

# Telefónica

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TELEFÓNICA EMISIONES, S.A.U.  
(incorporated with limited liability under the laws of the Kingdom of Spain)  
guaranteed by  
TELEFÓNICA, S.A.  
(incorporated with limited liability in the Kingdom of Spain)  
€15,000,000,000

## PROGRAMME FOR THE ISSUANCE OF WHOLESALE DEBT INSTRUMENTS

This supplement (the "**Supplement**") to the base prospectus dated 8 July 2005 (the "**Base Prospectus**") constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**") and is prepared in connection with the programme for the issuance of wholesale debt instruments (the "**Programme**") established by Telefónica Emisiones, S.A.U. (the "**Issuer**"). Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus, the supplement to the Base Prospectus dated 10 January 2006, and any other supplements to the Base Prospectus issued by the Issuer. Each of the Issuer and Telefónica, S.A. ("**Telefónica**") accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of each of the Issuer and Telefónica (each of which has taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated in the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement and any supplement to the Base Prospectus previously issued, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus which is capable of affecting the assessment of Instruments issued under the Programme since the publication of the Base Prospectus.

## SUPPLEMENTARY INFORMATION

### *Publication of Annual Accounts by Telefónica*

On 12 April 2006, Telefónica published its consolidated Annual Accounts for 2005. A copy of those financial statements has been filed with the Financial Services Authority and, by virtue of this Supplement, those financial statements are incorporated in, and form part of, the Base Prospectus. Those financial statements can also be viewed on the website of Telefónica at [www.telefonica.es/accionistaseinversores/](http://www.telefonica.es/accionistaseinversores/) and on the website of the Regulatory News Services operated by the London Stock Exchange at <http://www.londonstockexchange.com/en-gb/pricesnews/marketnews/>.

### *Publication of the Quarterly Results by Telefónica*

On 12 May 2006, Telefónica published its First Quarter 2006 results. A copy of those financial statements has been filed with the Financial Services Authority and, by virtue of this Supplement, those financial statements are incorporated in, and form part of, the Base Prospectus. Those financial statements can also be viewed on the website of Telefónica at [www.telefonica.es/accionistaseinversores/](http://www.telefonica.es/accionistaseinversores/) and on the website of the Regulatory News Services operated by the London Stock Exchange at <http://www.londonstockexchange.com/en-gb/pricesnews/marketnews/>.

## RECENT DEVELOPMENTS

### *Recommended cash offer for O2 PLC on behalf of Telefónica*

On 23 January 2006, Telefónica announced that all the remaining conditions of its Takeover Offer to acquire the total share capital of O2 plc, launched on 21 November 2005, had been satisfied. The Offer therefore became unconditional in all respects, in accordance with the rules of the City Code on Takeovers and Mergers.

Given that acceptances were received (or other relevant acquisitions were made) in respect of more than 90 per cent of O2 plc's share capital to which the Offer related, on February 22, 2006 Telefónica initiated the procedures set out in sections 428 to 430F of the U.K. Companies Act to acquire compulsorily the remaining O2 Shares for which it had not received acceptances of the offer. This compulsory acquisition procedure was completed on 19 April 2006, after which Telefónica will own one hundred per cent of O2 plc's share capital.

### **Telefónica Publicidad e Información S.A. (TPI)**

On 28 February 2006, the Board of Directors of Telefónica resolved to explore strategic alternatives in relation to Telefónica's holding in the share capital of Telefónica Publicidad e Información, S.A. ("TPI"), including the total or partial disinvestment in that company (sale).

Accordingly, Telefónica initiated proceedings for the private sale of its shareholding in TPI. Under this process, binding offers were presented in the second half of April. Having analyzed

the offers received, Telefónica announced, on 28 April 2006, its decision to sign the contract committing to the formulation and acceptance of a Public Tender Offer with the English telephone directory company YELL GROUP plc (“YELL”). The price of the offer submitted by YELL is 8.50 euros per share (ex-dividend), which entails a total price of 1,838 million euros for 59.905 per cent. of the share capital of TPI currently owned by TELEFÓNICA. To this regard, the shareholders, acting at the General Shareholders' Meeting of TPI held in Madrid on 8 April 2006, approved the distribution of a dividend of 0.40 euros per share, which will be paid on 5 May 2006.

The sale would result in net capital gains for Telefónica of 1.577 million euros, to be recorded in its 2006 consolidated financial statements.

### **Merger between Telefónica Móviles, S.A. and Telefónica**

On 29 March 2006, the Boards of Directors of Telefónica and Telefónica Móviles, S.A. (“Telefónica Móviles”) agreed the approval of a merger plan (the “**Merger Plan**”) concerning the merger between Telefónica Móviles and Telefónica. The merger will result in the extinction, upon dissolution without liquidation, of Telefónica Móviles and the block transmission of its net worth to Telefónica. Telefónica will then acquire, by universal succession, all the rights and obligations of Telefónica Móviles.

The exchange ratio for the shares of the companies participating in the merger, determined on the basis of the current value of the corporate assets of each of Telefónica Móviles and Telefónica, will be (with no supplemental cash compensation) four (4) shares of Telefónica, each having a face value of one euro (€1), for every five (5) shares of Telefónica Móviles, each having a face value of fifty cents of euro (€0.50). Additionally, the Merger Plan sets forth the distribution by Telefónica Móviles of an extraordinary dividend against the issue premium reserve and other distributable reserves for a gross amount of euro 0.085 per share and an interim dividend, also extraordinary, against the result obtained from January 1 to March 28 2006 for a gross amount of euro 0.35 per share.

Telefónica will increase its share capital by the exact amount needed to make the exchange for Telefónica Móviles shares in accordance with the exchange equation set down in the Merger Plan. The maximum amount of the capital increase to be carried out by Telefónica may be reduced through the delivery to Telefónica Móviles’ shareholders of shares held in Telefónica’s treasury.

Subject to the merger being approved at the General Shareholders’ Meetings of each of Telefónica and Telefónica Móviles, Telefónica expects the transaction to be completed in August 2006.

### **Colombia Telecom**

On 7 April 2006, Telefónica announced that it had won the auction conducted by the Colombian Government for a majority stake in Colombia Telecom - a Colombian fixed line Telecommunication Company - representing 50 per cent. plus one of the company's outstanding

shares. Telefónica has committed to subscribe in cash to a Colombian pesos 853.577 million capital increase to be executed at the end of April 2006.

The agreement also contemplates a modification to the Operating Contract between Colombia Telecom and PARAPAT (the consortium that owns the Telecommunications assets and manages the pension funds of the companies that originally comprised Colombia Telecom).

Colombia Telecom, which has the exclusive right to operate the telecommunications assets, will pay PARAPAT an annual fee for 17 years as compensation for the use of these rights. This payment, which is tax deductible, has been set at Colombian pesos<sup>1</sup> 350 billion per annum between 2006 and 2011, and Colombian pesos<sup>2</sup> 480 billion per annum between 2012 and 2022. The agreement establishes that the PARAPAT assets will pass definitively to Colombia Telecom in 2022.

The deal was formalised on 18 April with the signing of an Investment Agreement pursuant to which Telefónica will become Colombia Telecom strategic partner.

The date of this Supplement to the Base Prospectus dated 8 July 2005 is 18 May 2006.

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<sup>1</sup> Colombian pesos (value of 2006) adjusted by inflation plus 4 per cent.

<sup>2</sup> Colombian pesos (value of 2006) adjusted between 2006 and 2012 by annual inflation plus annual 4 per cent. and from 2013 by accumulated inflation plus annual 4 per cent.