TELEFONICA S A
Form 6-K
February 28, 2013
Table of Contents

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 February, 2013

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

3491-459-3050

(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 x 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 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

Telefónica, S.A.

TABLE OF CONTENTS

Table of Contents

FINANCIAL HIGHLIGHTS

Stabilization of year-on-year OIBDA trend in the fourth quarter (-0.1% in organic terms), posting sequential growth and margin expansion for the third quarter in a row:

Telefónica s fourth quarter OIBDA (5,449 million euros, negatively impacted in 527 million euros due to the impairment of Telefónica Ireland) increased 7.6% in underlying terms vs. the previous quarter (-1.4% year-on-year), reflecting the efficiencies and savings derived from the transformational initiatives and cost-reduction measures undertaken.

Underlying OIBDA margin for the fourth quarter was 37.0% (+2.0 p.p. vs. the previous quarter) significantly improving its year-on-year trend (+0.1 p.p. vs. -0.5 p.p. in the third quarter).

In 2012, underlying OIBDA totalled 21,741 million euros (-4.1% year-on-year), reflecting an outstanding improving trend throughout the year. Underlying OIBDA margin was 34.9%, 1.3 p.p. lower than in 2011.

Significant increase in operating cash flow (OIBDA-CapEx), which rose 6.2% year-on-year in organic terms in the fourth quarter. In 2012 operating cash flow reached 12,870 million euros in underlying terms.

Substantial improvement in underlying EPS along 2012, that reached 1.44 euros in 2012 (0.87 euros in reported terms). EPS in the fourth quarter grew 28.5% sequentially and remained virtually stable vs. the same period of 2011 (0.46 euros vs. 0.47 euros).

Net income totalled 3,928 million euros, impacted by extraordinary impacts such as Telco impairment (-949 million euros), Telefónica Ireland impairment (-513 million euros) and the effect of the Venezuelan Bolivar devaluation (-417 million euros). **Net income excluding extraordinary impacts rose to 6,465 million euros**.

Free cash flow reached 6,951 million euros in 2012, thus 1.55 euros per share, improving the Group financial flexibility and **allowing for an ample coverage of its dividend commitments for 2013**.

Outstanding improvement in financial flexibility, with a sharp reduction in net financial debt of 4,747 million euros in the fourth quarter (5,045 million euros for the full year):

Net financial debt stood at 51,259 million euros at December 2012, implying a Net financial debt / OIBDA ratio of 2.36x.

The solid cash flow generation in the fourth quarter, coupled with an efficient and proactive management of the Company s asset portfolio, led to a 8.5% reduction in net financial debt compared with the end of September.

The proactive refinancing policy has enabled to raise around 15,000 million euros in 2012 (vs. more than 11,500 million euros in 2011) and covers debt maturities beyond 2014, eliminating refinancing risk.

Revenues totalled 62,356 million euros, and declined 0.8% year-on-year, largely impacted by the challenging trading environment in Europe, forex and regulation. **Excluding regulatory impacts, revenues rose 0.7% thanks to the solid growth of mobile data and Telefónica Latinoamérica**:

In the fourth quarter, consolidated revenues year-on-year organic trend improved compared to the previous quarter. Organic growth at T. Latinoamérica accelerated in the fourth quarter to 7.5% year-on-year (+6.7% in 2012), driven by the expansion of its high-value customer base with a growing weight of contract and smartphones.

Mobile data revenues continued to be the main growth driver in 2012, rising 12.8% year-on-year to account for more than 34% of consolidated mobile service revenues, on the back of the rapid expansion of non-SMS data revenues (57% of total data revenues). This growth is based on the strong increase in mobile broadband accesses to 52.8 million (+38% year-on-year).

In 2012, revenues and OIBDA at Telefónica Latinoamérica surpassed those at Telefónica Europe for the first time, highlighting the Company s high level of diversification:

Spanish OIBDA improved significantly its trend in the fourth quarter (-3.0% year-on-year) to 1,710 million euros, thanks to the strong recovery in OIBDA margin (+5.5 p.p. year-on-year) to 47.2%. This, coupled with more efficient investment over the year, resulted in the first quarterly growth in operating cash flow since 2008 (+7.7% year-on-year in organic terms).

Revenues in Brazil accelerated in the fourth quarter (+2.9% year-on-year) driven by mobile revenues (+9.4% year-on-year), that account already for more than 65% of total revenues in the country. Fourth quarter OIBDA was 1,487 million euros, with a margin of 44.2%, impacted by the capital gains from the sale of non-strategic towers (269 million euros in the fourth quarter 2012 vs. 163 million euros in the fourth quarter 2011).

The pace of year-on-year decline in **UK revenues** improved significantly to -3.2% in the quarter, on the back of healthy growth in mobile service revenues, growing by 0.5% year-on-year excluding regulation. OIBDA reached 412 million euros in the quarter, maintaining its gradually improving trend (-8.7% year-on-year).

Table of Contents

Telefónica Germany continued to improve its positioning in the German mobile market after increasing mobile service revenues by 4.8% in the fourth quarter 2012, excluding regulation. OIBDA reached 366 million euros in the quarter (+5.3% year-on-year) driven by revenue growth and continuing efficiency improvements.

Debt reduction is consistent with our strategy of prioritising investments on growth areas and strengthening networks by acquiring spectrum.

The Company met its 2012 operating targets for revenues, OIBDA margin and CapEx/Sales.

Telefónica announces its guidance for 2013 and reiterates the shareholder remuneration policy for 2013, of paying a cash dividend of 0.75 euros per share.

Operating guidance (in organic terms[1]):

Revenue growth.

Lower OIBDA margin erosion than in 2012.

CapEx/Sales similar than in 2012.

Financial guidance:

Net financial debt < 47,000 million euros.

1 **Guidance criteria 2013:** 2013 guidance assumes constant exchange rates as of 2012 (average FX in 2012), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. OIBDA level guidance for 2013 excludes write-offs, capital gains/losses from companies disposals, towers sales and other significant exceptionals. CapEx excludes spectrum acquisition.
2012 adjusted bases exclude:

Capital gains/losses from companies disposals: Capital gains/losses from China Unicom, Atento, Hispasat and Rumbo and impairment of T. Ireland.

Homogeneous perimeter: 2012 adjusted figures exclude results of Atento, Rumbo and small changes in T. Digital perimeter and homogeneous accounting treatment of Joint Ventures.

Tower sales.

Change in contractual commercial model for contract handsets in Chile.

2012 Bases for 2013 targets:

Organic revenues 2012: 61,084 million euros.

OIBDA margin erosion ex-towers: -1.4 percentage points.

Organic CapEx/Sales ex-spectrum: 14.1%.

Table of Contents

Comments from César Alierta, Executive Chairman:

In 2012, Telefónica initiated a deep transformation, delivering progressive improvements quarter by quarter and allowing us to meet the guidance set at the beginning of the year.

This transformation approach targets the recovery of our differential growth profile, based on a sustainable top-line growth leveraged on our high diversification, with solid revenue growth in Latin America, mobile data and digital services.

Additionally, we have implemented bold actions in our commercial model, changing our propositions from a subsidy-based model towards a more sustainable model based on quality and differential offers, which increase customers loyalty. In parallel, we are executing a simplification process across the board, leading to significant cost savings and increased efficiency, prioritising resources towards core and growth activities.

These actions resulted into a sequential improvement of organic revenue growth and a continued margin recovery which, in the fourth quarter, contributed to OIBDA year-on-year stabilisation and led to organic growth in the operating cash flow (+6.2% year-on-year).

With regards to the balance sheet, we closed the year with an outstanding improvement in financial flexibility thanks to a proactive portfolio management, a strong cash-flow generation and an on-going refinancing policy.

In 2013, we will further execute this transformation process, and we expect to recover our growth profile and further improve margin trends, while we continue to reduce our leverage.

TELEFÓNICA

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December		% Chg	
	2012	2011	Reported	Organic
Revenues	62,356	62,837	(0.8)	(0.8)
Telefónica Latinoamérica	30,520	28,941	5.5	6.7
Telefónica Europe	29,995	32,066	(6.5)	(7.8)
Other companies & eliminations	1,841	1,830	0.6	
OIBDA	21,231	20,210	5.1	(3.9)
Telefónica Latinoamérica	11,103	10,890	2.0	3.4
Telefónica Europe	10,244	9,278	10.4	(10.0)
Other companies & eliminations	(115)	42	c.s.	
OIBDA margin	34.0%	32.2%	1.9 p.p.	(1.1 p.p.)
Telefónica Latinoamérica	36.4%	37.6%	(1.3 p.p.)	(1.1 p.p.)
Telefónica Europe	34.2%	28.9%	5.2 p.p.	(0.9 p.p.)
Operating Income (OI)	10,798	10,064	7.3	(8.7)
Telefónica Latinoamérica	6,015	6,120	(1.7)	1.2
Telefónica Europe	5,233	4,197	24.7	(15.6)
Other companies & eliminations	(450)	(253)	78.1	
Net income	3,928	5,403	(27.3)	
Basic earnings per share (euros)	0.87	1.18	(25.9)	
CapEx	9,458	10,224	(7.5)	0.3
Telefónica Latinoamérica	5,455	5,260	3.7	4.5
Telefónica Europe	3,513	4,513	(22.2)	(9.0)
Other companies & eliminations	490	452	8.6	
OpCF (OIBDA-CapEx)	11,773	9,986	17.9	(6.6)
Telefónica Latinoamérica	5,648	5,630	0.3	2.6
Telefónica Europe	6,731	4,765	41.2	(10.4)
Other companies & eliminations	(605)	(409)	47.9	

- *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.*
- *Other companies & eliminations include the results of Atento in 2012 until November 30th.*

- *CapEx includes 586 millon euros from the spectrum acquired in 2012: 5 millon euros in Nicaragua, 34 millon euros in Venezuela, 127 millon euros in Ireland and 420 millon euros in Brazil. In 2011 it includes 1,296 millon euros from the spectrum acquired: 842 millon euros in Spain, 349 millon euros in Brazil, 68 millon euros in Costa Rica and 37 millon euros in Colombia.*
- *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-December 2011 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. The results of the Atento Group are included up to 30 November 2011 and those of Rumbo are included up to 31 October 2011. In OIBDA and OI terms, 2012 excludes the reduction in value made by the Telefónica Group on its investment in Telefónica Ireland (-527 million euros), the capital loss generated by the sale of China Unicom shares (-97 million euros), and the capital gains generated by the sale of the Atento Group (+61 million euros), Rumbo (+27 million euros) and the partial sale of Hispasat (+26 million euros). Excluded from OIBDA and OI in 2011 were the positive impact of the partial sale of Telefónica s economic exposure to Portugal Telecom (+184 million euros), and the provision for the redundancy program in Spain (-2,671 million euros). Telefónica s CapEx excludes spectrum investment and, in 2011, the Real Estate Efficiency Programme at T. España, and the real estate commitments in relation to the new Telefónica headquarters in Barcelona.*

January December 2012

TABLE OF CONTENTS

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.

5

Table of Contents

TELEFÓNICA

TELEFÓNICA

ACCESSES

Unaudited figures (thousands)

	December		
	2012	2011	% Chg
Final Clients Accesses	310,010.8	301,311.8	2.9
Fixed telephony accesses (1) (2)	40,002.6	40,119.2	(0.3)
Internet and data accesses	19,402.6	19,134.2	1.4
Narrowband	653.2	909.2	(28.2)
Broadband (3)	18,596.2	18,066.3	2.9
Other (4)	153.1	158.7	(3.5)
Mobile accesses (5)	247,269.5	238,748.6	3.6
Prepay (6)	165,759.7	162,246.9	2.2
Contract (2) (7)	81,509.8	76,501.7	6.5
Pay TV	3,336.2	3,309.9	0.8
Wholesale Accesses	5,731.3	5,296.0	8.2
Unbundled loops	3,308.8	2,928.7	13.0
Shared ULL	183.5	205.0	(10.5)
Full ULL	3,125.3	2,723.7	14.7
Wholesale ADSL (8)	800.6	849.3	(5.7)
Other (9)	1,621.8	1,518.0	6.8
Total Accesses	315,742.1	306,607.8	3.0

TELEFÓNICA

MOBILE ACCESSES

Unaudited figures (thousands)

	December		
	2012	2011	% Chg
Prepay percentage (%)	67.0%	68.0%	(0.9 p.p.)
Contract percentage (%)	33.0%	32.0%	0.9 p.p.
MBB accesses (000)	52,774.9	38,218.1	38.1%
MBB penetration (%)	21%	16%	5.3 p.p.
Smartphone penetration (%)	19%	13%	6.2 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) *Fixed telephony accesses include the reclassification in the fourth quarter of 2012 in Argentina of 157 thousand fixed wireless accesses previously recognized as mobile accesses of the contract segment.*

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

(4) *Retail circuits other than broadband.*

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

(6) *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.*

(7) *First quarter of 2012 includes the disconnection of 800 thousand inactive accesses in Spain.*

(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.

2012 was a key year in Telefónica s transformation process. Various initiatives were introduced during the course of the year that will accelerate the restoring of the Company s growth differential. Telefónica Latinoamérica s revenues exceeded those of Telefónica Europe for the first time, remaining along with mobile data revenues as the main growth levers for the Group, with both registering an acceleration in their organic growth rates in the fourth quarter. Telefónica Europe regained strong commercial momentum in its main markets thanks to the success of the newly launched tariffs, particularly Movistar Fusión in Spain, which reflects a general improvement in the competitive position in the different markets.

Meanwhile, **for the third quarter in a row there was a sequential improvement in underlying OIBDA in absolute terms across all regions, and in the consolidated OIBDA margin, which returned to year-on-year growth in underlying terms**, on the back of the transformational initiatives and cost reduction measures undertaken in several areas.

7

In 2012 Global Resources consolidated its operating model and, through its global areas, consistently contributed to Telefónica s progress in optimising scale economies. As a result, it has obtained higher efficiencies, improvements in time to market and customer satisfaction, in addition to increased competitiveness in its multinational businesses.

The global initiatives oriented towards the simplification and standardisation of processes, applications and technologies, together with a rationalisation of rollouts and network sharing, have all allowed Telefónica to generate recurring savings and a better service quality. Thus, it has set the basis for accelerating our IT transformation, which will be supported on our new data centres (Mexico, Brazil and Spain).

In addition, the value traded globally in mobile devices has risen to 80%, focused on 100 references, thereby improving the efficiency obtained every quarter, and working towards a more balanced vendor map and an optimum swapability among references. It has also laid the foundations to develop an end to end sourcing model with emphasis on global categories. This model allows Telefónica to unify decision and award processes, guaranteeing savings and value creation sustainability.

Finally, the new organisation of Telefónica s multinational businesses has been strengthened, with leaner operations, reinforcing its global positioning and improving customer satisfaction. As a result, revenues from its multinational businesses increased 7% year-on-year, highlighting international services (+23% year-on-year).

During 2012, **we have also improved our CapEx efficiency by focusing on growth**, reallocating resources to higher-growth operations and services -such as the selective rollout of fibre and VDSL-, improving service quality and customer satisfaction, strengthening our networks via spectrum acquisition, and prioritising simplicity in order to best take advantage of shared investment.

At the same time, **there was a substantial improvement in financial flexibility at the end of 2012**, thanks to the three following cornerstones: firstly, a significant reduction in debt during the second half of the year, thanks to strong cash flow generation -this being due to a substantial improvement in OIBDA and an efficient working capital management- and proactive portfolio management; secondly, the fact that the Company s refinancing efforts throughout 2012 have led to the long-term refinancing of around 15,000 million euros, with a high level of diversification; and thirdly, the cancellation of the dividend corresponding to fiscal year 2012 has been a key determining factor for increasing the Company s liquidity and for facilitating market access. All these measures have led to significant reduction in financial leverage, credit rating stabilization and significant liquidity improvement.

During the fourth quarter of 2012, Telefónica advanced further with the transformation of the Company. **Telefónica Digital,** as part of its strategy to boost innovation and capture opportunities in the digital world, has made significant progress, including:

As part of the venture capital initiative, **Telefónica Ventures** led the funding round for Everything.me , an innovative dynamic HTML5-based platform for mobile applications, which is bringing about in smartphones a transition to the dynamic concept, offering services adapted to a particular time and location.

At the same time, Telefónica continues to make progress with the development of **Firefox**, an HTML5-based Mozilla operating system, with first handsets to be launched in Brazil, Colombia, Spain and Venezuela during the summer of 2013.

Telefónica launched Instant Servers , the first global **cloud** service with the Telefónica brand name, which offers to corporate customers high-performance virtual servers optimized for corporate mobile applications.

In Brazil, Telefónica and Mastercard presented MFS, a company that is to develop **mobile payment** solutions to meet the needs of Telefónica s customers that don t have bank accounts enabling them to make bank transfers, purchases and mobile top-ups among other financial transactions.

T. Digital has bought TokBox, the leading platform for **video communication**, which enables the development of live video-based communication services via the simple incorporation of video calls into websites and mobile applications.

Table of Contents

Wayra successfully held its first DemoDay Global in Miami to present to international investors the advances made by 17 start-ups chosen from the more than 180 ventures so far accelerated. During the quarter Wayra incorporated new academies in Sao Paulo, Munich, Prague and Santiago de Chile, making a total of 13 academies around the world.

Telefónica Digital and Microsoft signed a strategic agreement for the creation of a **Global Video Platform**, that offers television services both in managed networks (IPTV) and non-managed networks (over-the-top). During the quarter the service was launched in Brazil and Chile.

Telefónica Digital created **Telefónica Dynamic Insights**, a new global business unit aimed at opening up the new value-creation opportunities offered by the so-called big data sector.

The Company s total **accesses** rose 3% year-on-year, reaching 315.7 million at year end 2012, with a significant rise in the number of contract accesses and fixed and mobile broadband accesses. Noteworthy was the 6% year-on-year increase in accesses at Telefónica Latinoamérica (67% of the total). In the fourth quarter, Telefónica Europe posted positive net additions on its total accesses, as a result of strong commercial momentum.

Mobile accesses stood at 247.3 million at the end of the quarter, up 4% on 2011, driven by sustained growth in mobile contract accesses (+7% year-on-year), which now account for 33% of total mobile accesses. Mobile net additions in 2012 totalled 12.1 million accesses (excluding the disconnection of 3.6 million inactive mobile accesses in Spain and Brazil), with the contract segment accounting for 52%.

The Company s **mobile broadband accesses** stood at 52.8 million in December 2012, maintaining a solid 38% year-on-year growth, and representing 21% of mobile accesses (+5 percentage points year-on-year). It is worth highlighting the strong commercial momentum in smartphones during the year, with net additions of 15.4 million in 2012 (+20% year-on-year) reaching a penetration rate of 19% over mobile accesses (+6 percentage points year-on-year), and particularly in the fourth quarter, with total net additions of 5.4 million (the best quarter of the year and a 73% higher than the third quarter). Particularly noteworthy was the significant acceleration of net smartphone additions in Europe in the fourth quarter, largely on the back of the commercial momentum of Telefónica España.

Fixed-line accesses reached 40.0 million at the end of 2012, with net additions of 181 thousand during the fourth quarter (-217 thousand accesses in the third quarter) and with year-on-year deterioration slowing vs. September (-0.3% through to December compared with -1.5% to September).

Retail fixed broadband accesses reached 18.6 million at the end of the year, a 3% increase vs. December 2011, with 530 thousand net additions during 2012 (+72 thousand in the fourth quarter). In the fourth quarter, Telefónica Europe showed net additions for the first time since March 2011, thanks to the commercial momentum on fixed broadband at Telefónica España. Retail fixed broadband accesses reached a penetration rate of 46% over total fixed accesses (+1.5 percentage points year-on-year).

It is important to note that Atento Group deconsolidated its results from Telefónica Group as of the end of November 2012 (following the disposal of the company during the fourth quarter of 2012), therefore affecting year-on-year comparisons of Telefónica s reported financial results.

Revenues in 2012 totalled 62,356 million euros, a 0.8% decrease vs. 2011, (-2.0% year-on-year in the fourth quarter), affected by adverse conditions in certain markets, both economic and those resulting from more intense competition, and the negative effect of regulation. Revenues increased 0.7% year-on-year in 2012, excluding the negative effect of regulation. Exchange rate fluctuations contributed 0.1 percentage points to growth and changes to the perimeter had a negative impact of 0.1 percentage points, meaning the decrease in organic terms was 0.8% for the full year. In the fourth quarter, the year-on-year decrease in organic terms was 0.7%, as exchange rate fluctuations had a negative impact of 0.9 percentage points and changes in the perimeter contributed negatively 0.4 percentage points to revenue growth.

The Company s high diversification remains a key differentiating factor in the current environment, as demonstrated by the revenue breakdown. By regions, Telefónica Latinoamérica s revenues in 2012 continued to show strong year-on-year growth in organic terms (+6.7%), accelerating in the fourth quarter vs. the third quarter (+7.5% vs. +6.4%), and they now account for 49% of consolidated revenues (+2.9 percentage points vs. the previous year), exceeding the revenues from Telefónica Europe (48% of total), which fell 6.5% year-on-year in reported terms. Telefónica España s contribution decreased to 24% of consolidated revenues.

By services, mobile data revenues remained as growth driver in 2012 (+12.8% year-on-year; +11.8% in organic terms), contributing more than 34% to mobile service revenues during the period (31% in 2011). Non-SMS mobile data revenues posted a significant increase (+24.1% year-on-year; +23.1% in organic terms), representing 57% of total mobile data revenues, 5 percentage points more than in 2011.

Consolidated **operating expenses** amounted to 42,343 million euros, 4.9% less than in 2011. The reported year-on-year comparison is affected by the provision for expenses related to the redundancy program in Spain booked in the third quarter of last year (2,671 million euros). The trend in expenses improved in the fourth quarter, with a 3.1% decrease year-on-year, thanks to the efficiency and cost cutting measures introduced. In organic terms, expenses increased by 1.1% year-on-year in 2012, an improvement of 1.1 percentage points compared with the first nine months of 2012, mainly due to lower commercial costs, principally in Spain, resulting from the new commercial model introduced as of the end of 2011.

Supplies for full-year 2012 totalled 18,074 million euros, a 1.0% decrease in reported terms (-2.1% organic). In the fourth quarter of 2012, the decrease accelerated (-3.9% year-on-year in reported terms; -3.9% organic), reflecting lower mobile interconnection costs in all regions and lower handset upgrades in Spain and the UK.

Subcontract expenses (13,487 million euros) rose by 3.6% year-on-year (+3.4% organic). Nevertheless, in the fourth quarter there was a change in trend and they fell on a year-on-year basis (-1.8% in reported terms; -2.4% organic), mainly due to the general reduction in commercial costs, especially those relating to fees and advertising expense.

Personnel costs stood at 8,569 million euros, a 22.7% decrease vs. 2011, being the year-on-year comparison affected by the provision for the redundancy program in Spain mentioned above. In organic terms, this item increased 3.3% year-on-year (+1.3% in the fourth quarter), thanks to the important savings derived from the Company s redundancy programs, and despite the impact of inflation in some Latin American countries.

The average headcount was 272,598 employees. Excluding Atento, which was sold in the fourth quarter, Telefónica s average workforce stood at 131,468 employees, 2,480 fewer than in 2011.

Gains on sales of fixed assets in 2012 stood at 782 million euros (-5.0% year-on-year) and at 493 million euros in the fourth quarter (-6.9% year-on-year). This heading in 2012 included mainly the following: i) the sale of non-strategic towers, with an impact on OIBDA of 643 million euros (354 million euros in the fourth quarter, mainly in Brazil, Mexico, Chile, Spain, and Peru); ii) the gain from the sale of applications in the second quarter (39 million euros; 18 million euros in Telefónica España); iii) the capital loss on the reduction of the stake in China Unicom (97 million euros in the third quarter); and iv) the capital gains from the fourth quarter disposals of Atento (61 million euros), Rumbo (27 million euros), and the partial sale of Hispasat (26 million euros). In 2011, this item totalled 823 million euros (530 million euros in the fourth quarter) and mainly included the positive effects of the partial reduction of our economic exposure to Portugal Telecom (184 million euros) and the sale of non-strategic towers (with an impact in OIBDA of 541 million euros; 467 million euros in the fourth quarter).

It is important to mention that OIBDA is affected by a value adjustment (-527 million euros) by the Telefónica Group in relation to Telefónica Ireland.

Operating income before depreciation and amortisation (OIBDA) amounted to 21,231 million euros, a 4.1% decrease in underlying terms, 1.0 percentage point less than the decrease registered during the first nine months of 2012 (-5.1%), with a sequential improvement in underlying OIBDA in all regions. In the fourth quarter, underlying OIBDA was virtually stable in year-on-year terms (-1.4%) at 5,862 million euros, confirming, for the third quarter in a row, a sequential quarterly improvement in OIBDA.

OIBDA margin at the end of 2012 stood at 34.0%, the year-on-year erosion being in line with the Company s forecasts (-1.3 percentage points in underlying terms). The sustained sequential improvement in the underlying OIBDA margin continued in the fourth quarter (37.0%, compared with 35.1% in the third quarter, 34.6% in the second quarter, and 32.8% in the first quarter).

Noteworthy, underlying OIBDA margin in the fourth quarter registered positive year-on-year growth (+0.1 percentage points compared with -0.5 percentage points in the third quarter, -1.9 in the second quarter, and -2.8 in the first quarter), reflecting the success of measures implemented to improve the Company s efficiency and despite the lower year-on-year contribution from tower sales. By region, Telefónica Latinoamérica continued increasing its contribution to consolidated underlying OIBDA, accounting for 51% (+3.2 percentage points vs. December 2011). Telefónica Europe accounted for slightly less than 50%, and Telefónica Spain s contribution fell to less than a third of the total (31%).

Depreciation and amortisation in 2012 (10,433 million euros) increased 2.8% year-on-year (+2.0% in organic terms) and 2.7% year-on-year in the fourth quarter, mainly due to the amortisation of the new spectrum acquired in Germany, Brazil, Colombia, Mexico and Venezuela, and the increase in fixed assets. The depreciation and amortisation charges arising from purchase price allocation processes amounted to 962 million euros in 2012 (-14.1% year-on-year).

In 2012, **operating income (OI)** totalled 10,798 million euros (-10.2% year-on-year in underlying terms), and particularly improved in the fourth quarter (-5.4% year-on-year in underlying terms).

Profit from associates amounted to -1,275 million euros (-635 million euros in 2011), mainly due to Telco, S.p.A. s adjustments of the value of its investment in Telecom Italia, as well as to the recovery of all the operating synergies considered at the time of this investment, with both effects totalling -1,355 million euros in 2012 and -662 million euros in 2011. The figure for the fourth quarter was -789 million euros compared with -130 million euros for the same period the previous year, and was totally due to the above-mentioned value adjustment at Telco, S.p.A. It should be pointed out that these effects were non-cash impacts.

Net financial expenses for the full-year 2012 totalled 3,659 million euros, 24.4% more than in 2011. This is explained by two separate effects; on the one hand, by the increase in interest rate costs mainly due to a higher average debt in 2012 (+3.3% to 58,187 million euros), the widening of credit spreads, and the need to increase liquidity (with lower remuneration compared to the cost of debt) as a result of the financial market crisis; and, on the other hand, this is explained by greater negative exchange rate differences mainly due to the effect in the estimations of the Group as a result of the 32% decline in the estimated liquidation value of the Venezuelan Bolivar versus the US Dollar in 2013. Despite the increase in credit costs, the Company has managed to maintain the average cost of the Group s gross debt (excluding the cash position) at 4.7%. This implies an effective cost of debt of 5.37% over the last 12 months excluding exchange rate differences.

Cash Flow from operations reached 20,105 million euros in 2012 (-6.3% year-on-year), and 5,919 million euros in the fourth quarter.

Working capital generation over the twelve month period amounted to 772 million euros, driven by the working capital management measures implemented. This is lower than the 2011 figure (2,134 million euros), basically due to the following: the decrease in supplier financing, as a result of Spain s Insolvency Law; lower accruals resulting from the containment of investment in fixed assets; and the impact from differences among spectrum accruals and payments; and various other factors.

Interest payments totalled 2,867 million euros, 856 million euros more than in 2011. Out of this amount, approximately 308 million euros were non-recurrent effects, such as the payment of interests related to the restructuring of Colombian companies, payments to the tax authorities in Spain and Peru, and front-end fees related to financial operations signed. The remainder was mainly due to a higher average debt in 2012 and the increase in interest rates due to the negative evolution of financial markets.

Payment of taxes totalled 2,024 million euros in 2012, 65 million euros more than in 2011.

As a result, **Free Cash Flow** for full-year 2012 amounted to 6,951 million euros, 25.0% less than in 2011, mainly due to the lower generation of working capital and the higher interest payments mentioned above.

It is important to highlight that, following the Company s efforts to reduce debt, **net financial debt** decreased by 5,045 million euros in 2012, finishing the year at 51,259 million euros.

The lower debt compared to December 2011 was explained by a free cash flow figure for 2012 of 6,951 million euros and net financial divestments of 2,447 million euros, underlining the funds raised by the Initial Public Offering of the German subsidiary. Changes in the perimeter of consolidation and other impacts reduced debt by 669 million euros (including 1,499 million euros from the debt restructuring in Colombia, reduced by 830 million euros which reflects the increase in the present value of obligations due to fixed rate derivative transactions, accrued interest higher than payments, and other effects). Shareholder remuneration, although 51% lower than in 2011, increased financial debt by 3,561 million euros, payments due to commitments represented a cash outflow of 800 million euros, and exchange rate movements (mainly the appreciation of the Mexican peso, the Peruvian sol, and the Chilean peso against the dollar) led to an increase in financial debt of 662 million euros.

Table of Contents

The **leverage ratio** for the past 12 months (net debt over OIBDA) stood at 2.36 times as of the end of December.

During 2012, Telefónica s **financing activity**, excluding short-term Commercial Paper Programmes activity, stood at around 15,000 million equivalent euros and has exceeded the amount raised in fiscal year 2011, improving significantly the Company s liquidity position.

The financing activity was focused on financing in advance debt maturing in 2012, and on smoothing the debt maturity profile for 2013 and 2014 at the Holding level. Therefore, the Company maintains a debt maturity profile that, along with cash flow generation expectations, is covered beyond 2014.

Net debt maturities for 2014 amount to 6,945 million euros, while for 2013 the cash and liquid assets position exceeds the gross maturities due in the year. The main financial 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 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.

In August, a new loan facility with two Chinese financial entities was signed to finance telecom equipment purchases with a local supplier for an amount of 1,200 million US dollars.

In September, 1,000 million euros for a period of 5 years were raised through a 750 million euros bond that was above 9 times oversubscribed followed by a tap of 250 million euros.

Also in September, Telefónica Czech Republic signed a 4 year term loan facility worth 3,000 million Czech crowns.

In October, a 7 year bond issuance for an amount of 1,200 million euros was launched, more than 6.5 times oversubscribed.

In November, as part of the refinancing of the preferred shares maturing in December 2012, a 10 year debenture issuance for an amount of 1,165 million euros was launched.

In December, there was a debut Swiss franc issuance in two tranches, 6 years and 10 years, raising 250 million Swiss francs and 150 million Swiss francs respectively.

In January 2013, Telefónica issued a 10 year bond in the euro market for an amount of 1,500 million euros that was 6.5 times oversubscribed. More recently, in February, a refinancing has just been signed, with 23 banks, relating to the tranche of the Vivo syndicated loan maturing in July 2014, for an amount totalling 1,400 million euros. 700 million euros have been extended to July 2017 and 700 million euros to July 2018. Also in February, the Company has signed two operations to finance purchases from Canadian and Swedish suppliers, for 206 million euros and 1,001 million USD, respectively.

Telefónica S.A. and its holding companies have remained active during 2012 under the various Commercial Paper Programmes (Domestic and European), with an outstanding balance of nearly 1,100 million euros at the end of December.

Regarding Latin America, as of December 2012 Telefónica s subsidiaries have tapped the capital markets for an amount of approximately 2.900 million equivalent euros. The main financial operations closed during the year included:

In September, Telefónica Brazil completed a 5 year 2,000 million Brazilian reais debentures issue.

Also, in September, Telefónica Colombia issued a 10 year US dollar debut offering for an amount of 750 million nearly 11 times oversubscribed.

In October, Telefónica Chile issued a 10 year bond for 500 million US dollars which was over 10 times oversubscribed.

Telefónica maintains total undrawn committed credit lines for an amount of nearly 11,600 million euros, with around 9,500 million maturing in more than 12 months.

At the end of December 2012, bonds and debentures represented 68% of consolidated **financial debt** breakdown, while debt with financial institutions represented 32%.

Corporate income tax for 2012 totalled 1,461 million euros, which, over an income before taxes of 5,864 million euros, implied an effective tax rate of 24.9%, mainly due to the recognition of tax losses in several countries during the fourth quarter.

Profit attributable to minority interests dragged net income by 475 million euros in 2012, mainly due to the participation of minorities in net income of Telefónica Brazil, Telefónica Czech Republic and Telefónica Germany. The year-on-year change (-39.5%) is affected by the reversal of deferred tax liabilities recognised as part of the Vivo purchase price allocation in the amount of 1,288 million euros resulting from the tax benefit generated by some of the acquired assets.

As a result of the above items, **consolidated net income** in 2012 was 3,928 million euros (-27.3% year-on-year) and the basic earnings per share 0.87 euros (-25.9% year-on-year). In underlying terms, net income amounted to 6,465 million euros, a year-on-year decrease of 13.6%, while **basic earnings per share** was 1.44 euros (-11.9% year-on-year).

It is important to underline the significant improvement in the fourth quarter, in which net profit reached 2,051 million and 0.46 euros per share in underlying terms, showing strong sequential growth (+28.5% vs. the third quarter of 2012) and remaining virtually stable in year-on-year terms.

CapEx in 2012 reached 9,458 million euros, 7.5% less than in 2011. It is important to highlight that in 2012 this item included 586 million euros mainly relating to the cost of the spectrum in Brazil, Ireland, and Venezuela; while in 2011 it included spectrum investment in Spain, Brazil, Costa Rica, and Colombia, for a total of 1,296 million euros. In organic terms, CapEx rose 0.3% year-on-year. The Company continued to devote the bulk of its investments on growth and transformation projects (81% of total investment), fostering the expansion of high-speed broadband services, both fixed and mobile.

The CapEx to sales ratio (excluding spectrum) for 2012 stood at 14.2%, in line with 2011.

Consequently, **operating cash flow (OIBDA-CapEx)**, excluding spectrum, stood at 12,360 million euros in 2012 (+9.6% year-on-year; -6.6% in underlying terms). In the fourth quarter, operating cash flow rose 3.3% year-on-year in underlying terms.

Definitions

Organic growth: In financial terms, it assumes constant average exchange rates as of January-December 2011 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. The results of the Atento Group are included up to 30 November 2011 and those of Rumbo are included up to 31 October 2011. In OIBDA and OI terms, 2012 excludes the reduction in value made by the Telefónica Group on its investment in Telefónica Ireland (-527 million euros), the capital loss generated by the sale of China Unicom shares (-97 million euros), and the capital gains generated by the sale of the Atento Group (+61 million euros), Rumbo (+27 million euros) and the partial sale of Hispasat (+26 million euros). Excluded from OIBDA and OI in 2011 were the positive impact of the partial sale of Telefónica s economic exposure to Portugal Telecom (+184 million euros), and the provision for the redundancy program in Spain (-2,671 million euros). Telefónica s CapEx excludes spectrum investment and, in 2011, the Real Estate Efficiency Programme at T. España, and the real estate commitments in relation to the new Telefónica headquarters in Barcelona.

Underlying growth: Reported figures, excluding exceptional impacts and spectrum acquisition and excluding the impact from changes in the perimeter of consolidation. The results of the Atento Group are included up to 30 November 2011 and those of Rumbo are included up to 31 October 2011. 2012 figures exclude the reduction in the value of the Telecom Italia investment and the recovery of all the operating synergies considered at the time of this investment (-1,355 million euros; -949 million euros net of taxes), and also PPAs (-1,073 million euros; -689 million euros net of taxes and minority interests), the reduction in value made by the Telefónica Group on its investment in Telefónica Ireland (-527 million euros; -513 million euros net of taxes), the effect of Venezuelan Bolivar devaluation (-438 million euros; -417 million euros net of taxes), the capital loss on the sale of China Unicom shares (-97 million euros; -45 million euros net of taxes), the capital gain on the sale of Atento Group (+61 million euros; +33 million euros net of taxes), the capital gain on the sale of Rumbo (+27 million euros; +24 million euros net of taxes) and the capital gain on the partial sale of Hispasat (+26 million euros; +19 million euros net of taxes). In 2011, results exclude the provision for the redundancy program in Spain (-2,671 million euros; -1,870 million euros net of taxes), the reversal of deferred tax liabilities at Vivo (+1,288 million euros; +952 million euros net of taxes and minority interests), value adjustments in relation to the stake in Telecom Italia and the operating synergies achieved (-662 million euros; -481 million euros net of taxes), the positive impact arising from the partial reduction of Telefónica s economic exposure to Portugal Telecom (+184 million euros), the difference in market value of the BBVA stake (-80 million euros; -56 million euros net of taxes), tax asset reassessment (-30 million euros) and also PPAs (-1,228 million euros before taxes; -790 million euros net of taxes and minority interests).

Table of Contents

TELEFÓNICA

Financial Data

TELEFÓNICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December			October - December		
	2012	2011	% Chg	2012	2011	% Chg
Revenues	62,356	62,837	(0.8)	15,837	16,165	(2.0)
Internal exp capitalized in fixed assets	822	739	11.3	241	208	16.1
Operating expenses	(42,343)	(44,501)	(4.9)	(10,679)	(11,026)	(3.1)
Supplies	(18,074)	(18,256)	(1.0)	(4,671)	(4,858)	(3.9)
Personnel expenses	(8,569)	(11,080)	(22.7)	(2,062)	(2,164)	(4.7)
Subcontracts	(13,487)	(13,019)	3.6	(3,374)	(3,435)	(1.8)
Bad Debt Provisions	(777)	(818)	(5.1)	(193)	(223)	(13.4)
Taxes	(1,436)	(1,328)	8.1	(379)	(345)	9.7
Other net operating income (expense)	177	317	(44.0)	116	83	39.3
Gain (loss) on sale of fixed assets	782	823	(5.0)	493	530	(6.9)
Impairment of goodwill and other assets	(564)	(5)	n.m.	(559)	0	c.s.
Operating income before D&A (OIBDA)	21,231	20,210	5.1	5,449	5,960	(8.6)
OIBDA margin	*34.0%*	*32.2%*	*1.9 p.p.*	*34.4%*	*36.9%*	*(2.5 p.p.)*
Depreciation and amortization	(10,433)	(10,146)	2.8	(2,661)	(2,592)	2.7
Operating income (OI)	10,798	10,064	7.3	2,789	3,368	(17.2)
Profit from associated companies	(1,275)	(635)	100.7	(789)	(130)	n.m.
Net financial income (expense)	(3,659)	(2,941)	24.4	(1,240)	(895)	38.5
Income before taxes	5,864	6,488	(9.6)	760	2,343	(67.6)
Income taxes	(1,461)	(301)	n.m.	(103)	781	(113.2)
Income from continuing operations	4,403	6,187	(28.8)	657	3,124	(79.0)
Non-controlling interests	(475)	(784)	(39.5)	(184)	(454)	(59.5)
Net income	3,928	5,403	(27.3)	473	2,670	(82.3)
Weighted average number of ordinary shares outstanding during the period (millions)	4,496	4,584	(1.9)	4,469	4,561	(2.0)
Basic earnings per share (euros)	0.87	1.18	(25.9)	0.11	0.59	(81.9)

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.*
- *2011 and 2012 reported figures include the hyperinflationary adjustments in Venezuela in both years.*
- *2012 reported figures include the results of Atento until November 30th.*

TELEFÓNICA

GUIDANCE 2012

Unaudited figures (Euros in millions)

	2012					
	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	Guidance 2012	2011 Base
Revenues (%Chg YoY)	0.5%	1.0%	0.6%	0.7%	³ 0%	62,837
OIBDA Margin (Chg YoY)	(2.7 p.p.)	(2.5 p.p.)	(1.6 p.p.)	(1.3 p.p.)	Lower margin decline than in 2011	(2.1 p.p.)
CapEx (ex spectrum) / Sales	11.0%	11.8%	12.2%	14.2%	Similar Capex / Sales as in 2011	14.2%
Net financial debt / OIBDA	2.55x	2.65x	2.56x	2.36x	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.

Table of Contents

TELEFÓNICA

REPORTED VS. UNDERLYING

Unaudited figures (Euros in millions)

	January - December			%	
	Jan-Dec 2012 Reported	Jan-Dec 2012 Underlying	Jan-Dec 2011 Underlying	Underlying Change y-o-y	Reported Change y-o-y
Revenues	62,356	62,356	62,766	(0.7)	(0.8)
OIBDA	21,231	21,741	22,682	(4.1)	5.1
OIBDA margin	34.0%	34.9%	36.1%	(1.3 p.p.)	1.9 p.p.
Operating Income (OI)	10,798	12,270	13,660	(10.2)	7.3
Net income	3,928	6,465	7,485	(13.6)	(27.3)
Basic earnings per share (euros)	0.87	1.44	1.63	(11.9)	(25.9)
OpCF (OIBDA-CapEx) ex-spectrum	12,360	12,870	13,775	(6.6)	9.6

Exceptional items	2012	2011
Reported Revenues	62,356	62,837
Rumbo		(3)
Atento		(68)
Underlying Revenues	62,356	62,766
Reported OIBDA	21,231	20,210
PT capital gain		(184)
Workforce restructuring plan in Spain		2,671
China Unicom capital loss	97	
Hispasat capital gain	(26)	
Rumbo	(27)	(1)
Atento	(61)	(15)
T. Ireland impairment	527	
Underlying OIBDA	21,741	22,682
Reported Net Income	3,928	5,403
PT capital gain		(184)
Telco write-down	949	481
Difference in market value of BBVA stake		56
PPAs	689	790
Workforce restructuring plan in Spain		1,870
China Unicom capital loss	45	
Hispasat capital gain	(19)	
Rumbo	(24)	(0)
Atento	(33)	(9)
T. Ireland impairment	513	
Deferred tax liability on VIVO acquisition		(952)
Tax asset reassessment		30

Venezuelan devaluation effect	417	
Underlying Net Income	6,465	7,485

- ***Underlying growth:*** *Reported figures, excluding exceptional impacts and spectrum acquisition and excluding the impact from changes in the perimeter of consolidation. The results of the Atento Group are included up to 30 November 2011 and those of Rumbo are included up to 31 October 2011. 2012 figures exclude the reduction in the value of the Telecom Italia investment and the recovery of all the operating synergies considered at the time of this investment (-1,355 million euros; -949 million euros net of taxes), and also PPAs (-1,073 million euros; -689 million euros net of taxes and minority interests), the reduction in value made by the Telefónica Group on its investment in Telefónica Ireland (-527 million euros; -513 million euros net of taxes), the effect of Venezuelan Bolivar devaluation (-438 million euros; -417 million euros net of taxes), the capital loss on the sale of China Unicom shares (-97 million euros; -45 million euros net of taxes), the capital gain on the sale of Atento Group (+61 million euros; +33 million euros net of taxes), the capital gain on the sale of Rumbo (+27 million euros; +24 million euros net of taxes) and the capital gain on the partial sale of Hispasat (+26 million euros; +19 million euros net of taxes). In 2011, results exclude the provision for the redundancy program in Spain (-2,671 million euros; -1,870 million euros net of taxes), the reversal of deferred tax liabilities at Vivo (+1,288 million euros; +952 million euros net of taxes and minority interests), value adjustments in relation to the stake in Telecom Italia and the operating synergies achieved (-662 million euros; -481 million euros net of taxes), the positive impact arising from the partial reduction of Telefónica s economic exposure to Portugal Telecom (+184 million euros), the difference in market value of the BBVA stake (-80 million euros; -56 million euros net of taxes), tax asset reassessment (-30 million euros) and also PPAs (-1,228 million euros before taxes; -790 million euros net of taxes and minority interests).*

Table of Contents

TELEFÓNICA

REPORTED VS. UNDERLYING

Unaudited figures (Euros in millions)

	October - December			%	
	Oct-Dec 2012 Reported	Oct-Dec 2012 Underlying	Oct-Dec 2011 Underlying	Underlying Change y-o-y	Reported Change y-o-y
Revenues	15,837	15,837	16,094	(1.6)	(2.0)
OIBDA	5,449	5,862	5,943	(1.4)	(8.6)
OIBDA margin	34.4%	37.0%	36.9%	0.1 p.p.	-2.5 p.p.
Operating Income (OI)	2,789	3,435	3,631	(5.4)	(17.2)
Net income	473	2,051	2,143	(4.3)	(82.3)
Basic earnings per share (euros)	0.11	0.46	0.47	(2.3)	(81.7)
OpCF (OIBDA-CapEx) ex-spectrum	2,238	2,651	2,567	3.3	(12.6)

Exceptional items	2012	2011
Reported Revenues	15,837	16,165
Rumbo		(3)
Atento		(68)
Underlying Revenues	15,837	16,094
Reported OIBDA	5,449	5,960
PT capital gain		(1)
Hispasat capital gain	(26)	
Rumbo	(27)	(1)
Atento	(61)	(15)
T. Ireland impairment	527	
Underlying OIBDA	5,862	5,943
Reported Net Income	473	2,670
PT capital gain		(1)
Telco write-down	570	127
Difference in market value of BBVA stake	(21)	56
PPAs	176	221
Hispasat capital gain	(19)	
Rumbo	(24)	(0)
Atento	(33)	(9)
T. Ireland impairment	513	
Deferred tax liability on VIVO acquisition		(952)
Tax asset reassessment		30
Venezuelan devaluation effect	417	
Underlying Net Income	2,051	2,143

- ***Underlying growth:*** *Reported figures, excluding exceptional impacts and spectrum acquisition and excluding the impact from changes in the perimeter of consolidation. The results of the Atento Group are included up to 30 November 2011 and those of Rumbo are included up to 31 October 2011. In the fourth quarter of 2012 also excludes the reduction in the value of the Telecom Italia investment and the recovery of all the operating synergies considered at the time of this investment (-814 million euros; -570 million euros net of taxes), the difference in market value of the BBVA stake (+30 million euros; +21 net of taxes), PPAs (-274 million euros; -176 million euros net of taxes and minority interests), the impairment recognized by Telefónica Group on the value of Telefónica Irlanda (-527 million euros; -513 million euros net of taxes), the capital gain derived from the sale of Atento Group (+61 million euros; +33 million euros net of taxes), the capital gain derived from the sale of Rumbo (+27 million euros; +24 million euros net of taxes), the capital gain derived from the sale of Hispasat (+26 million euros; +19 million euros net of taxes) and the effect of the Venezuelan Bolivar devaluation (-438 million euros; -417 million euros net of taxes). In the fourth quarter of 2011 excludes the reversal of deferred tax liabilities at Vivo (+1,288 million euros; +952 million euros net of taxes and minorities), the value adjustments in relation to the stake in Telecom Italia and the operating synergies achieved (-157 million euros; -127 million euros net of taxes), the positive impact arising from a partial reduction of Telefónica s economic exposure to Portugal Telecom (+1 million euros), the difference in market value of the BBVA stake (-80 million euros; -56 million euros net of taxes), the value adjustment of tax assets (-30 million euros) and also PPAs (-300 million euros before taxes; -221 million euros net of taxes and minority interests).*

Table of Contents

TELEFÓNICA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	December 2012	December 2011	% Chg
Non-current assets	104,177	108,800	(4.2)
Intangible assets	22,078	24,064	(8.3)
Goodwill	27,963	29,107	(3.9)
Property, plant and equipment and Investment properties	35,022	35,469	(1.3)
Non-current financial assets and investments in associates	11,807	13,743	(14.1)
Deferred tax assets	7,308	6,417	13.9
Current assets	25,596	20,823	22.9
Inventories	1,188	1,164	2.1
Trade and other receivables	10,711	11,331	(5.5)
Current tax receivable	1,828	1,567	16.7
Current financial assets	1,872	2,625	(28.7)
Cash and cash equivalents	9,847	4,135	138.1
Non-current assets classified as held for sale	150	1	n.m.
Total Assets = Total Equity and Liabilities	129,773	129,623	0.1
Equity	27,661	27,383	1.0
Equity attributable to equity holders of the parent	20,461	21,636	(5.4)
Non-controlling interests	7,200	5,747	25.3
Non-current liabilities	70,601	69,662	1.3
Non-current financial debt	56,608	55,659	1.7
Deferred tax liabilities	4,788	4,739	1.0
Non-current provisions	7,064	7,172	(1.5)
Other non-current liabilities	2,141	2,092	2.3
Current liabilities	31,511	32,579	(3.3)
Current financial debt	10,245	10,652	(3.8)
Trade and other payables	9,407	9,406	0.0
Current tax payables	2,522	2,568	(1.8)
Current provisions and other liabilities	9,333	9,953	(6.2)
Financial Data			
Net Financial debt (1)	51,259	56,304	(9.0)

(1) Figures in million euros. Net financial debt in December 2012 includes: Non current interest-bearing debt + Other non-current payables (1,639) + Current interest-bearing debt + Other current payables (145) non-current financial assets and investments in associates (5,605) trade and other receivables (54) current financial assets (1,872) 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)

		January - December		
		2012	2011	% Chg
I	Cash flow from operations	20,105	21,466	(6.3)
II	Net interest payment (1)	(2,867)	(2,011)	
III	Payment for income tax	(2,024)	(1,959)	
A=I+II+III	Net cash provided by operating activities	15,214	17,496	(13.0)
B	Payment for investment in fixed and intangible assets (2)	(8,578)	(8,304)	
C=A+B	Net free cash flow after CapEx	6,636	9,192	(27.8)
D	Net Cash received from sale of Real Estate	36	30	
E	Net payment for financial investment (3)	2,412	(3,590)	
F	Net payment for operations with minority shareholders and treasury stock (4)	(4,046)	(7,966)	
G=C+D+E+F	Free cash flow after dividends	5,037	(2,334)	c.s.
H	Effects of exchange rate changes on net financial debt	662	(37)	
I	Effects on net financial debt of changes in consolid. and others	(669)	(1,587)	
J	Net financial debt at beginning of period	56,304	55,593	
K=J-G+H+I	Net financial debt at end of period	51,259	56,304	(9.0)

(1) *Including cash received from dividends paid by subsidiaries that are not fully consolidated.*
(2) *In 2012 it includes 632 million euros for the spectrum payments: 396 in Spain, 126 in Ireland, 42 in Brazil, 23 in Colombia, 7 in Mexico, 4 in Nicaragua and 34 in Venezuela. In 2011 it includes 891 million euros for the spectrum payments: 441 in Spain, 349 in Brazil, 3 in Colombia, 26 in Mexico, 3 in Nicaragua and 69 in Costa Rica.*
(3) *Includes charges amounting to 1,429 million euros from the IPO of the German subsidiary.*
(4) *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.*

TELEFÓNICA

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

	January - December		
	2012	2011	% Chg
OIBDA	21,231	20,210	5.1
- CapEx accrued during the period	(9,458)	(10,224)	
- Payments related to cancellation of commitments	(800)	(807)	
- Net interest payment	(2,867)	(2,011)	
- Payment for tax	(2,024)	(1,959)	
- Gain (loss) on sale of fixed assets and impairment of goodwill and other assets (1)	(218)	1,848	
-Investment In working capital and other deferred income and expenses	772	2,134	
= Net Free Cash Flow after CapEx	6,636	9,192	(27.8)
+ Net Cash received from sale of Real Estate	36	30	
- Net payment for financial investment	2,412	(3,590)	
- Net payment for operations with minority shareholders and treasury stock	(4,046)	(7,966)	
= Free Cash Flow after dividends	5,037	(2,334)	c.s.

Unaudited figures (Euros in millions)

	January - December		
	2012	2011	% Chg
Net Free Cash Flow after CapEx	6,636	9,192	(27.8)
+ Payments related to cancellation of commitments	800	807	
- Operations with minority shareholders	(485)	(728)	
= Free Cash Flow	6,951	9,270	(25.0)
Weighted average number of ordinary shares outstanding during the period (millions)	4,496	4,584	
= Free Cash Flow per share (euros)	1.55	2.02	(23.5)

(1) Includes in 2011, 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 accomodate 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.

- *2011 and 2012 reported figures include the hyperinflationary adjustments in Venezuela in both years.*
- *CapEx includes 586 millon euros from the spectrum acquired in 2012: 5 millon euros in Nicaragua, 34 millon euros in Venezuela, 127 millon euros in Ireland and 420 millon euros in Brazil. In 2011 it includes 1,296 millon euros from the spectrum acquired: 842 millon euros in Spain, 349 millon euros in Brazil, 68 millon euros in Costa Rica and 37 millon euros in Colombia.*

Table of Contents

NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

		December 2012
	Long-term debt (1)	58,247
	Short term debt including current maturities (2)	10,390
	Cash and cash equivalents	(9,847)
	Short and Long-term financial investments (3)	(7,531)
A	Net Financial Debt	51,259
	Gross commitments related to workforce reduction (4)	4,321
	Value of associated Long-term assets (5)	(928)
	Taxes receivable (6)	(1,357)
B	Net commitments related to workforce reduction	2,035
A + B	Total Debt + Commitments	53,295
	Net Financial Debt / OIBDA (7)	2.36x
	Total Net Debt + Commitments / OIBDA (8)	2.54x

(1) Includes Non current interest-bearing debt and 1,639 million euros of Other non-current payables .

(2) Includes Current interest-bearing debt and 145 million euros of Other current payables .

(3) Includes 1,872 million euros of Current financial assets , 5,605 million euros of Non-current financial assets and investments in associates and 54 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 last 12 months OIBDA.

(8) Calculated based on the last 12 months OIBDA excluding results on the sale of fixed assets.

- Note: 2012 reported figures include the hyperinflationary adjustments in Venezuela.

Table of Contents

DEBT STRUCTURE BY CURRENCY

Unaudited figures

	December 2012				
	EUR	LATAM	GBP	CZK	USD
Debt structure by currency	80%	10%	5%	3%	2%

CREDIT RATINGS

	Long-Term	Short-Term	Perspective	Date of last rating change
Moody's[1]	Baa2	P-2	Negative	10/18/2012
JCR[2]	A-		Negative	01/23/2013
S&P[1]	BBB	A-2	Negative	12/20/2012
Fitch[1]	BBB+	F-2	Negative	06/08/2012

(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.

TELEFÓNICA

EXCHANGES RATES APPLIED

	P&L and CapEx (1)		Statement of Financial Position (2)	
	Jan - Dec 2012	Jan - Dec 2011	December 2012	December 2011
USA (US Dollar/Euro)	1.285	1.391	1.319	1.294
United Kingdom (Sterling/Euro)	0.811	0.868	0.816	0.835
Argentina (Argentinean Peso/Euro)	5.838	5.743	6.489	5.569
Brazil (Brazilian Real/Euro)	2.502	2.325	2.696	2.427
Czech Republic (Czech Crown/Euro)	25.142	24.591	25.140	25.800
Chile (Chilean Peso/Euro)	624.590	672.246	633.260	671.795
Colombia (Colombian Peso/Euro)	2,308.536	2,568.667	2,333.004	2,513.662
Costa Rica (Colon/Euro)	652.742	710.732	678.426	670.691
Guatemala (Quetzal/Euro)	10.062	10.831	10.426	10.106
Mexico (Mexican Peso/Euro)	16.898	17.252	17.107	18.047
Nicaragua (Cordoba/Euro)	30.255	31.185	31.831	29.726
Peru (Peruvian Nuevo Sol/Euro)	3.387	3.828	3.362	3.489
Uruguay (Uruguayan Peso/Euro)	26.054	26.835	25.595	25.746
Venezuela (Bolivar Fuerte/Euro) (3)	5.673	5.564	5.673	5.564

(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 12/31/12 and 12/31/11.
(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.

Table of Contents

RESULTS BY REGIONAL BUSINESS UNITS

Telefónica Latinoamérica[1]

In 2012, Telefónica Latinoamérica registered a solid performance, reinforcing its growth profile with a gradual improvement in efficiency levels driven by the strategic focus on maximising customer value.

Telefónica managed a total of 212 million **accesses** in the region at the end of December 2012, 6% higher year-on-year. It should be highlighted that this growth reflects the strong commercial activity in the mobile business, mainly due to the mobile broadband growth, the positive trend of the fixed broadband and pay TV businesses, and the consolidation during the second half of the year of the stronger performance from traditional fixed accesses, which posted positive net additions for the second consecutive quarter.

Main trends in the **mobile business** include the following:

Estimated penetration in Latin America was 116% (+7 percentage points year-on-year).

Mobile accesses reached 176.6 million with a year-on-year increase of 6%, despite the disconnection of inactive prepay mobile customers in Brazil (1.6 million accesses in the second quarter) and the application of more restrictive criteria for both gross additions and disconnections in several countries in the region.

Contract accesses doubled the growth rate of mobile accesses and increased 12% year-on-year, enabling Telefónica to maintain its regional leadership in this segment, with 39.5 million accesses. Contract accesses now account for 22% of total mobile accesses, and the performance of this segment (+1 percentage point year-on-year) reflects the strategic focus on capturing value customers.

Similarly, **mobile broadband accesses** posted a strong growth (+68% year-on-year), and stood at 27.3 million accesses by the end of the year, reaching a penetration of 15% of the mobile accesses base, thanks to the strong growth in smartphones, which represent 13% of accesses and almost double the accesses base as of December 2011, with net additions during the year of 10.7 million customers.

Net additions reached 11.9 million in 2012 (excluding the disconnections mentioned previously) and 1.4 million accesses in the quarter, of which 1.2 million are in the contract segment. This trend reflects the significant year-on-year growth of gross additions in 2012 (+10% year-on-year), mainly in high-value customers, and a **churn** increase, which stood at 3.2% for the full year (+0.4 percentage points year-on-year), affected by the application of a more restrictive criteria for prepay disconnections mentioned above.

Traffic grew by 16% year-on-year in 2012 and by 18% in the quarter in homogeneous terms (excluding the tariff change from minutes to seconds applied from the first quarter of 2012 in Mexico), reflecting the higher level of activity of the customer base.

ARPU decreased slightly (-0.2% year-on-year) despite the negative impact derived from the reduction of mobile termination rates. Thus, outgoing ARPU increased by 3.1% year-on-year (+4.4% in the quarter), reflecting the Company focus on maximizing customer value.

Highlights in the **fixed business** include the following:

The Company s **accesses** reached 35.3 million at the end of 2012, with a year-on-year growth of 2%.

Accesses in traditional business totalled 24.2 million with a year-on-year increase of 1%, after consolidating during the quarter the positive trend in net additions (280 thousand accesses vs. 14 thousand in the third quarter and 193 thousand in the full-year). This growth is mainly due to the launch of convergent services and the increased penetration of the service using Fixed Wireless technology, and it includes the reclassification in the fourth quarter of 2012 of 157 thousand Fixed Wireless accesses previously recognised as contract mobile accesses in Argentina.

[1] **Organic growth**: In financial terms, it assumes constant average exchange rates as of January-December 2011, and excludes hyperinflation accounting in Venezuela. In 2011, it excludes from OIBDA the positive impact of the partial sale of our stake in Portugal Telecom (+35 million euros). CapEx excludes investments in spectrum

Table of Contents

Broadband accesses amounted to 8.4 million, up 7% year-on-year, with net additions of 586 thousand in the year (76 thousand during the quarter).

Pay TV accesses reached 2.4 million, growing by 7% year-on-year, and with net additions of 169 thousand accesses in the year, with an improvement in the quarter (73 thousand in the fourth quarter; 34 thousand in the third quarter; 25 thousand in the second quarter).

The continued focus on bundling and broadband is reflected in the fact that 75% of fixed accesses signed up for some form of bundled offer (+2 percentage points year-on-year), while 88% of broadband accesses are also under 2P/3P offers.

Telefónica Latinoamérica s **revenues** amounted to 30,520 million euros in 2012, with a 5.5% year-on-year growth in reported terms (+4.2% in the quarter), and 6.7% in organic terms, with a solid acceleration in the quarter to 7.5%. Excluding the negative impact of regulation, organic revenues rose 8.3% year-on-year in 2012, with the growth rate accelerating in the last quarter (+9.1% year-on-year).

This trend was driven by the good performance of **mobile service revenues** (+11.4% in the year; +10.2% in the quarter in organic terms), despite the negative impact from regulation (-2.0 percentage points in the year-on-year growth, both for the full year and for the fourth quarter), and the better trend in the quarter registered in the fixed business (-2.5% year-on-year in organic terms in the fourth quarter; -3.7% in the third quarter).

Mobile broadband business remained a key growth driver, as reflected in **mobile data revenue**, with a year-on-year increase of 24.1% (+21.5% in the quarter), now accounting for 29% of mobile service revenues (+3 percentage points year-on-year). Connectivity revenues increase bolstered the growth in non-SMS data revenues, which rose 32.9% in the year and 34.2% in the fourth quarter, now accounting for 57% of data revenues (+4 percentage points year-on-year).

Operating expenses amounted to 20,305 million euros in 2012, up 6.5% year-on-year (+7.8% in organic terms), following a slowdown in the fourth quarter (+5.5% in organic terms).

Supply costs reached 7,670 million euros for the full year, posting a year-on-year increase of 2.8% (+3.4% in organic terms; +4.4% in the quarter), mainly due to the increased number of gross additions with a higher contribution of smartphone sales and costs associated with the providers of digital, data, and content services. On the other hand, it is also worth highlighting the increased cost of leasing sites for the rolling-out and sale of towers.

Subcontract expenses amounted to 8,259 million euros, increasing by 6.8% year-on-year (+8.7% in organic terms). Nevertheless, slower growth in the fourth quarter was consolidated (+2.3% year-on-year in organic terms), as a result of ongoing cost