TELEFONICA S A
Form 6-K
May 15, 2006

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 May, 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 X No

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.

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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 English language translation of the consolidated financial statements originally issued in Spanish has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain omissions or approximations may subsist. Telefónica, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the Spanish-language version prevails.

These consolidated financial statements are 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.

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[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.

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[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.

TELEFÓNICA GROUP

EXCHANGES RATES APPLIED

	P&L and CapEx (1)			Balance Sheet (2)	
	Jan - Mar 2006	Jan - Mar 2005	% Chg	March 2006	March 2005
United States (Dolar USA/Euro)	1.202	1.311		1.210	1.296
United Kingdom (Sterling/Euro)	0.686	-		0.696	-
Argentina (Peso Argentinean/Euro)	3.685	3.839		3.730	3.782
Brazil (Real Brasileño/Euro)	2.637	3.495		2.629	3.456
Rep. Checa (Corona Checa/Euro)	28.600	-		28.595	-
Chile (Peso Chileno/Euro)	632.911	757.576		636.943	757.576
Colombia (Peso Colombiano/Euro)	2,724.796	3,086.420		2,770.083	3,076.923
El Salvador (Colon/Euro)	10.520	11.468		10.591	11.343
Guatemala (Quetzal/Euro)	9.169	10.108		9.217	9.849
Mexico (Peso Mexicano/Euro)	12.727	14.654		13.255	14.641
Nicaragua (Córdoba/Euro)	20.740	21.533		21.004	21.427
Peru (Nuevo Sol Peruano/Euro)	4.018	4.277		4.069	4.230
Uruguay (Peso Uruguayo/Euro)	29.124	33.157		29.292	33.124
Venezuela (Bolívar/Euro)	2,583.979	2,816.901		2,604.167	2,785.515

(1) These exchange rates are used to convert the P&L and CapEx accounts of the Group foreign subsidiaries from local currency to euros.

(2) Exchange rates as of 31/03/06 y 31/03/05.

RESULTS BY BUSINESS LINES

Fixed Line Business

TELEFÓNICA DE ESPAÑA GROUP

The first quarter of 2006 closed with a year on year revenue growth for Telefónica de España of 3.3%, together with an intensive operating expenses containment to give a 5.3% increase in the Operating Income Before Depreciation and Amortization (OIBDA). Once again, the growth of the Internet and Broadband business and the control in the drop of traditional business were the main driving forces behind these good results.

The following can be highlighted among the latest commercial action taken:

- The launch of a global offer targeting SMEs known as **"Puesto de Trabajo Integral"** (Comprehensive Desktop) that supplies all the information technologies and communications necessary to start a job: For a fixed monthly fee per post, Telefónica de España provides clients with the necessary telephone and computer equipment, access to voice and data networks and comprehensive desktop maintenance and management.

- The establishing of a new Interoperability service related to the Fixed-to-mobile Video-telephony service.

- Launch of new Vouchers with 60 or 100 minutes of fixed-to-mobile calls.

- New text and multimedia message service to any fixed or mobile telephone from Telefónica Net.

- In the Corporate segment, it is worth to mention the launching of the portfolio of solutions for Public Administrations covering the areas of Health, Justice, Education and Local Administration, as well as solutions for specific sectors: Utilities, Finance Institutions, Logistics and Services.

- The portfolio for big Corporations has also been updated by adding "Geomarketing" (Geographical marketing) and "Georeferenciación" (Geographical labeling) portfolio of solutions through the acquisition of Maptel enterprise.

The following can be underlined in relation to promotions launched during the quarter:

- The **Free Connection Fee** campaign that took place between February 27th and March 10th. Campaigns have also been launched to offer free connection fee targeting immigrants, together with offers on international traffic.

- In terms of Broadband, ADSL, Imagenio, DUOS and TRIOS promotions have continued this quarter, with free subscription fees and reduced monthly fees, as well as an offer on the modem. Specific offers for groups and with Spanish Regional Governments have been launched or continued within the initiatives taken for development of the Information Society in Spain.

In terms of regulatory issues, it must be noted that the CMT recently completed an analysis of the relevant access market. As a result of this analysis, freezing of the monthly subscription fee for 2006 was confirmed and an agreement reached to establish a limit for access prices (monthly subscription and connection fee) for 2007, setting a maximum price of CPI-0 that will eventually lead to a maximum increase of 2%. Furthermore, the Regulatory body has accepted the possibility of varying the subscription fee depending on the different market segments: residential and business.

Another relevant issue for Telefónica de España during the first quarter of 2006 was the CMT Resolution on the analysis of retail telephony traffic market. The main result of the Resolution has been the elimination of the pricing control over these services, that had been applied during the last years through a Price Cap model (CPI-X). Moreover, it is important to note this measure will significantly improve Telefónica de España commercial flexibility in order to develop these services adapting them to each of the markets and end clients requirements.

The CMT has also concluded the analysis of the termination of traffic on fixed networks market. Even though the CMT has left unchanged Telefonica de España's obligations within this market, operators of the competition have been authorized to charge Telefónica de España up to 30% more for call termination than Telefónica de España charges them for time based local interconnection. However, this measure is not to be applied automatically, but through Interconnection Agreements, and as such will be dependent upon operators' will to apply them given the effect it could have on the market development.

Revenues

of the Telefónica de España Group amounted to 2,944.3 million euros during the first quarter of 2006, a year-on-year growth of 3.3%, as mentioned above.

The Telefónica de España Parent Company's revenues amounted to 2,835.2 million euros, up 3.6% year on year. In relation to the other most significant affiliates, Telyco contributed 102.2 million euros to the Group during this first quarter, 1.8% up on the previous year. TTP contributed 24.5 million euros, a year-on-year drop of 13.6% and lastly Terra, which accounted for 25.9 million euros. In order to make comparisons with the previous year, Terra España has been considered under comparable terms as being within the Telefónica de España perimeter since January 2005. Under these conditions, a 19.2% drop was recorded.

Below is a detailed analysis of the Telefónica de España Parent Company's revenues:

- Revenues for traditional access

fell 1.7% over the quarter to stand at 695.6 million euros, due to the reduction in the number of fixed telephony access and partial fade away of the effect of the 2.0% increase in subscription fees on January 22nd last year. The 17% drop in revenues from connection fees to 25.3 million euros due to the effects of the promotions and free connection fee campaigns also contributed to this fall.

Fixed telephony access in Spain is estimated to have grown by 1.5% over the last twelve months to march 2006, whereas that of Telefónica de España fell by 0.9% to 16.1 million, with an estimated access market share of 85%.

This trend has been more than offset by the 3.4% growth in the total number of Telefónica de España access where data and Internet, pay television and wholesale accesses were accounted for as well as fixed telephony accesses. The total combined figure amounted to 22.2 million accesses.

- Revenues from traditional voice services

amounted to 1,249.9, with a year-on-year reduction of 2.6%. Within this area, revenues from outgoing voice services amounted to 784.3 million euros, with a year-on-year drop of 3.5%. The fact that Easter fell during the second quarter instead of the first, like last year, had a positive effect on revenues, which can be estimated in 17 million euros.

It is also worth to note starting March 2006, as imposed by the CMT, the business model, add as such the accounting criterion for revenues, from traffic cards. A retail model was previously followed in which traffic resold at the price indicated in the BOE (Boletín Oficial del Estado: Official Spanish State Journal) was recorded as revenue and the bonuses and agreements, etc. with distributors as expenses. A wholesale model is to be followed as of 2006, in which only the net business margin will be recorded as revenues. The impact of this measure stood at approximately 7 million euros in March, reducing both traffic revenues and external services expenses. The estimated impact for the whole of 2006 year is a reduction in revenue growth of 0.7 percentage points

The above mentioned drop in revenues does not show the sudden change in trend of traditional outgoing traffic that went from dropping 7.2% in 2005 to remaining practically on a par with the previous year's levels during the first quarter of 2006. Although supported by the effect of Easter, this fact started to reflect the growing dissociation between the behavior of traffic and associated revenues, as a result of the increased generalization of flat rates.

This can also be seen in the behavior of the voice market in Spain that, after over 3 years, changed its negative trend and recorded an estimated positive year-on-year growth of 0.3%. Telefónica de España's estimated share in this market in March stood at 66%.

Traditional outgoing voice traffic processed by Telefónica de España amounted to 11,275 million minutes, maintaining, as previously commented, close to the levels of first quarter 2005 (- 0.8% year-on-year).

Domestic voice traffic fell slightly by 0.9% in comparison with the previous year, with a total of 8,747 million minutes. International long-distance traffic grew by 6.5% to total 492 million minutes, continuing its growth trend, although somewhat more moderately, due to the lower market growth. Not affected by flat rates, fixed-to-mobile traffic continued to drop by 3.3% to stand at 1,339 million minutes.

With regard to service packages, it is worth noting that the total number of combined plans and flat rates amounted to 3,477,182, 20% up on that of December 2005.

Moreover, by the end of March, there were 2,197,233 pre-selected lines, a drop of 87,357 over the quarter.

- According to our estimates, the fixed **Internet Broadband** access market in Spain amounted to 5.5 million accesses by the end of the first quarter 2006, recording an estimated net gain over the first three months of the year of almost half a million accesses, the second highest in history after that achieved in the fourth quarter of 2005. The success of the Telefónica ADSL offering had a determinant impact on this growth, amounting to 3,795,882 accesses in total (wholesale plus retail, including accesses only providing Imagenio service) by the end of 2005.

The increase in revenues from Internet and broadband services more than offset (by over 2.5 times) the drop in revenues from the traditional access and voice businesses, amounting to 543.2 million euros, 28.0% up on the previous year.

Within this caption, broadband revenues from both Internet access and Pay television grew 35.0% over the year to reach 500.4 million euros, of which 399.5 million euros are from the retail business.

Telefónica's client base of retail broadband Internet lines (ADSL, Optical fiber and other technologies, excluding accesses only providing Imagenio service) recorded a net gain of 321,978 connections over the quarter, 80.4% higher than that recorded during the last quarter of the previous year. With this, the total number of Telefónica's retail broadband Internet accesses in March 2006 stands at 3,037,410, which represents an improvement in Telefonica de España's retail Internet Broadband access market share in the level of hundreds of basic points.

The strong growth in the Telefónica de España client base was promoted by the new product packages and the price reductions included in promotions. These commercial initiatives led to a year-on-year reduction in the ADSL connectivity ARPU of over 10% that, partially offset by the growth of almost 40% in the value added services ARPU, led to an overall 4.9% drop in ARPU. Finally, to be noted for the purposes of revenues, the lower ARPU recorded was offset by the significant increase in the number of clients.

It must be highlighted that 54% of Telefónica de España retail broadband accesses have the Internet connectivity service within some kind of Double or Triple-Offer package.

The net gain of unbundled loops during the first quarter reached its maximum level with 111,943 new loops, underlining the support for this technology by many of our competitors. By quarter end, the total number of unbundled loops stood at 546,702 to represent, according to our estimates, 10% of the total number of fixed Internet broadband accesses in the Spanis hmarket, and 12.6% of ADSL lines. Of this total, 320,341 (58.6%) were shared access loops. However, in terms of net gain for the first quarter, fully unbundled loops represented 63.1% of the total.

The wholesale ADSL service was affected by the migration to unbundled loops and, therefore, recorded a loss of 15,529 accesses during the first quarter to leave its total to 706,411 accesses.

Value-added services (VAS) provided over Telefónica de España broadband accesses remained a distinguishing factor with regard to the competition's commercial offer. 70.9% of our retail broadband clients have contracted at least one VAS and the number of operative services now amounts to over 2.7 million units. ADSL Solutions is noteworthy among these services, a total of 295,069 solutions being operational by the end of the first quarter to give a 6.0% increase in relation to December last year.

The net gain of the Pay T.V customers at Telefónica de España recoded in the first quarter was 43.712, allowing for an increase of up to 7% in the estimated share in the Spanish Pay TV market. The recorded net gain is to be considered within a highly seasonal business, with growth mainly focused in the fourth quarter, and as such lays in the trend of reaching the objective of one million Pay TV customers by year 2008.

- Revenues from data services

grew by 2.3% year on year to reach 267.2 million euros. Retail data services fell during this period by 5.7%. Wholesale data revenues, however, recorded a 16.9% growth to total 108.3 million euros, basically promoted by circuit rental and transport capacity to other operators.

- Lastly, **information technology services** contributed towards Telefónica de España revenues with a total of 79.2 million euros, a 30.9% increase year on year.

  There are currently 197 client management centers operated by Telefónica and 144 contracts with clients who are outsourcing their communications service/information systems. These figures have grown by 41.7% and 54.8% respectively year on year.

  The number of servers devoted to clients amounted to 2,984, a 53.4% increase on the previous year. The number of desktop positions managed stood at 87,291, of which 43.1% include high added value solutions such as managed LAN or the Helpdesk service.

Telefónica de España Group's **operating expenses** recorded a year-on-year decrease of 0.4% to 1,703.8 million euros.

Excluding the effect of the provisions for workforce restructuring, expenses would have increased by 1.3%. This good result is due to the containment of expenses in the main items such as commercial and supplies expenses.

- Personnel expenses

dropped by 2.9% year on year to stand at 634.3 million euros. 25 redundancies were recorded during this first quarter of the year at Terra España from the Remunerated Layoff Plan, and 286 from the Telefónica de España Redundancy Program (E.R:E.). The provision for these items amounts to 94.9 million euros.

Excluding the effect of Redundancies provisions in the first quarter of 2005 (121.5 million euros including actuarial reviews) and in 2006, personnel expenses would have grown by 1.5%. This growth was affected by the first quarter 2005 base data used for comparison. Personnel expenses during this quarter recorded a forecast growth in CPI of 2.7% that, by year end, was eventually set at 3.7%.

The Telefónica de España Parent Company workforce at the end of March was placed at 33,030 employees, a net reduction of 249 employees since the start of the year. The average Telefónica de España Group workforce in the first quarter of the year stood at 34,919 employees, a 3.8% reduction in comparison with the average workforce in the same period of 2005.

- Supplies expenses

  grew by 1.4% in the year to stand at 707.8 million euros. This good behavior, specially considering the 8.7% growth registered in year 2005, was influenced by the 5.6% drop in interconnection expenses, standing at 384.8 million euros as a result of the reduction in fixed-to-mobile traffic and the call termination prices in mobile operator networks. This performance was also affected by the lower expenses associated to the wholesale unbundled loop service, once the main exchange conditioning work had been completed for this service, and by the higher sale of ADSL equipment following the significant growth of the Company's retail broadband clients recorded during the first quarter.

- External services expenses

recorded a slight 0.2% drop to total 311.7 million euros, partly due to the 4.8% reduction in Telefónica de España Parent Company commercial expenses in comparison with the first quarter of 2005. This drop in commercial expenses is momentary and cannot be extrapolated to the rest of the year. The change in accounting criterion for expenses generated by the sale of traffic cards also influenced this behavior, as explained in the traditional voice service revenues section.

The combined effort made by the Company with regard to the growth in revenues and efficiency has led to **operating income before depreciation and amortization (OIBDA)** of 1,262.6 million euros in the first quarter, a 5.3% year-on-year growth.

For comparison purposes with the announced financial guidance, exceptional revenues/expenses not foreseen in the first quarter of 2005 and 2006 must be excluded from OIBDA. Once this adjustment has been made, the growth in OIBDA would stand at 7.2% above the forecasts given by the Company, which established a target growth of between 1% and 3% in OIBDA. The Easter effect has added 1.1 percentage points to this 7.2% growth; the effect, logically, will be present in second quarter 2006 accounts with an opposite sign.

The OIBDA margin stood at 42.9% during the first quarter, 0.8 percentage points above that recorded the previous year. Excluding the effect of the provision for the Redundancy Plan, the first quarter's margin would have increased by 3.2 percentage points to reach 46.1%. Comparing this margin with the comparable margin of the same period in 2005 (excluding the Redundancy Program provision and the actuarial review), performance remained almost stable with a slight 0.2 percentage points drop.

The OIBDA for the Telefónica de España parent company amounted to 1,249.0 million euros, up 5.0% year on year.

CapEx

totaled 314.6 million euros, a 25.5% increase in comparison with the previous year although not yet representative of the whole year's performance.

TELEFÓNICA DE ESPAÑA GROUP

ACCESSES

Unaudited figures (Thousands)

	2006		2005			
	March	% Chg y-o-y	March	June	September	December
Final Clients Accesses	20,901.7	1.8	20,522.2	20,484.1	20,484.3	20,742.7
Fixed telephony accesses (1)	16,108.5	(0.9)	16,258.3	16,236.5	16,180.8	16,135.6
Internet and data accesses	4,542.9	7.1	4,241.9	4,190.1	4,211.4	4,400.6
Narrowband	1,437.4	(31.4)	2,094.3	1,872.5	1,745.7	1,614.9
Broadband (2)	3,042.7	46.8	2,073.4	2,246.7	2,397.7	2,720.8
Other (3)	62.8	(15.3)	74.2	70.9	68.0	64.9
Pay TV	250.3	N.S.	22.1	57.5	92.1	206.6
Wholesale Accesses	1,260.4	39.5	903.8	1,021.6	1,077.4	1,164.1
Unbundled loops	546.7	182.7	193.4	297.0	361.3	434.8
Shared UL	320.3	243.8	93.2	176.5	228.9	279.0
Full UL	226.4	125.8	100.2	120.5	132.4	155.7
Wholesale ADSL	706.4	0.5	702.5	717.0	708.6	721.9
Other (4)	7.3	(6.5)	7.8	7.6	7.5	7.4
Total Accesses	22,162.1	3.4	21,426.0	21,505.7	21,561.7	21,906.8

(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 fiber and broadband circuits. Includes Terra.

(3) Leased lines.

(4) Wholesale circuits.

TELEFÓNICA DE ESPAÑA PARENT COMPANY

OPERATING REVENUES

Unaudited figures (Euros in millions)

	January - March		
	2006	2005	% Chg
Traditional Access (1)	695.6	707.7	(1.7)
Traditional Voice Services	1,249.9	1,283.3	(2.6)
Domestic Traffic (2)	321.6	356.0	(9.6)
Fixed to Mobile Traffic	273.8	283.2	(3.3)
International Traffic	115.8	111.5	3.9
Intel. Network, other cons. and bonusses (3)	73.0	62.1	17.6
Interconnection (4)	231.6	229.2	1.1
Handsets sales and others (5)	234.0	241.4	(3.1)
Internet Broadband Services	543.2	424.3	28.0
Narrowband	42.8	53.7	(20.2)
Broadband	500.4	370.6	35.0
Retail (6)	399.5	285.8	39.8
Wholesale (7)	100.9	84.9	18.9
Data Services	267.2	261.2	2.3
VPN, Leased Circuits and Broadcasting	159.0	168.6	(5.7)
Wholesale	108.3	92.6	16.9
IT Services	79.2	60.5	30.9
Total operating revenues	2,835.2	2,737.0	3.6

(1) Monthly and connection fees (PSTN, Public Use Telephony, ISDN and Corporate Services) and Telephone booths surcharges.

(2) Local and domestic long distance (provincial and interprovincial) traffic.

(3) Intelligent Network Services, Special Valued Services, Information Services (118xy), bonusses and others.

(4) Includes revenues from fixed to fixed incoming traffic, fixed to mobile incoming traffic, and transit and carrier traffic.

(5) Managed Voice Services and other businesses revenues.

(6) Retail ADSL services and other Internet Services.

(7) Includes Megabase, Megavía, GigADSL, and local loop unbundling.

TELEFÓNICA DE ESPAÑA GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

January - March

	2006	2005	% Chg
Revenues	2,944.3	2,850.2	3.3
Internal expenditure capitalized in fixed assets (1)	35.0	29.1	20.5
Operating expenses	(1,703.8)	(1,710.4)	(0.4)
Other net operating income (expense)	(17.5)	(1.0)	N.S.
Gain (loss) on sale of fixed assets	7.7	34.3	(77.4)
Impairment of goodwill and other assets	(3.2)	(3.0)	5.3
Operating income before D&A (OIBDA)	1,262.6	1,199.0	5.3
Depreciation and amortization	(490.2)	(569.4)	(13.9)
Operating income (OI)	772.4	629.6	22.7
Profit from associated companies	0.0	(0.1)	N.S.
Net financial income (expense)	(24.1)	(102.8)	(76.5)
Income before taxes	748.3	526.6	42.1
Income taxes	(254.7)	(178.4)	42.8
Income from continuing operations	493.6	348.2	41.8
Income (Loss) from discontinued operations	0.0	0.0	N.S.
Minority interest	(0.1)	(0.1)	65.7
Net income	493.4	348.1	41.7

(1) Including work in process.

Note: Telefónica de España Group incorporates the results of Terra Networks operations from 1 January 2005.

RESULTS BY BUSINESS LINES

Fixed Line Business

TELEFÓNICA LATINOAMÉRICA GROUP

From January 1st 2006, Telefónica Latinoamérica Group's fixed telephony operator accounts include the Telefónica Empresas businesses in their respective countries. The 2005 results are shown on comparable terms. On the other hand, to facilitate year-on-year comparisons, the Telefónica Latinoamérica Group figures include the results of the Terra subsidiaries in Latin America since January 1st 2005.

The Latin American countries in which Telefónica Latinoamérica is present have, in terms of macroeconomics, progressed favorably this first quarter, which was reflected by an appreciation of all currencies in relation to the euro, particularly the Brazilian real and the Chilean peso. Thus, this good performance of exchange rates this quarter had a positive effect on the Telefónica Latinoamérica Group's accounts, contributing with 24.5 percentage points to the growth of revenues and 21.3 percentage points to the growth of the operating income before depreciation and amortization (OIBDA).

By the end of this first quarter, Telefónica Latinoamérica Group recorded **revenues** of 2,318.1 million euros, 6.1% higher year-on-year in constant euros (+30.6% in current euros), mainly due to the growth in local currency by all fixed and data business operators, particularly in Brazil (+7.1% in local currency due to the increased number of broadband connections, the growth in the traditional business, supported by the higher volume of traffic and tariffs, and the growth in the data and information technology businesses) and in Argentina (+8.0% in local currency due to the greater volume of broadband connections and the good performance of the wholesale business). Chile recorded a smaller growth rate (+3.2% in local currency) thanks to the good progress of the Internet business (narrowband + broadband), the 35.7% growth of which in local currency offset the slower evolution of the traditional business (+0.3% in local currency). The case of Peru is similar, with a slight increase in revenues (+2.7% in local currency) thanks to the growth of the Internet business (+24.7% in local currency) that more than compensates the 1.9% drop in local currency in the traditional business, affected by the application of the productivity factor (CPI-10.07%) to its tariffs.

Operating expenses

for the Telefónica Latinoamérica Group stood at 1,306.0 million euros for the quarter, with a year-on-year growth of 9.5% in constant euros (+34.5% in current euros). This growth was affected by this quarter's recording of expenses associated to workforce restructuring plans in Chile and Brazil, which affected around 1,000 employees. Furthermore, greater interconnection expenses were recorded, particularly in Brazil, due to greater fixed-to-mobile traffic and higher commercial expenses, especially those related to client assistance and advertising.

As a result of the above, Telefónica Latinoamérica Group recorded an **operating income before depreciation and amortization (OIBDA)** of 994.2 million euros, 5.8% lower year-on-year in constant euros (+15.5% in current euros) due to the effect of the capital gains recorded in 2005 from the sale of Infonet. Excluding this effect, there was a 3.9% growth in OIBDA in constant euros (+27.4% in current euros).

Telefónica Latinoamérica Group's **CapEx** amounted to 173.9 million euros in March, a year-on-year growth of 13.1% in constant euros, primarily due to the expansion of broadband and new businesses. In line with this volume of investment, Telefónica Latinoamérica's **free cash flow (OIBDA-CapEx)** amounted to 820.3 million euros at March end, a 2.3% growth in constant euros (+25.6% in current euros) having excluded the effect of the sale of Infonet in 2005.

By the end of this quarter, the Telefónica Latinoamérica Group managed 28.3 million accesses, compared with the 27.3 million in March 2005 (+3.7% year-on-year). Particularly noteworthy is the strong growth of retail broadband Internet connections, which grew 50.2% year-on-year, to top 2.9 million by March end with a net gain of almost 222,100 connections in the first three months of the year and a significant commercial effort in all countries. The number of fixed telephony accesses amounted to 21.7 million, 1.7% more than in March 2005 mostly thanks to the continued progress of Telefónica del Perú (+8.5%) and TASA (+4.3%).

The group's total workforce stood at 28,312 at 31st March, with a net reduction of 544 employees over the quarter due to layoffs in Chile and Brazil.

TELESP

From a regulatory viewpoint, it must be noted that the conditions of the new Telesp concession contract entered into force on January 1st, although the billing of local calls in minutes have been delayed for 12 months. Furthermore, on March 28th this year ANATEL granted a 7.99% readjustment on long-distance fixed-to-mobile calls corresponding to 2005, the application of which will not be retroactive.

In addition to its commercial offer, Telesp launched new modalities of lines with consumption limits (Leisure Line, Control Line, Young Line) during the first quarter of the year, as well as the Plans of Minutes that offer discounts of up to 40% on local calls.

By the end of the first quarter of 2006, Telesp (fixed + data business) managed 15.7 million accesses, a year-on-year growth of 1.7% thanks to the strong growth in the number of retail broadband Internet connections that stood at 1.3 million (+47.5% year-on-year), following a net gain over the quarter of 93,600 accesses. The number of fixed telephony accesses remained in line with the previous year (+0.1% year-on-year), following a net gain of 30,200 lines in the first quarter of the year favoured by the sale of new line modalities. Hence, consumption control lines (Family line and the recently-launched Control Line) accounted for approximately 19% of total lines.

Voice traffic recorded a 1.1% year-on-year increase to stand at 17,946 million minutes, primarily due to the increase in local fixed-to-fixed traffic (+4.1% year-on-year). Long distance traffic, however, performed negatively (-5.4% year-on-year), mostly due to the lower intrastate long-distance traffic following the increased migration of traffic to mobiles. Lastly, the growth in traffic originating from mobiles -SMP must be noted, which is a result of the expansion of the mobile market throughout 2005.

Revenues

amounted to 1,427.8 million euros during the quarter, a 7.1% increase in local currency thanks to the 5.0% growth in local currency in revenues from the traditional business, mostly due to the good performance of local traffic revenues, the sale of packages and the tariff increase in July 2005. The Internet business (narrowband + broadband) also played an important role in the growth of revenues (+31.1% in local currency), primarily thanks to the increase in the broadband plant that enabled Internet revenues to total 8.6% of Telesp revenues (7.0% in the first quarter of 2005). To a lesser extent, the increase in sales from the data and information technology business contributed positively (+13.6% and +18.2% in local currency, respectively), providing a combined 3.0% of company revenues.

Operating expenses

grew by 9.0% year-on-year, mostly due to greater personnel expenses (+31.0% in local currency), the cost associated to the personnel restructuring plan carried out in March. Excluding the extraordinary charge associated to this program, operating expenses recorded a 6.1% increase in local currency, lower than the growth experienced by revenues. Higher interconnection costs have been recorded (+7.1% year-on-year) associated to greater fixed-to-mobile traffic. The efforts made by the company in the containment of costs was reflected in a growth in subcontracting expenses of only 0.6% in local currency compared with the previous year.

Tax expenses grew by 76.5% year-on-year in local currency, due to the renewal tax associated to the new contract concession. The ratio of bad debt provision to revenues remained at 2.3%, the same as in 2005.

Telesp's **operating income before depreciation and amortization (OIBDA)** amounted to 630.1 million euros at March end, up 4.5% in comparison with the first quarter of the previous year in local currency. The OIBDA margin stood at 44.1%, 1.1 percentage points below the 2005 margin mostly due to the layoff plan (excluding this effect, the OIBDA margin would be 45.6% and stable compared with 2005).

CapEx

accumulated to March amounted to 89.5 million euros, a 3.8% growth with regard to the first quarter of 2005 in local currency. The **operating free cash flow (OIBDA-CapEx)** stood at 540.5 million euros (+4.7% in local currency with regard to the same period of the previous year).

TELESP

ACCESSES