

Edgar Filing: TELEFONICA S A - Form 6-K

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.

TABLE OF CONTENTS

Item		Sequential Page Number
1.	Quarterly Results of Telefónica Group: January - December 2005	67

Quarterly results

January-December 2005

TABLE OF CONTENTS

Telefónica GroupJ

Market Size

Financial Highlights

Consolidated Results

Financial Data

RESULTS BY BUSINESS LINES

Fixed Line Business

- Telefónica de España Group
- Telefónica Latinoamérica Group

Mobile Business

Cesky Telecom

Other Business

- ◆ Directories Business
- ◆ Atento Group
- ◆ Content and Media Business
- ◆ Telefónica Deutschland Group

Addenda

Companies included in each Financial Statement

Key Holdings of the Telefónica Group and its Subsidiaries

Significant Events

Changes to the Perimeter and Accounting Criteria of Consolidation

Telefónica, empowering economic, social and technological development

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is unaudited and, therefore, is subject to potential future modifications. 2004 financial results were originally prepared under Spanish GAAP and have been translated into IFRS for comparison purposes only.

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)

	December		
	2005	2004	% Chg
Fixed telephony accesses (1)	40,859.0	37,768.5	8.2
Internet and data accesses	12,859.9	10,872.2	18.3
Narrowband	5,166.9	5,672.5	
Broadband	6,902.7	4,736.7	
ADSL (2)	5,880.2	3,915.5	
Retail (3)	5,023.1	3,225.6	
Other accesses (4)	790.3	463.0	
Unbundled loops (5)	434.8	116.1	
Pay TV	683.2	408.3	67.3
Cellular accesses	99,124.0	74,441.4	33.2
Total Accesses	153,526.0	123,490.3	24.3

(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) T. Deutschland's connections resold on a retail basis and Cable Modem in Peru included.

(3) Includes Cable Modem in Peru. TdE Retail includes Terra form 3Q05, Línea ADSL and satellite. TASA Retail includes ISP in the north part of the country.

(4) Cable modem El Salvador, WiFi clients, satellite Latam, fiber and leased circuits included.

(5) Includes fully unbundled loops and shared loops.

TELEFÓNICA GROUP

Financial Highlights

The most relevant factors of Telefónica Group results for fiscal year 2005 are the following:

- Net income reached a record amount of 4,445.8 million euros, 40.0% higher than in 2004, thanks to the good evolution of operations and the positive contribution of the executed acquisitions:
- Net income would have reached 4,915.8 million euros if we exclude the write-down of the remaining value of the UMTS license of IPSE¹ and the provision² for the Redundancy Program in Telefónica de España and Telefónica Data España.
- A 43.4% rise in basic earnings per share, to 0.913 euros.
- Achievement of the financial targets set for 2005, in terms of revenues, OIBDA, OI and CapEx, both at the Telefónica Group level and within the main business lines.
- Strengthening of the Group's growth profile, after reporting a solid year-on-year revenue growth of 25.1%:
- All business lines reported revenues above 2004 fiscal year figures.
- A sharp increase in total accesses (+24.3% over the prior year), driven by the growth in mobile customers and in broadband, which stood at 153.5 million at the end of the year. Including the O2 customers, whose acquisition was completed in 2006), the Telefónica Group's customer base would increase to 180.9 million:
- Telefónica Móviles Group's customer base increased to 94.4 million, gaining 16.3³ million new customers.
- The Group's retail Internet broadband accesses reached 5.0 million, up from 3.2 million in December of 2004.
- Outstanding organic growth⁴ (constant exchange rates and excluding changes in the perimeter of consolidation) in the main Income Statement items:
- Revenues grew by 9.3% year-on-year, OIBDA by 9.9% and OI by 21.7%.
- The positive contribution of the exchange rate fluctuations, particularly the appreciation of Latin American currencies against the euro, which added 47 percentage points 4.5 percentage points and 3.3 percentage points to the growth of revenues, OIBDA and OI, respectively.
- Transformation of operating efficiency into profitability and generation of free cash flow:
- The consolidated OIBDA margin stood at 40.3%, unchanged from the previous year, in a high-growth environment and higher commercial activity.
- Operating free cash flow (OIBDA-CapEx) rose to 9,917.7 million euros, equivalent to 17.3% increase over the 2004 figure with the positive contribution of all business lines, despite a higher investment in growth.

- The 2005 shareholder remuneration policy is one of the most attractive in the industry, as demonstrated by the payment of a cash dividend of 0.5 euros/share, distribution of treasury stock representing 4% of shareholders' equity (1x25) and extension of the share buy-back program until the end of 2007, for a total of 6 billion euros. For 2006, the Board of Directors agreed to propose the payment of a dividend against 2005 fiscal year results of 0.5 euros/share in the next AGM.

¹ Net of their corresponding tax effect and the loss attributable to minority interest.

² Net of their corresponding tax effect

³ Excludes the adjustment for 300,000 inactive lines in Mexico, no longer considered in the reported customer base in the second quarter of 2005

⁴ Assuming constant exchange rates and including the consolidation of the Latin American assets acquired to BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela in the cellular business and Atrium in the Telefónica Latinoamérica Group from January 1st 2004. Cesky Telecom has been included in the period July-December 2004.

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 business, which basically implies that each line of activity participate in the companies that the Group holds in the corresponding business, regardless of whether said holding has already been transferred or not, even though it might be the final intent of Telefónica, S.A. to do so in the future.

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.

Starting third quarter 2005, Terra Networks results will be included in the Telefónica de España Group and Telefónica Latinoamérica Group results. Hence, Terra España, Azeler and Maptel results will be incorporated within the Telefónica de España Group, whereas Terra in Latin America will be incorporated in the Telefónica Latinoamérica Group's results. The Terra Networks Group results from the first and second quarter of 2005 and from fiscal year 2004 will be incorporated into Other Companies in the Telefónica Group accounts.

Also starting in the third quarter of 2005, the Cesky Telecom results corresponding to the July-September 2005 period will be incorporated as an independent business line, at the closing of its acquisition last June.

In 2005, the Telefónica Group obtained a new dimension after the successful integration of the mobile telephony operations acquired from BellSouth in Latin America and Cesky Telecom, combined with the acquisition of O2, strengthening the Group's competitive position through the Company scale. With these acquisitions, the **Group's strategic objective offering the best combination in terms of growth and cash returns is strengthened**, after successfully executing the integrated management of operations through an increasing focus on customers and efficiency.

The Telefónica Group thus achieved in 2005 a record net income of 4,445.8 million euros, 40.0% above last year's figure. The achievement of this good result stems from the strong annual growth in revenues (+25.1%) thanks to the expansion of the customer base (+24.3%) and of the average revenue per customer, as a consequence of the increased commercial efforts, with particular emphasis on growing businesses and on product and service innovation. Operational efficiency means maintaining profitability (OIBDA margin) at a 40% ratio and operating free cash flow (OIBDA-CapEx) growing at a high annual rate (+17.3%). It is also significant the successful management of non-operational results, going from an annual growth in OIBDA of 25.0% and 30.5% of OI to a 40.0% of net income.

The economic and financial results for 2005 were also strengthened by the diversification of being an integrated operator. The cellular business is the main contributor to Group revenues (+38.1% year-on-year), while the fixed telephony business line is so in terms of profitability, with a growth in the operating income of Telefónica de España Group of 19.9% and of Telefónica Latinoamérica Group of 14.6% year-on-year. This way, the need to finance the increased number of customers in the mobile telephony business in order to capture the unique opportunity for growth of its markets, with its logical impact on margins, is compensated by the solid results from the fixed telephony business line, a reference in the sector in terms of revenues, profitability and generation of cash flow.

As a result, the **Telefónica Group achieved all the financial objectives established for 2005**. In terms of revenues⁵, growth at constant exchange rates and excluding changes in the consolidation perimeter stood at 17.2%, surpassing the growth target of "over 15%". With respect to the Operating Income before Depreciation and Amortization (OIBDA)⁵, growth stood at 12.3%⁶, within the announced range of +10%/+13%. Operating Income (OI)⁵ grew by 16.1%⁶, also within the range of +12%/+18%. Lastly, CapEx⁵ stood at 4,725.9 million euros, in line with the guidance of reaching approximately 4,600 million euros. **It should also be noted that all business lines achieved the targets set for 2005.**

The **shareholder remuneration policy in 2005** continued to progress, being one of the most attractive in the sector and reaffirming itself after the acquisition of O2. In 2005 a dividend corresponding to the 2004 year of 0.5 euros/share was paid, Telefónica S.A. shares were distributed, representing a 4% of capital share, in a proportion of 1x25 and there has also been a progress in the share buy-back program. This program was renewed in April, and extended until the end of 2007, for a total of 6,000 million euros. On 31st December 2005, the treasury stock stood at 2.8% of the current share capital.

For 2006, the Board of Directors agreed to propose the payment of a dividend against 2005 fiscal year results of 0.5 euros/share in the next AGM.

At 2005 year end, the Telefónica Group managed 153.5 million accesses (+24.3% year-on-year), of which 99.1 million are cellular accesses, 40.9 million are fixed telephony accesses, 12.9 million are data and Internet accesses, and 0.7 million are Pay TV accesses. The acquisition of Cesky Telecom contributed with 8.3 million, while, if we include O2 lines as of 31st December 2005, the Telefónica Group total accesses reached 180.9 million.

The Telefónica Móviles Group has placed itself as one of the sector's main operators, in the high-growth environment of the Latin American markets, with a managed customer base of 94.4 million, up 26.9% year-on-year. Net adds in the fourth quarter recorded 5.4 million customers, in a period characterized by Christmas campaigns, while in the year as a whole added 16.3⁷ million new customers.

The broadband market in 2005 showed great dynamism and growth in Spain, Latin America and the Czech Republic, with a total of 5.0 million retail Internet broadband accesses for the Telefónica Group at the end of December, 55.7% higher than the previous year. The contribution of Spain (2.7 million +68.5% year-on-year) and Brazil (Telesp: 1.2 million +46.0% year-on-year) must be highlighted.

Telefónica Group revenues

Edgar Filing: TELEFONICA S A - Form 6-K

increased 25.1% compared with 2004, reaching an absolute figure of 37,882.1 million. This strong yearly growth was due to the increased revenues achieved by all business lines, the positive impact of exchange rates (contributing with 4.7 percentage points to the growth) and changes in the consolidation perimeter, mainly the BellSouth and Cesky Telecom assets. Excluding these final two effects, the organic growth⁸ of revenues stood at 9.3% (+9.9% to September).

By business lines, the cellular business continued to be the main contributor to the Group's growth, recording a 38.1% year-on-year growth in revenues in 2005, to 16,513.5 million euros. The solid performance of revenues is mainly explained by changes in the consolidation perimeter on the one hand, and the contribution of Telefónica Móviles España (revenues +7.6%, making it one of the European operators with the highest growth in domestic market), Venezuela (revenues of 1,438 million euros) and Argentina (revenues of 1,010 million) on the other hand. In the fourth quarter of the year there was a slowdown in the growth rate of revenues (+29.1% year-on-year), since the first nine months (+41.7% year-on-year) were more affected by the consolidation of eight of the ten Latin American operators acquired from BellSouth since November 2004.

Telefónica de España Group revenues totaled 11,739.5 million euros in the year (Terra's operations in Spain accounted 21.6 million euros), up 4.8% year-on-year (+4.6% excluding Terra). Revenues from Internet and Broadband services (+26.9% over 2004) are the growth engine, particularly those for Broadband (+40.2% compared with January-December 2004), compensating the reduction in revenues for traditional voice services (-0.7% year-on-year). In the fourth quarter of 2005 the quarterly trend for the slowdown in the year-on-year increase in revenues, excluding Terra, (+3.6% vs. +4.0% in the third quarter vs. +4.9% in the second quarter vs. +6.0% in the first quarter) mainly due to the elimination of the effect of the increase in the monthly fee in 2004, the fall in revenues from voice traffic and the slowing growth of broadband revenues.

The Telefónica Latinoamérica Group, supported by the good performance of the operators, and the appreciation of Latin American currencies against the euro, obtained revenues of 8,265.5 million euros in 2005 (Terra Latinoamérica contributed with 111.0 million euros), 22.5% above 2004 figure. In constant euros, and excluding the effect of Terra, the increase with respect to January-December of the previous year stood at 6.2% (+6.5% to September) mainly due to the contribution of Telesp (+7.9% compared with +7.7% of September) driven by the increase in tariffs in July and the solid growth of the broadband business.

By geographic areas and as of the end of 2005, Spain represented 51.9% of consolidated revenues, reducing its contribution by 9.4 percentage points compared with December 2004, while Latin America increased its contribution to total revenues by 7.3 percentage points to 41.5%, due to the incorporation of BellSouth Latin American operators. Brazil maintained a contribution to total sales practically stable (18.2% vs. 17.3% twelve months ago). The incorporation of Cesky Telecom in July 2005 has given better geographical diversification, with 2.7% of revenues coming from the Czech Republic.

Cumulative **operating expenses** in 2005 stood at 23,219.3 million euros, recording a year-on-year growth of 26.7%, as a result of the intensification of commercial efforts carried out by Telefónica Group and the changes in the consolidation perimeter.

Supplies expenses

(10,065.0 million euros) grew by 31.8% year-on-year (+27.2% excluding the effect of the exchange rate vs. +29.9% to September) and is explained mainly by the cellular business, with the incorporation of BellSouth Latin American operators and by the higher interconnection costs, as well as Telefónica de España Group due to the purchase of equipment for the ADSL and Imagenio services, and the boost in the local loop unbundling (ULL) by the competition.

Personnel expenses

Edgar Filing: TELEFONICA S A - Form 6-K

amounted to 5,656.4 million euros and grew by 11.0% in 2005 year-on-year (+7.9% in constant euros vs. +5.3% to September) related with the rise in the Group's average workforce (+21.4% to 190,385 employees) due to the cellular business, the acquisition of Cesky Telecom and the Atento Group (excluding Atento the average workforce would be 106,021 employees, a growth of 12.3%). Regarding the Telefónica de España 2003-2007 Redundancy Program, as an exceptional measure, 127 layoffs have been accepted in addition to the 1,750 applications accepted for 2005, and a new Redundancy Program in Telefónica Data España has been approved, joined by 68 persons, increasing the total provision made for 2005 to 597,3 million euros.

Cumulative **external services expenses** at year end (6,715.3 million euros) increased by 32.4% year on year (+26.4% in constant euros) as a result of the increased commercial and advertising activity, mainly in the bet on growth in number of customers and the changes in the consolidation perimeter. However, in the last quarter there was a control over commercial costs in Telefónica Móviles España.

At the end of the year 2005, Telefónica Group recorded a **gain for the sale of fixed assets** of 249.3 million euros compared with the 21.6 million euros accrued the previous year. The main items accounted for in this accounts are the capital gains from; i) the sale of Infonet, ii) the listing of Endemol, iii) the disposal of 1.2% of TPI share capital, iv) the disposal of real state and v) the sale of Radio Continental and Radio Estéreo, both from the ATCO Group. The capital gain obtained from the listing of Endemol and from the sale of Telinver in Argentina explain the positive accrued amount of 71.7 million euros in the fourth quarter of 2005.

Consolidated **OIBDA** in January-December 2005 stood at 15,276.4 million euros, a 25.0% growth in relation to the same period in 2004, a significant increase in the rate of variation compared with January-September (+20.0% year-on-year), after the 39.7% year-on-year OIBDA growth during the period October-December. The fluctuations in exchange rates contributed with 4.5 percentage points to the growth rate in 2005. The organic growth⁸ in consolidated OIBDA in 2005 stood at 9.9%, 3.2 percentage points higher than in the first nine months of the year, mainly due to the control of expenses during the last quarter, specially in the cellular business. In terms of profitability, despite the high levels of commercial activity, particularly in the cellular business, (OIBDA margin) was maintained practically stable compared with the previous year (40.33% vs. 40.36%).

In 2005, there was an acceleration in the cellular business OIBDA growth rate higher than the obtained to September (+25.4% vs. +19.4%), reaching 5,817.0 million euros and representing 38.1% of the consolidated OIBDA. In yearly terms, the OIBDA margin fell by 3.5 percentage points, to 35.2%, due to the commercial efforts made and the brand launch (movistar) last April. However, it is worth highlighting the year-on-year 3.9 percentage points improvement in the OIBDA margin of the fourth quarter (35.6%). This was mainly due to the 11.9 percentage points increase in the OIBDA margin of the Latin American subsidiaries to 24.5% because of the lower unit acquisition costs (SAC).

The Telefónica de España Group (31.2% of total OIBDA) finished the year with an OIBDA of 4,766.8 million euros (Terra's operations in Spain contributed 27.3 million euros), up 4.5% on that recorded in 2004. In the fourth quarter, the trend observed in previous quarters was reversed, and there was a year-on-year fall of 3.8%, basically associated with the 127 new people joining the Telefónica de España 2003-2007 Redundancy Program in 2005, and 68 people joining the Telefónica Data España Redundancy Program. The OIBDA margin stood at 40.6%, 0.1 percentage point lower than in 2004, though if we exclude the effect of the Redundancy Program in both years, the OIBDA margin would increase to 45.7% (-0.8 percentage points vs. January-December 2004).

The Telefónica Latinoamérica Group OIBDA, contributing with 24.6% to the total OIBDA, stood at 3,758.3 million euros at year end (Terra in Latin America contributed 4.8 million euros), showing a growth in nominal terms of 14.1%, which translates to 0.4% (-7.5% to September), in constant euros and excluding the effect of Terra Latam. It should be noted that these variations are influenced by the gain on the sale of fixed assets (mainly the sale in July 2004 of the CTC mobile telephony subsidiary and the sales of Infonet and Telinver in Argentina) as a result of which, the variation excluding this effect would be 27.4% (+11.7% excluding the exchange rates and Terra Latam effect). The OIBDA margin, excluding the result of the gain for the sale of fixed assets in both periods, stood stable compared

with September at 44.2%, though increasing by 1.7 percentage points compared with 2004.

The geographical distribution of the OIBDA in 2005 reflects, in the same way as revenues, greater diversification, with 58.3% of the consolidated OIBDA coming from Spain (70.4% of the previous year), 36.4% from Latin America (32.5% two months ago) and 3.0% from the Czech Republic after the incorporation of Cesky Telecom in the second half of 2005.

The **operating income** for January-December 2005 amounted 8,558.8 million euros, a year-on-year growth of 30.5%, 6.0 percentage points higher than that recorded in the first nine months of the year. This acceleration was the result of the higher increase in OIBDA described above, and despite the higher increase in depreciation compared with September (+18.6% vs. +14.6%). The main business lines that contribute to this increase in depreciation are, in first place, the cellular business, due to the changes in the consolidation perimeter and the impact of 280 million euros associated with the amortization of allocated intangible assets related to the acquisition of Telefónica Móvil Chile and BellSouth Latin American operators in 2004 and at the beginning of 2005, and, secondly, Cesky Telecom, which was incorporated from the second half of the year. The organic variation⁸ rate in operating income is +21.7% compared with the +16.6% registered to September.

The **results of associated companies** reversed the positive trend recorded in the first nine months of the year (+9.6 million euros) and closed 2005 with losses that can be attributed to these companies of 128.2 million euros (-50.5 million euros in January-December 2004). In the fourth quarter -136.8 million euros mainly related to the write-down of the remaining value of the UMTS license of IPSE were accounted (this asset write-down does not imply any cash outflow)). It should be noted, in particular, that if we exclude this effect, the results of these companies would be positive (+8.6 million euros) thanks to the lower losses that can be attributed to Sogecable, Lycos Europe and the positive contribution of Medi Telecom, which, last year, brought losses to the Group.

Financial net expenses

amounted to 1,634.3 million euros in 2005, 0.3% year-on-year reduction (4.8 million euros) compared with the comparable figure of 2004 (1,639.1 million euros). The interest rates expenses deteriorated by 334.3 million euros, of which 261.3 million euros belong to the 18.6% increase in the average net debt versus 2004. The exchange rate differences improved in 339.1 million euros compared with 2004, highlighting the positive contribution of the USD/EUR position, that contributed with a 43% to the improvement in the result.

The **net free cash flow** after CapEx generated by the Telefónica Group amounted to 7,108.1 million euros in 2005, of which 4,476.1 million euros were dedicated to the net payments of dividends and treasury stock in Telefónica S.A., 5,839.9 million euros were deployed on financial investments (net of the sale of real state) and 692.8 million euros to the cancellation of commitments, mainly to headcount reduction. Hence, the free cash flow after dividends, that explains in a high degree the increase in the net financial debt of 3,900.7 million euros.

The Telefónica Group's **net financial debt** at the end of December 2005 stood at 30,067.0 million euros. The increase of 6,372.6 million euros with respect to the 2004 net financial debt figure (23,694.4 million euros) was due to the free cash flow after dividends of -3,900.7 million euros. Moreover, the net financial debt increased by 1,075.8 million euros corresponding to changes in the consolidation perimeter and others and in 1,396.1 million euros as a consequence of the effects of the exchange rates on net financial debt not denominated in euros.

The **tax provision** amounted to 1,969.2 million euros in 2005, and the tax rate stood at 29.0%, although the cash outflow for the Telefónica Group will be reduced even further as negative tax bases are compensated for.

The **results attributed to minority interests** in 2005 showed year-on-year growth of 23.0% and deducted 381.2 million euros from the Telefónica Group's net income. This evolution is explained by the participation of minority interests in the net income of Cesky Telecom since 1st July 2005, the improved net income obtained by Telesp and the lower losses recorded by Telefónica Móviles México.

As a result of this, **the consolidated net income** accumulated to December reached 4,445.8 million euros, up 40.0% year-on-year. In the fourth quarter, the net income grew by 51.6% compared with the fourth quarter of 2004, and reached 1,192.5 million euros.

During 2005, consolidated **CapEx** reached 5,358.7 million euros (4,725.9 million euros⁹ with constant exchange rates of 2004 and excluding changes in the consolidation perimeter), which represents a growth of 42.3% vs the 2004 figure (organic variation⁸ +21.0%). By business lines, there was a generalized growth, mainly associated with growth initiatives both in Spain and Latin America (broadband, increase in capacity of mobile telephony networks, and rollout of the UMTS network in Spain and GSM in Colombia). It is also worth to highlight the investment made in Distrito C, the future Telefónica Group headquarters in Madrid and the incorporation of the Cesky Telecom's investments since July 2005.

⁵ All projections refer to local currency (constant exchange rates) and exclude changes in consolidation other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (T.Latam).

⁶ In terms of guidance calculation, Operating Income and Operating Income before D&A exclude other exceptional revenues/expenses not foreseeable in 2005. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses.

⁷ Excludes the adjustments of 300,000 inactive lines in Mexico, not longer considered in the reported customer base as of the second quarter of 2005.

⁸ Assuming constant exchange rates and including the consolidation of the Latin American assets acquired to BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela in the cellular business and Atrium in the Telefónica Latinoamérica Group from January 1st 2004. Cesky Telecom has been included in the period July-December 2004.

⁹ All projections refer to local currency (constant exchange rates) and exclude changes in consolidation other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (T.Latam).

TELEFÓNICA GROUP

Financial Data

TELEFÓNICA GROUP

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December		
	2005	2004	% Chg
Revenues	37,882.1	30,280.9	25.1
Operating income before D&A (OIBDA)	15,276.4	12,222.0	25.0
Operating income (OI)	8,558.8	6,556.0	30.5
Income before taxes	6,796.2	4,866.4	39.7

Edgar Filing: TELEFONICA S A - Form 6-K

Net income	4,445.8	3,175.7	40.0
Basic earnings per share	0.913	0.637	43.4
Weighted average number of ordinary shares outstanding during the period (millions)	4,870.9	4,987.8	(2.3)

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 plan for employees "Programa TIES". 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 - December			January - December			January - December		
	2005	2004	% Chg	2005	2004	% Chg	2005	2004	% Chg
Telefónica de España Group	11,739.5	11,202.2	4.8	4,766.8	4,560.0	4.5	2,627.7	2,192.4	19.9
Telefónica Latinoamérica Group	8,265.5	6,748.4	22.5	3,758.3	3,294.8	14.1	1,965.8	1,716.1	14.6
Cellular Business	16,513.5	11,961.4	38.1	5,817.0	4,637.6	25.4	3,443.0	3,057.5	12.6
Cesky Telecom	1,035.2	-	n.c.	456.7	-	n.c.	164.8	-	n.c.
Directories Business	660.5	616.4	7.1	220.0	204.8	7.4	196.0	181.0	8.3
Atento Group	856.5	606.5	41.2	116.4	85.1	36.7	88.5	51.4	72.1
Content & Media Business	1,269.1	1,219.1	4.1	269.2	185.0	45.5	240.3	156.2	53.9
Other companies (*)	868.2	1,265.0	(31.4)	(188.0)	(248.9)	(24.5)	(258.5)	(410.2)	(37.0)
Eliminations	(3,325.7)	(3,338.1)	(0.4)	60.1	(496.5)	c.s.	91.1	(388.4)	c.s.
Total Group	37,882.1	30,280.9	25.1	15,276.4	12,222.0	25.0	8,558.8	6,556.0	30.5

Starting third quarter 2005, Terra Networks results will be included in the Telefónica de España Group and Telefónica Latinoamérica Group results. The Terra Networks Group results from the first and second quarter of 2005 and from fiscal year 2004 will be incorporated into Other Companies in the Telefónica Group accounts.

Also starting in the third quarter of 2005, the Cesky Telecom results corresponding to the July-December 2005 period will be incorporated as an independent business line, whose acquisition was last June.

() 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 - December		
2005	2004	% Chg

Edgar Filing: TELEFONICA S A - Form 6-K

Telefónica de España Group	1,406.6	1,207.5	16.5
Telefónica Latinoamérica Group	1,061.2	748.5	41.8
Cellular Business	2,330.4	1,669.0	39.6
Cesky Telecom	147.0	-	n.c.
Directories Business	24.1	21.5	11.9
Atento Group	42.9	22.8	88.6
Content & Media Business	25.5	24.3	5.2
Other companies & Eliminations	321.0	73.5	n.m.
Total Group	5,358.7	3,767.1	2.3

Starting third quarter 2005, Terra Networks results will be included in the Telefónica de España Group and Telefónica Latinoamérica Group results. The Terra Networks Group results from the first and second quarter of 2005 and from fiscal year 2004 will be incorporated into Other Companies in the Telefónica Group accounts.

2004 data of Telefónica Latinoamérica Group and Total Group is adapted to the new accounting criteria (IFRS) for IRUs.

TELEFÓNICA GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December			October - December		
	2005	2004	% Chg	2005	2004	% Chg
Revenues	37,882.1	30,280.9	25.1	10,480.0	8,217.9	27.5
Internal expenditure capitalized in fixed assets(1)	601.3	470.3	27.9	263.2	165.2	59.3
Operating expenses	(23,219.3)	(18,329.8)	26.7	(6,461.3)	(5,116.9)	26.3
Supplies	(10,065.0)	(7,637.3)	31.8	(2,941.0)	(2,276.1)	29.2
Personnel expenses	(5,656.4)	(5,095.2)	11.0	(1,441.0)	(1,164.1)	23.8
Subcontracts	(6,715.3)	(5,072.0)	32.4	(1,827.9)	(1,523.1)	20.0
Taxes	(782.6)	(525.3)	49.0	(251.5)	(153.6)	63.7
Other net operating income (expense)	(212.9)	(43.6)	n.m.	(9.1)	(4.1)	123.0
Gain (loss) on sale of fixed assets	249.3	21.6	n.m.	71.7	2.7	n.m.
Impairment of goodwill and other assets	(24.2)	(177.3)	(86.4)	(12.5)	(164.7)	(92.4)
Operating income before D&A (OIBDA)	15,276.4	12,222.0	25.0	4,331.9	3,100.2	39.7
Depreciation and amortization	(6,717.7)	(5,666.0)	18.6	(1,897.6)	(1,461.6)	29.8
Operating income (OI)	8,558.8	6,556.0	30.5	2,434.3	1,638.6	48.6
Profit from associated companies	(128.2)	(50.5)	153.9	(137.8)	1.5	c.s.
Net financial income (expense)	(1,634.3)	(1,639.1)	(0.3)	(505.1)	(590.7)	(14.5)
Income before taxes	6,796.2	4,866.4	39.7	1,791.4	1,049.4	70.7
Income taxes	(1,969.2)	(1,512.8)	30.2	(513.8)	(364.0)	41.2
Income from continuing operations	4,827.1	3,353.6	43.9	1,277.5	685.4	86.4
Income (Loss) from discontinued operations	0.0	132.0	n.m.	0.0	190.8	n.m.
Minority interest	(381.2)	(309.9)	23.0	(85.0)	(89.7)	(5.3)
Net income	4,445.8	3,175.7	40.0	1,192.5	786.5	51.6

Edgar Filing: TELEFONICA S A - Form 6-K

Weighted average number of ordinary shares outstanding during the period (millions)	4,870.9	4,987.8	(2.3)	4,813.1	4,912.2	(2.0)
Basic earnings per share	0.913	0.637	43.4	0.248	0.160	54.7

(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 plan for employees "Programa TIES". 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)

December			
	2005	2004	% Chg
Non-current assets	59,545.0	48,954.5	21.6
Intangible assets	7,877.1	5,674.1	38.8
Goodwill	8,910.2	5,949.4	49.8
Property, plant and equipment and Investment property	28,027.4	23,221.7	20.7
Long-term financial assets and other non-current assets	6,345.6	5,152.0	23.2
Deferred tax assets	8,384.7	8,957.1	(6.4)
Current assets	13,628.8	11,124.4	22.5
Inventories	919.5	655.5	40.3
Trade and other receivables	7,515.7	5,919.8	27.0
Current tax receivable	1,448.3	1,069.5	35.4
Short-term financial investments	1,517.8	2,556.6	(40.6)
Cash and cash equivalents	2,213.2	914.3	142.1
Non-current assets classified as held for sale	14.3	8.7	64.8
Total Assets = Total Equity and Liabilities	73,173.8	60,078.9	21.8
Equity	16,158.4	12,342.5	30.9
Equity attributable to equity holders of the parent	12,733.3	10,439.8	22.0
Minority interest	3,425.1	1,902.7	80.0
Non-current liabilities	35,126.5	27,742.6	26.6
Long-term financial debt	25,167.6	17,492.2	43.9
Deferred tax liabilities	2,477.4	1,642.6	50.8
Long-term provisions	6,353.2	7,407.7	(14.2)
Other long-term liabilities	1,128.2	1,200.1	(6.0)
Current liabilities	21,888.9	19,993.8	9.5
Short-term financial debt	9,235.9	10,210.4	(9.5)
Trade and other payables	6,932.9	5,632.3	23.1
Current tax payable	2,191.6	1,824.9	20.1
Short-term provisions and other liabilities	3,528.5	2,323.5	51.9
Liabilities associated with non-current assets classified as held for sale	0.0	2.7	n.m.

Financial Data

Edgar Filing: TELEFONICA S A - Form 6-K

Net Financial Debt (1) 30,067.0 23,694.4 26.9

(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 - December		
		2005	2004	% Chg
I	Cash flows from operations	13,854.3	11,706.5	18.3
II	Net interest payment (1)	(1,449.4)	(1,235.9)	
III	Payment for income tax	(1,233.0)	(326.0)	
A=I+II+III	Net cash provided by operating activities	11,171.9	10,144.6	10.1
B	Payment for investment in fixed and intangible assets	(4,409.9)	(3,457.7)	
C=A+B	Net free cash flow after CAPEX	6,762.0	6,686.9	1.1
D	Net Cash received from sale of Real Estate	99.9	210.8	
E	Net payment for financial investment	(5,939.8)	(3,714.3)	
F	Net payment for dividends and treasury stock (2)	(4,822.8)	(4,804.4)	
G=C+D+E+F	Free cash flow after dividends	(3,900.7)	(1,621.0)	140.6
H	Effects of exchange rate changes on net financial debt	1,396.1		
I	Effects on net financial debt of changes in consolid. and others	1,075.8		
J	Net financial debt at beginning of period	23,694.4		
K=J-G+H+I	Net financial debt at end of period	30,067.0		

(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 minorities 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 - December		
		2005	2004	% Chg
OIBDA		15,276.4	12,222.0	25.0
-	CapEx accrued during the period (EoP exchange rate)	(5,358.7)	(3,767.1)	
-	Payments related to commitments	(894.2)	(916.5)	
-	Net interest payment	(1,449.4)	(1,235.9)	
-	Payment for income tax	(1,233.0)	(326.0)	
-	Results from the sale of fixed assets	(249.3)	(21.6)	
-	Invest. in working cap. and other deferred income and expenses	670.2	732.0	

Edgar Filing: TELEFONICA S A - Form 6-K

= Net Free Cash Flow after CapEx	6,762.0	6,686.9	1.1
+ Net Cash received from sale of Real Estate	99.9	210.8	
- Net payment for financial investment	(5,939.8)	(3,714.3)	
- Net payment for dividends and treasury stock	(4,822.8)	(4,804.4)	
= Free Cash Flow after dividends	(3,900.7)	(1,621.0)	140.6

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 accommodate 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 minorities, due to cash recirculation within the Group.

	Jan-Dec 2005	Jan-Dec 2004
<i>Net Free Cash Flow after CapEx</i>	<i>6,762.0</i>	<i>6,686.9</i>
<i>+ Payments related to cancellation of commitments</i>	<i>692.8</i>	<i>697.2</i>
<i>- Ordinary dividends payment to minorities</i>	<i>(346.7)</i>	<i>(176.1)</i>
= Free Cash Flow	7,108.1	7,208.0

TELEFÓNICA GROUP

NET FINANCIAL DEBT AND COMMITMENTS

Unaudited figures (Euros in millions)

	December 2005
Long-term debt	25,647.8
Short term debt including current maturities	9,193.9
Cash and Banks	(2,213.2)
Short and Long-term financial investments (1)	(2,561.5)
A Net Financial Debt	30,067.0
Guarantees to IPSE 2000	365.5
Guarantees to Newcomm	83.5
B Commitments related to guarantees	449.0
Gross commitments related to workforce reduction (2)	5,270.1
Value of associated Long-term assets (3)	(754.7)
Taxes receivable (4)	(1,457.7)
C Net commitments related to workforce reduction	3,057.7
A + B + C Total Debt + Commitments	33,573.7
Net Financial Debt / OIBDA (5)	1.91x
Total Debt + Commitments/ OIBDA (5)	2.13x

(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

Edgar Filing: TELEFONICA S A - Form 6-K

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 annualized OIBDA. Including Cesky Telecom January-December 2005 OIBDA.

TELEFÓNICA GROUP

EXCHANGES RATES APPLIED

	P&L (1)			Balance Sheet and CapEx (2)	
	Jan - Dec 2005	Jan - Dec 2004	% Chg	December 2005	December 2004
USA (US Dollar/Euro)	1.242	1.242		1.180	1.362
Argentina (Argentinean Peso/Euro)	3.631	3.651		3.577	4.058
Brazil (Brazilian Real/Euro)	3.002	3.632		2.761	3.616
Czech Republic (Czech Crown/Euro)	29.780	-		29.005	-
Chile (Chilean Peso/Euro)	694.444	757.576		606.061	757.576
Colombia (Colombian Peso/Euro)	2,881.844	3,257.329		2,695.418	3,257.329
El Salvador (Colon/Euro)	10.870	10.868		10.322	11.919
Guatemala (Quetzal/Euro)	9.496	9.887		8.974	10.570
Mexico (Mexican Peso/Euro)	13.517	14.017		12.715	15.344
Nicaragua (Cordoba/Euro)	20.799	19.794		20.222	22.242
Peru (Peruvian Nuevo Sol/Euro)	4.096	4.240		4.051	4.470
Uruguay (Uruguayan Peso/Euro)	30.331	35.587		28.490	35.958
Venezuela (Bolivar/Euro)	2,624.672	2,386.635		2,538.071	2,617.801

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

(2) Exchange rates as of 31/12/05 y 31/12/04.

RESULTS BY BUSINESS LINES

Fixed Line Business

TELEFÓNICA DE ESPAÑA GROUP

The 2005 results for Telefónica de España Group comfortably met forecasts announced at the beginning of the year, which were revised upwards following the publication of the third quarter results. Operating revenues grew 4.8% to stand at 11,739.5 million euros and OIBDA increased by 4.5% to total 4,766.8 million euros. Investments amounted to 1,406.6 million euros to remain within announced levels.

In terms of operations, the ambitious objective of closing 2005 with over 200,000 Imagenio customers in service was met. This service has notably reaffirmed the attractiveness of Telefónica's Broadband offer, both in terms of an individual marketed product, and sold as part of a bundle in Dúo and Trío packages. This led to a record growth in broadband accesses during the last quarter of the year.

The following broadband products are worthy of mention in terms of the latest commercial initiatives:

- ADSL Mini Class that, with download volume-based billing and a speed of up to 2Mb/s, focuses primarily on SMEs or Businesses.
- ADSL TOP and ADSL PREMIUM PLUS, services based on ADSL 2+ technology with upload/download speeds of up to 10Mb/s / 800Kb/s and 20Mb/s / 800Kb/s, respectively.

Of particular note in the traditional voice business:

- The inclusion of fixed-to-mobile traffic in the Voice Mini Flat-Rate (Tarifa Plana de Voz Mini) and in the National Flat Rate (Tarifa Plana Nacional), at monthly fees of 4 and 16 euros, respectively. Fixed-to-mobile calls are billed at a single price of 0.19 euros a minute, with no set-up fee.
- International Mini Rate (Tarifa Mini Internacional) at a monthly fee of 3 euros, implying attractive prices to different international destinations to both fixed and mobile lines.

In relation to Wi-Fi services, particularly relevant was the agreement signed with Telecom Italia and Portugal Telecom within the framework of the Wireless Broadband Alliance, an international association of Wi-Fi operators of which Telefónica is the sole Spanish member. Through this agreement, Wi-Fi Roaming has been set up in both countries to expand coverage to 790 new Wi-Fi zones in Portugal and 800 in Italy. These zones now form part of the ADSL Wi-Fi Zone, the operational coverage of which is the largest in Spain with 1,555 hotspots by December 2005.

Lastly, the agreement signed with Federación Valenciana de Municipios y Provincias (Valencia Federation of Municipalities and Provinces) to supply wireless technologies to its facilities should be highlighted.

Aware of the home entertainment market's great potential for development, Telefónica has signed an agreement with Intel, through its subsidiary Terra, to provide the content for the new Intel home entertainment platform.

Besides of the constant launching of new services, Telefónica de España has continued to make intense commercial efforts, especially during the Christmas campaign, with the launch of new promotions. Foremost are the Dúo and Trío promotions that, for subscriptions received between November 15th and January 7th, were billed at a fee of 20.00 euros per month until the end of January for both Dúo and Trío with flat-rate national voice calls and 24-hour ADSL, compared with the standard fees of 39.90 and 51.90 euros per month, respectively.

As a proof of the continuous commercial efforts to offer users quality and price-competitive products and services, in a recent study the Consumers' Union of Spain placed Telefónica de España as the fixed-line operator with the best price-quality ratio in Spain, based on information regarding prices from the Spanish Telecommunications Regulator, the CMT, and regarding quality from the State Department of Telecommunications and Information Society (SETSI, Secretaría de Estado para las Telecomunicaciones y Sociedad de la Información).

From a regulatory viewpoint, the measures published over recent months regarding the RIO and the 2006 price-cap must be underlined:

- Last November, the CMT published the new RIO, Reference Interconnection Offer, in which the prices of basic services were modified, leading to an average decrease of 1.8% in real terms. Hence, Capacity-based

Interconnection prices were maintained and the effective average price of Time-based Interconnection fell by an average of 5.6%. Given the high percentage of traffic processed through the Capacity-based Interconnection model, representing almost 70% of Fixed to Fixed interconnection traffic in 2005, the measure has low financial impact. Other aspects considered in the modification of the RIO concern are the inclusion of new services in the Capacity-based Interconnection model, such as call interconnection at special rates (intelligent network and subscriber number enquiry services) and calls to short numbers, except for 112, placing effective average interconnection prices among the cheapest in Europe.

- As a result of the measure adopted by the CMT in September to reduce interconnection prices of mobile phone operators, Telefónica de España readjusted fixed-to-mobile prices for each of the three operators in November, to comply with the regulatory requirement forcing Telefónica to have the same net remuneration per traffic, independent of the target mobile phone operator. These adjustments had no impact on average prices.
- Subsequently, on February 4th 2006, Telefónica de España modified its rates for local and fixed-to-mobile traffic under the provisions of the Comisión Delegada de Asuntos Económicos (Delegated Commission for Economic Affairs). The new prices meant that monthly subscription fees for PSTN lines remained unchanged, and voice traffic billing per second from the start of the call was introduced, without the inclusion of franchise time. The new rates, which modify prices per minute, increase fixed-to-mobile set-up fee to 0.12 euros and reduce metropolitan set-up fee to 0.065 euros, while removing the existing 160-second franchised time. These modifications have been defined under the principle of neutrality and, therefore, will have no impact on the average price per minute.
- However, on February 9th 2006, the CMT approved a resolution to suppress the ex-ante control of domestic and international retail prices for the telephone service.

Revenues

of Telefónica de España Group amounted to 11,739.5 million euros over 2005, a year-on-year growth of 4.8%. Considering the fourth quarter independently, revenues grew by 4.0% to total 3,010.9 million euros.

Excluding revenues from Terra business in Spain over the last half of the year, Telefónica de España Group revenues for 2005 would stand at 11,717.9 million euros (2,998.3 million euros in the last quarter of 2005), a 4.6% year-on-year growth (+3.6% in the fourth quarter) in line with the guidance revised upward during the publication of the results from the third quarter 2005, which set the growth rate for 2005 revenues over 4%.

Telefónica de España parent company's revenues amounted to 11,250.5 million euros, up 4.8% year on year. Revenues for the fourth quarter of the year stood at 2,889.7 million euros, a 4.3% increase on the same period of the previous year despite the drop in revenues from voice traffic and the slowing down in the growth of broadband revenues.

With regard to revenue contribution by the most relevant subsidiaries in 2005, Telyco Group reached 478.1 million euros revenues equivalent to a 10.2% year-on-year increase, Telefónica Telecomunicaciones Públicas revenues reached 226.6 million euros falling 6.0% year on year and, finally, Terra added 21.6 million euros to the Group revenues over the last half of the year.

- Revenues from Traditional Access

grew by 0.1% over the year to reach 2,826.2 million euros. The growth in revenues from subscriptions was able to offset the drop in revenues from connection fees, affected by the free connection fee campaigns. However, revenues from access experienced a 0.9% decline over the last quarter of the year, essentially due to the reduction in revenues from surcharges on calls from public payphones.

Edgar Filing: TELEFONICA S A - Form 6-K

The fixed telephony accesses in Spain are estimated to have grown 0.9% over 2005, while those of Telefónica de España decreased 1.2% to 16.135.563, to end the year with an estimated market share around 85% of those accesses, after aligning historical data with latest data available from the CMT.

But this decreasing trend has been more than compensated by the 2.8% growth of the total number of accesses of Telefónica de España, that by year end stood at 21.9 millions. This growth is a result of successful broadband marketing, and was achieved despite the loss of 199,243 fixed telephony accesses over the year.

- **Revenues from Traditional Voice**

services amounted to 5,161.8 million euros during 2005, with a year-on-year reduction of 0.7%. These revenues fell by 1.9% over the fourth quarter.

Regarding analogue voice traffic originated in fixed lines, the estimated total volume of the market in Spain, expressed in minutes, was down 3.1% year on year, a 1.9 percentage points slowdown in relation to the decline recorded the previous year. After aligning historical data with latest data available from CMT, Telefónica de España's estimated share of the voice market stood at 66% in December.

The estimated total volume of minutes processed by Telefónica de España during 2005 amounted to 110,207 million, a 10.4% year-on-year drop. Total outgoing traffic (including Internet) amounted to 59,418 million minutes and fell by 13.6% with regard to the previous year. Traditional outgoing traffic totalled 43,932 million minutes, down by 7.2% year-on-year and slowing down the decline in comparison with the beginning of the year as a result of the lower significant drop in the market.

In closer detail, metropolitan traffic in the January-December period dropped by 10.9%, provincial by 10.5%, DLD by 5.5% and fixed-to-mobile by 1.6%. International traffic made very good progress over the year, 13.5% up at the end of December, although its growth in the last quarter (+7.6%) was slightly below than that recorded during the first three of 2005. The number of outgoing minutes to the Internet amounted to 15,486 million and continued to show a negative year-on-year variation (-27.8% over the year), mainly as a result of cannibalization of switched Internet traffic by broadband ADSL services. Finally, incoming traffic amounted to 50,789 million minutes, a 6.4% drop compared with the previous year.

With regard to service packages, it is worth noting that the total number of plans, Combinados and flat rates amounted to 2,905,941, 34.3% more than that reached in September 2005 primarily due to the launch of the Dúo and Trío packages that same month.

Moreover, the number of pre-selected lines stood at 2,284,590 by the end of 2005, a reduction of 78,121 lines over the quarter, as a result of migrations to unbundled loops, the customer win-back campaigns and the positive effect of new commercial products - particularly the Dúos and Tríos.

- **Internet and Broadband services**, which contributed almost 79% of the growth in Telefónica de España revenues, totalled 1,904.7 million euros over 2005, a 26.9% increase year on year.

Within this section, broadband revenues including both, Internet broadband access revenues and Pay TV revenues, grew 40.2% over the year to reach 1,703.5 million euros, of which 1,297.8 million euros are from the retail business.

Strong growth of the customer base was boosted by the new bundles of products and by promotions, which despite its implication on ARPU reduction, resulted in a final strong top line revenue growth.

According to our estimates, total fixed broadband Internet accesses in the Spanish market at year end exceeded 5 million lines, with an estimated net gain of around half a million accesses in fourth quarter of the year, being up to date the highest quarterly net gain figure ever in Spain. The success of Telefónica's ADSL offering has been a determining factor in this growth, reaching 3,479,824 acceses (wholesale and retail including those acceses providing only Imagenio service) by the end of 2005. On the other hand, the growth of unbundling has resulted in a decline of Telefonica de España's market share on ADSL down to 89%.

The offer by Telefonica de España of retail Internet broadband acceses (ADSL, optical fibre, and other technologies, excluding the acceses providing only Imagenio service) registered a net gain of 303,346 acceses in the fourth quarter, almost doubling the net gain of same quarter 2004 and representing more than 60% of the estimated net gain of the Spanish market. This lead to a total number of retail Internet broadband acceses by Telefónica de España of 2,719,669, representing, according to Company's estimates, a 55% share of the Spanish market. It must be noted that this growth has been achieved in an environment of strong commercial aggressiveness by both our cable-modem and unbundled loop competitors.

The net gain of unbundled loops for the fourth quarter was 73,475. By year end, the total number of unbundled loops stood at 434,759, 116,112 unbundled lines at 2004 year end, and amounting, according to our estimates, to 8.8% of the total number of fixed broadband Internet acceses and 11.1% of total ADSL connections. Of these unbundled loops, 279,027, 64,2%, were shared access loops.

The wholesale ADSL service is being affected by the migration to unbundled loops. However, a net growth of 13,332 lines was recorded over the fourth quarter to place the total number at 721,940.

Broadband value added services (VAS) provided by Telefónica de España remained a distinguishing factor with regard to the competition's commercial offer. 65.1% of our retail broadband customers have contracted at least one VAS and the number of operative services now amounts to over 2.6 million units. ADSL Solutions is noteworthy among these services, a total of 393,295 solutions being operational by the end of 2005 to give a 17,1% increase in relation to September 2005.

As indicated, the Imagenio service met its target for 2005 with 206,572 clients, after achieving a fourth quarter net gain of 114,466 customers. This figure is above the total net gain accumulated to September, which shows the commercial efforts made and the operational capacity to manage such a large number of subscriptions. With this growth, Imagenio has reached a significant share of the Spanish Pay TV market, which we estimate at a 6% level, compared to the 0.3% estimated market share at the end of 2004.

- Revenues from Data services

grew by 5.4% over the year to reach 1,031.0 million euros. Retail data services fell by 1.1% over this period, despite the 12.7% growth in VPN connections and as a result of the migration of traditional network solutions towards cheaper IP products and the replacement of circuit rental for other, cheaper products.

Fibre connections to retail customers stood at 13,810, 40.2% above the figure reported at 2004 year end.

- Lastly, **revenues from Information Technology services** continued to progress with regard to contribution to Group revenues, ending the last quarter of the year with a contribution of 108.4 million euros, a year-on-year growth of 69.0%. Revenues of this type over the year represented 326.8 million euros and a 38.9% growth. This good behaviour was due to the growth in outsourcing services of desktop positions and systems integration.

There are currently 184 client management centres operated by Telefónica staff, and 123 contracts with customers who are outsourcing their communications service/information systems. These figures have grown

by 52.1% and 36.7% respectively year on year.

The number servers dedicated to clients' amounted to 2,931, a 38.6% increase on the previous year. The number of desktop positions managed stood at 87,249.

Telefónica de España Group's **operating expenses** increased by 5.0% compared with last year to stand at 7,213.7 million euros, as a consequence of the commercial efforts made and the development of new products that allow Telefónica de España to offer the most complete and innovative portfolio of services in our market. Expenses in the fourth quarter amounted to 1,777.7 million euros, having increased 9.5% due to the contribution of additional expenses from the workforce restructuring program during this period.

- Personnel expenses

fell 0.8% over the year to stand at 2,695.8 million euros. A new Redundancy Program (E.R.E.) was applied to the Telefónica Data España S.A. workforce during the last quarter of the year. 68 people joined this program, along with the 127 additional employees accepted under the Telefónica de España Redundancy Program during the fourth quarter of 2005, leading to a total figure of 1,945 redundancies by year end.

This led to an additional provision of 71.0 million euros in the fourth quarter for workforce restructuring, increasing personnel expenses over the quarter by 18.6% year on year to stand at 597.5 million euros.

Excluding the effect of Redundancy Program provisions in 2004 (643.5 million euros including actuarial revision) and in 2005 (595.4 million euros), personnel expenses would have grown by 1.3% over the year and 4.4% over the last quarter. This latter figure was affected by the extraordinary provision arising as a result of the salary review in line with the increase in the 2005 CPI, from the 3.3% foreseen at the end of the third quarter to the 3.7% actually recorded at year end.

The Telefónica de España Parent Company workforce at the end of December was placed at 33,279 employees, a net reduction of 1,766 employees since the start of the year. The average Telefónica de España Parent Company workforce in 2005 stood at 34,280 employees, a 4.5% reduction in comparison with the average workforce in 2004.

- Supplies expenses

grew by 8.7% over the year to reach 3,032.0 million euros. This growth was slightly lower during the fourth quarter, standing at 7.5%, due to the lower handset sales at Telyco, the reduction in fixed-to-mobile interconnection tariffs (mobile termination rates) and lower fixed-to-mobile traffic processed during the last quarter of the year. The greater expenses related to the purchase of equipment for Imagenio and new broadband connections, and those allocated to unbundling loops by competitors of Telefónica de España are the main factors following the growth in supplies expenses over 2005. These effects were partially offset by the slight 0.6% fall in interconnection expenses.

- External services expenses

grew by 9.3% over the year to total 1,289.9 million euros, as a result of the intense commercial campaign developed by Telefónica de España to face the demanding competitive environment. In fact, Telefónica de España's commercial expenses increased by 12.3% over this period in relation to the same period of the previous year.

The combined effort made by the Company with regard to the growth in revenues and efficiency has led to an **operating income before depreciation and amortization (OIBDA)** of 4,766.8 million euros, a 4.5% year-on-year growth. However, the OIBDA in the fourth quarter of 2005 stood at 1,280.6 million euros, a 3.8% fall year on year following the acceptance of an additional 195 employees to join the Redundancy Plan over the last three months of the year

Edgar Filing: TELEFONICA S A - Form 6-K

In order to compare this with the announced financial guidance, the effect of including Terra assets in Spain and other exceptional revenues/expenses not foreseen in 2005 and 2004 must be excluded from the OIBDA. Excluding the effect of the integration of Terra, the OIBDA recorded a year-on-year growth of 3.9% in 2005 to stand at 4,739.5 million euros. Also excluding other exceptional revenues/expenses not foreseen in 2005 and 2004, the growth of OIBDA would stand at 5.1% to exceed the guidance announced by the company, which set the OIBDA growth forecast at between 2% and 5% for 2005.

The OIBDA margin stood at 40.6% in 2005, remaining almost the same (-0.1 percentage points) as that recorded the previous year. Excluding the effect of Redundancy Plan provision in 2005, the margin would have increased by 5.1 percentage points to reach 45.7%. Comparing this margin with the comparable margin of the same period in 2004 (excluding the Redundancy Program provision and the actuarial review for 2004), a 0.8 percentage point drop was recorded as a result of the greater commercial and supply efforts during 2005.

The OIBDA for the Telefónica de España parent company amounted to 4,716.4 million euros, up 4.1% year on year.

CapEx

totaled 1,406.6 million euros, a 16.5% increase in comparison with the previous year but staying within the announced range.

TELEFÓNICA DE ESPAÑA GROUP

SELECTED OPERATING DATA

Unaudited figures (Thousands)

	December		
	2005	2004	% Chg
Fixed telephony accesses (1)	16,135.6	16,334.8	(1.2)
Internet and data accesses	5,585.9	4,989.7	11.9
Narrowband	1,614.9	2,263.5	(28.7)
Broadband	3,441.6	2,492.7	38.1
Retail (2)	2,719.7	1,614.5	68.5
Unbundled loops (3)	434.8	116.1	n.m.
Pay TV	206.6	6.0	n.m.
Total Accesses	21,928.0	21,330.5	2.8

(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) Includes Terra from the third quarter of 2005, Línea ADSL and satellite.

(3) Includes fully unbundled loops and shared loops.

TELEFÓNICA DE ESPAÑA PARENT COMPANY

OPERATING REVENUES

Unaudited figures (Euros in millions)

January - December			October - December		
2005	2004	% Chg	2005	2004	% Chg

Edgar Filing: TELEFONICA S A - Form 6-K

Traditional Access (1)	2,826.2	2,823.2	0.1	704.3	710.7	(0.9)
Traditional Voice Services	5,161.8	5,199.4	(0.7)	1,298.3	1,323.4	(1.9)
Domestic Traffic (2)	1,330.8	1,467.6	(9.3)	334.7	378.3	(11.5)
Fixed to Mobile Traffic	1,151.8	1,207.4	(4.6)	281.8	303.7	(7.2)
International Traffic	474.4	410.1	15.7	120.0	115.8	3.6
Intel. Network, other cons. and bonuses (3)	309.9	237.1	30.7	87.4	65.7	33.1
Interconnection (4)	944.0	868.9	8.6	227.1	222.9	1.9
Handsets sales and others (5)	951.0	1,008.3	(5.7)	247.3	237.0	4.3
Internet Broadband Services	1,904.7	1,501.1	26.9	516.7	425.6	21.4
Narrowband	201.2	285.9	(29.6)	47.8	61.9	(22.8)
Broadband	1,703.5	1,215.2	40.2	468.9	363.7	28.9
Retail (6)	1,297.8	950.8	36.5	358.9	283.6	26.5
Wholesale (7)	405.7	264.4	53.4	110.1	80.1	37.4
Data Services	1,031.0	978.6	5.4	262.1	247.2	6.0
VPN, Leased Circuits and Broadcasting	666.9	674.1	(1.1)	169.0	176.6	(4.3)
Wholesale	364.1	304.4	19.6	93.1	70.6	31.9
IT Services	326.8	235.3	38.9	108.4	64.1	69.0
Total operating revenues	11,250.5	10,737.6	4.8	2,889.7	2,771.0	4.3

(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), bonuses 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 - December			October - December		
	2005	2004	% Chg	2005	2004	% Chg
Revenues	11,739.5	11,202.2	4.8	3,010.9	2,894.1	4.0
Internal expenditure capitalized in fixed assets (1)	160.8	144.3	11.5	53.3	47.0	13.3
Operating expenses	(7,213.7)	(6,871.0)	5.0	(1,777.7)	(1,623.5)	9.5
Other net operating income (expense)	19.6	64.1	(69.5)	(12.2)	14.6	c.s.
Gain (loss) on sale of fixed assets	70.7	43.0	64.4	10.7	9.9	8.3
Impairment of goodwill and other assets	(10.0)	(22.6)	(55.8)	(4.4)	(11.1)	(60.6)
Operating income before D&A (OIBDA)	4,766.8	4,560.0	4.5	1,280.6	1,331.1	(3.8)
Depreciation and amortization	(2,139.1)	(2,367.7)	(9.7)	(510.9)	(568.7)	(10.2)

Operating income (OI)	2,627.7	2,192.4	19.9	769.8	762.4	1.0
Profit from associated companies	(2.1)	(0.5)	n.m.	0.1	(0.1)	c.s.
Net financial income (expense)	(393.5)	(523.7)	(24.9)	(51.9)	(147.4)	(64.8)
Income before taxes	2,232.1	1,668.1	33.8	718.1	614.9	16.8
Income taxes	(737.3)	(554.8)	32.9	(243.8)	(203.4)	19.8
Income from continuing operations	1,494.7	1,113.4	34.3	474.3	411.5	15.3
Income (Loss) from discontinued operations	0.0	0.0	n.m.	0.0	0.0	n.m.
Minority interest	(0.5)	(0.2)	157.5	(0.1)	(0.0)	n.m.
Net income	1,494.3	1,113.2	34.2	474.2	411.5	15.2

(1) Including work in process.

RESULTS BY BUSINESS LINES

Fixed Line Business

TELEFÓNICA LATINOAMÉRICA GROUP

The good progress made by the fixed telephone line operators Telefónica Empresas América (TEA) and TIWS, and the general appreciation of all Latin American currencies against the Euro, in particular the Brazilian real (+21.0%) have allowed Telefónica Latinoamérica Group to record outstanding results in 2005, in line with all the financial targets announced at the beginning of the year. Furthermore, since July the results of Terra's Latin American operations (Terra Latam) have been consolidated in the Telefónica Latinoamérica Group, contributing 1.6 percentage points to the increase in revenues.

Over the year, Telefónica Latinoamérica Group generated **revenues** of 8,265.5 million euros, a 22.5% increase in current euros (+6.2% in constant euros and excluding the effect of the inclusion of Terra Latam). This year-on-year growth was achieved mainly through the growth in Telesp revenues (+7.9% in local currency), driven by tariff increases, the good progress made by Broadband and TUP, and, to a lesser extent, the growth of value-added services. It is also worth noting the increase in TASA revenues (+9.3% in local currency) thanks to the good performance of the traditional business (+7.3%), the increase in fixed telephony accesses (+4.8%) and the good performance in the wholesale business, as well as the positive growth of the broadband business. CTC recorded a lower level of growth (+1.1% in local currency), thanks to the positive progress made by the Internet business (narrowband + broadband), whose 32.5% growth in local currency compensated for the decreased revenues from the traditional business, which dropped by 0.9%. TdP is a similar case, with a slight growth in revenues (+1.6% in local currency), thanks to growth in the Internet business (+38.7%), that counteracts the 1.3% fall in traditional business, affected by the application of the new productivity factor to its tariffs (10.07%). Telefónica Empresas América and TIWS showed significantly increased revenues, up 8.3% and 18.9% in constant euros, respectively.

At year end, Telefónica Latinoamérica Group's **operating expenses** stood at 4,462.4 million euros, +22.3% in current euros compared to 2004. This growth was reduced to 5.0% in constant euros and excluding the inclusion of Terra Latam, 1.2 percentage points below the growth in revenues. The main cost growth factor for the operators was the increased commercial efforts, mainly sales commissions and customer assistance expenses.

Bad debts made good progress, with a 12.3% decrease in **bad debt provision** in constant euros (excluding Terra Latam), thanks to good recovery management and the larger volume of prepaid and consumption control lines in the operators.

In 2005, Telefónica Latinoamérica Group recorded a **net gain on sale of fixed assets** of 107.1 million euros, primarily corresponding to the capital gains generated by the sale of Infonet, which took place during the first quarter of the year, and of Telinver, in Argentina, in the last quarter.

As a result of the above, Telefónica Latinoamérica Group recorded an **operating income before depreciation and amortization (OIBDA)** of 3,758.3 million euros, 14.1% higher year-on-year in current euros (+0.4% in constant euros and excluding the contribution of Terra Latam). This progress was influenced by gain on sale of fixed assets, that include the sale of the mobile telephony division of CTC to Telefónica Móviles in 2004, and the sales in 2005 of Infonet and Telinver in Argentina. Excluding the gain on sale of fixed assets, there was a 27.4% growth in OIBDA in current euros (+11.7% in constant euros and excluding Terra Latam). The OIBDA margin as a percentage of revenues (excluding the gain on sale of fixed assets) stands at 44.2% (compared with 42.5% in the previous year).

The greater investment in broadband, which was necessary for the expansion of this business in the region, placed Telefónica Latinoamérica Group's **CapEx** at 1,061.2 million euros, a year-on-year growth of 13.2% in constant terms and excluding Terra Latam. Despite this growth, the significant OIBDA volume that was achieved allowed to reach an **operating free cash flow (OIBDA-CapEx)** of 2,697.1 million euros.

At year end, Telefónica Latinoamérica Group managed 28.2 million accesses, up 7.0% year on year, mainly due to the 53.8% growth in retail Internet broadband accesses, which have reached 2.1 million. The fixed telephone accesses reached 2.1 million, an increase of 1.5% compared to 2004, as a result of the significant growth recorded by TASA (+4.8%) and TdP (+9.8%).

The Group's final **workforce** stood at 28,856 employees, an 11.4% increase compared with 2004 year end, due essentially to the inclusion of Terra Latam (around 1,000 employees), the takeover of Atrium in Brazil and the insourcing of employees, mainly in Telesp and TASA.

TELESP

On December 22nd, Telesp signed the renewal of its concession contract, which expired on 31st December 2005, for a period of 20 years. The conditions of the new contracts were approved by Anatel in December. The main ones are the obligation to bill local traffic in minutes instead of pulses, the new tariff revision reference index (IST), the new productivity factor applicable to tariff revisions, the new interconnection tariff regulation, and the provision of a new type of service to favour access for customers with low income (AICE). On February 23rd, Anatel announced a delay of 12 months in the implementation of the pulses to minutes conversion.

At 2005 year end, Telesp had 15.7 million accesses, a growth of 1.7%, thanks to the strong growth of its retail Internet broadband plant, which stands at 1.2 million accesses (+46.0% year on year), having recorded the highest net gain in one quarter (more than 122,000 accesses in the last quarter of 2005). This progress compensates for the slight fall in fixed telephone accesses (-0.9%, to 12.3 million accesses), although the positive change in family lines, in place since the end of March, should be noted, meaning that lines with consumption control represent 19% of the fixed-line telephony plant at the end of the year.

Voice traffic (57,577 million minutes) fell by 2.3% year on year, slightly improving on the performance recorded until September (-3.6%). This decrease is due to the greater use of mobile phones, which affects mainly long distance and public telephony traffic, to the decline in traffic in the Intrastate Long Distance market, and to the change in the mix of

the plant, which affects fixed-to-mobile and long distance traffic. Note, however, the improved progress of local fixed-to-fixed traffic, which grew by 2.6%. Internet traffic fell by 12.3%, due to the migration of customers to broadband.

Revenues

stood at 4,852.7 million euros, an increase of 7.9% in local currency, thanks to 6.6% growth in revenues from traditional business, helped by the increase in fixed-to-fixed and fixed-to-mobile tariffs, increased sales of value-added services and sales of equipment, and also the good performance of Internet revenues (narrowband and broadband), which increased by 27.1% in local currency, and now represent 7.5% of the company's revenues (6.4% in 2004), due to the good progress in numbers of Internet broadband accesses.

Throughout the year, Telesp kept control of **operating costs**, which grew by 6.8% in local currency, lower than the increase in revenues. This increase is associated with higher personnel costs (+4.3% in local currency) due to the growth of the workforce caused by the takeover of Atrium and the insourcing of Security and Systems employees, and also to increased interconnection costs resulting from the rise in fixed-to-mobile tariffs, counteracted by the increased revenues, and to higher costs for increased commercial activity, improvement of customer care, and higher prices in some contracts. Despite this, the good management regarding renegotiation with service providers should be noted, managing to limit contractual readjustments.

The positive evolution of **bad debt provision** is also noteworthy, with an 8.4% decrease compared with last year, thanks to good recovery management and to new products aimed at customers' needs. The bad debt to revenues ratio thus stands at 2.4%.

Telesp **operating income before depreciation and amortization (OIBDA)** in September stood at 2,221.8 million euros, up 9.5% year on year in local currency, in line with the growth recorded in September, mainly as a result of the increase in revenues. The OIBDA margin stands at 45.8%, an improvement of 0.3 percentage points compared to September and 0.6 percentage points year on year.

CapEx

accumulated to December was 607.1 million euros, a growth of 25.2% with regard to 2004 in local currency, amounting to 11.5% of revenues in local currency. This increase is due to the sales of new products, and, mainly, to the expansion of broadband. The **operating free cash flow (OIBDA-CapEx)** stood at 1,614.7 million euros (+5.0% in local currency with regard to last year).

TELEFÓNICA DE ARGENTINA

Management of TASA, adapted to a context of growing activity and consumption, and of frozen tariffs, has allowed growth in fixed telephone lines and voice traffic (+4.8% and +6.9% respectively), factors that, together with the expansion of broadband, have contributed to the 9.3% increase in revenues.

At 2005 year end, TASA managed 5.4 million accesses (+4.7% compared to December 2004), thanks to the year-on-year increase in fixed telephone accesses (+4.8% to stand at 4.5 million) and the extraordinary growth in retail Internet broadband accesses (+68.1%). With 241,500 retail Internet broadband accesses, TASA remains the leader in the broadband market in the Southern zone of the country.

Voice traffic per line grew by 3.1% year on year, driven by the strong growth in total incoming traffic (+18.7% year-on-year) and of total fixed-to-mobile traffic (+28.0%) in line with the strong expansion of the mobile telephony business in the country. Narrowband Internet traffic fell by 29.4%, affected by the migration to broadband.

The good performance of line and traffic operating variables compared with 2004 has resulted in a volume of **revenues** that grew to 890.9 million euros, equivalent to a 9.3% year-on-year increase in local currency. Broken down by business, revenues from the traditional business grew by 7.3% year on year, due to the good performance of lines

in service and voice traffic, and by the wholesale business, while revenues from the internet business (Narrowband + Broadband), which now contribute 9.0% of TASA revenues (+1.7 percentage points year on year), rose 34.5% in local currency, thanks to the expansion of Internet broadband accesses, increasing revenues for these services by 82.5% year on year, and offsetting the decrease in the narrowband business.

The growth in TASA **operating expenses** is slowing down, to 7.4% year on year in local currency, mainly due to the decrease in personnel costs (-2.4%), as a result of the lower labor-related contingencies recorded in 2005, and also due to the lower growth in subcontracting (+18.1%, vs. +21.9% in September), the increase of which is associated with revenue generation (greater commercial activity, customer assistance, increase in quality plans and infrastructure maintenance). Supply expenses increased by 7.9%, mostly due to the expansion of broadband.

The bad debt to revenues ratio was reduced, thanks to the good performance of recoveries and the sales of prepaid lines and lines with consumption limits, which now represent more than 29% of fixed telephone accesses.

The significant growth in revenues, together with the policy of rationalizing and containing costs that is maintained, and the capital gains recorded with the sale of Telinver in the last quarter (48.4 million euros), allowed TASA to obtain an **operating income before depreciation and amortization (OIBDA)** of 542.9 million euros, a figure that is 17.0% higher, in local currency, than that for 2004. Excluding the sale of Telinver, the OIBDA shows a year-on-year growth of 6.6% in local currency (+4.7% to September), achieving a margin of 55.5% of revenues.

In 2005, **CapEx** grew by 7.2% year on year in local currency, to stand at 117.3 million euros, of which approximately a third was dedicated to the development of broadband. The increase in OIBDA, along with control over investments, led to a growth in the **operating free cash flow (OIBDA-CapEx)** -excluding the capital gain from the sale of Telinver- of 6.4% in local currency year on year, to stand at 377.2 million euros.

TELEFÓNICA CTC CHILE

On January 1st 2005, the distribution of the product and customer portfolio for the business segment between CTC and T-Empresas Chile was reviewed. As a consequence of this, Telefónica CTC Chile's 2004 results are shown on comparable terms with the new segmentation.

In January, CTC announced its plans to offer its employees a voluntary retirement plan, to be carried out in 2006. As a result of this, CTC recorded an extraordinary provision of around 2.6 million euros.

In December 2005, CTC managed 2.9 million accesses, up 0.9% on 2004, thanks to the development of new flexible plans, and to the solid progress made by broadband in Chile. Within traditional access, of particular note is CTC's new commercial offer, based on the development of unregulated tariff plans (plans of minutes and product bundling). On December 31st 2005, more than 700,000 customers had flexible plans (plans of minutes, prepaid and consumption control solutions for those with low incomes, and bundled offers of voice and broadband services).

Thanks to the good progress made by Internet broadband accesses sales, a 56.5% growth in accesses was achieved in 2005. CTC thus had a total of 314,200 accesses at the end of the year (of which 289,600 are retail accesses), reaching a 43% market share. This growth reflects the strong commercial efforts made in the year for the expansion of broadband in the country. New variable broadband services (Speedy Recargado) have been developed, and new broadband + voice packages have been launched, in addition to a combined offer with satellite TV and new distribution channels.

Total traffic carried by CTC's network continued to fall, essentially due to significant replacement by mobile telephony and Internet. Local fixed-to-fixed traffic dropped 10.5% in 2005, while fixed-to-mobile traffic grew 8.4%. The total market for domestic and international long distance continues to fall (-13.8% for DLD and -6% for ILD in the last quarter). Despite this decline, CTC achieved better performance than the market as a whole (in the same

period 11.5% and +1.3%, respectively).

Revenues

amounted to 890.0 million euros, up 1.1% over 2004 figure in local currency, due to the good performance of broadband, whose revenues grew 46.1% in local currency. Thus Internet revenues (narrowband + broadband) grew by 32.5% in local currency to contribute 8.1% of CTC revenues (up 1.9 percentage points year on year). This progress compensates for the slight fall in revenues from the traditional business (-0.9% year on year in local currency), given that the increased revenues from local traffic, which include plans of minutes, interconnection and business and operator services do not offset the decreased revenues from monthly fees, sales of equipment, public telephony and long distance.

Accumulated **operating expenses** grew by 1.9% to December, in local currency. Personnel expenses fell 6.5% year on year, as a result of the lower workforce restructuring costs in 2005. Subcontracting expenses increased by 4.3%, mainly due to the significant network installation and maintenance work carried out, and commercial and customer care activity. During the fourth quarter a significant effort was made to contain these costs (+9.5% to September).

Bad debts were contained, thanks to specific new prepaid and consumption control products, and to the readjustment of debt recovery policies. The bad debt provision fell by 22.2% in local currency, to stand at 3.2% of revenues.

At 2005 year end, the **operating income before depreciation and amortization (OIBDA)** stood at 362.4 million euros. This result, which is around 57.2% lower than the one recorded in the previous year in local currency, cannot be compared with the 2004 result, since the latter includes the results of the sale of the CTC mobile telephony subsidiary to Telefónica Móviles, which generated capital gains of around 425 million euros for CTC. Excluding this, the fall in OIBDA in local currency is around 4.1%. 2005 OIBDA margin as a percentage of revenues stands at 40.7% (affected by the adjustments in the long distance business announced in the previous quarter and the voluntary retirement programme announced in January; excluding the effects of both, the margin would stand at 43.6%).

The aggregate **CapEx** to December 2005 stood at 108.5 million euros, of which around 30% was dedicated to the expansion of broadband. This figure represents a year-on-year growth of 11.3% in local currency. The aggregate **operating free cash flow (OIBDA-CapEx)** in 2005 thus amounted to 253.9 million euros.

TELEFÓNICA DEL PERÚ

In 2005, Telefónica del Perú (TdP) recorded significant growth in the number of accesses (+13.7%) to 3.2 million, due to intense commercial activity throughout the entire year, which resulted in a net gain of 208,735 fixed telephone accesses in 2005. The total fixed telephony plant hence stands at 2.3 million accesses, and in broadband the company managed to pass 340,000 retail Internet broadband accesses (+65.7% year on year) recording a net gain of 135,011 customers in the year. Noteworthy, also, is the good performance of the Cable Television plant (Cable Mágico), which has seen year-on-year growth of 18.8%, with 462,211 customers at the end of the year.

TdP's **revenues** stood at 1,031.4 million euros at 2005 end, meaning year-on-year growth of 1.6% in local currency. Internet revenues (broadband + narrowband) grew by 38.7%, essentially due to the good performance of the broadband plant (+55.6% in revenues). Internet revenues continue to increase their weight in the total revenues, to 9.7% (7.1% in 2004). Revenues from the traditional business fell 1.3%, due to lower revenues from the basic telephone service, despite the growth in lines, as a result of the impact of the productivity factor applied since September 2004 (CPI-10.07%). These are compensated in part by increased public telephony revenues, due to better management of the plant and the good performance of cable TV revenues, which grew by 11.3% year on year thanks to the growth of the accesses.

Total traffic carried by TdP decreased by 2.8% year on year: while voice traffic grew 2.2%, promoted by the good performance of incoming interconnection traffic (+14.4%), local fixed-to-fixed traffic (+1.7%) and International Long Distance (+32.1%). Internet traffic showed a 39.9% year on year fall, due to the market demand for faster Broadband products.

The year's **operating expenses** fell by 3.5% in local currency, because of savings made on personnel expenses, which fell by 21.6%, mainly due to lower profit sharing, and savings were also made in supply expenses (-6.6% in local currency) as a result of the lower fixed-to-mobile tariff, despite the fact that consumption supplies were increased, because of the significant growth of the plant. Subcontracting expenses increased (+7.9% in local currency) due to the higher commercial activity.

There was a fall in bad **debt provision** (-31.3%) as a result of better recovery management, and the increased percentage of prepaid and consumption control infrastructure in the total of fixed telephone lines (59% of fixed telephone lines in December 2005, and 54% at 2004 end), which helped the bad debt provision as a percentage of revenues to stand at 1.2%.

The **operating income before depreciation and amortization (OIBDA)** amounts to 437.3 million euros, around 15.1% more than in 2004 in local currency, affected by the lower provision made for extraordinary contingencies and others. The OIBDA margin improved by 5.0 percentage points compared with 2004, to stand at 42.4%.

CapEx

stands at 117.9 million euros, 1.5% lower in local currency than that recorded in 2004, placing the CapEx ratio as a percentage of revenues at 11.3% in local currency. The **operating free cash flow (OIBDA-CapEx)** grew by 22.6% year on year in local currency to reach 319.4 million euros, due to the growth in OIBDA and the CapEx containment.

TELEFÓNICA EMPRESAS AMÉRICA

As in previous quarters, due to the change in the consolidation perimeter of Telefónica Empresas América (TEA), which incorporates TLD Puerto Rico operations, and the new segmentation of business and wholesale customers in Telefónica Empresas Chile, 2004 results are shown on comparable terms.

In 2005, TEA aggregate **revenues** stood at 620.9 million euros. This figure means 16.5% year-on-year growth (+8.3% in constant euros).

Broken down by business line, revenues from Data and Internet contributed about 62% of total revenues and show solid levels of growth (+23.3%; +12.5% in constant euros). Of particular note is the performance of data revenues in Brazil, which reach almost 50% of the total and show a growth of 25.2% in local currency. International Services and Telephony services for business are also showing positive levels of growth (+14.2% and +10.2% in constant euros, respectively.)

At 2005 year end, the **operating income before depreciation and amortization (OIBDA)** stood at 93.6 million euros, achieving a growth rate of 81.7% in current euros compared to 2004 (about 62.1% in constant euros). The accumulated OIBDA margin as a percentage of revenues stands at 15.1%, a year-on-year improvement of 5.4 percentage points. Aggregate investment to December stood at 72.5 million euros, meaning 23.5% growth in constant euros compared to 2004. As a result, the **operating free cash flow (OIBDA-CapEx)** amounted to 21.1 million euros, compared with 3.6 million euros the previous year.

Telefónica Empresas Brasil continues to be the group's largest operation in terms of revenues and OIBDA. In 2005, T-Empresas Brasil revenues stood at 245.9 million euros, showing year-on-year growth of 19.0% in local currency. T-Empresas Brasil aggregate OIBDA was 58.7 million euros, a 47.4% increase in local currency.

T-Empresas Argentina achieved revenues of 74.9 million euros, up 13.9% year on year in local currency. T-Empresas Perú kept its revenue levels practically stable compared with 2004 in 65.0 million euros (-0.1% in local currency). T-Empresas Chile, after the aforementioned resegmentation, recorded accumulated revenues of 124.3 million euros, a year-on-year fall of 3.1%.

In other countries where Telefonica Group is not the incumbent operator (the US, Colombia and Mexico), the figures of T-Empresas USA are of particular note. Having incorporated TLD operations in Puerto Rico, it achieved total revenues of 71.0 million euros, corresponding to a growth rate of 15.4% in local currency compared with 2004.

TELEFÓNICA INTERNATIONAL WHOLESALE SERVICES (TIWS)

Revenues

for 2005 stood at 188.0 million euros (+19.4% year on year, +18.9% in constant euros). The business line that contributed the most to revenues was IP Internacional (54.6%) which showed year-on-year growth of 16.7% in constant terms. The other businesses also showed significant growth. Of particular note is the Bandwidth Capacity which grew 25.1% in constant euros. Significant savings were generated in terms of operating expenses, which, together with the growth of revenues, allowed an **operating income before depreciation and amortization (OIBDA)** of 58.3 million euros, equivalent to a year-on-year growth of 30.2% (+30.1% in constant euros), achieving a margin as a percentage of revenues of 31.0% (+2.6 percentage points compared with 2004).

TELEFÓNICA LATINOAMÉRICA GROUP

SELECTED OPERATING DATA

Unaudited figures (Thousands)

	December		
	2005	2004	% Chg
Telesp	15,669.7	15,410.3	1.7
Fixed telephony accesses (1)	12,340.3	12,454.8	(0.9)
Internet and data accesses	3,329.4	2,955.5	12.7
Narrowband	1,986.7	1,996.7	(0.5)
Broadband	1,206.8	826.4	46.0
Retail	1,206.7	826.3	46.0
Telefónica de Argentina	5,434.4	5,192.1	4.7
Fixed telephony accesses (1)	4,532.2	4,325.4	4.8
Internet and data accesses	902.1	866.6	4.1
Narrowband	564.0	643.3	(12.3)
Broadband	303.5	190.2	59.6
Retail (2)	241.5	143.7	68.1
Telefónica CTC Chile	2,912.7	2,886.2	0.9
Fixed telephony accesses (1)	2,429.1	2,412.5	0.7
Internet and data accesses	483.6	473.7	2.1
Narrowband	130.5	239.4	(45.5)
Broadband	314.2	200.8	56.5
Retail	289.6	176.1	64.4
Telefónica del Perú	3,213.0	2,826.2	13.7

Edgar Filing: TELEFONICA S A - Form 6-K

Fixed telephony accesses (1)	2,347.6	2,138.9	9.8
Internet and data accesses	403.2	298.2	35.2
Narrowband	52.5	83.0	(36.7)
Broadband (3)	340.4	205.4	65.7
Retail	340.4	205.4	65.7
Pay TV	462.2	389.2	18.8
GRUPO T. LATINOAMÉRICA	28,168.5	26,314.8	7.0
Fixed telephony accesses (1)	21,649.1	21,331.6	1.5
Internet and data accesses	6,057.1	4,594.1	31.8
Narrowband (4)	3,185.1	2,962.4	7.5
Broadband (3) (5)	2,652.3	1,422.8	86.4
Retail (2)	2,078.2	1,351.6	53.8
Pay TV	462.2	389.2	18.8

(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) TASA includes ISP in the north part of the country.

(3) TdP cable modem included.

(4) Includes Narrowband ISP from Terra Brasil and Terra Colombia from the third quarter of 2005

(5) Includes Broadband ISP from Terra Brasil, Terra México and Terra Guatemala from the third quarter of 2005

TELEFÓNICA LATINOAMÉRICA GROUP

SELECTED OPERATING DATA

Unaudited figures (Euros in millions)

		January - December		
		2005	2004	% Chg
Telesp	Revenues	4,852.7	3,716.2	30.6
	OIBDA	2,221.8	1,678.0	32.4
	OIBDA margin	45.8%	45.2%	0.6 p.p.
Telefonica de Argentina	Revenues	890.9	810.9	9.9
	OIBDA	542.9	461.3	17.7
	OIBDA margin (1)	60.9%	56.9%	4.1 p.p.
Telefonica CTC Chile	Revenues	890.0	806.9	10.3

Edgar Filing: TELEFONICA S A - Form 6-K

	OIBDA	362.4	776.0	n.c.
	OIBDA margin	40.7%	n.m.	n.c.
Telefonica del Perú	Revenues	1,031.4	980.9	5.1
	OIBDA	437.3	367.1	19.1
	OIBDA margin	42.4%	37.4%	5.0 p.p.
Telefónica Empresas América	Revenues	620.9	532.9	16.5
	OIBDA	93.6	51.5	81.7
	OIBDA margin	15.1%	9.7%	5.4 p.p.
TIWS	Revenues	188.0	157.5	19.4
	OIBDA	58.3	44.8	30.2
	OIBDA margin	31.0%	28.4%	2.6 p.p.

Note: OIBDA before management fees. Data for Telefónica de Argentina include the ISP business of Advance, while those of Telefónica del Perú includes CableMágico.

(1) Net of fixed to mobile interconnection.

TELEFÓNICA LATINOAMÉRICA GROUP
CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December			October - December		
	2005	2004	% Chg	2005	2004	% Chg
Revenues	8,265.5	6,748.4	22.5	2,352.0	1,742.9	34.9
Internal expenditure capitalized in fixed assets (1)	47.3	43.3	9.2	15.6	13.3	17.0
Operating expenses	(4,462.4)	(3,648.2)	22.3	(1,288.1)	(961.1)	34.0
Other net operating income (expense)	(205.4)	(276.8)	(25.8)	(41.0)	(140.6)	(70.9)
Gain (loss) on sale of fixed assets	107.1	428.8	(75.0)	29.6	2.0	n.m.
Impairment of goodwill and other assets	6.3	(0.7)	c.s.	1.5	(1.3)	c.s.
Operating income before D&A (OIBDA)	3,758.3	3,294.8	14.1	1,069.7	655.2	63.3
Depreciation and amortization	(1,792.5)	(1,578.7)	13.5	(483.9)	(394.5)	22.7
Operating income (OI)	1,965.8	1,716.1	14.6	585.8	260.7	124.7
Profit from associated companies	4.4	2.6	71.1	1.3	2.5	(48.3)
Net financial income (expense)	(383.6)	(344.6)	11.3	(144.8)	(52.7)	174.6

Edgar Filing: TELEFONICA S A - Form 6-K

Income before taxes	1,586.7	1,374.1	15.5	442.2	210.4	110.2
Income taxes	(319.2)	(292.6)	9.1	(66.1)	(86.0)	(23.1)
Income from continuing operations	1,267.5	1,081.4	17.2	376.1	124.4	202.4
Income (Loss) from discontinued operations	0.0	0.0	n.m.	0.0	0.0	n.m.
Minority interest	(160.8)	(327.1)	(50.8)	(52.3)	(17.1)	n.m.
Net income						