

TELEFONICA S A  
Form 6-K  
July 26, 2012  
[Table of Contents](#)

## **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 July, 2012**

**Commission File Number: 001-09531**

## **Telefónica, S.A.**

**(Translation of registrant's name into English)**

**Distrito Telefónica, Ronda de la Comunicación, sn**

**28050 Madrid, Spain**

**3491-459-3050**

# Edgar Filing: TELEFONICA S A - Form 6-K

(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 ☐

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 ☒

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 ☒

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

**Table of Contents**

**Telefónica, S.A.**

**TABLE OF CONTENTS**

<b>Item</b>	<b>Sequential Page Number</b>
1. <u>Quarterly Results of Telefónica Group: January- June 2012</u>	1

**Table of Contents**

**FINANCIAL HIGHLIGHTS**

**Second quarter results showed an improvement vs. the first quarter, with a better performance across all metrics from OIBDA to net income in underlying terms.**

**OIBDA showed a significant improvement in the second quarter of the year in all regions and totalled 10,431 million euros in the first half of 2012, with an OIBDA margin of 33.7%:**

Second quarter consolidated OIBDA (5,350 million euros) increased 5.3% vs. the first quarter. Consolidated OIBDA margin improved sequentially to 34.6% in the second quarter of 2012 in underlying terms (32.8% in the first quarter), reflecting cost containment measures.

Telefónica España's OIBDA totalled 1,718 million euros in the second quarter of 2012, posting a 3.0% quarter-on-quarter growth, with a significant OIBDA margin expansion (45.0% in the second quarter vs. 42.8% in the first quarter).

**Consolidated revenues totalled 30,980 million euros in the first half of the year (+0.3% year-on-year), with different realities across regions reflecting the benefits of diversification:**

Solid revenue growth in Latin America (+7.0% year-on-year) offset lower sales in Europe (-6.1%), strongly impacted by adverse economic and regulatory conditions.

Excluding the impact of mobile termination rate cuts, revenues grew 1.5% year-on-year during the first half of 2012.

Mobile data revenues continued to show strong dynamism, rising by 15.7% year-on-year to account for 34% of consolidated mobile service revenues

**Telefónica reached 312 million accesses at the end of the first half of 2012, posting a 6% year-on-year growth:**

The strong expansion in mobile accesses (+7% year-on-year) remains the main growth driver of total accesses.

Mobile broadband accesses maintained their solid growth rate (+51% year-on-year), already accounting for 18% of total mobile accesses, as a result of a massive smartphone adoption.

Remarkable increased commercial activity in Latin America and churn contention in Europe, improving the commercial momentum in this region.

**Net income stood at 1,327 million euros in the second quarter of 2012 (1,534 million euros in underlying terms) vs. 748 million euros in the previous quarter (1,284 million euros in underlying terms).**

**The Company confirms its guidance for 2012 in terms of OIBDA margin, CapEx/Sales and leverage ratio while restating its revenue target:**

Revenue growth flat to positive in current euros (previously > 1%)

Lower OIBDA margin decline than in 2011.

Similar CapEx/sales as in 2011, excluding spectrum.

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

**The Board of Directors has decided that, under the criteria of prudent administration and extremely challenging conditions, it is in the best interest of all Telefónica's stakeholders that the dividend and share buyback program corresponding to 2012 be cancelled (including November**

January June 2012 Results TELEFÓNICA

**Table of Contents**

2012 and May 2013 cash and scrip payments, respectively) **as a one-time exceptional measure. The Company will resume its shareholder remuneration in 2013 by paying a dividend of 0.75 euros per share**, with the intention of paying it in two tranches: a first payment in the fourth quarter of 2013 and a second payment in the second quarter of 2014.

**The proactive financing policy during the first half of the year and the adjustment in shareholder remuneration policy enable the Company to have debt maturities covered till the end of 2013**

**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%.

January June 2012 Results TELEFÓNICA

---

**Table of Contents**

**Comments from César Alierta, Executive Chairman:**

*Telefónica's second quarter results showed an improvement quarter-on-quarter, especially at OIBDA level. In underlying terms, OIBDA increased sequentially across regions and translated into margin expansion, as a result of the strict cost-containment measures undertaken.*

*Our strong diversification continues to be a key lever amid challenging trading conditions in some of our markets, with a growing contribution of Telefónica Latinoamérica to consolidated results and market risk perception decoupled from solid business fundamentals.*

*I would especially like to highlight our achievements in Spain, where initiatives to recover market competitiveness are already leading to a sharp reduction in churn and a significant improvement in customer satisfaction, driving significant efficiencies in both commercial expenses and investment. In addition, the removal of handset subsidies for new customers coupled with the fast execution of the redundancy programme, have generated material savings. As such, business profitability improved, with quarter-on-quarter growth in OIBDA.*

*January-June performance allows us to reiterate our year-end targets for OIBDA margin and CapEx to Sales ratio. However, due to the weaker than anticipated economic conditions in some countries and a stronger negative impact from regulation than envisaged, we have updated our revenue guidance and we now expect to deliver flat to positive revenue growth in current euros in 2012.*

*On the other hand, the Company continues making progress with initiatives to optimise the use of resources, such as the network-sharing agreements reached recently with other operators in the UK and Mexico.*

*In parallel, we continue to push forward with the development of Telefónica Digital to capture new growth opportunities in the digital world and bolster our growth profile, making significant progress in our transformation into a Digital Telco.*

*Lastly, to show the Company's determination to effectively defuse potential financial risks that are being exacerbated by unprecedented exogenous factors in the current extremely challenging economic and financial environment, the Board of Directors has decided that under the criteria of prudent administration it is in the best interest of all Telefónica's stakeholders that the dividend and share buyback program corresponding to 2012 are cancelled as a one-time exceptional measure. The Company will resume its shareholder remuneration in 2013 by paying a dividend of 0.75 euros per share. This exceptional decision, will immunize the company from debt markets liquidity conditions, by having debt maturities covered till the end of 2013, without considering announced asset disposals to which the Company remains fully committed.*

*Year-to date we have distributed to our shareholders 2.8 billion euros in cash dividends and we will continue remunerating our shareholders via dividend payments in 2013.*

January June 2012 Results TELEFÓNICA

**Table of Contents**

## TELEFÓNICA

## SELECTED FINANCIAL DATA

*Unaudited figures (Euros in millions)*

	January - June		% Chg	
	2012	2011	Reported	Organic
Revenues	30,980	30,886	0.3	(0.5)
Telefónica Latinoamérica	14,963	13,978	7.0	6.4
Telefónica Europe	15,076	16,063	(6.1)	(7.1)
Other companies & eliminations	941	845	11.3	
OIBDA	10,431	11,304	(7.7)	(6.7)
Telefónica Latinoamérica	5,212	5,172	0.8	0.8
Telefónica Europe	5,185	5,996	(13.5)	(13.9)
Other companies & eliminations	34	136	(74.7)	
OIBDA margin	33.7%	36.6%	(2.9 p.p.)	(2.2 p.p.)
Telefónica Latinoamérica	34.8%	37.0%	(2.2 p.p.)	(2.0 p.p.)
Telefónica Europe	34.4%	37.3%	(2.9 p.p.)	(2.7 p.p.)
Operating Income (OI)	5,300	6,348	(16.5)	(13.9)
Telefónica Latinoamérica	2,730	2,861	(4.6)	(3.5)
Telefónica Europe	2,691	3,492	(22.9)	(23.1)
Other companies & eliminations	(122)	(5)	n.s.	
Net income	2,075	3,162	(34.4)	
Basic earnings per share (euros)	0.46	0.69	(33.3)	
CapEx	3,658	3,838	(4.7)	9.2
Telefónica Latinoamérica	1,910	2,067	(7.6)	15.7
Telefónica Europe	1,562	1,603	(2.6)	(3.7)
Other companies & eliminations	186	167	11.1	
OpCF (OIBDA-CapEx)	6,774	7,466	(9.3)	(13.4)
Telefónica Latinoamérica	3,302	3,105	6.3	(6.2)
Telefónica Europe	3,623	4,393	(17.5)	(17.7)
Other companies & eliminations	(151)	(31)	n.m.	

***Reconciliation included in the excel spreadsheets.****Notes:**OIBDA and OI are presented before brand fees and management fees.**OIBDA margin calculated as OIBDA over revenues.**2011 and 2012 reported figures include the hyperinflationary adjustments in Venezuela in both years.*



## Edgar Filing: TELEFONICA S A - Form 6-K

CapEx includes 6 million euros from the spectrum acquired out of which 5 correspond to Nicaragua in the first quarter of 2012, 355 in Brazil and 68 in Costa Rica in Q2 11.

From January 1st, 2012, and due to the implementation of the new organization announced in September 2011, companies related to the digital world and global resources that were previously included in the consolidation perimeter of T.Latinoamérica (Terra, Medianetworks Perú, Wayra and the joint venture Wanda), T. España and T. Europe (TIWS, TNA, Jajah, Tuenti and Terra España) have been excluded from their consolidation perimeters and are included within Other companies and eliminations. Additionally, from the beginning of the year, the perimeter of consolidation of T.Europe includes T.España. As a result, the results of T. Europe, T. Latinoamérica and Other companies and eliminations have been restated for the fiscal year 2011, to reflect the above mentioned new organization. As this is an intragroup change, Telefónica consolidated results for 2011 are not affected.

**Organic criteria:** In financial terms, it assumes constant average exchange rates as of January-June 2011, and excludes hyperinflation accounting in Venezuela. Therefore, in OIBDA and OI terms, the first half-year of 2011 excludes the positive impact of the partial sale of our stake in Portugal Telecom (+183 million euros). Telefónica's CapEx excludes spectrum investment and, in 2011, Real Estate commitments in relation to the new Telefónica headquarters in Barcelona.

January June 2012 Results TELEFÓNICA

**Table of Contents**

January June 2012

**TABLE OF CONTENTS****TELEFÓNICA**

<u>Accesses</u>	6
<u>Consolidated Results</u>	7
<u>Financial Data</u>	13

**RESULTS BY REGIONAL BUSINESS UNITS**

<b><u>Telefónica Latinoamérica</u></b>	22
<u>Brazil</u>	24
<u>Argentina</u>	26
<u>Chile</u>	28
<u>Peru</u>	29
<u>Colombia</u>	31
<u>Mexico</u>	32
<u>Venezuela</u>	34
<b><u>Telefónica Europe</u></b>	46
<u>Telefónica España</u>	47
<u>Telefónica UK</u>	51
<u>Telefónica Germany</u>	52
<u>Telefónica Czech Republic</u>	54
<b><u>Other Companies</u></b>	62
<u>Atento</u>	62

**ADDENDA**

<u>Key Holdings of Telefónica and its Subsidiaries</u>	63
<u>Changes to the Perimeter</u>	64

*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.*



**Table of Contents****TELEFÓNICA**

## TELEFÓNICA

## ACCESSES

*Unaudited figures (thousands)*

	2012	June 2011	% Chg
Final Clients Accesses	306,211.3	290,029.0	5.6
Fixed telephony accesses (1)	40,038.4	40,693.9	(1.6)
Internet and data accesses	19,342.9	18,909.6	2.3
Narrowband	758.8	1,117.1	(32.1)
Broadband (2)	18,429.8	17,631.9	4.5
Other (3)	154.3	160.6	(3.9)
Mobile accesses (4)	243,506.0	227,323.6	7.1
Prepay (5)	164,997.9	154,751.8	6.6
Contract (6)	78,508.1	72,571.7	8.2
Pay TV (7)	3,324.0	3,101.9	7.2
Wholesale Accesses	5,540.3	4,994.2	10.9
Unbundled loops	3,107.4	2,702.3	15.0
Shared ULL	192.5	223.7	(13.9)
Full ULL	2,914.9	2,478.5	17.6
Wholesale ADSL (8)	823.8	785.7	4.9
Other (9)	1,609.0	1,506.2	6.8
Total Accesses	311,751.6	295,023.2	5.7

## TELEFÓNICA

## MOBILE ACCESSES

*Unaudited figures (thousands)*

	2012	June 2011	% Chg
Prepay percentage (%)	67.8%	68.1%	(0.3 p.p.)
Contract percentage (%)	32.2%	31.9%	0.3 p.p.
MBB accesses ( 000)	44,901.6	29,801.1	50.7%
MBB penetration (%)	18%	13%	5.3 p.p.
Smartphone penetration (%)	16%	10%	5.9 p.p.

*Notes:**(1)*

## Edgar Filing: TELEFONICA S A - Form 6-K

*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. In Brazil, 1.0 million inactive accesses were disconnected in the fourth quarter of 2011 and 1.6 million inactive accesses in the second quarter of 2012.*
- (6) *First quarter of 2012 includes the disconnection of 0.8 million inactive accesses in Spain.*
- (7) *Includes 150 thousand clients of TVA in June 2011.*
- (8) *Includes ULL rented by T. Germany and T. UK.*
- (9) *Circuits for other operators. Includes Wholesale Line Rental (WLR) in Spain.*

January June 2012 Results TELEFÓNICA

## Table of Contents

### 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.

In the first half of 2012, Telefónica's results were significantly impacted by the difficult trading environment in key countries, including adverse economic conditions, intense competition and the negative effects of regulation.

Against this backdrop, the Company's highly diversified portfolio and the increasing contribution of Latin America and Germany, where solid growth is maintained, are the key levers to offset the performance in the rest of Europe.



## Table of Contents

Nevertheless, second quarter results showed a better OIBDA performance with quarter-on-quarter growth across regions and a sequential quarter-on-quarter OIBDA margin expansion, leveraging on cost contention initiatives across regions, being particularly noteworthy the return to positive quarter-on-quarter OIBDA growth in Telefónica España.

In this regard, since the beginning of the year the Company announced a number of significant initiatives focusing on maximising efficiency and improving profitability, that will result in strong benefits for the whole market. As such, it should be highlighted the introduction of a new commercial model in Spain, with handset subsidies removal in new customer acquisition. This will result in a strong commercial expenses reduction, with net savings already visible. In this sense, handset subsidies were gradually reduced in the UK in the second quarter of the year. Additionally, in the UK and Mexico network sharing agreements with other operators were recently signed, which will lead to further savings in the coming years.

In parallel, the Company has achieved relevant progress to capture new opportunities in the digital world, reaching important agreements in relation to M2M, Security, Cloud and Financial Services.

Total **accesses** increased by 6% year-on-year to 312 million by the end of June 2012, driven by the mobile segment (+7% year-on-year). Mobile net additions in the first half totalled 8.3 million (excluding 3.6 million mobile accesses disconnections in Spain and Brazil), up 18% year-on-year. Contract mobile accesses grew 8% year-on-year, accounting for 32% of total mobile accesses.

The Company's **mobile broadband accesses** posted a solid growth of 51% year-on-year to 44.9 million at the end of the first half, accounting for 18% of mobile accesses (+5 percentage points year-on-year). It should be highlighted the continued smartphone adoption by our customers (with attached data tariffs), with 6.9 million net additions in the first half. Out of this amount, 4.8 million came from Latin America doubling the net additions registered in the same period of 2011.

Telefónica's **retail fixed broadband accesses** increased 5% year-on-year to 18.4 million at the end of June 2012, with 364 thousand net additions (89 thousand in the second quarter), with a sustained growth of Telefónica Latinoamérica accesses.

By regions, Telefónica Latinoamérica's total access base grew 10% year-on-year, after recording 8.5 million mobile net additions during the first half of the year (excluding the disconnections mentioned above), up 36% year-on-year.

**Revenues** in the first half of 2012 totalled 30,980 million euros, with a year-on-year growth of 0.3%, underpinned by higher sales at Telefónica Latinoamérica (+7.0% year-on-year), which more than offset the lower revenues from the European operations (-6.1% year-on-year). Excluding the negative impact of lower mobile termination rates, revenues rose 1.5% year-on-year. Exchange rate fluctuations contributed with 0.8 percentage points to the growth (-0.5% in organic terms).

The Company's focus in capturing the high-growth in the mobile data business was reflected in the sustained growth of mobile data revenues (+15.7% year-on-year; +14.1% in organic terms), accounting for more than 34% of mobile service revenues in the first half of the year (30% over the same period in 2011). There was also a sharp increase in non-SMS data revenues (+26.6% year-on-year; +25.1% in organic terms), accounting for more than 56% of total data revenues (+5 percentage points vs. January-June 2011).

The Company's high diversification was reflected by the increased contribution of Telefónica Latinoamérica, which accounted for 48% of consolidated revenues during the first half of the year (+3.0 percentage points year-on-year) and remains the main growth driver (+3.2 percentage points year-on-year). On the other hand, Telefónica Europe accounted for 49% of consolidated revenues (-3.3 percentage points year-on-year) and, within the former, Telefónica España's contribution fell by 3.4 percentage points to represent 25% of consolidated revenues.



## Table of Contents

Consolidated **operating expenses** amounted to 21,268 million euros, up 4.7% vs. the first half of 2011 (+3.8% in organic terms), decelerating significantly their growth rate in the second quarter (+3.6% reported vs. +5.9% in the first quarter) mainly due to a lower increase in commercial costs and higher efficiencies achieved.

**Supplies** during the first half of the year totalled 9,060 million euros, up 1.9% year-on-year (+0.2% in organic terms) due to increased purchases of handsets in Latin America related to the increased smartphone penetration in the region. Nevertheless, the year-on-year growth eased in the second quarter compared to the first quarter (+2.7% reported; +1.9% in organic terms in the first quarter of 2012), positively affected by various factors: lower mobile interconnection costs, reversion of a provision in Brazil and reduction of commercial expenses in some European markets.

**Subcontract expenses** (6,708 million euros) rose by 6.3% year-on-year (+6.0% in organic terms), decreasing its year-on-year growth with respect to the first quarter of the year (+8.7% reported; +8.4% organic in the first quarter of 2012), mainly due to optimised spending on advertising and marketing and more efficient management of network and system costs.

**Personnel expenses** stood at 4,377 million euros, up 5.7% year-on-year (+5.3% in organic terms), decelerating with respect to the first quarter (+6.7% reported; +6.6% in organic terms in the first quarter of 2012). This item reflected rising costs in Latin America in countries with higher inflation and non-recurrent expenses associated to redundancy programs in Brazil, Czech Republic and Ireland, which were partially offset by major savings in Spain deriving from the redundancy program approved in 2011.

The average headcount was 287,437 employees (2,348 employees more than the average for the first half of 2011), mainly due to the higher workforce at Atento. Excluding Atento, Telefónica's average workforce stood at 132,667 employees, 948 fewer than in the same period of 2011, following the redundancy programs mentioned above.

**Gains on sales of fixed assets** during the first half of the year stood at 285 million euros, compared to 245 million euros in the first half of 2011. In 2012 this amount mainly includes the impact from the sale of non-strategic towers, principally in Spain, Brazil and Mexico, for a total amount of 211 million euros (88 million euros in the second quarter mainly in Brazil and Mexico), as well as a capital gain of 39 million euros from the sale of applications in the second quarter (including 18 million euros from the sale of applications in Telefónica España). This heading, in the first half of 2011, included the positive effects of the partial reduction of our economic exposure to Portugal Telecom (183 million euros; 93 million euros in the second quarter) and the sale of non-strategic towers (44 million euros; 32 million euros in the second quarter).

During the first half of 2012, **operating income before depreciation and amortisation (OIBDA)** amounted to 10,431 million euros (-7.7% year-on-year; -6.2% in underlying terms), and recorded an improvement of 1.1 percentage points compared to the first quarter of the year (+1.2 percentage points in underlying terms), leveraging on cost initiatives and efficiencies achieved.

**OIBDA margin** stood at 33.7% in the first half of the year (-2.9 percentage points year-on-year; -2.3 percentage points in underlying terms), showing a significant sequential improvement vs. the first quarter. Thus, OIBDA margin in the second quarter was 34.6% in underlying terms vs. 32.8% in the first quarter, registering, as well, a lower year-on-year erosion (-1.9 percentage points vs. -2.8 percentage points in the first quarter).

Telefónica's geographic diversification is again reflected by the increasing contribution of Telefónica Latinoamérica to consolidated underlying OIBDA, accounting for 50% (+3.8 percentage points with respect to 2011). It is worth to highlight that Telefónica España's contribution to total OIBDA fell to



## Table of Contents

32% (-2.8 percentage points year-on-year), and thus Telefónica Europe accounts for 50% of total OIBDA.

**Depreciation and amortisation** in the first six months of the year (5,131 million euros) increased by 3.5% year-on-year (+2.5% in organic terms) mainly due to the amortisation of the new spectrum acquired in Germany, Brazil, Colombia, Spain and Mexico, and the increase of fixed assets. The depreciation and amortisation charges derived from purchase price allocation processes amounted to 492 million euros in the January-June period (-12.9% year-on-year).

In the first half of the year, **operating income (OI)** totalled 5,300 million euros (-16.5% year-on-year; -13.9% in underlying terms), with an improved trend in the second quarter (-15.3% year-on-year; -12.2% in underlying terms).

**Profit from associates** stood at -498 million euros in the first semester (-534 million euros during the same period in 2011), mainly due to 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 512 million euros in 2012 and 505 million euros in 2011. It should be pointed out that these effects were non-cash impacts.

**Net financial expenses** in the first half of 2012 reached 1,585 million euros, of which 20 million euros were negative foreign exchange differences. This yielded an effective cost of debt of 5.82% in the last 12 months (5.22% at December 31<sup>st</sup> 2011). Excluding foreign exchange differences, the effective cost of debt would be 5.47% compared to 4.91% at December 31<sup>st</sup> 2011, mainly explained by higher financing costs as a result of the tightening of credit markets, a higher proportion of fixed rate debt, the redundancy program of Telefónica España, a higher leverage in Latin-American currencies and other various effects.

**Cash Flow from operations** reached 8,961 million euros (-6.3% year-on-year) reflecting a significant improvement in the second quarter (5,005 million euros) compared to the first quarter.

It is worth noting the higher working capital consumption resulting from payment for CapEx, as a consequence of higher spectrum payments. Excluding this impact, in the first half of the year working capital presented a year-on-year improvement of 395 million euros.

**Interest payments** totalled 1,863 million euros, 697 million euros more than in the first half of 2011. Out of this amount, nearly 200 million euros were non-recurrent effects, most of which were already registered in the first quarter of 2012 (payment of interests related to the restructuring of Colombian companies, payments to the SUNAT in Peru and front-end fees related to financial operations signed). The remaining is mainly due to the seasonality in the payment of interests and the negative evolution of credit markets. It is worth mentioning that interest payments were 298 million euros higher than the interest accrued in the semester, which will be corrected during the second half of the year.

**Payment for taxes** totalled 717 million euros during the first half of 2012, 278 million lower than in the first half of 2011, mainly due to the refund of corporate taxes paid in advance in Spain and the lower tax payments in the UK and Brazil, the latter due to the materialisation of tax synergies.

As a result, **Free Cash Flow** for the first half of the year amounted to 1,727 million euros (-44.9% year-on-year), posting an improvement of 1,645 million de euros compared to the first quarter of 2012, in line with Company estimates. Free cash flow evolution during the first semester should not be extrapolated to the rest of the year due to the differences created by seasonality in various headings, where payments were higher than accruals.

At the end of June 2012, **net financial debt** amounted to 58,310. The evolution with respect to December 2011 (+2,006 million euros) can be explained, on the one hand, by shareholder remuneration (3,551 million euros), not fully compensated by the debt reduction in Colombia (1,499

## Table of Contents

million euros) due to the merger of the Colombian subsidiaries. On the other hand, the free cash flow generated during the first half of the year is almost offset by the appreciation of the sterling pound and the Colombian peso, as well as by the payments due to commitments, financial investments and other effects.

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 2.65 times as of end of June 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 2.85 times.

During the first half of 2012, Telefónica's **financing activity**, excluding short-term Commercial Paper Programmes activity, stood slightly over 8,000 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 6,700 million euros and for 2014 to 7,900 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.

In June, a 6-year 10,000 million Japanese yen bond was issued through a private placement.

Telefónica, S.A. and its holding companies have remained active during the first half of 2012 under its various Commercial Paper Programmes (Domestic and European), with an outstanding balance of nearly 1,900 million euros at the end of June.

Regarding Latin America, as of June 2012 Telefónica's subsidiaries have tapped the capital markets for an amount of nearly 800 million equivalent euros. In addition, Telefonica Brasil has recently received firm placement guarantee offer for the issuance of debentures amounting to

## Edgar Filing: TELEFONICA S A - Form 6-K

2.000 million Brazilian reais with the maximum term of 7 years.

Telefónica maintains total undrawn committed credit lines for an amount of approximately 8,900 million euros, with around 7,300 million maturing in more than 12 months.

At the end of June 2012, bonds and debentures represented 63% of **consolidated financial debt** breakdown, while debt with financial institutions weighted 37%.

January June 2012 Results TELEFÓNICA

## Table of Contents

**Corporate income tax** during the first half of 2012 totalled 960 million euros which, over an income before taxes of 3,217 million euros, implied an effective tax rate of 30%, normalising with respect to the rate recorded during the previous quarter.

**Profit attributable to minority interests** dragged net income by 182 million euros in the first six months of 2012 and fell by 15.8% year-on-year.

As a consequence of all the items mentioned above, **consolidated net income** in the first half of 2012 stood at 2,075 million euros (-34.4% year-on-year), and **basic earnings per share** were 0.46 euros. In underlying terms, consolidated net profit fell by 24.1% and basic earnings per share stood at 0.62 euros.

**CapEx** for the first six months of the year totalled 3,658 million euros, 4.7% lower than in the same period of 2011. In 2011 this item included the cost of spectrum acquisition in Brazil and Costa Rica. Therefore, in organic terms, CapEx rose year-on-year by 9.2%. The Company continues to devote the bulk of its investment to growth and transformation projects (81% of total investment), fostering the expansion of high speed broadband services, both fixed and mobile. The CapEx over sales ratio (excluding spectrum investments) was 11.8% in the first half of 2012. It should be noted that the year-on-year change of the first half of the year cannot be extrapolated to the full year given the different levels of investment execution in both years.

**Operating cash flow (OIBDA-CapEx)**, excluding spectrum investment, stood at 6,780 million euros for the first half of 2012 (-13.4% year-on-year in organic terms; -12.0% in underlying terms).

## Definitions

**Organic growth:** In financial terms, it assumes constant average exchange rates as of January-June 2011, and excludes hyperinflation accounting in Venezuela. Therefore, in OIBDA and OI terms, the first half-year of 2011 excludes the positive impact of the partial sale of our stake in Portugal Telecom (+183 million euros). Telefónica's CapEx excludes spectrum investment and, in 2011, Real Estate commitments in relation to the new Telefónica headquarters in Barcelona.

**Underlying growth:** Reported figures, excluding exceptional impacts and spectrum acquisition. First half of 2012 also excludes the reduction in the value of Telecom Italia investment and operating synergies achieved (-512 million euros; -358 million euros net of taxes), and also PPAs (-492 million euros; -363 million euros net of tax and minority interests) and difference in market value of BBVA stake (-30 million euros; -21 million euros net of tax and minority interests). Figures for the first half of 2011 exclude value adjustments in relation to the stake in Telecom Italia (-505 million euros; -353 million euros net of tax), the positive impact arising from a partial reduction of Telefónica's economic exposure to Portugal Telecom (+183 million euros) and also PPAs (-564 million euros; -381 million euros net of taxes and minority interests).

January June 2012 Results TELEFÓNICA

**Table of Contents****TELEFÓNICA**

Financial Data

TELEFÓNICA

**CONSOLIDATED INCOME STATEMENT***Unaudited figures (Euros in millions)*

	2012	January - June 2011	% Chg	2012	April - June 2011	% Chg
Revenues	30,980	30,886	0.3	15,470	15,451	0.1
Internal exp capitalized in fixed assets	394	352	11.9	208	183	13.4
Operating expenses	(21,268)	(20,306)	4.7	(10,493)	(10,130)	3.6
Supplies	(9,060)	(8,893)	1.9	(4,464)	(4,417)	1.1
Personnel expenses	(4,377)	(4,139)	5.7	(2,160)	(2,061)	4.8
Subcontracts	(6,708)	(6,311)	6.3	(3,308)	(3,182)	3.9
Bad Debt Provisions	(412)	(351)	17.3	(167)	(170)	(1.9)
Taxes	(711)	(612)	16.3	(394)	(300)	31.6
Other net operating income (expense)	42	129	(67.6)	18	87	(78.8)
Gain (loss) on sale of fixed assets	285	245	16.4	149	141	5.9
Impairment of goodwill and other assets	(2)	(2)	40.0	(2)	(1)	8.8
Operating income before D&A (OIBDA)	10,431	11,304	(7.7)	5,350	5,730	(6.6)
<i>OIBDA margin</i>	<i>33.7%</i>	<i>36.6%</i>	<i>(2.9 p.p.)</i>	<i>34.6%</i>	<i>37.1%</i>	<i>(2.5 p.p.)</i>
Depreciation and amortization	(5,131)	(4,956)	3.5	(2,562)	(2,439)	5.0
Operating income (OI)	5,300	6,348	(16.5)	2,789	3,291	(15.3)
Profit from associated companies	(498)	(534)	(6.9)	(16)	(518)	n.m.
Net financial income (expense)	(1,585)	(1,165)	36.1	(767)	(586)	31.0
Income before taxes	3,217	4,649	(30.8)	2,006	2,187	(8.3)
Income taxes	(960)	(1,271)	(24.4)	(559)	(543)	3.0
Income from continuing operations	2,257	3,378	(33.2)	1,447	1,645	(12.0)
Non-controlling interests	(182)	(216)	(15.8)	(119)	(106)	12.1
Net income	2,075	3,162	(34.4)	1,327	1,538	(13.7)
Weighted average number of ordinary shares outstanding during the period (millions)	4,524	4,597	(1.6)	4,503	4,598	(2.1)
Basic earnings per share (euros)	0.46	0.69	(33.3)	0.29	0.33	(11.9)

*Notes:*

*For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period has been obtained applying IAS rule 33 Earnings per Share . Thereby, the weighted average number of shares held as treasury stock during the period has not been taken into account as outstanding shares.*

*In accordance with IAS 33, Earnings per Share , the weighted average number of ordinary shares outstanding during the period have been restated for 2011 and 2012 to reflect the bonus share issue due to the scrip dividend. As a consequence basic earnings per share have also been restated.*

## Edgar Filing: TELEFONICA S A - Form 6-K

*2011 and 2012 reported figures include the hyperinflationary adjustments in Venezuela in both years.*

January June 2012 Results TELEFÓNICA



**Table of Contents**

TELEFÓNICA

GUIDANCE 2012

*Unaudited figures (Euros in millions)*

	2012			
	Jan-Mar	Jan-Jun	Guidance 2012	2011 Base
Revenues (%Chg YoY)	0.5%	0.3%	<sup>3</sup> 0% (previous >1%)	62,837
OIBDA Margin (Chg YoY)	(2.8 p.p.)	(2.3 p.p.)	Lower margin decline than in 2011	(2.1 p.p.)
CapEx / Sales (ex spectrum)	11.0%	11.8%	Similar Capex / Sales as in 2011	14.2%
Net financial debt / OIBDA	2,55x	2,65x	Net financial debt / OIBDA < 2,35	2.46x

*2012 guidance criteria: Assumes current exchange rates (2012 average FX of 1: US\$ 1.32; 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.*

January June 2012 Results TELEFÓNICA

**Table of Contents**

TELEFÓNICA

REPORTED VS. UNDERLYING

*Unaudited figures (Euros in millions)*

	Jan-Jun 2012 Reported	January - June Jan-Jun 2012 Underlying	Jan-Jun 2011 Underlying	Underlying Change y-o-y %	Reported Change y-o-y
Revenues	30,980	30,980	30,886	0.3%	0.3%
OIBDA	10,431	10,431	11,122	-6.2%	-7.7%
OIBDA margin	33.7%	33.7%	36.0%	(2.3 p.p.)	(2.9 p.p.)
Operating Income (OI)	5,300	5,792	6,730	-13.9%	-16.5%
Net income	2,075	2,818	3,713	-24.1%	-34.4%
Basic earnings per share (euros)	0.46	0.62	0.81	-22.9%	-33.3%
OpCF (OIBDA-CapEx) ex-spectrum	6,780	6,780	7,707	-12.0%	-14.1%

Exceptional items	2012	2011
Reported OIBDA	10,431	11,304
PT capital gain		(183)
Underlying OIBDA	10,431	11,122
Reported Net Income	2,075	3,162
PT capital gain		(183)
Telco write-down	358	353
Difference in market value of BBVA stake	21	
PPAs	363	381
Underlying Net Income	2,818	3,713

**Underlying growth:** Reported figures, excluding exceptional impacts and spectrum acquisition. First half of 2012 also excludes the reduction in the value of Telecom Italia investment and operating synergies achieved (-512 million euros; -358 million euros net of taxes), and also PPAs (-492 million euros; -363 million euros net of tax and minority interests) and difference in market value of BBVA stake (-30 million euros; -21 million euros net of tax and minority interests). Figures for the first half of 2011 exclude value adjustments in relation to the stake in Telecom Italia (-505 million euros; -353 million euros net of tax), the positive impact arising from a partial reduction of Telefónica's economic exposure to Portugal Telecom (+183 million euros) and also PPAs (-564 million euros; -381 million euros net of taxes and minority interests).

January June 2012 Results TELEFÓNICA



**Table of Contents**

TELEFÓNICA

REPORTED VS. UNDERLYING

*Unaudited figures (Euros in millions)*

	Apr-Jun 2012 Reported	April - June Apr-Jun 2012 Underlying	Apr-Jun 2011 Underlying	Underlying Change y-o-y	% Reported Change y-o-y
Revenues	15,470	15,470	15,451	0.1%	0.1%
OIBDA	5,350	5,350	5,637	-5.1%	-6.6%
OIBDA margin	34.6%	34.6%	36.5%	(1.9 p.p.)	-2.5 p.p.
Operating Income (OI)	2,789	3,019	3,437	-12.2%	-15.3%
Net income	1,327	1,534	1,964	-21.9%	-13.7%
Basic earnings per share (euros)	0.29	0.34	0.43	-20.3%	-12.1%
OpCF (OIBDA-CapEx) ex-spectrum	3,405	3,405	3,773	-9.8%	-11.9%

Exceptional items	2012	2011
Reported OIBDA	5,350	5,730
PT capital gain		(93)
Underlying OIBDA	5,350	5,637
Reported Net Income	1,327	1,538
PT capital gain		(93)
Telco write-down	21	353
Difference in market value of BBVA stake	21	
PPAs	165	166
Underlying Net Income	1,534	1,964

**Underlying growth:** Reported figures, excluding exceptional impacts and spectrum acquisition. In the second quarter of 2012 also excludes the reduction in the value of Telecom Italia investment and operating synergies achieved (-30 million euros; -21 million euros net of taxes), and also PPAs (-230 million euros; -165 million euros net of tax and minority interests) and difference in market value of BBVA stake (-30 million euros; -21 million euros net of tax and minority interests). In the second quarter of 2011 exclude value adjustments in relation to the stake in Telecom Italia (-505 million euros; -353 million euros net of tax), the positive impact arising from a partial reduction of Telefónica's economic exposure to Portugal Telecom (+93 million euros) and also PPAs (-239 million euros; -166 million euros net of taxes and minority interests).



**Table of Contents**

## TELEFÓNICA

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*Unaudited figures (Euros in millions)*

	June 2012	December 2011	% Chg
Non-current assets	106,544	108,800	(2.1)
Intangible assets	23,000	24,064	(4.4)
Goodwill	29,206	29,107	0.3
Property, plant and equipment and Investment properties	35,249	35,469	(0.6)
Non-current financial assets and investments in associates	12,486	13,743	(9.1)
Deferred tax assets	6,603	6,417	2.9
Current assets	21,966	20,823	5.5
Inventories	1,238	1,164	6.4
Trade and other receivables	11,275	11,331	(0.5)
Current tax receivable	1,473	1,567	(6.0)
Current financial assets	2,839	2,625	8.2
Cash and cash equivalents	4,003	4,135	(3.2)
Non-current assets classified as held for sale	1,138	1	n.m.
Total Assets = Total Equity and Liabilities	128,510	129,623	(0.9)
Equity	26,026	27,383	(5.0)
Equity attributable to equity holders of the parent	20,700	21,636	(4.3)
Non-controlling interests	5,326	5,747	(7.3)
Non-current liabilities	70,473	69,662	1.2
Non-current financial debt	56,640	55,659	1.8
Deferred tax liabilities	4,863	4,739	2.6
Non-current provisions	6,824	7,172	(4.9)
Other non-current liabilities	2,146	2,092	2.6
Current liabilities	32,011	32,579	(1.7)
Current financial debt	12,260	10,652	15.1
Trade and other payables	8,519	9,406	(9.4)
Current tax payables	2,585	2,568	0.7
Current provisions and other liabilities	8,647	9,953	(13.1)
Financial Data			
Net financial Debt (1)	58,310	56,304	3.6

(1) Figures in million euros. Includes: Long-term financial debt + other long term liabilities (1,633) + short-term financial debt + trade and other payables (53) non-current financial assets and investments in associates (5,381) trade and other receivables (53) current financial assets cash and cash equivalents.

Note: 2011 and 2012 reported figures include the hyperinflationary adjustments in Venezuela in both years.



**Table of Contents**

TELEFÓNICA

## FREE CASH FLOW AND CHANGE IN DEBT

*Unaudited figures (Euros in millions)*

		2012	January - June 2011	% Chg
I	Cash flow from operations	8,961	9,562	(6.3)
II	Net interest payment (1)	(1,863)	(1,166)	
III	Payment for income tax	(717)	(995)	
A=I+II+III	Net cash provided by operating activities	6,381	7,401	(13.8)
B	Payment for investment in fixed and intangible assets (2)	(4,870)	(4,481)	
C=A+B	Net free cash flow after CapEx	1,511	2,919	(48.3)
D	Net Cash received from sale of Real Estate	14	11	
E	Net payment for financial investment	(540)	(1,036)	
F	Net payment for operations with minority shareholders and treasury stock (3)	(3,735)	(3,414)	
G=C+D+E+F	Free cash flow after dividends	(2,750)	(1,520)	81.0
H	Effects of exchange rate changes on net financial debt	657	(220)	
I	Effects on net financial debt of changes in consolid. and others	(1,401)	(474)	
J	Net financial debt at beginning of period	56,304	55,593	
K=J-G+H+I	Net financial debt at end of period	58,310	56,420	3.3

*(1) Including cash received from dividends paid by subsidiaries that are not fully consolidated.**(2) Figures in million euros. In 2012, it includes 396 for the spectrum payments in Spain, 19 in Colombia, 7 in Mexico and 2 in Nicaragua. In 2011, it includes 58 in Mexico, 35 in Brazil, 3 in Nicaragua and 68 in Costa Rica.**(3) Dividends paid by Telefónica S.A., operations with treasury stock and operations with minority shareholders from subsidiaries that are fully consolidated.**Note: 2011 and 2012 reported figures include the hyperinflationary adjustments in Venezuela in both years.*

January June 2012 Results TELEFÓNICA



**Table of Contents**

## TELEFÓNICA

## RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

*Unaudited figures (Euros in millions)*

	2012	January - June 2011	% Chg
OIBDA	10,431	11,304	(7.7)
- CapEx accrued during the period	(3,658)	(3,838)	
- Payments related to cancellation of commitments	(401)	(425)	
- Net interest payment	(1,863)	(1,166)	
- Payment for tax	(717)	(995)	
- Results from the sale of fixed assets	(285)	(245)	
- Investment In working capital and other deferred income and expenses	(1,997)	(1,715)	
= Net Free Cash Flow after CapEx	1,511	2,919	(48.3)
+ Net Cash received from sale of Real Estate	14	11	
- Net payment for financial investment	(540)	(1,036)	
- Net payment for operations with minority shareholders and treasury stock	(3,735)	(3,414)	
= Free Cash Flow after dividends	(2,750)	(1,520)	81.0

*Unaudited figures (Euros in millions)*

	2012	January - June 2011	% Chg
Net Free Cash Flow after CapEx	1,511	2,919	(48.3)
+ Payments related to cancellation of commitments	401	425	
- Operations with minority shareholders	(184)	(212)	
= Free Cash Flow	1,727	3,133	(44.9)
Weighted average number of ordinary shares outstanding during the period (millions)	4,524		