,414.7	37.3
Operating income (OI)	2,534.1	1,888.3	34.2
Income before taxes	2,032.1	1,561.4	30.1
Net income	1,273.5	912.2	39.6
Basic earnings per share	0.268	0.186	43.8
Weighted average number of ordinary shares outstanding during the period (millions)	4,754.9	4,896.3	(2.9)

Note: For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IFRS rule 33 "Earnings per share". Thereby, there are not taking into account as outstanding shares the weighted average number of shares held as treasury stock during the period nor the shares assigned to the stock options plans for employees. Furthermore, in line with IFRS rule 33, the weighted average number of shares outstanding during every period, has been adjusted for these operations that had implied a difference in the number of outstanding shares, without a variation associated in the equity, as if those have taken place at the beginning of the first period presented. It consists on the distribution of the paid-in capital reserve by means of delivery of shares in the proportion of 1 share to every 25 shares, approved by the AGM as of May 31, 2005.

TELEFóNICA GROUP

RESULTS BY COMPANIES

Unaudited figures (Euros in millions)

	REVENUES			OIBDA			OPERATING INCOME		
	January - March			January - March			January - March		
	2006	2005	% Chg	2006	2005	% Chg	2006	2005	% Chg
Telefónica de España Group (1)	2,944.3	2,850.2	3.3	1,262.6	1,199.0	5.3	772.4	629.6	22.7
Telefónica Latinoamérica Group (1)	2,318.1	1,775.1	30.6	994.2	860.5	15.5	494.4	454.5	8.8
Telefónica Móviles Group	4,327.3	3,675.9	17.7	1,471.9	1,317.9	11.7	855.6	790.3	8.3
Telefónica O2 Europe (2)	2,409.2	-	N.C.	756.0	-	N.C.	228.9	-	N.C.
Atento Group	255.5	178.7	43.0	34.5	22.6	53.1	27.4	15.5	76.1
Content & Media Business	349.0	266.5	30.9	166.7	45.4	N.S.	159.8	38.1	N.S.
Directories Business	123.2	96.2	28.0	29.5	23.9	23.3	22.6	18.1	24.8
Other companies (3)	168.0	187.3	(10.3)	(33.5)	(50.4)	(33.4)	(44.2)	(78.5)	(43.7)
Eliminations	(858.0)	(751.1)	14.2	4.8	(4.2)	c.s.	17.2	20.7	(17.0)
Total Group	12,036.4	8,278.8	45.4	4,686.7	3,414.7	37.3	2,534.1	1,888.3	34.2

(1) Telefónica de España Group and Telefónica Latinoamérica Group results consolidates the results from Terra Networks operations from 1 January 2005.

(2) Telefónica O2 Europe includes O2 Group (February and March), Cesky Telecom y T. Deutschland.

(3) OIBDA and Operating Income exclude the variation in investment valuation allowances accounted for by Telefónica S.A. parent company and that are eliminated in consolidation.

TELEFóNICA GROUP

CAPEX BY BUSINESS LINES

Unaudited figures (Euros in millions)

	January - March		
	2006	2005	% Chg

Telefónica de España Group (1)	314.6	250.8	25.5
Telefónica Latinoamérica Group (1)	173.9	127.3	36.5
Telefónica Móviles Group	293.2	309.8	(5.4)
Telefónica O2 Europe (2)	405.6	-	N.C.
Atento Group	3.8	4.4	(14.7)
Content & Media Business	21.4	8.8	142.5
Directories Business	2.6	2.6	2.0
Other companies & Eliminations	92.2	37.4	146.5
Total Group	1,307.2	741.1	76.4

Note: Group CapEx in 2006 at cumulative average exchange rate. For comparative purposes, 2005 Capex has been recalculated at the cumulative average exchange rate for the corresponding period.

(1) Telefónica de España Group and Telefónica Latinoamérica Group results consolidates the results from Terra Networks operations from 1 January 2005.

(2) Telefónica O2 Europe includes O2 Group (February and March), Cesky Telecom y T. Deutschland.

TELEFóNICA GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		
	2006	2005	% Chg
Revenues	12,036.4	8,278.8	45.4
Internal expenditure capitalized in fixed assets (1)	145.8	87.4	66.7
Operating expenses	(7,505.7)	(4,993.6)	50.3
Supplies	(3,512.6)	(2,114.5)	66.1
Personnel expenses	(1,679.8)	(1,298.1)	29.4
Subcontracts	(2,096.5)	(1,420.4)	47.6
Taxes	(216.7)	(160.5)	35.0
Other net operating income (expense)	(136.1)	(74.7)	82.1
Gain (loss) on sale of fixed assets	151.6	120.6	25.7
Impairment of goodwill and other assets	(5.3)	(3.8)	36.7
Operating income before D&A (OIBDA)	4,686.7	3,414.7	37.3
Depreciation and amortization	(2,152.7)	(1,526.4)	41.0
Operating income (OI)	2,534.1	1,888.3	34.2
Profit from associated companies	21.8	(9.1)	c.s.
Net financial income (expense)	(523.7)	(317.7)	64.8
Income before taxes	2,032.1	1,561.4	30.1
Income taxes	(666.2)	(579.9)	14.9
Income from continuing operations	1,365.9	981.6	39.2
Income (Loss) from discontinued operations	0.0	0.1	N.S.
Minority interest	(92.4)	(69.4)	33.0
Net income	1,273.5	912.2	39.6
Weighted average number of ordinary shares outstanding during the period (millions)	4,754.9	4,896.3	(2.9)

Basic earnings per share	0.268	0.186	43.8

(1) Including work in process.

Note: For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IFRS rule 33 "Earnings per share". Thereby, there are not taking into account as outstanding shares the weighted average number of shares held as treasury stock during the period nor the shares assigned to the stock options plans for employees. Furthermore, in line with IFRS rule 33, the weighted average number of shares outstanding during every period, has been adjusted for these operations that had implied a difference in the number of outstanding shares, without a variation associated in the equity, as if those have taken place at the beginning of the first period presented. It consists on the distribution of the paid-in capital reserve by means of delivery of shares in the proportion of 1 share to every 25 shares, approved by the AGM as of May 31, 2005.

TELEFóNICA GROUP

CONSOLIDATED BALANCE SHEET

Unaudited figures (Euros in millions)

	March		
	2006	2005	% Chg
Non-current assets	84,998.0	49,725.7	70.9
Intangible assets	13,913.1	5,914.9	135.2
Goodwill	24,126.2	6,656.4	N.S.
Property, plant and equipment and Investment property	33,500.8	23,416.2	43.1
Long-term financial assets and other non-current assets	5,722.9	4,959.4	15.4
Deferred tax assets	7,735.0	8,778.8	(11.9)
Current assets	18,041.5	11,362.3	58.8
Inventories	1,154.1	718.1	60.7
Trade and other receivables	9,243.9	6,311.5	46.5
Current tax receivable	1,288.0	1,208.9	6.5
Short-term financial investments	1,876.8	2,063.5	(9.0)
Cash and cash equivalents	4,468.1	1,048.8	N.S.
Non-current assets classified as held for sale	10.5	11.4	(7.7)
Total Assets = Total Equity and Liabilities	103,039.5	61,088.0	68.7
Equity	15,328.1	13,000.2	17.9
Equity attributable to equity holders of the parent	11,545.3	11,313.5	2.0
Minority interest	3,782.8	1,686.7	124.3
Non-current liabilities	52,210.7	28,800.0	81.3
Long-term financial debt	41,665.4	18,113.2	130.0
Deferred tax liabilities	3,028.1	1,871.5	61.8
Long-term provisions	6,463.7	7,687.9	(15.9)
Other long-term liabilities	1,053.6	1,127.5	(6.6)
Current liabilities	35,500.7	19,287.7	84.1
Short-term financial debt	19,506.6	9,455.1	106.3
Trade and other payables	8,791.7	5,488.4	60.2
Current tax payable	1,984.8	1,997.6	(0.6)
Short-term provisions and other liabilities	5,217.6	2,341.2	122.9
Liabilities associated with non-current assets classified as held for sale	0.0	5.4	N.S.
Financial Data			
Net Financial Debt (1)	53,509.9	23,948.1	123.4

(1) Net Financial Debt = Long term financial debt + Other long term liabilities + Short term financial debt - Short term financial investments - Cash and cash equivalents - Long term financial assets and other non-current assets.

TELEFóNICA GROUP

FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

		January - March		
		2006	2005	% Chg
I	Cash flows from operations	4,112.5	2,695.2	52.6
II	Net interest payment (1)	(644.5)	(400.5)	
III	Payment for income tax	(302.8)	(192.9)	
A=I+II+III	Net cash provided by operating activities	3,165.2	2,101.8	50.6
B	Payment for investment in fixed and intangible assets	(1,557.6)	(937.0)	
C=A+B	Net free cash flow after CAPEX	1,607.6	1,164.8	38.0
D	Net Cash received from sale of Real Estate	12.4	39.3	
E	Net payment for financial investment	(22,868.1)	(906.3)	
F	Net payment for dividends and treasury stock (2)	(1,130.9)	(224.0)	
G=C+D+E+F	Free cash flow after dividends	(22,379.0)	73.8	c.s.
H	Effects of exchange rate changes on net financial debt	(526.6)	292.4	
I	Effects on net financial debt of changes in consolid. and others	1,590.4	78.6	
J	Net financial debt at beginning of period	30,067.0	23,650.9	
K=J-G+H+I	Net financial debt at end of period	53,509.9	23,948.1	

(1) Including cash received from dividends paid by subsidiaries that are not under full consolidation method.

(2) Dividends paid by Telefónica S.A. and dividend payments to minoritaries from subsidiaries that are under full consolidation method and treasury stock.

TELEFóNICA GROUP

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

	January - March		
	2006	2005	% Chg
OIBDA	4,686.7	3,414.7	37.3
- CapEx accrued during the period (EoP exchange rate)	(1,302.7)	(744.0)	
- Payments related to commitments	(242.8)	(236.4)	
- Net interest payment	(644.5)	(400.5)	
- Payment for income tax	(302.8)	(192.9)	
- Results from the sale of fixed assets	(151.6)	(120.7)	
- Invest. in working cap. and other deferred income and expenses	(434.8)	(555.4)	
= Net Free Cash Flow after CapEx	1,607.6	1,164.8	38.0
+ Net Cash received from sale of Real Estate	12.4	39.3	
- Net payment for financial investment	(22,868.1)	(906.3)	
- Net payment for dividends and treasury stock	(1,130.9)	(224.0)	
= Free Cash Flow after dividends	(22,379.0)	73.8	c.s.

Note: At the Investor Conference held in October 2003, the concept expected "Free Cash Flow" 2003-2006 was introduced to reflect the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accomodate strategic flexibility.

The differences with the caption "Net Free Cash Flow after CapEx" included in the table presented above, are related to "Free Cash Flow" being calculated before payments related to commitments (workforce reductions and guarantees) and after dividend payments to minoritaries, due to cash recirculation within the Group.

	Jan-Mar 2006	*Jan-Mar 2005*
Net Free Cash Flow after CapEx	*1,607.6*	*1,164.8*
+ Payments related to cancellation of commitments	*211.1*	*191.3*
- Ordinary dividends payment to minoritaries	*(4.6)*	*(0.4)*
= Free Cash Flow	***1,814.1***	***1,355.7***

TELEFóNICA GROUP

NET FINANCIAL DEBT AND COMMITMENTS

Unaudited figures (Euros in millions)

		March 2006
	Long-term debt	42,041.5
	Short term debt including current maturities	19,506.6
	Cash and Banks	(4,468.1)
	Short and Long-term financial investments (1)	(3,570.1)
A	Net Financial Debt	53,509.9
	Guarantees to IPSE 2000	365.5
	Guarantees to Newcomm	83.4
B	Commitments related to guarantees	448.9
	Gross commitments related to workforce reduction (2)	5,058.8
	Value of associated Long-term assets (3)	(739.7)
	Taxes receivable (4)	(1,497.4)
C	Net commitments related to workforce reduction	2,821.7
A + B + C	Total Debt + Commitments	56,780.5
	Net Financial Debt / OIBDA (5)	2.80x
	Total Debt + Commitments/ OIBDA (5)	2.97x

(1) Short term investments and certain investments in financial assets with a maturity profile longer than one year, whose amount is included in the caption "Investment" of the Balance Sheet.

(2) Mainly in Spain, except 91.3 million euros related to the provision of

pension fund liabilities of corporations outside Spain. This amount is detailed in the caption "Provisions for Contingencies and Expenses" of the Balance Sheet, and is the result of adding the following items: "Provision for Pre-retirement, Social Security Expenses and Voluntary Severance", "Group Insurance", "Technical Reserves", and "Provisions for Pension Funds of Other Companies".

(3) Amount included in the caption "Investment" of the Balance Sheet, section "Other Loans". Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.

(4) Net present value of tax benefits arising from the future payments related to workforce reduction commitments.

(5) Calculation based on 12 months accumulated OIBDA,

including Cesky Telecom and O2.

Operating Income Before Depreciation and Amortization

Operating income before depreciation and amortization is calculated by excluding depreciation and amortization expenses from our operating income in order to eliminate the impact of generally long-term capital investments that cannot be significantly influenced by our management in the short-term. Our management believes that operating income before depreciation and amortization is meaningful for investors because it provides an analysis of our operating results and our segment profitability using the same measure used by our management. Operating income before depreciation and amortization also allows us to compare our results with those of other companies in the telecommunications sector without considering their asset structure. We use operating income before depreciation and amortization to track our business evolution and establish operational and strategic targets. Operating income before depreciation and amortization is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Operating income before depreciation and amortization is not an explicit measure of financial performance under IFRS or U.S. GAAP and may not be comparable to other similarly titled measures for other companies. Operating income before depreciation and amortization should not be considered an alternative to operating income as an indicator of our operating performance, or an alternative to cash flows from operating activities as a measure of our liquidity.

The following table provides a reconciliation of operating income before depreciation and amortization to operating income for the Telefónica Group for the periods indicated.

	For the three months ended March 31,	
	2005	2006
Operating income before depreciation and amortization	3,414.7	4,686.7
Depreciation and amortization expense	(1,526.4)	(2,152.7)
Operating income	1,888.3	2,534.1

The following tables provide a reconciliation of operating income before depreciation and amortization to operating income for the Telefónica Group and each of our business lines for the periods indicated.

For the three months ended March 31, 2005

	Telefónica de España	Telefónica Móviles	Telefónica Latinoamérica	Telefónica o2 Europe	Telefónica Contenidos	Directories Business	Atento	Others and Eliminations	Total
Operating income before depreciation and amortization	1,199.0	1,317.9	860.5	-	45.4	23.9	22.6	(54.6)	3,414.7
Depreciation and amortization expense	(569.4)								

	(527.6)
	(406.0)
	(7.3)
	(5.8)
	(7.1)
	(3.2)
	(1,526.4)
Consolidated Operating income	
	629.6
	790.3
	454.5
	-
	38.1
	18.1
	15.5
	(57.8)
	1,888.3

For the three months ended March 31, 2006

Telefónica de España
Telefónica Móviles
Telefónica Latinoamérica
Telefónica o2 Europe

Telefónica
Contenidos

Directories
Business

Atento

Others and
Eliminations

Total

Operating income before depreciation and amortization

1,262.6

1,471.9

994.2

756.0

166.7

29.5

34.5

(28.7)

4,686.7

Depreciation and amortization expense

(490.2)

(616.3)

(499.8)

(527.1)

(6.9)

(6.9)

(7.1)

1.6

(2,152.7)

Operating income

772.4

855.6

494.4

228.9

159.8

22.6

27.4

(27.10)

2,534.1

The following tables provide a reconciliation of operating income before depreciation and amortization to operating income for some subsidiaries of each of our business lines for the periods indicated.

Business Line**: Telefónica de España**

Telefónica de España (parent company)	For the three months ended March 31,	
	2005	2006
Operating income before depreciation and amortization	1,189.5	1,249.0
Depreciation and amortization expense	(565.2)	(486.9)
Operating income	624.3	762.1

Business Line**: Telefónica Móviles**

	For the three months ended March 31, 2005							
	T.Móviles España	VIVO	TEM México	TEM Venezuela	TEM Colombia	TEM Peru	TEM Argentina	TEM Chile
Operating income before depreciation and amortization	986.6	141.9	(48.7)	106.3	30.9	26.1	24.4	34.7
	(164.5)	(75.7)	(73.8)	(33.7)	(19.2)	(21.4)	(17.5)	(45.7)

Depreciation and amortization expense								
Operating income	822.1	66.2	(122.5)	72.6	11.7	4.8	6.8	(11.0)

	For the three months ended March 31, 2006							
	T.Móviles España	VIVO	TEM México	TEM Venezuela	TEM Colombia	TEM Peru	TEM Argentina	TEM Chile
Operating income before depreciation and amortization	951.9	136.3	(24.3)	189.0	37.0	27.2	67.1	58.7
Depreciation and amortization expense	(168.6)	(120.2)	(82.2)	(26.4)	(27.0)	(32.2)	(20.6)	(56.6)
Operating income	783.3	16.1	(106.4)	162.6	10.0	(5.0)	46.4	2.1

Business Line**: Telefónica Latinoamérica**

For the three months ended March 31, 2005

Telesp

TASA

CTC

TDP

TIWS

Operating income before depreciation and amortization

454.7

114.9

95.5

96.3

12.9

Depreciation and amortization expense

(203.3)

(34.6)

(60.6)

(64.4)

(17.1)

Operating income

251.4

80.3

34.9

31.9

(4.2)

For the three months ended March 31, 2006

Telesp

TASA

CTC

TDP

TIWS

Operating income before depreciation and amortization

630.1

122.2

91.5

126.1

18.7

Depreciation and amortization expense

(261.6)

(39.5)

(72.0)

(78.6)

19.8

Operating income

368.5

82.7

19.5

47.5

(1.1)

Business Line**: Telefónica O2 Europe**

For the three months ended March 31, 2006

Cesky Telecom

Fixed line business

Eurotel

Deutschland

Operating income before depreciation and amortization

251.5

123.8

125.0

(4.6)

Depreciation and amortization expense

(145.9)

(96.9)

(48.5)

(4.1)

Operating income

105.6

26.8

76.5

(8.6)

-

Additionally the following tables provide a reconciliation of "operating free cash flow" presented as Operating income before depreciation and amortization minus Capex by company for the period indicated.

For the three months ended March 31, 2006

Telefonica Group

Telefonica Lationamerica Group

Telesp

TASA

CTC

TdP

Cesky

Atento

Operating income before depreciation and amortization (OIBDA)

4,686.7

	994.2
	630.1
	122.2
	91.5
	126.1
	251.5
	34.5
Capex	
	(1,307.2)
	(173.9)
	(89.5)
	(31.2)
	(29.5)
	(17.7)
	(34.0)
	(3.8)
Operating free cash flow (OIBDA Capex)	
	3,379.5
	820.3
	540.5
	91.0
	62.0
	108.3
	217.5
	30.8

-

Net Financial Debt

Net financial debt is calculated by deducting the positive mark-to-market value of derivatives with a maturity beyond one year from the relevant balance sheet date and other interest-bearing assets (each of which are components of non-current financial assets in our consolidated balance sheet), current financial assets and cash equivalents from the sum of (i) current and non-current interest-bearing debt (which we refer to collectively as our gross financial debt) and (ii) other payables (a component of non-current trade and other payables in our consolidated balance sheet). Our management believes that net financial debt is meaningful for investors because it provides an analysis of our solvency using the same measure used by our management. We use net financial debt to calculate internally certain solvency a leverage ratios use by management. Net financial debt is not an explicit measure of indebtedness under IFRS or U.S. GAAP and may not be comparable to other similarly titled measures for other companies. Net debt should not be considered an alternative to gross financial debts (the sum of current and non-current interest-bearing liabilities)

as a measure of our liquidity. The following table provides a reconciliation of net financial debt to gross financial debt for the Telefónica Group as at the dates indicated.

	For the three months ended March 31,	
	2005	2006
	(euro in millions)	
Non-current interest-bearing debt	18,113.2	41,665.4
Current interest-bearing debt	9,455.1	19,506.6
Gross financial debt	27,568.3	61,172.0
Other payables	489.9	376.1
Non-current financial assets(1)	(997.8)	(1,693.3)
Current financial assets	(2,063.5)	(1,876.8)
Cash and cash equivalents	(1,048.8)	(4,468.1)
Net financial debt	23,948.1	53,509.9

(1) Positive