TELEFONICA S A
Form 6-K
May 11, 2012
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of May, 2012

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant s name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482 85 48

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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

Yes ¨ No x

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

Yes ¨ No x

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

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JANUARY MARCH 2012

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The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS), as adopted by the European Union, which do not differ for the purposes of the Telefónica Group, from IFRS as issued by the International Accounting Standards Board (IASB). This financial information is unaudited.

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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TELEFÓNICA

TELEFONICA

ACCESSES

Unaudited figures (thousands)

	March		
	2012	2011	% Chg
Final Clients Accesses	303,974.6	285,634.6	6.4
Fixed telephony accesses (1)	40,283.9	40,946.4	(1.6)
Internet and data accesses	19,282.1	18,769.4	2.7
Narrowband	785.1	1,185.4	(33.8)
Broadband (2)	18,340.9	17,423.2	5.3
Other (3)	156.0	160.8	(2.9)
Mobile accesses (4)	241,084.6	223,053.5	8.1
Prepay (5)	164,136.3	152,471.6	7.7
Contract (6)	76,948.3	70,581.9	9.0
Pay TV (7)	3,324.0	2,865.3	16.0
Wholesale Accesses	5,438.4	4,856.4	12.0
Unbundled loops	3,031.2	2,630.3	15.2
Shared ULL	194.8	240.3	(18.9)
Full ULL	2,836.4	2,390.0	18.7
Wholesale ADSL (8)	878.0	747.3	17.5
Other (9)	1,529.2	1,478.8	3.4
Total Accesses	309,413.0	290,491.0	6.5

TELEFÓNICA

MOBILE ACCESSES

Unaudited figures (thousands)

	March		
	2012	2011	% Chg
Prepay percentage (%)	68.1%	68.4%	(0.3 p.p.)
Contract percentage (%)	31.9%	31.6%	0.3 p.p.
MBB accesses (000)	41,170.4	26,518.4	55.3%
MBB penetration (%)	17%	12%	5.2 p.p.
Smartphone penetration (%)	14%	9%	5.5 p.p.

Notes:

(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. Since the first quarter of 2012, fixed telephony accesses include 384 thousand VoIP customers in Germany and 65 thousand fixed lines in UK to homogenize these accesses to the criteria of Telefónica.

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

(3) *Retail circuits other than broadband.*

(4) *First quarter of 2012 includes the disconnection of 2.0 million inactive accesses in Spain.*

(5) *First quarter of 2012 includes the disconnection of 1.2 million inactive accesses in Spain. Additionally, 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.*

(6) *First quarter of 2012 includes the disconnection of 0.8 million inactive accesses in Spain.*

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

(8) *Includes ULL rented by T. Germany and T. UK.*

(9) *Circuits for other operators. Includes Wholesale Line Rental (WLR) in Spain.*

TELEFÓNICA

Consolidated Results

Beginning in January 2012, Telefónica s consolidated results are reported in line with the new corporate structure approved in September 2011 that contemplates two regional business units, Telefónica Europe and Telefónica Latinoamérica, and two global business units, Telefónica Digital and Telefónica Global Resources.

Telefónica s management model, regional and integrated, means that the legal structure of the companies is not relevant for the release of Group financial information, and 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 Telefónica s perimeter of consolidation 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 breakdown of the results does not affect Telefónica s consolidated earnings.

In line with this reorganisation, Telefónica has included in the Telefónica Latinoamérica and Telefónica Europe regional business units all information pertaining to fixed, mobile, cable, data, Internet and television businesses based on their respective locations. The Other companies heading includes the global business units Telefónica Digital and Telefónica Global Resources, which are not taken into account for segmental reporting, the Atento business, as well as other Group subsidiaries and eliminations from the consolidation process.

As of 1 January 2012, Telefónica Europe s consolidation perimeter encompasses Telefónica España, with the exception of Tuenti and Terra España. Conversely, Telefónica International Wholesale Services (TIWS), Telefónica North America (TNA) and Jajah are excluded. The latter three companies are now listed under the Other Companies and Eliminations heading, as part of a group of businesses managed by Telefónica Digital and Telefónica Global Resources. Similarly, the operations of Terra, Medianetworks Peru, Wayra and the joint venture Wanda, which in 2011 fell under Telefónica Latinoamérica s scope, are now listed under the Other Companies and Eliminations heading, as part of a group of businesses run by Telefónica Digital.

With the aim of facilitating a homogeneous understanding of the information, the financial results of Telefónica Europe and Telefónica Latinoamérica have been restated for the fiscal year 2011 to reflect the new corporate structure as of January 2011. Telefónica s consolidated results are unaffected by the restatement.

Also, with the objective to provide greater detail in a consistent manner across regions, from January 2012 the revenue breakdown by country is reported under a new structure. Thus, the fixed business is subdivided into Broadband and new services revenues, Voice and Access Revenue and Others , while reporting of mobile revenues is subdivided into Mobile Service Revenue, that include Mobile Data Revenue, and Handset Revenues.

Telefónica s first quarter 2012 results illustrate the benefits of the Company s highly diversified business and its reinvigorated commercial momentum, started in the second half of 2011 and geared towards enhancing the Company s growth opportunities. In this regard, especially noteworthy was the significant improvement in the pace of revenue growth, a consequence of the Company s solid increase in accesses and a priority goal for Telefónica this year:

- Total **accesses** increased by 7% year-on-year to 309 million by the end of March 2012. The strong quarterly mobile commercial activity (+11% year-on-year in gross additions and handset upgrades) was the main factor driving mobile net additions of 4.3 million accesses (excluding 2 million mobile accesses disconnections in Spain), more than 1.5 times the first quarter of 2011 figure. Mobile contract accesses rose 9% year-on-year to account for 32% of the total mobile accesses base.

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Mobile broadband accesses posted a strong growth of 55% year-on-year, to 41 million at the end of the quarter, accounting for 17% of total mobile accesses (+5 percentage points versus March 2011). In Latin America, mobile broadband accesses doubled vs. March 2011. In Europe, it is important to mention the significant increase in smartphone penetration to 30% (+9 percentage points year-on-year). This growth, along with the adoption of integrated data tariffs, bolstered the monetisation of our customers growing demand for mobile data connectivity.

By region, it is worth to highlight Telefónica Latinoamérica, whose accesses went up by 11% year-on-year, with net mobile additions of 4.5 million in the quarter, almost doubling first quarter 2011 figure.

Revenues totalled 15,511 million euros in the first quarter of 2012, a 0.5% year-on-year increase (-1.8% in the previous quarter), driven by higher sales at Telefónica Latinoamérica (+8.3% year-on-year), which more than offset lower revenues at the European businesses (-6.6% year-on-year). Excluding the negative impact of mobile termination rates cuts, revenues rose by 1.6% from the first quarter of 2011. Exchange rate effects added 0.4 percentage points to growth, leaving it at 0.1% in organic terms.

The Company s push into the mobile data business was reflected in a steady increase of these revenues, with a year-on-year growth of 15.4% (+14.8% in organic terms). This business accounted for more than 33% of mobile service revenues in the quarter (+4 percentage points year-on-year). Also noteworthy was the sharp increase in non-SMS data revenues of 27.3% year-on-year (+26.5% in organic terms), which accounted for more than 55% of total data revenues (+5 percentage points year-on-year).

As a result, revenues from services with the most growth potential (fixed and mobile broadband, and new services beyond connectivity) continued to increase their weight to total Telefónica revenue (27%; +3 percentage points year-on-year) offsetting a receding contribution from traditional voice and access revenue.

The Company s high and increasing diversification was the driver of its positive revenue performance. Telefónica Latinoamérica accounted for 48% of consolidated revenues (+3.5 percentage points year-on-year) and remained the Company s main growth engine and largest contributor to growth (+3.7 percentage points). Telefónica Europe accounted for 49% of consolidated revenues (-3.7 percentage points year-on-year).

Consolidated **operating expenses** for the first quarter totalled 10,775 million euros (+5.9% year-on-year; +5.4% in organic terms) against a backdrop of higher commercial-related spending versus the first quarter of 2011. By concepts:

Supplies amounted to 4,596 million euros, a year-on-year increase of 2.7% (+1.9% in organic terms) due to increased handset purchases made in the quarter, particularly in Latin America, which was partially offset by the impact lower mobile termination rates.

Subcontract expenses (3,400 million euros) rose by 8.7% year-on-year (+8.4% in organic terms), mainly due to higher commercial activity including commissions paid to distributors, and rising operating expenses stemming from expansion of the Latin American network.

Personnel expenses stood at 2,217 million euros, up 6.7%, year-on-year (+6.6% in organic terms), amid rising costs in higher-inflation countries in Latin America and non-recurrent expenses associated to redundancy programs in Brazil and in the Czech Republic, which were partly offset by savings in Spain deriving from the Redundancy Program approved in 2011.

The average headcount in the first quarter was 289,037 employees (4,685 more than the average for the first quarter of 2011), mainly due to the larger workforce at Atento. Excluding Atento, Telefónica s average workforce stood at 133,322 employees, 512 fewer than in the same period a year earlier, following the aforementioned Redundancy Program in Spain.

Gains on sale of fixed assets stood at 136 million euros in the first quarter, mainly due to the sale of non-strategic towers in Spain and Brazil, which totalled 123 million euros. This heading totalled 104 million euros in the first quarter of 2011, primarily due to the impact of the partial reduction of our economic exposure to Portugal Telecom.

As a result, **operating income before depreciation and amortisation (OIBDA)** in the first quarter totalled 5,081 million euros (-8.8% year-on-year; -7.4% in underlying terms). OIBDA margin stood at 32.8% in the quarter (-3.4 percentage points year-on-year), a drop of 2.8 percentage points year-on-year in underlying terms.

By regions, Telefónica Latinoamérica continued to increase its contribution to the Group s consolidated OIBDA, accounting for over 50% of OIBDA (+4.1 percentage points year-on-year in underlying terms), while Telefónica Europe reduced its contribution to 49% (-4.3 percentage points year-on-year in underlying terms). Within Europe, Telefónica España represented 33% of OIBDA (-2.4 percentage points year-on-year).

Depreciation and amortisation in the first quarter (2,570 million euros) increased by 2.1% year-on-year (+1.2% year-on-year in organic terms). The depreciation and amortisation charges derived from purchase price allocation processes amounted to 262 million euros in the quarter (-19.5% year-on-year).

Operating income (OI) totalled 2,511 million euros in the first three months of the year (-17.8% year-on-year; -15.8% in underlying terms).

Profit from associates stood at -481 million euros in the first quarter of 2012 (-16 million euros in the same period of 2011). This year-on-year change was mainly the result of the impact of Telco S.p.A. s adjustment of the value of its investment in Telecom Italia, as well as of the operating synergies achieved, with both effects totalling 482 million euros (337 million euros after the related tax effect). It is worth to highlight that this effect is a non-cash impact.

Net financial expenses in the first quarter of 2012 reached 818 million euros, of which 23 million euros were negative foreign exchange differences. This yielded an effective cost of debt of 5.57% in the last 12 months (5.22% at December 31st 2011). If foreign exchange differences were excluded, the effective cost of debt would be 5.23% compared to 4.91% at December 31st 2011. Regarding this increase in the cost of debt (excluding foreign exchange effects) more than a third can be explained by higher financing costs, higher proportion of fixed rate liabilities and the Telefónica España Redundancy Program; approximately another third is due to higher costs and a higher leverage in Latin-American currencies and the remaining third is due to various effects.

Telefónica reached in the first quarter of 2012 an **Operating Cash Flow** of almost four thousand million euros (3,956 million euros; -12.4 % year-on-year). Out of this decrease, 211 million euros are explained by working capital consumption resulting from the regular activity reduction in the first quarter of the year compared to the closing of last year. Payment for CapEx (2,594 million euros) increased 161 million euros from the first quarter of 2011 and exceeded the CapEx accrued during the current quarter by 882 million euros. This will be translated into lower payments in the future which, along with the disappearance of the activity reduction effect, should improve working capital evolution throughout the year.

Interest payments totalled 1,169 million euros, 291 million euros more than in the first quarter of 2011. Out of this amount, 170 million euros are non-recurrent impacts derive from payment of interests related to the restructuring of Colombian companies, payments to the SUNAT in Peru and front-end fees related to financing operations signed in the first quarter. The remaining is mainly due to the seasonality in the payment of interests. It is worth mentioning that interest payments were 373 million euros higher than the interest accrued in the quarter, which will be corrected throughout the year.

Payment for taxes totalled 391 million euros during the first quarter of 2012, 157 million euros lower than in the first quarter of 2011, mainly due to refund of taxes paid in advance in 2011 and the tax amortisation in Brazil of the goodwill resulting from the acquisition of VIVO.

As a result, **Free Cash Flow** for the first quarter of 2012 amounted to 82 million euros. This should not be extrapolated to the rest of the year due to the differences created by seasonality in various payments.

At the end of March 2012, net financial debt amounted to 57,131 million euros. The increase in this figure with respect to December 2011 (+828 million euros) can be explained, on the one hand, by greater payments due to commitments, financial investments and share buybacks, these three concepts totalling 625 million euros. On the other hand, the appreciation of Latin-American currencies with respect to the euro and other impacts explain a debt increase of 285 million euros. These factors compensate the free cash flow generation during the first quarter.

The **leverage ratio** for the past 12 months (net debt over OIBDA, adjusted by the provision related to the redundancy program in Spain) stood at 2.55 times as of the end of March 2012. If net commitments related to workforce reduction are considered, the ratio of total net debt plus commitments over OIBDA (excluding results on the sale of fixed assets and adjusted by the provision related to the redundancy program in

Spain) stood at 2.74 times.

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During the first quarter of 2012, Telefónica s **financing activity**, excluding short-term Commercial Paper Programmes activity, stood at around 7,500 million equivalent euros, and the main focus was on financing in advance debt maturing in 2012, and smoothing the debt maturity profile for 2013 at the Holding level. Net debt maturities for 2013 amount to 7,100 million euros and for 2014 to 7,700 million euros. Main financing operations included:

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.

In February, Telefónica issued a 6 year bond in the euro market for an amount of 1,500 million euros that experienced an excess of demand of over 6.5 times.

In the month of February Telefónica signed a 3 year loan with a financial entity for an amount of 200 million euros.

In March, Telefónica issued a bond in sterling pounds for an amount of 700 million and 8 year maturity, which was 3.8 times oversubscribed.

Also in March, Telefónica issued a 5 year bond in Czech crowns through a private placement, for an amount of 1,250 million Czech crowns.

It is worth highlighting, in the loan market, the refinancing signed in March with nearly 40 lenders for two tranches of the O2 syndicated loan maturing in December 2012 and December 2013 for approximately 3,400 million equivalent sterling pounds. On the one hand, Telefónica extended to December 2015 a total of approximately 1,300 million pounds of the 2,100 million sterling pounds maturing in December 2012. On the other hand, Telefónica extended to February 2017 the 2,100 million sterling pounds maturing in December 2013.

Telefónica, S.A. and its holding companies have remained active during the first quarter of 2012 under its various Commercial Paper Programmes (Domestic and European), with an outstanding balance of nearly 2,100 million euros at the end of March.

Regarding Latin America, as of March 2012 Telefónica s subsidiaries have tapped the capital markets for an amount of nearly 350 million equivalent euros.

Telefónica maintains total undrawn committed credit lines for an amount of approximately 11,400 million euros, with around 8,500 million maturing in more than 12 months.

At the end of March 2012, bonds and debentures represented 64% of consolidated financial debt breakdown, while debt with financial institutions weighted 36%.

Corporate income tax in the first quarter of 2012 totalled 401 million euros which, over an income before tax figure of 1,212 million euros, implied an effective tax rate of 33%.

Profit attributable to minority interests dragged net income by 63 million euros in the first three months of the year and fell by 42.9% year-on-year, mainly due to Telefónica s increased stake in Vivo and to minority interests at Colombia Telecom.

As a result of the abovementioned items, **consolidated net profit** amounted to 748 million euros in the first quarter of 2012 (-53.9% year-on-year), which represents a year-on-year drop of 26.6% in underlying terms. **Basic earnings per share**, also in underlying terms, stood at 0.29 euros. In reported terms, basic earnings per share amounted to 0.17 euros.

CapEx totalled 1,712 million euros in the quarter, up 10.3% year-on-year (+16.3% in organic terms), with a CapEx over sales ratio of 11.0%, excluding investments in spectrum. The Company continued to devote the bulk of its investments to growth and transformation projects (81% of total CapEx), fostering the expansion of broadband services, both fixed and mobile. It should be noted that the year-on-year change of the quarter cannot be extrapolated to the rest of the year given the different levels of investment execution in both years.

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Operating cash flow (OIBDA-CapEx), excluding investments in spectrum, stood at 3,374 million euros in the first quarter of 2012 (-16.3% year-on-year in organic terms; -14.2% in underlying terms).

Definitions

Organic growth: In financial terms, it assumes constant average exchange rates as of January-March 2011, and excludes hyperinflation accounting in Venezuela. Therefore, in OIBDA and in OI terms, in January-March 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded (+89 million euros). Telefónica s CapEx excludes investments in spectrum and, in 2011, the real estate commitments associated with Telefónica s new headquarters in Barcelona.

Underlying growth: Reported figures, excluding exceptional impacts and spectrum acquisition. First-quarter 2012 figures also exclude write-down of Telecom Italia and operating synergies achieved (-482 million euros; -337 million euros net of taxes), as well as PPAs (-262 million euros; -199 million euros net of taxes and minority interests). First-quarter 2011 figures excluded the positive impact from the partial reduction of our economic exposure to Portugal Telecom (+89 million euros) and PPAs (-325 million euros; -215 million euros net of taxes and minority interests).

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TELEFÓNICA

Financial Data

TELEFONICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January March		
	2012	2011	% Chg
Revenues	**15,511**	**15,435**	**0.5**
Internal exp capitalized in fixed assets	187	169	10.4
Operating expenses	(10,775)	(10,176)	5.9
Supplies	(4,596)	(4,476)	2.7
Personnel expenses	(2,217)	(2,077)	6.7
Subcontracts	(3,400)	(3,129)	8.7
Bad Debt Provisions	(245)	(181)	35.2
Taxes	(317)	(312)	1.5
Other net operating income (expense)	23	42	(44.5)
Gain (loss) on sale of fixed assets	136	104	30.6
Impairment of goodwill and other assets	(1)	(0)	164.2
Operating income before D&A (OIBDA)	**5,081**	**5,574**	**(8.8)**
OIBDA margin	*32.8%*	*36.1%*	*(3.4 p.p.)*
Depreciation and amortization	(2,570)	(2,517)	2.1
Operating income (OI)	**2,511**	**3,057**	**(17.8)**
Profit from associated companies	(481)	(16)	n.m.
Net financial income (expense)	(818)	(579)	41.2
Income before taxes	**1,212**	**2,461**	**(50.8)**
Income taxes	(401)	(728)	(44.9)
Income from continuing operations	**811**	**1,733**	**(53.2)**
Non-controlling interests	(63)	(110)	(42.9)
Net income	**748**	**1,624**	**(53.9)**
Weighted average number of ordinary shares	**4,473**	**4,524**	**(1.1)**
outstanding during the period (millions)			
Basic earnings per share (euros)	0.17		