

TELEFONICA S A
Form 6-K
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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of February, 2012

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

Distrito C, Ronda de la Comunicación s/n,

28050 Madrid, Spain

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(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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Yes No

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:

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Yes No

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FINANCIAL HIGHLIGHTS

In 2011, the Company posted record levels of free cash flow generation of 9,270 million euros, with a strong year-on-year growth of 9.5%, compatible with increased investment amid a difficult operating environment.

Telefónica surpassed the 306 million accesses mark at the end of 2011, setting the basis for the Company's future revenue growth:

The commercial repositioning in the second half led to a significant increase in activity in the last months of the year and to a 7% year-on-year growth in accesses.

Telefónica Latinoamérica, with a 10% year-on-year organic growth in accesses, consolidated its position as the main contributor to the expansion of Telefónica's accesses.

Mobile net additions reached a record of 7.8 million accesses in the quarter, while mobile broadband accesses increased 1.6 times versus 2010 to 38 million. The contract segment already represents a third of the Group's total mobile accesses.

Consolidated revenue totalled 62,837 million euros in 2011, with a year-on-year growth of 3.5%, and of 4.8% excluding the impact of mobile termination rates cuts:

Telefónica Latinoamérica was once again the Company's growth driver, accounting for 47% of total revenues.

Mobile data revenue grew 19.0% in organic terms year-on-year, accounting for more than 31% of mobile service revenue. This increase was driven by the rapid expansion of non-SMS data revenues, which now account for over 52% of total data revenues.

The Company kept a high profitability, with an underlying OIBDA margin of 36.1% despite the increased commercial activity:

Underlying OIBDA totalled 22,697 million euros.

Telefónica Latinoamérica continued to increase its contribution to the Group's underlying OIBDA, accounting for 48% of the consolidated figure in 2011 (+4 percentage points versus 2010).

The negative impact from regulation dragged 188 million euros to 2011 OIBDA.

The Company met its 2011 revenues, OIBDA margin and CapEx targets.

Telefónica announces its guidance for 2012 and reiterates the shareholder remuneration policy announced in December.

Financial Guidance:

Net financial debt / OIBDA < 2.35x (equivalent to previous (Net Debt+Commitments) / OIBDA < 2.5x).

Shareholder remuneration of 1.50 euros per share, including the payment of a cash dividend of 1.30 euros per share and a share buyback for the remaining amount.

Operating Guidance (considering constant perimeter):

Revenue growth >1% at current exchange rates.

Lower OIBDA margin decline than in 2011.

Similar CapEx/sales as in 2011.

2012 operating guidance criteria: Assumes current exchange rates (2012 average FX of 1: US\$ 1.32x; 1: BRL 2.30; 1: £ 0.85) and constant perimeter of consolidation. At the OIBDA level, excludes write-offs, capital gains/losses from companies disposals and significant exceptionals. CapEx excludes spectrum licenses.

2011 Bases for 2012 targets:

Net financial debt / OIBDA: 2.46 x.

Revenues: 62,837 million euros.

OIBDA margin: 36.1%.

CapEx/Sales ex spectrum: 14.2%.

Comments from César Alierta, Executive Chairman:

2011 has been a key year in the process of transformation of Telefónica. In a difficult environment, our diversification and our flexibility has allowed us to deliver solid results, in line with the targets announced, and a record FCF generation. Revenues increased by 3.5% year-on-year, to 62,837 million euros and FCF totalled 9,270 million euros, a 9.5% increase versus 2010, and equivalent to 2.06 euros per share.

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All this has been compatible with investments exceeding the 10.2 billion euros mark in 2011, underpinning the importance of having a differential, top-quality network, to offer increasingly sophisticated services compatible with all kind of fixed and mobile devices, essential for the generation of future revenues.

In parallel, we have made significant progress in other areas. On the one hand, we have increased our customer base to exceed the 306 million mark, while the Company's strategy to strengthen its competitive position is already paying off, showing a significant increase in the commercial activity in the second half of the year, and a remarkable growth in mobile broadband. In 2011, Telefónica has led the increase of penetration of mobile broadband services in its markets, with more than 38 million customers at the end of the year, 61% above 2010 figure. As a result, mobile data revenue also grew significantly to almost 20% in organic terms, and now represents 31% of mobile service revenues.

Furthermore, we have continued to make advancements in the diversification of our business, reinforcing greatly our position in Latin America, while our business in the region already accounts for over 45% of revenue, OIBDA and operating cash flow of Telefónica. The commercial effort done in the last months is already positively impacting revenue evolution with growth rate showing a significant acceleration in the fourth quarter to 6.3% year-on-year in organic terms and excluding the impact from lower mobile termination rates. We have strengthened our leadership in the key market of the region, Brazil, which has become our major growth engine and yields tremendous potential for the future.

In Europe, despite a tough economic backdrop, Telefónica has continued to push the adoption of new broadband services as key drivers for revenue growth, in a context of pressure in traditional voice services due to strong competition with adverse regulation. Moreover, the changes in the commercial offer in our main markets have led to a stronger commercial activity, quite evident in the fourth quarter. On the other hand, the Company's efforts to enhance efficiency have been translated into specific projects that have already started to bear fruits in the case of Spain, bringing significant savings in personnel expenses in 2012. In addition, in Spain, and despite the adverse trading conditions, Telefónica has invested close to 3 billion euros in 2011, representing a 17% over sales and underpinning the strong push in the deployment of high speed broadband networks as well as the acquisition of the best spectrum in the market. On the other hand, the strong results obtained in Germany must be highlighted. We have reinforced significantly our position in this market and have become the operator with the highest growth rate in 2011.

We face 2012 from a position of strength, thanks to the advances we have made in the last decade to reinforce our diversification, not only geographical but also by businesses, and also because of the decisions we have taken in the last months to accelerate our transformation and increase financial flexibility. For all this, we face 2012 with a lot of confidence.

We will continue pushing the mass-market adoption of broadband in our markets, both fixed and mobile, with Telefónica becoming the key lever for the development of the societies where we are present. Additionally, we have reinforced our position in the value chain with the launch of Telefónica Digital, in order to accelerate the capture of new revenues in the digital world. As a result, in 2012 we expect revenue growth of more than 1% at current exchange rates.

The creation of Telefónica Global Resources has also been fundamental to take us another step forward towards more efficiency and maximise all the benefits coming from our scale while freeing up resources in a year in which we will maintain a strong investment effort to advance in our transformation process and to improve our network capabilities.

And, as the progress in the first two months of the year shows, we are focused on strengthening our balance sheet and reducing our leverage. During the year we will proactively manage our portfolio of assets to optimize the use of capital and to maximize the Company's value.

All of the above topped by a very attractive and sustainable shareholder remuneration policy. The dividends and share buybacks announced for 2012 yield 11.5% as of today's stock prices.

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SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	September 30, January -December	September 30, 2010	September 30, Reported	September 30, Organic	September 30, % Chg	September 30, 2011 Guidance	September 30, Guidance fulfillment
Revenues	62,837	60,737	3.5	0.1		up to 2%	0.1
Telefónica España	17,284	18,711	(7.6)	(7.6)			
Telefónica Latinoamérica	29,237	25,756	13.5	5.0			
Telefónica Europe	15,524	15,724	(1.3)	(1.6)			
OIBDA	20,210	25,777	(21.6)	(5.1)			
Telefónica España	5,072	8,520	(40.5)	(12.0)			
Telefónica Latinoamérica	10,941	13,713	(20.2)	(1.4)			
Telefónica Europe	4,233	4,080	3.8	(2.5)			
OIBDA margin	32.2%	42.4%	(10.3 p.p.)	(2.0 p.p.)		upper 30 s	36.1%
Telefónica España	29.3%	45.5%	(16.2 p.p.)	(2.2 p.p.)		Limited	
Telefónica Latinoamérica	37.4%	53.2%	(15.8 p.p.)	(2.4 p.p.)		erosion	(-2.0 p.p.)
Telefónica Europe	27.3%	25.9%	1.3 p.p.	(0.3 p.p.)		y-o-y	
Operating Income (OI)	10,064	16,474	(38.9)	(9.6)			
Telefónica España	2,984	6,511	(54.2)	(16.8)			
Telefónica Latinoamérica	6,157	9,759	(36.9)	(4.3)			
Telefónica Europe	1,116	879	27.0	(0.9)			
Net income	5,403	10,167	(46.9)				
Basic earnings per share (euros)	1.20	2.25	(46.7)				
CapEx	10,224	10,844	(5.7)	3.3		~9,000	8,819
Telefónica España	2,914	2,021	44.2	2.6			
Telefónica Latinoamérica	5,299	5,455	(2.9)	6.6			
Telefónica Europe	1,705	3,152	(45.9)	(3.8)			
OpCF (OIBDA-CapEx)	9,986	14,933	(33.1)	(9.8)			
Telefónica España	2,158	6,499	(66.8)	(16.5)			
Telefónica Latinoamérica	5,641	8,258	(31.7)	(6.9)			
Telefónica Europe	2,528	928	n.m.	(1.5)			

- *Reconciliation included in the excel spreadsheets.*

Notes:

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- *OIBDA and OI are presented before brand fees and management fees.*

- *OIBDA margin calculated as OIBDA over revenues.*

- *2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.*

- *OIBDA, OIBDA margin, OI and OpCF of Telefónica include 2,671 million from the workforce provision related to the Redundancy Program in Spain in the third quarter of 2011.*

- *Figures in million Euros. CapEx includes, in the second quarter of 2011, 417 from the the spectrum acquired in Brasil (349) and Costa Rica (68); 37 from the spectrum acquired in Colombia in the fourth quarter of 2011 and 842 from the acquisition of spectrum in Spain in 2011. 2010 CapEx includes 1,379 from the acquisition of spectrum in Germany in the second quarter of 2010 and 1,237 from the acquisition of spectrum in Mexico in the third quarter of 2010.*

- ***T.España:** Figures in million euros. OIBDA, OIBDA margin, OI and OpCF of T. España include a net gain of 40 from the sale of non-strategic assets in the fourth quarter of 2011 (73 in 2011) and the booking during the third quarter of 2011 of the workforce provision related to the redundancy programme (2,591) and 202 in the fourth quarter of 2010. In 2010, Company results in reported terms were affected by the following: booking of the Universal Service (95 in revenues and 31 in OIBDA; 38 in revenues and 13 in OIBDA in the fourth quarter), sale of application rights (101 in revenues and also in OIBDA; 49 in the fourth quarter) and bad debts recovery (20 in OIBDA). Associated to the Universal Service, it was booked in 2011, 35 in revenues and 13 in OIBDA in the fourth quarter.*

- ***T. LatAm:** 2011 T. Latinoamérica results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica s perimeter since the fourth quarter of 2007. OIBDA, OIBDA margin, OI and OpCF in T. Latinoamérica are affected by the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 million euros in the third quarter of 2010) and by non-recurrent restructuring expenses mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation's social activities of 410 in the fourth quarter of 2010.*

- ***T.Europe:** Figures in million euros. OIBDA, OIBDA margin, OI and OpCF of T. Europe include a capital gain of 61 from the sale of Manx Telecom in the second quarter of 2010 and is affected by non-recurrent restructuring expenses mainly related to personnel reorganization in the second half of the year (202 recorded in the third quarter and 118 in the fourth quarter).*

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- **Organic criteria:** *In financial terms, it assumes constant average exchange rates as of January-December 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-December 2010 the consolidation of Vivo, HanseNet and Tuenti are included whereas the revaluation of our pre-existing stake in VIVO accounted for in Q3 10 and the results of Manx Telecom are excluded from organic growth calculation. In addition, excluded from OIBDA and OI in 2010 is the impact of the capital gain from the sale of Manx Telecom booked in the second quarter of 2010, and the one-off restructuring expenses, most of which were associated with workforce adjustment plans and firm commitments relating to the Telefónica Foundation's social activities, registered in the second half of 2010. In OIBDA terms, in January-December 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded, as well the workforce provision related to the Redundancy Program approved in Spain. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's CapEx excludes the Real Estate Efficiency Programme at T. España, the real estate commitments associated with Telefónica's new headquarters in Barcelona and investments in spectrum. 2011 financial results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007. In addition, 2011 results include from September (retroactive effect August 1st) the global consolidation of Acens Technologies.*

- **Guidance criteria:** *2011 guidance assumes constant exchange rates as of 2010 (average FX in 2010) and excludes hyperinflationary accounting in Venezuela in both years. At the OIBDA level it excludes write-offs (impairments of subsidiaries), capital gains/losses from companies disposals and significant exceptionals mainly related with restructuring costs. Results from the operation in Costa Rica are excluded from guidance calculation. Group CapEx excludes Real Estate Efficiency Program of T. España, the Real State commitments associated to the new Telefónica premises in Barcelona and spectrum licenses.*

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<i>The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is unaudited.</i>	

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.

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ACCESSES

Unaudited figures (thousands)

	September 30, 2011	September 30, December 2010	September 30, % Chg
Final Clients Accesses	301,311.8	282,994.9	6.5
Fixed telephony accesses (1)	40,119.2	41,355.7	(3.0)
Internet and data accesses	19,134.2	18,611.4	2.8
Narrowband	909.2	1,314.1	(30.8)
Broadband (2)	18,066.3	17,129.6	5.5
Other (3)	158.7	167.8	(5.4)
Mobile accesses	238,748.6	220,240.5	8.4
Prepay	162,246.9	151,273.9	7.3
Contract	76,501.7	68,966.6	10.9
Pay TV (4)	3,309.9	2,787.4	18.7
Wholesale Accesses	5,296.0	4,637.4	14.2
Unbundled loops	2,928.7	2,529.2	15.8
Shared ULL	205.0	264.0	(22.3)
Full ULL	2,723.7	2,265.3	20.2
Wholesale ADSL (5)	849.3	687.4	23.5
Other (6)	1,518.0	1,420.7	6.8
Total Accesses	306,607.8	287,632.3	6.6

Notes:

- *Year-on year changes are affected by the inclusion of the customers of HanseNet since March 2010 and the exclusion of the customers of Manx since July 1st, 2010.*

(1) *PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use and total fixed wireless included. Includes VoIP and Naked ADSL.*

(2) *ADSL, satellite, optical fibre, cable modem and broadband circuits.*

(3) *Retail circuits other than broadband.*

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- (4) *Includes 153 thousand clients of TVA from June 2011.*
- (5) *Includes ULL rented by T. Germany and T. UK.*
- (6) *Circuits for other operators. Includes Wholesale Line Rental (WLR) in Spain.*

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Consolidated Results

Despite Telefónica's new organizational structure approved in September 2011, the Company continued to report its third and fourth quarter results of 2011 in the previous organization structure as this was the base to settle the Company's commitments for 2011 and also the structure employed to report the results of the first half of 2011.

The restructuring of Telefónica by business unit, Telefónica España, Telefónica Latin America and Telefónica Europe, in line with the current integrated, regional management model, means that the legal structure of the companies is not relevant for the presentation of Group financial information.

Therefore, the operating results of each of these business units are presented independently, regardless of their legal structure. For the purpose of presenting information on a regional basis, revenue and expenses arising from invoicing among companies within the Telefónica consolidation scope for the use of the brand and management contracts have been excluded from the operating results for each Group region, while centrally-managed projects are included at the regional level. This form of presentation does not affect the consolidated results of Telefónica.

In line with this organisation, Telefónica has included in the Telefónica España, Telefónica Latin America and Telefónica Europe regional businesses units all information pertaining to wireline, wireless, cable, internet and television businesses, in accordance with its location. The "Other companies" heading includes the Atento business and other holding companies and eliminations in the consolidation process.

As of 1 January 2011, and in accordance with the new organization approved by the Company in September 2010, Telefónica Europe, in addition to the businesses in the UK, Germany, Ireland, the Czech Republic and Slovakia, also includes in its consolidation perimeter Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA), whose activities are primarily focused on the provision of services to multinationals as well as the provision of global wholesale telecommunications services to international fixed and wireless voice operators, ISPs and content providers. In the fiscal year 2010 both companies were part of the consolidation perimeter of Telefónica Latin America. Therefore, the results of Telefónica Europe and Telefónica Latin America have been restated for the fiscal year 2010 to reflect the new organizational structure as of 1 January 2010. As this is an intragroup change, Telefónica results are unaffected.

Furthermore, in Brazil, with the objective to facilitate a more clear evolution of the fixed and wireless businesses regardless of the way in which ownership of the licenses affects accounting procedures, long distance revenues have been reclassified, so that revenue from long-distance services arising from the wireless network is considered as wireless revenue, and revenue arising from the fixed-line network is considered as fixed-line revenue, being presented also net of intercompany eliminations from the fourth quarter of 2011, and retroactively to 1 January 2010. This reclassification has no effect on the consolidated results in Brazil.

Also, in the context of the organization and integrated management of the fixed and wireless businesses in Latin America, and with the aim of facilitating the understanding and monitoring of the financial performance of the Company's operations in this region and avoiding distortions which, without affecting the consolidated results of Telefónica Latin America, may result in an erroneous interpretation of the individual performance of each of the businesses -especially at the level of operating expenses and investment-, from the first quarter of 2011 the Company has decided to publish the selected consolidated financial data corresponding to Telefónica Latin America, providing breakdowns by business only at a revenue level. The Company has not changed the criteria for reporting operating metrics.

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In a year characterized by adverse macroeconomic conditions, strong competition and negative impacts from regulation, Telefónica obtained solid results, meeting the revenue, OIBA margin and CapEx targets committed for 2011, thanks to the high diversification of its operations.

Against this backdrop, Telefónica has continued making progress in its strategy to capture growth in its different markets, being noteworthy the sharp increase in the Company's activity during the second half of 2011, as a result of the refocused commercial strategy that led to changes in the commercial offer in the main countries of operations.

This strategy led to a year-on-year increase in total **accesses** of almost 7% in organic terms, to 306.6 million in 2011, with a significant growth in the number of contract and mobile broadband customers. It is worth highlighting the acceleration in the Company's access growth during the second half of the year, period in which net additions reached almost 13 million accesses (72% more than in the first half of 2011 and more than duplicating that in the second half of 2010). By region, Telefónica Latinoamérica's performance is noteworthy, which, with a 10% year-on-year organic growth in accesses, consolidated its position as the main contributor to the expansion of Telefónica's accesses.

Telefónica's **mobile** accesses stood at 238.7 million in 2011, with a year-on-year increase of 8% in organic terms, following an acceleration in the growth rate during the second half of the year, period in which, excluding the disconnections accounted for in the year, the Company registered net additions of almost 13 million accesses (1.8 times the increase registered during the first half of the year and 1.4 times those in the second half of 2010). It is also worth highlighting net additions posted during the fourth quarter, reaching a record in the year (7.8 million accesses, excluding the disconnection of 1 million inactive prepaid accesses in Brazil in December), with a year-on-year increase of 45% (+59% quarter-on-quarter).

The Company's focus on capturing high-value customers led to a sustained increase in the **contract** segment (+11% year-on-year), which accounted for almost a third of total mobile accesses. As a result, the contract segment contribution to total net additions stood close to 40% over the full year, exceeding 100% at Telefónica España and Telefónica Europe. In Latin America, it is important to highlight the Company's leading position in the contract segment, where Telefónica has the largest customer base in the region.

Mobile broadband accesses -accesses with a data rate attached and therefore active users of the service- exceeded 38 million at the end of 2011 (+61% year-on-year). This figure represents a penetration rate of 16% over Telefónica's total mobile access base (+5 percentage points versus December 2010). Telefónica Europe reached a penetration rate of 31%, followed by Telefónica España (29%). Meanwhile, there is huge scope for increasing penetration of these services at Telefónica Latinoamérica (10%).

The Company's differential focus on the data business is reflected in the sustained increase in mobile data revenues, with a 19.0% year-on-year increase in organic terms, to account for more than 31% of Telefónica's total mobile service revenue in 2011. Noteworthy was the strong increase in non-SMS data revenues (+37.5% year-on-year in organic terms), which now account for more than 52% of total mobile data revenues.

Retail **fixed broadband** accesses reached a total of 18.0 million (+5% year-on-year). The strategy of bundling voice, broadband, and TV services has proved to be key to control the churn rate, with the percentage of retail broadband accesses (in both Spain and Latin America) bundled in a dual or triple service package rising gradually to around 90% in 2011.

The number of **Pay TV** accesses stood at 3.3 million in 2011 (+19% year-on-year), with a pickup in the growth rate, basically due to the successful commercial repositioning in Latin America, where net additions in 2011 tripled those of 2010, the inclusion of TVA's Brazilian customers as of June and the good commercial performance in Spain during the second half of the year.

Fixed telephony accesses reached 40.1 million, down 3% year-on-year. This decline remained stable throughout 2011.

It is important to bear in mind that Vivo has been fully consolidated since October 2010 (prior to that date, the results of Vivo were proportionately consolidated). Consequently, this had an impact on the year-on-year comparisons of Telefónica's financial results in reported terms.

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In 2011 **revenues** totalled 62,837 million euros, a year-on-year increase of 3.5%, driven by higher revenues from Telefónica Latinoamérica (+13.5% year-on-year). Changes in the consolidation perimeter contributed with 4.1 percentage points to this growth, while foreign exchange rates had a negative impact on revenue growth of 0.7 percentage points.

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In organic terms, revenues rose 0.1% in 2011, negatively impacted by mobile termination rate cuts across all regions, which dragged 842 million euros to revenue growth. Excluding this impact, organic revenue growth for the full year would have reached 1.4% (+4.8% in reported terms).

By services, the contribution of services with the highest growth potential continued to increase (fixed and mobile broadband, services beyond connectivity), exceeding 26% of consolidated revenues (+3 percentage points versus 2010). This contribution offset the lower contribution by traditional access and voice revenues.

By regions, revenues from Telefónica Latinoamérica already account for 47% of total consolidated revenues (+4 percentage points with respect to 2010) and remained the Company's main growth driver and the largest contributor to consolidated revenues in organic terms (+2.2 percentage points). Revenues from Telefónica Europe represent 25% of the consolidated revenues, while Telefónica España contributes with some 28%, both decreasing by -1.2 percentage points year-on-year and -3.3 percentage points year-on-year, respectively.

Consolidated **operating expenses** stood at 44,501 million euros in 2011. It is important to remember that the year-on-year performance in reported terms (+10.2%) is mainly affected by the increase in personnel expenses (+31.8% year-on-year in reported terms), as a result of:

non-recurrent restructuring expenses recorded in the second half of 2010 (1,262 million euros), mainly related to personnel reorganization (658 million euros) and firm commitments relating to the Telefónica Foundation's social activities (400 million euros; of this total, 280 million euros were recorded in Telefónica S.A. and the remainder was registered in Telefónica Latinoamérica).

the non-cash impact provision for restructuring expenses (2,671 million euros in consolidated terms) register in the third quarter of 2011, associated to the workforce restructuring plan approved by the Company in Spain.

In organic terms, the year-on-year increase in operating expenses stood at 3.2%, explained by:

Supply costs amounted to 18,256 million euros, with a year-on-year increase of 1.3% in organic terms (+3.7% in reported terms), as a result of increased handset costs in the three regions associated with growing smartphone adoption. Nevertheless, this effect is offset by lower mobile termination costs in all the regions.

Subcontract expenses totalled 13,019 million euros, up 4.4% year-on-year in organic terms (+6.5% in reported terms), mainly coming from Telefónica Latinoamérica, reflecting higher investment in customer care, increased commercial costs linked to higher activity, and higher expenses associated to the deployment of the 3G network.

Personnel expenses amounted to 11,080 million euros, rising 6.2% in organic terms, mainly due to the higher expenses in Latinoamérica, following the in-sourcing process developed in Brazil in 2010 and the salaries revision in June 2011, as well as higher inflation in certain markets within the region.

The average number of employees at the end of 2011 was 286,145 (17,098 more than at the end of 2010), mainly due to the larger workforce at Atento. Excluding Atento, Telefónica's consolidated average workforce was 133,948 employees (128,011 in 2010).

Additionally, Telefónica's global efficiency projects continued to contribute very positively to consolidated results in 2011 (636 million euros in terms of revenues and 523 million euros in OIBDA).

In this regard, and reflecting the benefits of our scale, it is worth highlighting that Telefónica's Partners Programme now includes three operators (Bouygues, Etisalat and Sunrise). The Partners Programme is an initiative that makes available to selected operators and, under commercial terms, a host of services that allows partners to leverage on Telefónica's scale and to cooperate on key business topics (roaming, services to multinationals, procurement, devices, etc.).

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Gains on sales of fixed assets totalled 823 million euros in 2011, mainly due to the impact of sales of non-strategic towers within the framework of a number of initiatives developed by the business units to optimize the use of capital (impact of 541 million euros in 2011, with 467 million in the fourth quarter; and 242 million in 2010, 179 million in the fourth quarter). Moreover, 2011 results include the positive impact of the partial reduction of our economic exposure to Portugal Telecom (184 million euros) as well as T. España's sale of non-strategic assets, amounting to 73 million euros (40 million euros accounted for in the fourth quarter).

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It is worth noting that in the third quarter of 2010 this item included the positive impact of the revaluation of the previously-held stake in Vivo at its fair value at the date of acquisition of the 50% stake in Brasilcel owned by Portugal Telecom (3,797 million euros) as well as the capital gain from the disposal of Manx Telecom (61 million euros).

Thus, **operating income before depreciation and amortization (OIBDA)** for 2011 stood at 20,210 million euros. In underlying terms, OIBDA decreased 2.1%, affected by the loss of higher-margin revenues, the sharp increase in commercial activity and negative impact of interconnection (188 million euros in 2011). In organic terms, OIBDA dropped 5.1% over the twelve-month period.

Despite the difficult operating business environment and the strong activity throughout the year, the Company maintained a high level of efficiency, with OIBDA margin reaching 36.1% in organic terms, a limited erosion of 2.0 percentage points versus 2010. In underlying terms, OIBDA margin stood also at 36.1% (-2.1 percentage points year-on-year).

By region, Telefónica Latinoamérica continued to increase its contribution to consolidated OIBDA, already accounting for 48% of underlying OIBDA (+4 percentage points year-on-year), rising to 67% including the contribution from Telefónica Europe.

Depreciation and amortization in 2011 (10,146 million euros) posted a year-on-year increase of 9.1% in reported terms, reflecting full consolidation of Vivo and the amortization of Vivo's purchase price allocation (336 million euros for the full year vs. 84 million euros in 2010). Total depreciation and amortization charges derived from purchase price allocation processes amounted to 1,119 million euros in 2011 (-2.0% year-on-year). In organic terms, depreciation and amortization rose by 1.2% with respect to 2010.

As a result, **operating income (OI)** stood at 10,064 million euros for 2011, a 9.0% drop year-on-year in underlying terms. In organic terms, 2011 operating income fell 9.6% year-on-year (-38.9% in reported terms).

Profit from associates stood at -635 million euros for 2011 versus +76 million euros in 2010. The year-on-year change was mainly the result of the non-cash impact of Telco S.p.A.'s revision of its value of its investment in Telecom Italia, as well as of the operating synergies achieved, with both effects totaling 662 million euros (481 million euros after the related tax effect).

Net financial expenses in 2011 stood at 2,941 million euros (+11.0% year-on-year), due to increased average debt with respect to 2010 (+13% to 56,351 million euros). This implied an average cost of debt of 5.22%, which, adjusting for exchange rate differences, fell to below 5% (4.91%), and it is lower than in 2010 (5.0%).

It is worth to highlight that the free cash flow generated in 2011 has allowed Telefónica to reduce net financial debt after cancellation of commitments and dividend payments by 1,600 million euros in 2011. However, after payments devoted to share buyback programmes and divestments (excluding the second payment for Vivo's acquisition, already considered in 2010's net debt), net financial debt increased by 365 million euros. Similarly, accrued interest higher than payments, the increase in the present value of obligations due to fixed rate derivative transactions, and other effects (net of savings due to currency depreciation), have increased net financial debt by 346 million euros. As a result, net financial debt stood at 56,304 million euros in 2011 (+711 million euros versus 2010).

The Company's active management of working capital has contributed with 1,353 million euros to cash flow generation. In addition, 781 million euros coming from cash received from divestments, mainly from non-strategic tower sales, must be added to working capital, explaining part of the difference between the CapEx accrued in the year and the net CapEx payments. The previously mentioned cash flow generation is the result of different management initiatives on working capital.

On the other hand, payment for income tax (1,959 million euros) is 657 million euros lower than in the previous year, mainly due to the accelerated tax depreciation and of the deductibility of certain provisions.

Telefónica's **Free Cash Flow** for 2011 reached 9,270 million euros, an increase of 805 million euros versus 2010 (+9.5% year-on-year), reaching a record level in the cash flow generation of the Company, despite strong investments in spectrum.

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FCF per share reached 2.06 euros (+9.8% year-on-year). It is worth to mention that this amount includes 0.20 euros per share related to spectrum payments.

The **leverage ratio**, net debt including commitments over OIBDA (excluding results on the sale of fixed assets and adjusted by the provision related to the redundancy program in Spain), stands at 2.63 times at December 2011. If we consider the new leverage criteria, the ratio net debt over OIBDA (adjusted by the provision related to the redundancy program in Spain) stands at 2.46 times.

During 2011, the **financing activity** of Telefónica, excluding short term Commercial Paper Programmes activity, rose to above 11,500 million equivalent euros, with the main objective of financing in advanced 2011 debt and smoothing our debt maturity profile for 2012 and 2013 at Telefónica S.A. level.

In the bond market, a 6 year bond issue in the euro market, for an amount of 1,200 million raised in February, increased by another 100 million euros through a private placement in March.

In the US, Telefónica has issued an American dollar denominated bond for an amount of 2,750 million US dollars raised in February, distributed in two tranches: a 5 year 1,250 million tranche, and a 10-year tranche of 1,500 million.

In the bank market, in May, a 4,000 million euros extension on the three year tranche Vivo syndicated facility was signed, whereby out of the 5,000 million euros initially maturing in July 2013, 2,000 million euros have been extended by one year, to July 2014, and another 2,000 million euros by three years, to July 2016.

In May, a loan facility for telecom equipment purchases for an amount of 376 million dollars was also signed with the guarantee of the Finnish Export Credit Agency (Finnvera).

In November, Telefónica issued a 4 year and 3 month bond in the euro market for an amount of 1,000 million

Also in November, Telefónica issued, through a private placement, a 5 year JPY denominated bond for an amount of JPY 7,000 million. It is worth highlighting the financing activity during the first two months of 2012:

In January, a loan facility with a Chinese financial entity was signed to finance telecom equipment purchases with a local supplier for an amount of 375 million US dollars.

In February, Telefónica increased the 6 year euro bond issued last February 2011 through a private placement, for an amount of 120 million euros.

And most recently, Telefónica issued a 6 year bond in the euro market for an amount of 1,500 million euros. Telefónica S.A. and its holding companies have remained active during 2011 under its various Commercial Paper Programmes (Domestic and European), with an outstanding balance of 1,685 million euros at the end of December.

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Regarding Latin America, Telefónica's subsidiaries have tapped the capital markets up to December 2011 for an amount above 2,600 million equivalent euros. It is worth to highlight the 3,000 million Brazilian reais loan granted to Vivo S.A to be used for investments in expansion and improvement of the current network, implementation of the infrastructure necessary for new technologies, from 2011 to 2013, in addition to research and development. It is also worth highlighting the financing activity in Chile, both in the bond and credit markets for an amount of approximately 300 million euros.

Telefónica maintains total undrawn committed credit lines for an amount above 10,100 million euros, with more than 7,700 million maturing in the long term.

At the end of December 2011, bonds and debentures represented 64%, on the consolidated financial debt breakdown, while debt with financial institutions weighted 36%.

Corporate income tax in 2011 totalled 301 million euros, based on profit before income tax of 6,488 million euros. It is noteworthy the accounting in the fourth quarter of a reversal of deferred tax liabilities recognized as part of the Vivo purchase price allocation in the amount of 1,288 million euros (952 million euros net of taxes and minority interests) resulting from the tax benefit generated by some of the acquired assets.

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Profit attributable to minority interests dragged net income by 784 million euros in 2011, mainly due to minority interests in net income at Telefónica Brazil (affected by the cancellation of the deferred tax mentioned above) and at Telefónica Czech Republic.

As a result of the above items, **consolidated net profit** in 2011 was 5,403 million euros, which, in underlying terms, implies a decrease of 16.6% year-on-year, with the **basic earnings per share** at 1.66 euros, again in underlying terms (-16.4% year-on-year).

In reported terms, net income fell by 46.9% year-on-year. This performance was affected by various factors. On the one hand, the 2010 consolidated net profit figure was affected by:

the positive net impact from the revaluation of the previously held stake in Vivo at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,476 million euros);

non-recurrent restructuring expenses registered in the second half of 2010 (862 million euros, net of taxes);

the write-down of tax credits in Colombia (-450 million euros, net of minority interests).

And then, the 2011 consolidated net income figure was affected by:

the non-cash impact provision for restructuring expenses, recorded in the third quarter, associated to the workforce restructuring plan approved by the Company in Spain, previously mentioned (1,870 million euros).

cancellation of the deferred tax generated following the acquisition of the 50% stake in Vivo in 2010, with a net impact after profit attributable to minority interests of 952 million euros.

Basic earnings per share stood at 1.20 euros (-46.7% year on year).

CapEx in 2011 reached 10,224 million euros, with a 3.3% year-on-year increase in organic terms. In reported terms, CapEx declined 5.7% year-on-year. It is important to mention that the 2011 CapEx figure includes the cost of the spectrum in Spain, Brazil and Costa Rica, amounting to 1,296 million euros, whereas total investment in 2010 mainly included spectrum investment in Germany and Mexico, for a total of 2,616 million euros.

The Company continued to focus its investments on growth and transformation projects, fostering the development of fixed and mobile broadband services. As a result, 79% of total CapEx was targeted to these projects in 2011.

Consequently, **operating cash flow (OIBDA-CapEx)** totalled 9,986 million euros in 2011 (-9.8% year-on-year in organic terms, -33.1% in reported terms). In underlying terms, operating cash flow stood at 13,769 million euros (-8.0% versus 2010).

Definitions

Organic growth: In financial terms, it assumes constant average exchange rates as of January-December 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-December 2010 the consolidation of Vivo, HanseNet and Tuenti are included whereas the revaluation of our pre-existing stake in VIVO accounted for in Q3 10 and the results of Manx Telecom are excluded from organic growth calculation. In addition, excluded from OIBDA and OI in 2010 is the impact of the capital gain from the sale of Manx Telecom booked in the second quarter of 2010, and the one-off restructuring expenses, most of which were associated with workforce adjustment plans and firm commitments relating to the Telefónica Foundation's social activities, registered in the second half of 2010. In OIBDA terms, in January-December 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is

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excluded, as well the workforce provision related to the Redundancy Program approved in Spain. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's CapEx excludes the Real Estate Efficiency Programme at T. España, the real estate commitments associated with Telefónica's new headquarters in Barcelona and investments in spectrum. Net additions exclude accesses disconnections made in the second quarter of 2010 and in the third and fourth quarters of 2011.

2011 financial results and accesses include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007. In addition, 2011 results include from September (retroactive effect August 1st) the global consolidation of Acens Technologies.

Underlying growth: Reported figures, excluding exceptional impacts and spectrum acquisition. In 2011 the following items were excluded: provision for workforce restructuring plan in Spain (-2,671 million euros; -1,870 million euros net of taxes), the positive impact from the partial reduction of our economic exposure to Portugal Telecom (+184 million euros), Telco, S.p.A.'s writedown of its stake in Telecom Italia and operating synergies achieved (-662 million euros, -481 million euros net of taxes), difference in market value of BBVA stake (-80 million euros in net financial income; -56 million euros net of taxes), tax asset reassessment (-30 million euros), deferred tax liability related with PPA on Vivo's acquisition (+1,288 million euros, +952 million euros net of taxes and minority interests) and PPAs (-1,119 million euros; -790 million euros net of taxes and minorities). In 2010 the following items were excluded: the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (+3,797 million euros; +3,476 million euros net of tax), non-recurrent restructuring expenses (-1,262 million euros; -862 million euros net of taxes), Manx Telecom's capital gain (+61 million euros), write-down of T. Capital (-6 million euros), difference in market value of BBVA stake (-191 million euros in net financial income; -133 m net of taxes), tax asset reassessment in Colombia (-450 million euros net of minorities), PPAs (-1,142 million euros; -847 million euros net of taxes and minorities) and other adjustments (-55 million euros).

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CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	September 30, 2011	September 30, January - December 2010	September 30, % Chg	September 30, 2011	September 30, October - December 2010	September 30, % Chg
Revenues	62,837	60,737	3.5	16,165	16,457	(1.8)
Internal exp capitalized in fixed assets	739	737	0.3	208	218	(4.6)
Operating expenses	(44,501)	(40,375)	10.2	(11,026)	(11,740)	(6.1)
Supplies	(18,256)	(17,606)	3.7	(4,858)	(4,910)	(1.0)
Personnel expenses	(11,080)	(8,409)	31.8	(2,164)	(2,444)	(11.4)
Subcontracts	(13,019)	(12,228)	6.5	(3,435)	(3,771)	(8.9)
Bad Debt Provisions	(818)	(853)	(4.1)	(223)	(249)	(10.5)
Taxes	(1,328)	(1,279)	3.8	(345)	(367)	(5.8)
Other net operating income (expense)	317	494	(35.9)	83	276	(69.9)
Gain (loss) on sale of fixed assets	823	4,150	(80.2)	530	206	157.3
Impairment of goodwill and other assets	(5)	35	c.s.	0	(6)	c.s.
Operating income before D&A (OIBDA)	20,210	25,777	(21.6)	5,960	5,410	10.2
<i>OIBDA margin</i>	<i>32.2%</i>	<i>42.4%</i>	<i>(10.3 p.p.)</i>	<i>36.9%</i>	<i>32.9%</i>	<i>4.0 p.p.</i>
Depreciation and amortization	(10,146)	(9,303)	9.1	(2,592)	(2,559)	1.3
Operating income (OI)	10,064	16,474	(38.9)	3,368	2,851	18.2
Profit from associated companies	(635)	76	c.s.	(130)	8	c.s.
Net financial income (expense)	(2,941)	(2,649)	11.0	(895)	(675)	32.6
Income before taxes	6,488	13,901	(53.3)	2,343	2,183	7.3
Income taxes	(301)	(3,829)	(92.1)	781	(1,099)	(171.1)
Income from continuing operations	6,187	10,072	(38.6)	3,124	1,084	188.1
Non-controlling interests	(784)	95	c.s.	(454)	248	c.s.
Net income	5,403	10,167	(46.9)	2,670	1,333	100.3
Weighted average number of ordinary shares outstanding during the period (millions)	4,511	4,522	(0.2)	4,488	4,512	(0.5)
Basic earnings per share (euros)	1.20	2.25	(46.7)	0.59	0.30	101.4

Notes:

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- *HanseNet and Jajah have been included in T. Europe's consolidation perimeter since mid February 2010 and January 2010, respectively. The perimeter of consolidation of T. España includes Tuenti since August of 2010 and Acens Technologies since August 2011. The perimeter of consolidation of T. Latinoamérica includes 100% of Vivo since October 2010.*
- *2011 T. Latinoamérica results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.*
- *Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) have been included in the consolidation perimeter of Telefónica Europe since 1st January 2011 (previously in the consolidation perimeter of Telefónica Latinoamérica). As a result, the results of Telefónica Europe and Telefónica Latinoamérica have been restated for the fiscal year 2010, to reflect the above mentioned new organization. Telefónica consolidated results for 2010 are not affected.*
- *Figures in million euros. 2011 figures were affected by the provision for workforce restructuring plan in Spain (-2,671; -1,870 net of taxes), the positive impact from the partial reduction of our economic exposure to Portugal Telecom (+184), Telco, S.p.A.'s writedown of its stake in Telecom Italia and operating synergies achieved (-662, -481 net of taxes), difference in market value of BBVA stake (-80 in net financial income; -56 net of taxes), tax asset reassessment (-30), deferred tax liability related with PPA on Vivo's acquisition (+1,288, +952 net of taxes and minority interests) and PPAs (-1,119; -790 net of taxes and minorities). 2010 figures were affected by the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (+3,797; +3,476 net of tax), non-recurrent restructuring expenses (-1,262; -862 net of taxes), Manx Telecom's capital gain (+61), write-down of T. Capital (-6), difference in market value of BBVA stake (-191 in net financial income; -133 net of taxes), tax asset reassessment in Colombia (-450 net of minorities), PPAs (-1,142; -847 net of taxes and minorities) and other adjustments (-55).*
- *For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IAS rule 33 "Earnings per share". Thereby, there are not been taken into account as outstanding shares the weighted average number of shares held as treasury stock during the period.*
- *2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.*

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RESULTS BY REGIONAL BUSINESS UNITS

Unaudited figures (Euros in millions)

	0000			0000			0000		
	REVENUES			OIBDA			OIBDA MARGIN		
	January -December			January - December			January -December		
	2011	2010	% Chg	2011	2010	% Chg	2011	2010	Chg
Telefónica España (1)(2)	17,284	18,711	(7.6)	5,072	8,520	(40.5)	29.3%	45.5%	(16.2 p.p.)
Telefónica Latinoamérica (1)(2)(3)(4)	29,237	25,756	13.5	10,941	13,713	(20.2)	37.4%	53.2%	(15.8 p.p.)
Telefónica Europe (1)(2)(4)	15,524	15,724	(1.3)	4,233	4,080	3.8	27.3%	25.9%	1.3 p.p.
Other companies and eliminations	792	545	45.2	(36)	(535)	(93.3)	n.m.	n.m.	n.m.
Telefónica (1)(2)(3)	62,837	60,737	3.5	20,210	25,777	(21.6)	32.2%	42.4%	(10.3 p.p.)

	0000			0000			0000		
	OPERATING INCOME			CAPEX			OpCF (OIBDA-CAPEX)		
	January -December			January -December			January - December		
	2011	2010	% Chg	2011	2010	% Chg	2011	2010	% Chg
Telefónica España (1)(2)(5)	2,984	6,511	(54.2)	2,914	2,021	44.2	2,158	6,499	(66.8)
Telefónica Latinoamérica (1)(2)(3)(4)(5)	6,157	9,759	(36.9)	5,299	5,455	(2.9)	5,641	8,258	(31.7)
Telefónica Europe (1)(2)(4)(5)	1,116	879	27.0	1,705	3,152	(45.9)	2,528	928	n.m.
Other companies and eliminations	(193)	(675)	(71.3)	306	217	40.9	(342)	(752)	(54.5)
Telefónica (1)(2)(3)(5)	10,064	16,474	(38.9)	10,224	10,844	(5.7)	9,986	14,933	(33.1)

(1) HanseNet and Jajah have been included in T. Europe's consolidation perimeter since mid February 2010 and January 2010, respectively. The perimeter of consolidation of T. España includes Tuenti since August of 2010 and the perimeter of consolidation of T. Latinoamérica includes 100% of Vivo since October 2010.

(2) Figures in million euros. OIBDA, OIBDA margin, OI and OpCF of T. España include a net gain of 40 from the sale of non-strategic assets in the fourth quarter of 2011 (73 in 2011) and the booking during the third quarter of 2011 of the workforce provision related to the redundancy programme (2,591; 2,671 at a Group level) and 202 in the fourth quarter of 2010. In 2010, Company results in reported terms were affected by the following: booking of the Universal Service (95 in revenues and 31 in OIBDA; 38 in revenues and 13 in OIBDA in the fourth quarter), sale of application rights (101 in revenues and also in OIBDA; 49 in the fourth quarter) and bad debts recovery (20 in OIBDA). It was booked in 2011, 35 in revenues and 13 in OIBDA in the fourth quarter associated to the Universal Service. In T. Latinoamérica OIBDA, OIBDA margin, OI and OpCF are affected by the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 in the third quarter of 2010) and by non-recurrent restructuring expenses mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation's social activities of 410 in the fourth quarter of 2010. In T. Europe include a capital gain of 61 from the sale of Manx Telecom in the second quarter of 2010 and is affected by non-recurrent restructuring expenses mainly related to personnel reorganization in the second half of the year 2010 (202 recorded in the third quarter and 118 in the fourth quarter).

(3) 2011 T. Latinoamérica results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.

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- (4) *Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) have been included in the consolidation perimeter of Telefónica Europe since 1st January 2011 (previously in the consolidation perimeter of Telefónica Latam). As a result, the results of Telefónica Europe and Telefónica Latinoamérica have been restated for the fiscal year 2010, to reflect the above mentioned new organization. Telefónica consolidated results for 2010 are not affected.*
- (5) *Figures in million Euros. CapEx includes, in the second quarter of 2011, 417 from the the spectrum acquired in Brasil (349) and Costa Rica (68); 37 from the spectrum acquired in Colombia in the fourth quarter of 2011 and 842 from the acquisition of spectrum in Spain in 2011. 2010 CapEx includes 1,379 from the acquisition of spectrum in Germany in the second quarter of 2010 and 1,237 from the acquisition of spectrum in Mexico in the third quarter of 2010.*

Notes:

- *OIBDA and OI are presented before brand fees and management fees.*
- *OIBDA margin calculated as OIBDA over revenues.*
- *2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.*

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TELEFÓNICA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	September 30, December 2011	September 30, December 2010	September 30, % Chg
Non-current assets	108,800	108,721	0.1
Intangible assets	24,064	25,026	(3.8)
Goodwill	29,107	29,582	(1.6)
Property, plant and equipment and Investment properties	35,469	35,802	(0.9)
Non-current financial assets and investments in associates	13,743	12,618	8.9
Deferred tax assets	6,417	5,693	12.7
Current assets	20,823	21,054	(1.1)
Inventories	1,164	1,028	13.2
Trade and other receivables	11,331	12,426	(8.8)
Current tax receivable	1,567	1,331	17.7
Current financial assets	2,625	1,574	66.8
Cash and cash equivalents	4,135	4,220	(2.0)
Non-current assets classified as held for sale	1	475	(99.8)
Total Assets = Total Equity and Liabilities	129,623	129,775	(0.1)
Equity	27,383	31,684	(13.6)
Equity attributable to equity holders of the parent	21,636	24,452	(11.5)
Non-controlling interests	5,747	7,232	(20.5)
Non-current liabilities	69,662	64,599	7.8
Non-current financial debt	55,659	51,356	8.4
Deferred tax liabilities	4,739	6,074	(22.0)
Non-current provisions	7,172	4,865	47.4
Other non-current liabilities	2,092	2,304	(9.2)
Current liabilities	32,579	33,492	(2.7)
Current financial debt	10,652	9,744	9.3
Trade and other payables	9,406	9,314	1.0
Current tax payables	2,568	2,822	(9.0)
Current provisions and other liabilities	9,953	11,612	(14.3)
Financial Data			
Net financial Debt (1)	56,304	55,593	1.3

(1) *Figures in million euros. Includes: Long term financial debt + other long term liabilities (1,585) + trade and other payables (55) non-current financial assets and investments in associates (4,830) trade and other receivables (58) temporary financial investment included in current financial assets cash and cash equivalents.*

Note: 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

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FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

	September 30,	September 30,	September 30,	September 30,
		2011	January - December 2010	% Chg
I	Cash flow from operations	21,466	21,313	0.7
II	Net interest payment (1)	(2,011)	(2,018)	
III	Payment for income tax	(1,959)	(2,616)	
A=I+II+III	Net cash provided by operating activities	17,496	16,679	4.9
B	Payment for investment in fixed and intangible assets (2)	(8,304)	(8,670)	
C=A+B	Net free cash flow after CapEx	9,192	8,010	14.8
D	Net Cash received from sale of Real Estate	30	41	
E	Net payment for financial investment	(3,590)	(6,618)	
F	Net payment for operations with minority shareholders and treasury stock (3)	(7,966)	(7,132)	
G=C+D+E+F	Free cash flow after dividends	(2,334)	(5,700)	(59.0)
H	Effects of exchange rate changes on net financial debt	(37)	2,366	
I	Effects on net financial debt of changes in consolid. and others	(1,587)	3,977	
J	Net financial debt at beginning of period	55,593	43,551	
K=J-G+H+I	Net financial debt at end of period	56,304	55,593	1.3

(1) Including cash received from dividends paid by subsidiaries that are not fully consolidated.

(2) Figures in million euros. It includes 891 from the spectrum payments in Spain (441) and Latam (450) broken down in Colombia (3), Mexico (26), Brasil (349), Nicaragua (3) and Costa Rica (69).

(3) Dividends paid by Telefónica S.A., operations with treasury stock and operations with minority shareholders from subsidiaries that are fully consolidated.

-Note: 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

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RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

	September 30, 2011	September 30, January - December 2010	September 30, % Chg
OIBDA	20,210	25,777	(21.6)
- CapEx accrued during the period	(10,224)	(10,844)	
- Payments related to cancellation of commitments	(807)	(834)	
- Net interest payment	(2,011)	(2,018)	
- Payment for tax	(1,959)	(2,616)	
- Results from the sale of fixed assets (1)	1,848	(4,150)	
- Investment In working capital and other deferred income and expenses	2,134	2,694	
= Net Free Cash Flow after CapEx	9,192	8,010	14.8
+ Net Cash received from sale of Real Estate	30	41	
- Net payment for financial investment	(3,590)	(6,618)	
- Net payment for operations with minority shareholders and treasury stock	(7,966)	(7,132)	
= Free Cash Flow after dividends	(2,334)	(5,700)	(59.0)

Unaudited figures (Euros in millions)

	September 30, 2011	September 30, January - December 2010	September 30, % Chg
Net Free Cash Flow after CapEx	9,192	8,010	14.8
+ Payments related to cancellation of commitments	807	834	
- Operations with minority shareholders	(728)	(378)	
= Free Cash Flow	9,270	8,466	9.5
Weighted average number of ordinary shares outstanding during the period (millions)	4,511	4,522	
= Free Cash Flow per share (euros)	2.06	1.87	9.8

*(1) In 2011, it includes 2,671 million euros from the workforce provision related to the Redundancy Program approved in Spain.**Notes:*

- The concept "Free Cash Flow" reflects 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 after operations with minority shareholders, due to cash recirculation within the Group.

- 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

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NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

	September 30,	September 30, December 2011
	Long-term debt (1)	57,244
	Short term debt including current maturities (2)	10,708
	Cash and cash equivalents	(4,135)
	Short and Long-term financial investments (3)	(7,513)
A	Net Financial Debt	56,304
	Gross commitments related to workforce reduction (4)	3,875
	Value of associated Long-term assets (5)	(894)
	Taxes receivable (6)	(1,171)
B	Net commitments related to workforce reduction	1,810
A + B	Total Debt + Commitments	58,114
	Net Financial Debt / OIBDA (7)	2.5x
	Total Net Debt + Commitments/ OIBDA (8)	2.6x

(1) Includes long-term financial debt and 1,585 million euros of other long-term debt .

(2) Includes short-term financial debt and 55 million euros of trade and other payables from Rent to Rent operations of T. España.

(3) Includes Current financial assets , 4,830 million euros recorded under the caption of Non-current financial assets and investments in associates and 58 million euros of trade and other receivables from Rent to Rent operations of T. España.

(4) Mainly in Spain. This amount is detailed in the captions Long-term provisions and Short-term provisions and other liabilities of the Statement of Financial Position, and is the result of adding the following items: Provision for Pre-retirement, Social Security Expenses and Voluntary Severance , Group Insurance , Technical Reserves , and Provisions for Pension Funds of Other Companies .

(5) Amount included in the caption Non-current financial assets and investments in associates of the Statement of Financial Position. Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.

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

(7) Calculated based on the OIBDA adjusted by the workforce provision in Spain.

(8) Calculated based on the OIBDA excluding results on the sale of fixed assets and adjusted by the workforce provision in Spain.
-Note: 2011 reported figures include the hyperinflationary adjustments in Venezuela.

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DEBT STRUCTURE BY CURRENCY

Unaudited figures

	September 30, EUR	September 30, LATAM	September 30, December 2011 GBP	September 30, CZK	September 30, USD
Debt structure by currency	75%	14%	6%	3%	2%

CREDIT RATINGS

	September 30, Long-Term	September 30, Short-Term	September 30, Perspective	September 30, Date of last rating change
Moody ¹ s	Baa1	P-2	Negative	02/02/2012
JCR ²	A		Stable	12/17/2008
S&P ¹	BBB+	A-2	Negative	12/21/2011
Fitch/IBCA ¹	BBB+	F-2	Stable	09/27/2011

(1) The rating is issued by a credit rating agency established in the EU and registered under Regulation (EC) 1060/2009.

(2) The rating is issued by a third country credit rating agency that is certified in accordance with Regulation (EC) 1060/2009.

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EXCHANGES RATES APPLIED

	September 30, P&L and CapEx (1) Jan - Dec 2011	September 30, CapEx (1) Jan - Dec 2010	September 30, Statement of Financial Position (2) December 2011	September 30, Statement of Financial Position (2) December 2010
USA (US Dollar/Euro)	1.391	1.324	1.294	1.336
United Kingdom (Sterling/Euro)	0.868	0.857	0.835	0.861
Argentina (Argentinean Peso/Euro)	5.743	5.180	5.569	5.313
Brazil (Brazilian Real/Euro)	2.325	2.328	2.427	2.226
Czech Republic (Czech Crown/Euro)	24.591	25.291	25.800	25.060
Chile (Chilean Peso/Euro)	672.246	674.363	671.795	625.356
Colombia (Colombian Peso/Euro)	2,568.667	2,509.215	2,513.662	2,557.460
Guatemala (Quetzal/Euro)	10.831	10.660	10.106	10.708
Mexico (Mexican Peso/Euro)	17.252	16.711	18.047	16.502
Nicaragua (Cordoba/Euro)	31.185	28.271	29.726	29.239
Peru (Peruvian Nuevo Sol/Euro)	3.828	3.738	3.489	3.754
Uruguay (Uruguayan Peso/Euro)	26.835	26.537	25.746	26.850
Venezuela (Bolivar Fuerte/Euro) (3)	5.564	5.746	5.564	5.746

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

- (2) *Exchange rates as of 12/31/11 and 12/31/10.*

- (3) *After considering Venezuela as an hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro.*

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RESULTS BY REGIONAL BUSINESS UNITS

Telefónica Latinoamérica¹

Latin America ended 2011 in a highly favourable macroeconomic context, maintaining a positive growth differential against other developed economies and a considerable potential for future growth.

Against this backdrop, at the end of 2011 Telefónica managed more than 201 million accesses in the region, accelerating its year-on-year growth for the third quarter in a row to 10%. This positive trend reflected a higher commercial activity in the second half of the year, with record levels of customer acquisition during the fourth quarter, a performance not seen since 2007, despite higher market penetration.

Some of the highlights of key trends in the **mobile business** in 2011 were as follows:

Estimated **penetration** in Latin America stood at 111% (+11 percentage points year-on-year).

Telefónica's **mobile accesses** increased year-on-year by 11% to 166 million, posting an acceleration during the quarter.

Net additions in 2011 totalled 18.4 million accesses (excluding disconnection of 1 million inactive prepay accesses in Brazil in December and 360 thousand accesses in Chile during the third quarter), following the acquisition of 7.5 million customers in the last quarter of the year, representing a year-on-year net additions of 66% in the fourth quarter (+60% with respect to the third quarter) and of 26% for the full year.

The sustained focus on the customer base quality was reflected in the Company's leadership in the **contract** segment. Telefónica has the largest contract customer base in the region, over 35.2 million at year-end 2011 following year-on-year growth of 18%, and now accounting for 21% of the total.

Mobile broadband accesses grew by 114% year-on-year, already accounting for 10% of the Company's mobile accesses in the region (+5 percentage points year-on-year), following net additions of 8.7 million new mobile broadband accesses boosted by a substantial expansion of smartphones, where the base tripled with respect to 2010.

The **churn** rate stood at 2.8% for 2011 (2.9% during the fourth quarter following disconnection of inactive prepay customers in Brazil; +0.3 percentage points year-on-year).

Traffic managed grew faster than accesses to 13% year-on-year for 2011.

Data revenue consolidated in 2011 as one of the Company's main growth levers, and increased by 32% in organic terms (+31% in the quarter), fuelled by a larger portion of mobile broadband customers. Data revenues now account for 26% of mobile service revenues in the region, being particularly noteworthy the growing contribution by non-SMS data revenues, which now represent 53% of total data revenues.

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The quality of the growth during 2011 was reflected in **ARPU** trend, which remained practically stable year-on-year throughout 2011 (-0.5% in organic terms) despite double-digit growth in the customer base and lower interconnection rates, improving its evolution in the fourth quarter (+0.3% year-on-year).

Highlights in the **fixed-telephony** business are:

Telefónica managed a total of 35.2 million **accesses** in the region in 2011 (+2% year-on-year).

¹ **Organic growth:** In financial terms, it assumes constant average exchange rates as of January-December 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-December 2010 the consolidation of Vivo is included whereas the revaluation of our pre-existing stake in Vivo is excluded. In addition, excluded from OIBDA and OI in 2010 are non recurrent restructuring expenses registered in the second half of 2010. In OIBDA, in January-December 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's CapEx excludes investments in spectrum. Net additions exclude accesses disconnections in the third and fourth quarter of 2011. 2011 financial and accesses results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.

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The constant focus on **bundling** and broadband was reflected in the fact that 73% of wireline accesses had already signed up some form of bundled offer (+7 percentage points year-on-year), while 90% of broadband accesses were also under 2P/3P offers.

The Company's **broadband** accesses totalled 8.4 million (+13% year-on-year), following net additions of 944 thousand accesses in 2011 (251 thousand in the quarter).

Net additions of **pay TV** customers in 2011 totalled 465 thousand accesses (312 thousand excluding TVA) thanks to a successful commercial refocusing of the service, more than tripling the figure registered in 2010. Thus, Pay TV customers totalled 2.3 million accesses.

The Company's **traditional fixed** accesses stood at 24 million in 2011 (-2% year-on-year).

It should be noted that Telefónica Latinoamérica's reported year-on-year financial results reflect the full consolidation of Vivo from October 2010 (previously this company's results were proportionately consolidated). In the third quarter of 2010 3,797 million euros were booked arising from the positive impact of the revaluation of the previously held stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom. Moreover, it should be highlighted that OIBDA in 2010 was impacted by non-recurrent restructuring expenses booked in the last quarter of 2010 (410 million euros).

In addition, negatively affecting year-on-year comparisons in both organic and reported terms, it is particularly noteworthy the **regional projects** contribution, which made no material contribution to 2011 results, whereas in 2010 contributed with 200 million euros in revenue and 241 million euros in OIBDA (88 million euros in OIBDA in the fourth quarter of 2010). Consideration must also be taken of the impact of the sale of non-strategic towers in 2011 (541 million euros, against 242 million euros in 2010; 467 million euros and 179 million euros respectively in the fourth quarter), and the positive effect in 2010 stemming from the collection of insurance claims to cover the effects of the earthquake in Chile, mainly recognised in the fourth quarter.

Revenue in 2011 stood at 29,237 million euros, showing reported year-on-year growth of 13.5%. It is noteworthy the positive trend in organic terms, increasing by 5.0% in the full year and accelerating during the last quarter of the year (+5.3%; +4.9% up to September). Excluding Mexico, where business was affected by the substantial reduction in mobile termination rates, revenue would have posted a strong growth in the region of 6.2% in organic terms in the year.

The trend in revenues reflects higher growth in mobile service revenues during the fourth quarter thanks to the Company's efforts to boost commercial activity during the second half of the year to capture market potential, despite the short-term effect on commercial expenses.

Brazil reinforced its role as the region's main market, accounting for 49% of revenue in the region in 2011, and being the main driver of organic growth in Telefónica's revenues in Latin America (+2.6 percentage points).

Operating expenses amounted to 19,311 million euros in 2011, up 8.7% year-on-year in organic terms (+15.3% reported) against a backdrop of significantly higher commercial activity than in the same period a year earlier aimed at boosting the Company's future revenue growth.

Supply expenses climbed by 5.4% year-on-year in organic terms to 7,519 million euros, as the result of market dynamic market driven by the growth of new businesses. Thus, content providers and services expenses growth were posted, as well as higher circuits, sites and towers expenses and higher handsets costs, affected in particular by the increasing weight of high-end handsets such as smartphones.

Subcontract expenses amounted to 7,826 million euros, up 9.5% year-on-year in organic terms (+20.3% reported). This trend derived from the efforts to maintain high levels of quality resulting in higher commissions, higher network and systems costs, and in further improve in customer care service, as well as higher energy costs linked to new sites as a result of higher network deployment.

Personnel expenses totalled 2,644 million euros, up 13.4% year-on-year in organic terms, a consequence of the increase in headcount levels in Brazil and higher inflation in some of the region's markets.

OIBDA stood at 10,941 million euros in 2011, relatively stable in organic terms (-1.4%) despite more intense commercial activity and a smaller contribution of regional projects. In reported terms OIBDA fell by 20.2% strongly affected by non-recurrent items already mentioned.

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The OIBDA trend in the fourth quarter reflected the higher commercial efforts focus on high-value customers, the sale of non-strategic towers, the business performance in Mexico, and the lower contribution by regional projects and other non-recurrent effects.

Thus, despite of higher commercial activity in a highly competitive environment, the Company maintained high operating efficiency ratios, reaching a reported OIBDA margin of 37.4% for 2011 (41.2% in the quarter).

CapEx stood at 5,299 million euros in 2011 (+6.6% in organic terms; -2.9% reported). The year-on-year trend was affected by the spectrum awarded in 2010 in Brazil booked in 2011 (349 million euros), the spectrum purchase during the second quarter in Costa Rica (68 million euros) and during the fourth quarter in Colombia (37 million euros), as against the spectrum acquired in Mexico for 1,237 million euros in 2010.

The **operating cash flow** stood at 5,641 million euros, down by 6.9% year-on-year in organic terms.

BRAZIL (year-on-year changes in organic terms)

2011 was the year of consolidation of Telefónica's market leadership in Brazil, a market registering high growth once again and leading the adoption of new services in the region. Against this backdrop and despite strong competition, Telefónica improved its positioning across all services, leveraging on its competitive edge as an integrated operator, especially remarkable is the leadership strengthening in those segments of higher value, with better future prospects which demand better service quality.

As such, during the last quarter of 2011 the Company again carried out intense commercial activity, launching new products and services and making improvements to its commercial offer. Among the new products are a fixed service using fixed wireless technology at 90 locations in the country outside Sao Paulo state, thereby launching the expansion of fixed business outside the traditional area of influence which will be launched on a national scale through the first quarter of 2012. Additionally, the push to talk offer (Vivo Direto) launched during the previous quarter remained showing solid acceptance levels. Likewise, from the beginning of November it was launched an offer of high definition channels for satellite DTH customers.

There is also remarkable the launch of commercial activity upon 1,800 MHz band in the North and North-eastern regions (in October); Bahia, Sergipe and Espirito Santo (November); Sao Paulo, Rio and Parana Santa Catalina (December), which boosts the Company's commercial position, especially in the prepay segment. The Company also launched new tariffs on the Vivo Sempre campaign to strengthen its positioning on the prepay segment, and also stimulate to recharges for local and long-distance voice services.

In the fixed broadband arena, the market commercial intensity remains, and the Company has met this challenge by intensifying its offer, particularly at the end of the year. High-speed additions increased throughout the year, reaching the maximum level during the last quarter.

As the result of all its new commercial initiatives, Telefónica finished the year with a total of 87.2 million **accesses** in Brazil (+15% year-on-year, an acceleration of almost 2 percentage points with respect to the previous quarter), on the back of a positive trend in mobile accesses (+19% year-on-year) and fixed broadband (+10% year-on-year).

Particularly noteworthy was the excellent performance in terms of wireless net additions over the last three months, which excluding the disconnection of accesses done in December 2011, is more than two times higher than in the fourth quarter of 2010 and almost two times higher quarter-on-quarter.

It should be noted that reported year-on-year financial results reflect the full consolidation of Vivo from October 2010 (previously this company's results were proportionately consolidated). Similarly, as of June 2011 and retroactively to January 1st 2011, TVA has been fully consolidated and has contributed 153 thousand pay TV accesses, revenues of 81 million euros and 22 million euros in OIBDA in 2011.

On the other hand with the objective to facilitate a more clear evolution of the fixed and wireless businesses regardless of the way in which ownership of the licenses affects accounting procedures long distance revenues have been reclassified from the fourth quarter 2011 and retroactively to January 1st, 2010, so that revenue from long-distance services arising from the wireless network is considered as wireless revenue, and revenue arising from the fixed-line network is considered as fixed-line revenue, being presented also net of intercompany eliminations. This reclassification has no effect on the consolidated results in Brazil.

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The strong commercial activity during the second half of 2011 and the launch of new services clearly affected trends in Company **revenue** during the fourth quarter, which increased year-on-year by 5.3% to show a significant acceleration with respect to the previous quarter (+3.5% year-on-year). Total revenue for 2011 stood at 14,326 million euros, a year-on-year increase of 5.4%.

Operating expenses rose by 6.0% year-on-year, due to increased expenditure on external services (+8.5% year-on-year) associated to strong customer expansion amid intensified commercial activity and the launch of new products during the year. Personnel expenses rose by 17.7% with respect to 2010 reflecting the consolidation of TVA and its employees in June, retroactively to January, the increase in salaries in the last quarter of the year and the increase in headcount derived from the internalization of personnel in 2010.

OIBDA totalled 5,302 million euros in 2011, a year-on-year increase of 5.2%. The Company maintained solid operating efficiency, with an OIBDA margin of 37.0% (flat year-on-year). The year-on-year evolution of OIBDA and the OIBDA margin for both the year and the quarter reflect commercial effort along with the recognition of sales of non-strategic towers (186 million euros in 2011; 163 million euros during the fourth quarter and 117 million euros in 2010, all during the fourth quarter) and non-recurrent restructuring expenses related to personnel reorganization during the last quarter of 2010 (60 million euros).

CapEx for the year totalled 2,468 million euros, of which 349 million euros were related to the spectrum awarded in 2010. Excluding the spectrum, CapEx remained practically stable year-on-year in organic terms (-0.1%), reflecting the Company's focus on increasing 3G network coverage, now standing at 82% of Brazil's population, well ahead of competitors. The Company also continued to roll out fibre on a selective basis in Sao Paulo.

Finally, **operating cash flow** stood at 2,834 million euros in 2011 affected by the spectrum acquisition, (+9.1% year-on-year in organic terms).

Commercial activity and revenue performance by business unit

Wireless business

Estimated penetration in the Brazilian wireless market stood at 124% at the end of 2011, up 20 percentage points year-on-year.

Following the trend initiated during the third quarter of 2011, in the fourth quarter Telefónica again posted record levels of commercial activity in Brazil. Net additions during the fourth quarter amounted to 5.5 million accesses (excluding the disconnection of 1 million inactive prepay accesses in December), a record quarterly figure over the last 3 years. These translate as year-on-year growth of 115% and 86% with respect to net additions during the previous quarter, enabling the Company to finish 2011 with a total of 71.6 million **accesses** (+19% year-on-year).

Net additions for the year as a whole totalled 12.3 million accesses, 69% of which were captured in the last six months. It is worth to highlight the Company's acceleration in terms of mobile broadband, with net additions of 4.2 million customers (almost tripling the net additions of 2010), mainly due to increased smartphone additions (7 times 2010 figure), with mobile broadband penetration reaching 11% of the total base (+5 percentage points year-on-year).

As a result, the Company to lead the market growth in high-value customers, with a market share in December of 29.5%, practically stable with respect to 2010 (-0.2 percentage points year-on-year). It must be said, however, that the market share rose in higher-value segments despite of fierce competition, to 36.6% in contract (+1.3 percentage point year-on-year) and 43.4% in mobile data (+3.3 percentage points year-on-year), reflecting the competitive advantages of the Company in aspects such as service quality and network coverage.

The **churn** rate stood at 2.8% for 2011, increasing to 3.0% during the quarter as the result of disconnection of 1 million inactive prepay accesses. It is noteworthy the lower contract churn (1.5%) which remains stable with respect to 2010.

Traffic climbed 20% during the quarter and 19% in the year, pointing to the quality growth in our customer base and the success of commercial campaigns deployed to boost consumption.

ARPU fell year-on-year by 3.6% in 2011, improving this evolution in the fourth quarter (-3.0%) mainly due to the strong growth in data ARPU reflecting the impact of data plans on smartphones.

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Revenue growth including already the whole mobile long-distance business and net of eliminations, accelerated in the fourth quarter reaching a year-on-year increase of 12.0% (+10.6% for the year) to stand at 8,437 million euros for 2011, on the back of the strong growth of mobile service revenue (+12.6% year-on-year in 2011), accelerating in the fourth quarter to 15.8%.

The Company's differential focus on data business was reflected one additional quarter in the sustained increase of data revenue (+42% year-on-year in 2011), accounting for 24% of service revenue (+5 percentage points year-on-year) and now consolidated as the Company's main growth driver. Non-SMS data revenue accounts for 62% of total data revenue, fuelled by the good performance of mobile broadband business.

Wireline business

Telefónica managed 15.6 million **fixed-line accesses** in Brazil at the end of 2011, stable in year-on-year terms (-0.1%). Traditional business accesses at year-end totalled 11.0 million (-2.8% year-on-year).

The Company's **broadband** accesses totalled 3.6 million, showing a steady year-on-year increase of 10%, thereby improving their weighting against the Company's fixed-line accesses by 4 percentage points with respect to 2011 to 33%. Net additions for the year as a whole totalled 329 thousand accesses (80 thousand in the quarter) against a backdrop of intense commercial pressure of competitors.

With respect to **pay TV**, the Company managed a total of 699 thousand accesses at year-end 2011 (+44% year-on-year), including TVA accesses (153 thousand customers), after capturing net additions of 60 thousand accesses during the year (excluding TVA).

Revenue stood at 5,890 million euros in 2011, with year-on-year decline of 1.4% (-3.9% in the quarter).

Revenue from traditional fixed-line telephony, excluding intercompany revenue from long-distance, fell year-on-year by 8.0% in 2011 (-9.8% in the quarter). This decrease reflects mainly the increase in fixed to mobile substitution derived from the success of mobile long distance. On the other hand, it is relevant to highlight the increase in revenues from Internet and pay TV in 2011 (+16.1% year-on-year), as well as revenues from TI and data (+16.2% year-on-year) accounting together for 32% of total revenue (+5.4 p.p. year-on-year).

ARGENTINA (year-on-year changes in local currency)

Telefónica Argentina consolidated its focus on customer value as main growth lever in 2011, mainly concentrating on a differential fixed and mobile broadband offer.

The Company managed 23.0 million **accesses** (+3% year-on-year) at the end of 2011, highlighting the solid fixed broadband accesses growth, the positive performance from the mobile business and the stable traditional wireline accesses.

Revenues stood at 3,174 million euros for the full year, with a year-on-year increase of 14.5% (12.9% in the fourth quarter) and higher revenues in both wireline and wireless businesses.

Operating expenses rose by 15.4% year-on-year (+17.7% in organic terms), affected by a general increase on prices and the rise in mobile traffic, leading to higher interconnection and roaming costs. The year-on-year comparison in the quarter is affected by the impact of non-recurrent restructuring expenses related to personnel reorganization (40 million euros) booked in the fourth quarter of 2010.

OIBDA stood at 1,085 million euros in 2011, a year-on-year increase of 11.1% (+20.5% in the fourth quarter), while the OIBDA margin was 33.4% (-1.0 percentage points year-on-year). In organic terms, stripping out the non-recurring items recorded in 2010, OIBDA would have increased by 7.2% year-on-year (+5.5% in the fourth quarter).

Operating cash flow reached 636 million euros in 2011 (+3.2% year-on-year; -2.5% in organic terms), following an increase in **CapEx** to 449 million euros in the twelve months of the year (+24.9% year-on-year), mainly devoted to improve service quality in fixed and mobile broadband and to progressively increase coverage levels.

Commercial activity and revenue performance by business unit

Wireless business

The estimated penetration rate in Argentina's mobile market stood at 138% at the end of 2011, a year-on-year increase of 9 percentage points.

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Telefónica Argentina managed 16.8 million **accesses** at the end of December 2011 (+4% year-on-year) following a high level of commercial activity in the year reflected in net additions of 618 thousand accesses, almost tripling 2010 net additions, and of 364 thousand in the fourth quarter.

Particularly noteworthy was the performance of the contract segment, with a 7% year-on-year increase, accounting for 37% of total accesses and two thirds of net additions in the year (407 thousand accesses).

Churn in 2011 stood at 2.6% (+0.3 percentage points year-on-year), affected by the increase in prepay churn, though churn posted an improved trend in the fourth quarter (2.5%, -0.5 percentage points quarter-on-quarter).

Traffic increased by 7% year-on-year thanks to the good performance of outgoing traffic (+9% year-on-year).

ARPU continued posting a strong year-on-year increase (+17.3%; +16.5% in the quarter), mainly on the back of the higher outgoing ARPU (+20.2% in the year; +19.3% in the quarter).

Revenues in 2011 amounted to 2,039 million euros, up 14.2% year-on-year (+11.1% in the quarter). This solid performance is driven by the positive trend of mobile service revenue, with a year-on-year increase of 12.9% in 2011; (+10.0% in the fourth quarter) and the higher handset sales (+32.4% year-on-year) linked to increased commercial activity.

The positive reaction to the commercial campaigns launched in the quarter, focused on increasing mobile broadband take-up, led to an important data revenue growth (+27.3% in the full year; +27.4% in the quarter) already accounting for 39% of mobile service revenues in the year (+4 percentage points year-on-year).

Wireline business

Telefónica Argentina managed 6.3 million **fixed accesses** at the end of the year, a year-on-year increase of 2%.

In the broadband business, Telefónica continued to reinforce its market position, leveraging its high quality levels and the excellence of its service. Thus, **broadband** accesses totalled 1.6 million at the end of 2011, a solid year-on-year growth of 11%, with 155 thousand net additions in the year (27 thousand accesses in the quarter). These results reflect the Company's commercial focus on its Speedy offering and on its new digital and entertainment services.

Traditional telephony accesses stood at 4.6 million at the end of December, stable year-on-year. The ongoing focus on bundling services is reflected in that 74% of accesses already include some type of service bundling (+2 percentage points year-on-year).

Revenues totalled 1,237 million euros in 2011, with year-on-year growth accelerating in the quarter (+16.4%; +15.6% in the year). Particularly noteworthy is the strong increase in revenues from internet and content (+29.5% year-on-year in 2011), and also in data, IT and capacity rental revenues (+18.1% year-on-year), that remained as the main drivers of revenue growth and together accounted for 44% of revenues (+3 percentage points year-on-year).

CHILE (year-on-year changes in local currency)

Telefónica maintained in 2011 its leadership position in Chile, consolidating its competitive advantages with a unique integrated offer in a highly competitive market.

Telefónica managed 12.7 million **accesses** in Chile at the end of 2011, a year-on-year increase of 6%, with strong growth both in fixed broadband and pay TV and also in mobile accesses.

Revenues stood at 2,310 million euros in 2011, up 4.8% year-on-year (+1.5% in the fourth quarter), boosted by double-digit growth in mobile and stable fixed business revenues.

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Operating expenses increased by 8.6% year-on-year (+9.7% in organic terms), as a result of higher supply expenses (+24.2% year-on-year) mainly due to increased commercial activity in the mobile business, higher content expenses and growth in interconnection traffic. The year-on-year comparison in the quarter is affected by the booking in the fourth quarter of 2010 of non-recurrent restructuring expenses related to personnel reorganization (12 million euros).

OIBDA stood at 1,035 million euros (-5.5% year-on-year; -6.6% year-on-year in organic terms), with OIBDA margin standing at 44.8%. The trend in organic terms is heavily impacted by the collection of insurance claims to cover the effects of the earthquake of February 2010 that were booked in 2010 and the sale of non-strategic towers (50 million euros in 2011; 15 million euros in 2010). Stripping out these effects, OIBDA growth would be positive.

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Operating cash flow reached 507 million euros (-12.3% year-on-year; -14.2% in organic terms) following a year-on-year increase of 2.1% in **CapEx**, which totalled 529 million euros in 2011, mainly as a result of investment efforts related with quality improvement in fixed broadband and increased 3G coverage in the mobile business.

Commercial activity and revenue performance by business unit

Wireless business

Estimated penetration of the Chilean mobile market stood at 141% at the end of 2011 (+15 percentage points year-on-year).

The Company managed 9.5 million **mobile accesses** at the end of December 2011, with a year-on-year of 9%, following net additions of 423 thousand accesses in the quarter and of 1.1 million in the full year (excluding the disconnection of 360 thousand inactive prepaid accesses in the third quarter). It is important to note that campaigns ahead of number portability launching were done along the quarter to highlight the benefits linked to the Movistar community.

Churn stood at 2.0% in 2011 (+0.7 percentage points year-on-year), affected by the above mentioned disconnections, though an improvement was posted in the quarter (1.9%).

Traffic managed increased by 3.6% year-on-year in 2011 (+2.9% in the fourth quarter).

The year-on-year decline in **ARPU** slowed in the fourth quarter (-1.6%; -4.1% in the year) due to the strong performance of data revenues.

Revenues in 2011 totalled 1,399 million euros, up 10.1% year-on-year (+6.8% in the quarter), boosted by the increase in mobile service revenues (+8.9% year-on-year; +4.7% in the quarter) and higher handset sale revenues. It is noteworthy the strong dynamism posted by data revenues (+33.8% year-on-year in 2011; +18.0% in the fourth quarter), already accounting for 19% of mobile service revenue (+4 percentage points year-on-year). Non-SMS revenue accounted for 73% of data revenue (+6 percentage points year-on-year), reflecting the commercial focus on promoting the sale of smartphones.

Wireline business

Telefónica managed 3.1 million fixed **accesses** at the end of 2011, flat vs. December 2010. The Company's strategy focus based on maximize customer value is reflected in the fact that almost all accesses are packaged in a bundled offer.

Broadband accesses stood at 878 thousand, with year-on-year growth accelerating to 7%, following net additions in 2011 of 57 thousand (13 thousand in the quarter), significantly higher than a year ago (+48% year-on-year).

In pay TV Telefónica developed in 2011 a TV service that takes into account the differentiated profiles of its customers and reinforcing its offer with the launch of high-definition channels and of the prepaid TV service. **Pay TV** accesses stood at 391 thousand, up 15% year-on-year, with net additions of 50 thousand accesses in the twelve-month period (10 thousand in the quarter).

Traditional fixed accesses stood at 1.8 million (-5% year-on-year).

Revenue stood at 1,037 million euros in 2011, virtually unchanged compared with 2010 (-0.4% year-on-year), thanks to higher Internet, TV and content (+12.3% year-on-year) and data, IT and capacity rental (+12.3% year-on-year) revenues, which together accounted for 48% of fixed business revenue in the year (+5 percentage points vs. 2010) and almost completely offsetting the decline in traditional revenue (-7.9% year-on-year).

In the fourth quarter, revenue fell by 3.7% year-on-year due to the worse performance of the traditional business, which could not be offset by the accelerated growth in Internet, TV and content (+15.5% in the quarter), and data, IT and rental capacity (+16.0% in the quarter).

PERÚ (Year-on-Year Changes In Local Currency)

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In 2011 Telefónica consolidated its market leadership on the Peruvian market with an 11% year-on-year increase to reach 18.8 million **accesses**, thanks to the solid growth in mobile business, pay TV and broadband businesses.

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Revenue in 2011 totalled 2,030 million euros, posting year-on-year growth of 6.1%, which accelerated to 7.0% during the quarter, despite a reduction in mobile termination rates in October, reflecting a sound trend in mobile service revenue and the transformation process of fixed business.

Operating expenses increased by 8.2% year-on-year in reported terms, reflecting the non-recurrent restructuring expenses related to workforce reduction programmes (23 million euros) posted in 2010. In organic terms, expenses rose by 10.3% due to higher supply costs and subcontract expenses, due to acceleration in network rollout and increased commercial activity. This increase was partially offset by lower personnel expenses and bad debt provisions.

OIBDA totalled 751 million euros in 2011 (-5.3% year-on-year; -13.9% for the quarter), with an OIBDA margin of 37.0% (-4.5 percentage points year-on-year) and of 35.0% for the quarter. The year-on-year comparison was affected by the sale of non-strategic towers (2 million euros in 2011; 39 million euros in 2010) and the non-recurrent expenses previously mentioned.

In organic terms, OIBDA was down by 8.0% for 2011. Thereby, excluding the regulatory impacts that took place throughout 2011, OIBDA was down 4.3% year-on-year.

CapEx in 2011 stood at 302 million euros, showing year-on-year growth of 4.8%, focusing mainly on rollout of fixed broadband, the expansion of pay TV and the deployment of 2G/3G networks. Thus **operating cash flow** totalled 449 million euros (-11.1% year-on-year).

Commercial activity and revenue performance by business unit

Wireless business

The estimated penetration of the Peruvian mobile market in 2011 was 76% (+10 percentage points year-on-year).

At the end of 2011 Telefónica managed 14.0 million mobile **accesses** in Peru (+12% year-on-year), accelerating gradually its growth throughout the year thanks to the solid performance of the contract segment, which increased by 21% year-on-year to account for 21% of total accesses (+2 percentage points year-on-year). Net additions showed a significant increase with respect to 2010 (+42%) totalling 1.5 million accesses during 2011 as a whole, and 491 thousand during the fourth quarter (+35% year-on-year).

The **churn** rate stood at 3.3% for the year (+0.3 percentage point year-on-year), and 3.4% for the quarter (+0.5 percentage point year-on-year), affected by the disconnection of low-value prepaid customers.

Traffic increased by 25% over the year (+23% for the quarter), thanks to the solid performance of outgoing traffic.

ARPU slightly increased in 2011 (+0.4% year-on-year) on the back of growth in outgoing ARPU (+2.8% year-on-year).

Revenue totalled 1,088 million euros for the year (+11.3% year-on-year; +8.3% on the quarter), reflecting the good performance of mobile service revenues (+10.6% year-on-year in 2011; +7.6% over the quarter). Excluding the impact of mobile interconnection rates, mobile service revenues rose by 13.2% year-on-year for 2011 overall, and by 10.0% over the quarter.

It is important to note the positive evolution of data revenue, which rose by 32.2% year-on-year (+15.6% in the quarter), thanks to a 46.6% increase in non-SMS data revenues (+22.7% in the quarter), which now accounts for 64% of data revenues (+6 percentage points year-on-year).

Wireline business²

Telefónica managed a total of 4.8 million fixed accesses in Peru at the end of 2011, with solid year-on-year growth of 7%.

Traditional telephony accesses totalled 2.8 million, virtually stable in comparison to year-end 2010 (-1% year-on-year), decelerating with line losses showing a deceleration versus previous year (-23 thousand lines in 2011 against -100 thousand in 2010).

- ² Fixed-line phone accesses include all Telefónica's fixed accesses in Peru, both those managed by the fixed wireless business and those managed by the mobile business. However, earnings from fixed wireless accesses are included in the results of the Peruvian mobile business.

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Broadband accesses totalled 1.1 million, accelerating their year-on-year growth for the sixth quarter in a row (+28% year-on-year), and consolidated as the main growth driver of wireline business. Net additions set a new record in the full year (240 thousand accesses; 50 thousand during the quarter), almost tripling the level of 2010 and reflecting the effectiveness of the Company's commercial offer and churn control success.

Pay TV accesses posted a positive trend over the quarter and year-on-year growth accelerated, with net additions of 26 thousand accesses over the quarter and 108 thousand for the year (+4 thousand accesses in 2010), totalling 799 thousand accesses (+16% year-on-year).

At the end of 2011, 63% of traditional phone accesses were bundled (+9 percentage points year-on-year), and 79% of fixed broadband accesses were marketed under a Dúo or Trío package (+7 percentage points year-on-year), consolidating bundling of services as one of the key drivers behind the Company's positive trend.

Revenue amounted to 1,069 million euros in 2011, in line with 2010 (-0.2% year-on-year), thanks to an increase of 2.5% during the fourth quarter driven by accelerated growth of Internet and TV revenues on the back of excellent commercial activity throughout the year. Lower revenues from traditional telephony were practically offset by higher Internet, TV and content revenue (+10.4% year-on-year) and revenue from data, IT and capacity rentals (+8.1% year-on-year). Revenue from Internet, TV, data and IT already account for 55% of total revenue (+5 percentage points year-on-year).

Excluding regulatory measures, revenue increased by 1.0% year-on-year for the full year, and by 3.9% on the quarter.

COLOMBIA (year-on-year changes in local currency)

In a fiercely competitive environment, Telefónica recorded high commercial activity in 2011, with an increase in its customer base to a total of 13.8 million **accesses** (+11% year-on-year), mainly thanks to a solid performance by mobile accesses and increases in fixed broadband and pay TV accesses.

Revenue in 2011 totalled 1,561 million euros, a year-on-year increase of 4.5% (+3.4% in the quarter), thanks to the positive trend in mobile business revenue and the stabilising in the fixed business.

Operating expenses declined by 4.1% year-on-year in reported terms, reflecting the non-recurrent impacts recorded in 2010 related to workforce reduction programmes, bad debt provisions and third-party claims (85 million euros). In organic terms expenses increased by 3.4% year-on-year, mainly due to an increase in supply costs arising from the dynamism of fixed and mobile broadband services, partially offset by lower bad debt provisions and lower expenses on external services, reflecting the Company's efforts to maximise its efficiency.

OIBDA stood at 540 million euros in 2011 (+14.2% year-on-year; +79.8% in the quarter). It should be pointed out that 25 million euros were posted in 2011 for the sale of non-strategic towers, significantly lower than the figure for 2010 (71 million euros). The OIBDA margin stood at 34.6% for the year (+2.9 percentage points year-on-year), and 38.6% in the quarter.

In organic terms, excluding the non-recurring impacts of 2010, OIBDA was down by 2.9% in 2011.

CapEx for 2011 amounted to 405 million euros (+24.1% year-on-year; +12.7% in organic terms), reflecting the effort in deploying the 2G/3G network, service platforms and quality improvement in the fixed broadband network. The quarter included 37 million euros in spectrum acquisition, with the **operating cash flow** reaching 135 million euros (-7.8% year-on-year).

Commercial activity and revenue performance by business unit

Wireless business

Penetration of Colombia's mobile market in 2011 was estimated at 110%, a year-on-year increase of 11 percentage points compared to 2010.

Telefónica managed 11.4 million mobile **accesses** in Colombia at year-end 2011, showing a significant year-on-year growth of 14% driven by the expansion on the contract segment (+19% year-on-year). As in the previous quarter, it is worth to highlight the strong net additions (691

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thousand accesses; 2.4 times higher than the same period in 2010) reaching 1.4 million accesses for the full year (+33% year-on-year). In 2011 the commercial offer was focused on integrated voice and data plans, expansion of mobile internet and voice offers with all-destination plans.

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The **churn** rate dropped 0.4 percentage point year-on-year compared to 2010 to stand at 2.8%, improving during the last quarter of the year (2.1%; -0.7 percentage point year-on-year).

Traffic rose by 10% during the year, boosted by outgoing traffic performance.

ARPU in 2011 slightly declined (-1.0% year-on-year), although growth in outgoing ARPU (+2.2% year-on-year) must be highlighted.

Revenue stood at 916 million euros in 2011, with a strong year-on-year increase of 7.5% (+4.2% in the quarter), reflecting the good performance of mobile service revenues (+6.9% year-on-year; +3.9% in the quarter) and revenues from handset sales (+15.2% year-on-year; +7.9% in the quarter).

Excluding the impact of lower interconnection rates, mobile service revenues rose by 7.9% year-on-year in 2011 (+5.1% in the quarter).

Data revenue showed a particularly good performance rising 51.1% year-on-year (+37.2% in the quarter), to account for 23% of mobile service revenues (+7 percentage points year-on-year), thanks to a strong increase in non-SMS data revenues (+62.5% year-on-year; +43.6% in the quarter), which represent 87% of data revenue (+6 percentage points year-on-year).

Wireline business

Telefónica managed 2.4 million fixed **accesses** in Colombia at year-end 2011, virtually unchanged in year-on-year terms.

Within an environment of strong competitive pressure, **broadband** accesses totalled 612 thousand in 2011, posting a 12% year-on-year growth, with net additions of 64 thousand accesses in the year (6 thousand in the quarter).

Pay TV accesses increased 24% year-on-year totalling 255 thousand by year-end, with net additions of 50 thousand accesses in 2011 (9 thousand in the quarter).

In the **traditional business**, accesses totalled 1.5 million in December 2011 (-7% year-on-year).

During 2011, the Company focused on bundling of service with 87% of fixed-line services bundled (+8 percentage points year-on-year). Broadband accesses were marketed as part of either a Dúo or Trío package.

Revenue stood at 682 million euros in 2011, virtually stable compared to 2010 (-0.4% year-on-year, -0.5% in the quarter). Internet, TV and content revenues increased year-on-year by 15.6%, and already account for 27% of total wireline revenues (+4 percentage points year-on-year). In parallel, data, IT and capacity rental revenue accelerated its year-on-year growth to 5.3% (+12.1% in the quarter), virtually offsetting the lower traditional revenues (-9.8% year-on-year in 2011).

MEXICO (year-on-year changes in local currency)

Estimated penetration in the Mexican mobile market reached 83% by the end of 2011, up 1 percentage point year-on-year.

Telefónica Mexico's performance in 2011 was driven by a drastic reduction in mobile termination rates by the regulator during the second quarter of the year (-124 million euros in revenue and -52 million euros in OIBDA for 2011) and the Company's commercial repositioning carried out to adapt its tariff plans to this new framework.

Within this context, the Company has boosted its all-destination tariff plans in order to tap the advantages of lower mobile termination rates, both strengthening its position in a highly competitive mobile market and accelerating the capture of value in the wireline business.

Moreover, and according to a strategy focused on maximizing customer value, the Company began to apply more restrictive criteria to both gross additions and customer disconnections from the third quarter of 2011, and these were reflected in accesses trend over the year. Thus, at year-end 2011 Telefónica Móviles México managed a total of 20.5 million **accesses** (up 1% year-on-year). Mobile accesses stood at 19.7 million

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and remained virtually stable for the full year (net additions of 81 thousand accesses in 2011), after registering a net loss of 773 thousand accesses in the quarter.

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Mobile churn in 2011 stood at 2.9% (+0.8 percentage points year-on-year), reflecting a higher number of disconnections in the prepay segment, though contract churn continued to show significantly lower levels (1.1% over the year; 1.3% on the quarter).

The focus on the quick 3G network deployment is reflected in the positive trend of mobile broadband accesses, which continued accelerating its growth and tripled the accesses recorded in 2010.

Traffic increased by 1% during the year, led by outgoing traffic performance, up 7% in 2011.

ARPU reflected the negative impact of the lower termination rates, and posted a year-on-year decrease of 20.5% in 2011, although the trend improved in the quarter (-15.0%) underpinned by the better performance of the outgoing ARPU that, after several quarters posting decreases, returned to growth (+0.3% on the quarter; -10.7% on the year).

Revenue in 2011 stood at 1,557 million euros, with a gradual improvement in the pace of year-on-year decreases since the third quarter (-11.3% year-on-year in the quarter; -12.3% on the year).

Mobile service revenue fell year-on-year by 13.3% during the year (-14.3% on the quarter), although, excluding the effect of lower mobile termination rates, revenue would have decreased year-on-year by 5.5% in terms of the full year, and by 1.7% on the quarter. It is worth highlighting the outgoing revenues trend, that continued accelerating the growth, with a year-on-year increase of 4.7% over the quarter (-1.6% for the year), driven by the good contract revenue performance and the deceleration in the pace of decreasing prepay revenue, with a gradual improvement in top-ups. Moreover, data revenue increase significantly (+26.3% year-on-year in the quarter; +14.0% in 2011), and now accounts for 29% of mobile service revenue (+7 percentage points against 2010). Non-SMS data revenue was the main driver behind this positive performance, and was 2.3 times higher than 2010.

OIBDA in 2011 stood at 572 million euros (-5.2% year-on-year). The year-on-year comparison was affected by the higher expenses of commercial activity and the rollout of the 3G network, the negative impact of lower mobile termination rates (-19 million euros during the quarter and -52 million euros for the year overall), the sale of non-strategic towers (217 million euros during the quarter; 240 million euros for the year overall) and non-recurrent expenses on bad debt provision during the fourth quarter of 2011 (-23 million euros). 2011 OIBDA margin stood at 36.7%.

CapEx stood at 471 million euros in 2011 (-69.2% year-on-year and +40.0% in organic terms, excluding spectrum investment in 2010), mainly due to strong effort throughout the year to roll out the 3G network. As a result, **operating cash flow** totalled 101 million euros.

VENEZUELA (year-on-year changes in organic terms)

Venezuela's estimated mobile market penetration at the end of 2011 was 98% (-3 percentage points year-on-year).

Telefónica maintained a benchmark service portfolio in the market during 2011, strengthening its leadership position through a strategy focus on maximizing customer value and on innovation, posting an enhanced operating performance in the fourth quarter. Thus, within the services launched in the last quarter of the year, it is important to highlight the launch of Movitalk (push to talk) and pay TV services with high definition technology. Moreover, in a country where high smartphone penetration stands out, the focus on commercial campaigns to promote mobile broadband take-up was maintained.

Telefónica managed 10.4 million **accesses** in Venezuela at the end of 2011 (-1% year-on-year). Mobile accesses totalled 9.4 million, broadly flat in year-on-year terms (-1%), following an improvement in the fourth quarter (-6% year-on-year to September) underpinned by quarterly net additions (192 thousand accesses).

The mobile **churn** rate stood at 2.6% in the quarter (-0.4 percentage points year-on-year), lower than the full-year rate (2.8%; +0.1 percentage points year-on-year), with a contract churn that stood as a market benchmark at 0.8%.

Traffic consolidated its gradual growth acceleration increasing by 6.2% year-on-year in the quarter (+2.4% in the year).

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The strategy to maximize customer value was reflected in **ARPU** trend, which rose by 24.8% year-on-year (+22.8% in the quarter), with the positive trend of data ARPU as the main growth lever.

Revenue in 2011 reached 2,688 million euros, a year-on-year increase of 11.2%, posting growth acceleration (+12.3% year-on-year in fourth quarter). This positive trend reflected the solid performance of mobile service revenue, which advanced 16.2% year-on-year in the quarter (+12.8% year-on-year in 2011), despite lower mobile termination rates (impact of -22 million euros in the year).

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It is worth to highlight data revenue trend, up 23.7% year-on-year in 2011 (+26.0% year-on-year in the quarter), and now accounts for 36% of mobile service revenue (+3 percentage points year-on-year).

OIBDA stood at 1,177 million euros in 2011, up 3.4% year-on-year (+2.7% in the quarter). Thus, the Company reached an OIBDA margin of 43.8% (-3.1 percentage points year-on-year), following a margin of 43.0% in the quarter, with continued high levels of efficiency in an environment of widespread price increases that translated into higher personnel expenses and higher subcontract expenses.

CapEx stood at 372 million euros in 2011 (+14.7% year-on-year), mainly linked with projects to improve the quality and capacity of the 2G network and a significant expansion in 3G network coverage. **Operating cash flow** totalled 805 million euros (-0.7% year-on-year).

CENTRAL AMERICA (year-on-year changes in organic Terms)³

Estimated mobile penetration in Telefónica's Central American markets stood at 103% at the end of December 2011 (+10 percentage points year-on-year).

At the end of 2011, Telefónica managed a total of 8.1 million **accesses** in Central America, posting year-on-year increase of 17%. Mobile accesses totalled 7.6 million (+16% year-on-year), maintaining the trend of accelerating growth seen in 2011 on the back of an increase in gross additions and stable churn.

Mobile net additions stood at 544 thousand in the quarter (1.2 million in 2011), the highest level in recent years, thanks to the strength of the distribution channel, the launch of new voice and data plans and more aggressive campaigns in the prepay segment, which led to a historical gross additions level.

On November 8th of 2011, Telefónica Costa Rica celebrated its market launch and added 116 thousand accesses in its first two months of commercial activity.

Churn stood at 2.6% in 2011, virtually unchanged both in the full year period (-0.1 percentage points year-on-year) and in the quarter.

Revenue totalled 543 million euros recording a year-on-year growth of 1.3% (+2.6% year-on-year in the quarter) and consolidating the trend of accelerating growth reported in the previous quarter. This improvement is driven by the increase in mobile service revenue in the quarter in countries such as Nicaragua and El Salvador, which offset the lower revenues from Guatemala.

Especially noteworthy is the performance of data revenue, which increased by 31.5% year-on-year in 2011 (+37.4% in the fourth quarter) and now accounts for 19% of mobile service revenue (+4 percentage points year-on-year). This improvement was underpinned by non-SMS data revenue growth (+37.8% year-on-year; +44.2% in the quarter), which account for 52% of data revenue (+2 percentage points year-on-year).

OIBDA stood at 165 million euros in 2011 (+3.8% year-on-year; +42.3% in the quarter), affected by the disposal of non-strategic towers (37 million euros in 2011). The OIBDA margin stood at 30.5% in 2011 (+0.8 percentage points year-on-year).

Operating cash flow totalled -10 million euros in 2011, following **CapEx** of 176 million euros in the year (including the booking of spectrum licence cost in Costa Rica for 68 million euros), with investment focused on the rollout of 2G/3G infrastructure and the implementation of support platforms and systems. CapEx decreased by 39.0% year-on-year in organic terms.

ECUADOR (year-on-year changes in local currency)

Estimated penetration of the Ecuadorean mobile market stood at 108% in 2011, up 3 percentage points year-on-year.

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- ³ Year-on-year changes in organic terms: in financial terms, year-on-year changes are assumed in constant euros, with the results of the Costa Rica operation excluded from calculation of organic growth.

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Telefónica managed a total of 4.5 million **accesses** (+5% year-on-year) in this market at the end of 2011. Mobile accesses totalled 4.5 million, up 6% year-on-year against December 2010, with the contract segment performing very well (+10% year-on-year). Mobile net additions reached 258 thousand accesses in the full year (18 thousand in the quarter).

The mobile **churn** rate stood at 2.8% in 2011 (+0.2 percentage points year-on-year), having risen in the quarter due to the disconnection of inactive prepaid accesses in the CDMA network following its shutdown. Contract churn continues to perform well and stood at 1.1% at the end of the year (-0.7 percentage points year-on-year).

Traffic grew by 11% year-on-year both in the quarter and in the year.

ARPU continued accelerating its growth trend (+8.5% year-on-year in the fourth quarter; +3.4% in the full year), mainly thanks to a strong performance in the contract segment and stable prepaid ARPU.

Revenue totalled 408 million euros, consolidating the acceleration growth trend along the year (+12.8% year-on-year in the fourth quarter; +8.4% in the year), reflecting the strong performance of mobile service revenue (+14.9% year-on-year in the fourth quarter; +11.0% in 2011).

Data revenue continued registering a strong growth (+20.7% year-on-year) and already accounts for 27% of mobile service revenue (+2 percentage points year-on-year in 2011). It is worth highlighting the positive performance of non-SMS data revenue, with a 43.0% year-on-year growth in 2011 (+41.6% year-on-year for the quarter), accounting for 63% of total data revenue (+10 percentage points year-on-year).

OIBDA stood at 137 million euros in 2011, up 18.7% year-on-year (+19.2% year-on-year in the fourth quarter). The OIBDA margin stood at 33.6% (34.5% in the quarter), improving by 2.9 percentage points year-on-year in 2011.

Operating cash flow totalled 79 million euros, a 35.1% year-on-year growth, while **CapEx** amounted 58 million euros (+2.0 year-on-year in 2011) with investment focused on improving the quality and capacity of the 3G network.

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TELEFÓNICA LATINOAMERICA

ACCESSES

Unaudited figures (thousands)

	00000 2010 December	00000 March	00000 June	00000 2011 September	00000 December	00000 % Chg
Final Clients Accesses	183,686.9	185,984.0	190,318.0	194,832.9	201,402.2	9.6
Fixed telephony accesses (1)	24,403.6	24,196.2	24,173.4	24,126.6	23,960.7	(1.8)
Internet and data accesses	8,235.1	8,327.9	8,513.5	8,720.2	8,885.9	7.9
Narrowband (2)	674.8	586.7	539.5	476.6	389.4	(42.3)
Broadband (3) (4)	7,442.3	7,629.0	7,861.5	8,134.4	8,385.9	12.7
Other (5)	118.0	112.3	112.5	109.2	110.6	(6.3)
Mobile accesses	149,255.4	151,589.0	155,523.1	159,795.4	166,297.9	11.4
Prepay (6)	119,359.1	120,676.5	123,108.6	125,569.4	131,087.2	9.8
Contract	29,896.3	30,912.5	32,414.4	34,226.0	35,210.7	17.8
Pay TV (7)	1,792.7	1,870.9	2,108.0	2,190.6	2,257.7	25.9
Wholesale Accesses	55.9	54.5	54.4	53.8	50.9	(9.0)
Total Accesses	183,742.8	186,038.6	190,372.4	194,886.7	201,453.0	9.6

(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. Total "fixed wireless" accesses included.

(2) Includes narrowband ISP of Terra Brasil and Terra Colombia.

(3) Includes broadband ISP of Terra Brasil and Terra México.

(4) Includes ADSL, optical fiber, cable modem and broadband circuits.

(5) Retail circuits other than broadband.

(6) 360 thousand inactive accesses were disconnected in Chile in the third quarter of 2011 and 1.0 million inactive accesses in Brasil in the fourth quarter of 2011.

(7) Includes 153 thousand clients of TVA from June 2011.

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TELEFÓNICA LATINOAMERICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	September 30, 2011	September 30, January - December 2010	September 30, % Chg	September 30, 2011	September 30, October - December 2010	September 30, % Chg
Revenues	29,237	25,756	13.5	7,709	7,521	2.5
Internal exp. capitalized in fixed assets	157	147	6.7	45	47	(4.8)
Operating expenses	(19,311)	(16,749)	15.3	(5,131)	(5,104)	0.5
Supplies	(7,519)	(6,718)	11.9	(1,996)	(1,913)	4.3
Personnel expenses	(2,644)	(2,344)	12.8	(688)	(792)	(13.1)
Subcontracts	(7,826)	(6,503)	20.3	(2,090)	(2,032)	2.9
Bad debt provision	(503)	(510)	(1.4)	(143)	(165)	(13.3)
Taxes	(819)	(673)	21.7	(213)	(201)	6.2
Other net operating income (expense)	253	474	(46.6)	70	279	(75.0)
Gain (loss) on sale of fixed assets	605	4,079	(85.2)	479	199	140.5
Impairment of goodwill and other assets	(1)	5	c.s.	2	(1)	c.s.
Operating income before D&A (OIBDA)	10,941	13,713	(20.2)	3,174	2,942	7.9
<i>OIBDA Margin</i>	<i>37.4%</i>	<i>53.2%</i>	<i>(15.8 p.p.)</i>	<i>41.2%</i>	<i>39.1%</i>	<i>2.1 p.p.</i>
Depreciation and amortization	(4,783)	(3,953)	21.0	(1,218)	(1,152)	5.8
Operating income (OI)	6,157	9,759	(36.9)	1,955	1,789	9.3

Notes:

- *OIBDA and OI before management and brand fees.*
- *2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela.*
- *T. Latinoamérica reported figures include 100% of Vivo since October 2010.*
- *From January 1st, 2011, the perimeter of consolidation of T. Latinoamérica excludes Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) (actually T.Europe). As a result, the results of T. Latinoamérica have been restated for the fiscal year 2010, to reflect the above mentioned new organization from January 1st, 2010.*
- *2011 T. Latinoamérica results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.*

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- *OIBDA, OIBDA margin and OI are affected by the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 million euros in the third quarter of 2010) and by non-recurrent restructuring expenses mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation's social activities of 410 million euros in the fourth quarter of 2010.*

January - December 2011 Results - TELEFÓNICA

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TELEFÓNICA LATINOAMERICA

ACCESSES BY COUNTRY (1)

Unaudited figures (Thousands)

	2010		2011			% Chg
	December	March	June	September	December	
BRAZIL						
Final Clients Accesses	75,919.6	77,592.3	79,767.2	82,750.8	87,172.1	14.8
Fixed telephony accesses (1)	11,292.6	11,172.6	11,126.6	11,086.6	10,977.4	(2.8)
Internet and data accesses	3,848.2	3,849.7	3,909.8	3,933.1	3,942.6	2.5
Narrowband	446.2	378.1	344.2	287.7	214.5	(51.9)
Broadband (2)	3,319.2	3,393.6	3,486.9	3,567.5	3,648.0	9.9
Other (3)	82.8	78.0	78.8	77.9	80.0	(3.3)
Mobile accesses	60,292.5	62,061.3	64,049.1	67,038.4	71,553.6	18.7
Prepay (4)	47,658.6	48,742.0	49,809.7	51,679.3	55,438.1	16.3
Contract	12,633.9	13,319.2	14,239.4	15,359.1	16,115.5	27.6
Pay TV (5)	486.3	508.7	681.7	692.7	698.6	43.7
Wholesale Accesses	33.9	32.9	32.4	32.0	28.0	(17.3)
Total Accesses	75,953.5	77,625.2	79,799.6	82,782.8	87,200.1	14.8
ARGENTINA						
Final Clients Accesses	22,275.8	22,142.2	22,537.3	22,630.4	23,008.4	3.3
Fixed telephony accesses (1)	4,621.5	4,614.6	4,621.3	4,617.1	4,611.0	(0.2)
Fixed wireless	35.5	36.8	40.2	38.2	38.2	7.7
Internet and data accesses	1,505.4	1,527.8	1,562.6	1,611.1	1,630.7	8.3
Narrowband	65.7	54.9	48.4	43.4	35.7	(45.7)
Broadband (2)	1,439.7	1,472.9	1,514.1	1,567.7	1,595.1	10.8
Mobile accesses	16,148.9	15,999.8	16,353.5	16,402.2	16,766.7	3.8
Prepay	10,370.4	10,127.8	10,347.3	10,303.2	10,581.3	2.0
Contract	5,778.5	5,871.9	6,006.2	6,099.0	6,185.4	7.0
Wholesale Accesses	13.0	12.8	13.2	13.2	13.9	7.2
Total Accesses	22,288.8	22,155.0	22,550.5	22,643.6	23,022.3	3.3
CHILE						
Final Clients Accesses	11,910.5	12,214.7	12,442.1	12,253.1	12,674.4	6.4
Fixed telephony accesses (1)	1,939.3	1,920.2	1,903.8	1,871.4	1,848.1	(4.7)
Internet and data accesses	836.0	834.9	857.1	875.1	887.4	6.1
Narrowband	6.6	6.3	6.0	6.0	5.8	(12.8)
Broadband (2)	821.5	820.8	844.2	864.9	878.1	6.9
Other (3)	7.9	7.8	6.8	4.2	3.5	(55.9)
Mobile accesses	8,794.0	9,100.5	9,308.3	9,125.5	9,548.1	8.6
Prepay (6)	6,179.3	6,448.1	6,586.0	6,326.0	6,732.7	9.0
Contract	2,614.7	2,652.5	2,722.3	2,799.5	2,815.4	7.7
Pay TV	341.2	359.1	372.9	381.1	390.8	14.5

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Wholesale Accesses	5.3	5.1	5.1	4.9	5.2	(1.8)
Total Accesses	11,915.8	12,219.8	12,447.1	12,258.0	12,679.6	6.4

(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. Total fixed wireless accesses included.

(2) Includes ADSL, cable modem and broadband circuits.

(3) Retail circuits other than broadband.

(4) 1.0 million inactive accesses were disconnected in Brasil in the fourth quarter of 2011.

(5) Includes 153 thousand clients of TVA from June 2011.

(6) 360 thousand inactive accesses were disconnected in Chile in the third quarter of 2011.

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TELEFÓNICA LATINOAMÉRICA

ACCESSES BY COUNTRY (II)

Unaudited figures (Thousands)

	2010		2011			% Chg
	December	March	June	September	December	
PERU						
Final Clients Accesses	16,954.3	17,057.3	17,504.6	18,205.6	18,766.1	10.7
Fixed telephony accesses (1)	2,871.2	2,852.0	2,842.8	2,855.8	2,848.4	(0.8)
Fixed wireless	537.8	515.4	491.7	471.2	444.6	(17.3)
Internet and data accesses	885.4	934.3	1,005.3	1,070.3	1,120.4	26.5
Narrowband	15.4	11.0	10.5	9.8	9.4	(38.6)
Broadband (2)	850.8	903.6	974.7	1,040.3	1,090.6	28.2
Other (3)	19.2	19.7	20.1	20.2	20.4	5.9
Mobile accesses	12,507.1	12,559.9	12,920.9	13,506.8	13,998.3	11.9
Prepay	10,104.4	10,100.5	10,300.8	10,707.6	11,079.6	9.7
Contract	2,402.7	2,459.5	2,620.1	2,799.2	2,918.7	21.5
Pay TV	690.6	711.1	735.6	772.6	799.0	15.7
Wholesale Accesses	0.5	0.5	0.5	0.5	0.4	(3.7)
Total Accesses	16,954.8	17,057.7	17,505.1	18,206.0	18,766.6	10.7
COLOMBIA						
Final Clients Accesses	12,350.3	12,338.5	12,312.8	13,081.0	13,746.9	11.3
Fixed telephony accesses (1)	1,586.9	1,569.2	1,540.4	1,521.0	1,480.6	(6.7)
Internet and data accesses	553.6	581.6	594.3	613.6	620.3	12.0
Narrowband	5.6	6.0	6.7	7.1	7.9	41.2
Broadband (2)	548.0	575.6	587.6	606.5	612.3	11.7
Mobile accesses	10,004.5	9,970.6	9,949.4	10,700.0	11,391.1	13.9
Prepay	7,679.1	7,531.4	7,420.0	8,047.6	8,626.8	12.3
Contract	2,325.5	2,439.2	2,529.4	2,652.4	2,764.2	18.9
Pay TV	205.3	217.1	228.7	246.4	255.0	24.2
Wholesale Accesses	3.3	3.3	3.3			