

TELEFONICA S A
Form 6-K
July 28, 2011

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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of July, 2011
Commission File Number: 001-09531
Telefónica, S.A.

(Translation of registrant's name into English)

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(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

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FINANCIAL HIGHLIGHTS

Telefónica reported revenues of 30,886 million euros in the first half of 2011, a 6.3% increase year-on-year:

Telefónica Latinoamérica remained the key growth driver and was the largest contributor to consolidated revenue, accounting for 46% of the total.

Mobile data revenue was particularly strong (+18.5% year-on-year), consolidating its position as one of the key growth engines across regions, thanks to the rapid expansion of mobile broadband, which now accounts for over 13% of Telefónica's total mobile accesses.

The strong revenue increase reported by Telefónica Latinoamérica (+18.4% year-on-year; +20.9% year-on-year excluding Mexico) together with higher sales at Telefónica Europe (+2.2% year-on-year), offset the lower contribution from Telefónica España (-6.1% year-on-year).

OIBDA stood at 11,304 million euros in the first half of 2011, up 3.7% year-on-year:

Telefónica Latinoamérica (+16.6% year-on-year; +20.1% excluding Mexico) and Telefónica Europe accounted for 64% of consolidated OIBDA.

It is worth highlighting the cost contention in Spain, which led to an OIBDA performance in the first half (-10.6% year-on-year) similar to the first three months of the year.

OIBDA margin stood at 36.6%, posting a limited year-on-year erosion (-0.9 percentage points).

Net income totalled 3,162 million euros in the first six months of the year (3,775 million euros in January-June 2010):

This result was negatively affected by the non-cash impact resulting from Telco, S.p.A.'s revision of the value of its stake in Telecom Italia, which reduced net income in the first half-year by 353 million euros.

Comments from César Alierta, Executive Chairman:

Despite the challenging conditions in some of our markets and the significant impact of regulation on our business, Telefónica delivered solid earnings, with robust revenue growth, +6.3% in the first half and a high level of operating efficiency.

Our target to monetize the development of mobile broadband, with tiered pricing adapted to the different consumption patterns of our customers together with ongoing investment in our networks to face the increase in traffic, is yielding significant growth in mobile data revenues, which advanced 18.5% in the first six months, showing strong dynamism. We remain focused on value and will continue to leverage our scale, scope and diversification over the coming months to achieve our full-year guidance. The recent agreements to join our Partners Program prove that our scale is clearly a differential asset.

I would like to highlight the agreement recently reached with the Unions in Spain to guarantee the Company's viability and competitiveness over the coming years, which includes a workforce reduction program covering up to 6,500 employees over three years as well as a new Collective Agreement that, for the first time, includes salaries reviews linked to the Company's OIBDA targets. This agreement, already approved by the Labour Authorities, underlines Telefónica's rapid execution capabilities as well as its flexibility to adapt to a changing environment.

The outstanding performance in Brazil consolidates our leadership in a market which will soon become Telefónica's main source of revenue, and where the integration of the fixed and mobile businesses will allow the Company to capture synergies of 3,700-4,600 million euros, a significantly larger amount than initially forecasted.

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SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January -June		Reported	% Chg Organic	2011 Guidance	Guidance fulfillment
	2011	2010				
Revenues	30,886	29,053	6.3	0.9	up to 2%	0.9
Telefónica España	8,752	9,321	(6.1)	(6.1)		
Telefónica Latinoamérica	14,117	11,928	18.4	5.6		
Telefónica Europe	7,662	7,500	2.2	0.2		
OIBDA	11,304	10,905	3.7	(2.2)		
Telefónica España	3,911	4,377	(10.6)	(10.6)		
Telefónica Latinoamérica	5,190	4,453	16.6	4.2		
Telefónica Europe	2,097	2,071	1.2	3.1		
OIBDA margin	36.6%	37.5%	(0.9p.p.)	(1.1p.p.)	upper 30 s	36.0%
Telefónica España	44.7%	47.0%	(2.3p.p.)	(2.2p.p.)	Limited	
Telefónica Latinoamérica	36.8%	37.3%	(0.6p.p.)	(0.5p.p.)	erosion	(-1.1p.p.)
Telefónica Europe	27.4%	27.6%	(0.2p.p.)	0.7.p.p	y-o-y	
Operating Income (OI)	6,348	6,456	(1.7)	(3.0)		
Telefónica España	2,862	3,388	(15.5)	(15.4)		
Telefónica Latinoamérica	2,873	2,600	10.5	10.6		
Telefónica Europe	582	535	8.9	24.4		
Net income	3,162	3,775	(16.3)			
Basic earnings per share (euros)	0.70	0.83	(16.1)			
CapEx	3,838	4,295	(10.6)	7.3	~9,000	3,298
Telefónica España	903	831	8.7	8.7		
Telefónica Latinoamérica	2,072	1,242	66.8	16.8		
Telefónica Europe	708	2,144	(67.0)	(8.9)		
OpCF (OIBDA-CapEx)	7,466	6,610	13.0	(5.7)		
Telefónica España	3,008	3,547	(15.2)	(15.1)		
Telefónica Latinoamérica	3,117	3,210	(2.9)	(0.7)		
Telefónica Europe	1,389	(73)	c.s.	10.5		

- **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.*

- *2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.*
- *2011 T. Latinoamérica results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica s perimeter since the fourth quarter of 2007.*
- *CapEx includes 423 million euros from the the cost of the spectrum acquired in 2010 in Brasil (355) and Costa Rica (68), and 1,379 million euros from the acquisition of spectrum in Germany in the second quarter of 2010.*
- **Organic criteria:** *In financial terms, it assumes constant average exchange rates as of January-June 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-June 2010 the consolidation of Vivo, HanseNet and Tuenti are included whereas the results of Manx Telecom are excluded. In OIBDA terms, in January-June 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded, along with the impact of the capital gain from the sale of Manx Telecom booked in the second quarter of 2010. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica s Capex excludes the Real Estate Efficiency Programme at T. España, the real estate commitments associated with Telefónica s new headquarters in Barcelona and investments in spectrum.*
- **Guidance criteria:** *2010 adjusted figures for guidance include full consolidation of Vivo, Hansenet and Tuenti in the whole year (12 months) and excludes Manx Telecom s results in January-June 2010. 2010 adjusted OIBDA excludes the capital gain from the revaluation of Telefónica s pre-existing stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom, non-recurrent restructuring expenses registered in the second half of 2010, and the capital gain derived from the disposal of Manx Telecom.*

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

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

The English language translation of the consolidated financial statements originally issued in Spanish has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain omissions or approximations may subsist. Telefónica, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the Spanish-language version prevails.

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ACCESSES*Unaudited figures (thousands)*

	2011	June 2010	%Chg
Final Clients Accesses	290,029.0	273,513.3	6.0
Fixed telephony accesses (1)	40,693.9	41,743.5	(2.5)
Internet and data accesses	18,909.6	18,117.0	4.4
Narrowband	1,117.1	1,599.0	(30.1)
Broadband (2)	17,631.9	16,351.8	7.8
Other (3)	160.6	166.1	(3.3)
Mobile accesses	227,323.6	210,978.3	7.7
Prepay	154,751.8	146,628.4	5.5
Contract	72,571.7	64,349.9	12.8
Pay TV (4)	3,101.9	2,674.5	16.0
Wholesale Accesses	4,994.2	4,249.0	17.5
Unbundled loops	2,702.3	2,382.2	13.4
Shared ULL	223.7	324.8	(31.1)
Full ULL	2,478.5	2,057.4	20.5
Wholesale ADSL (5)	785.7	577.6	36.0
Other (6)	1,506.2	1,289.2	16.8
Total Accesses	295,023.2	277,762.3	6.2

Notes:

- *Year-on year changes are affected by the inclusion of the customers of HanseNet since March 2010 and the exclusion of the customers of Manx since July 1st, 2010.*
- (1) *PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company s accesses for internal use and total fixed wireless included. Includes VoIP and Naked ADSL.*
- (2) *ADSL, satellite, optical fibre, cable modem and broadband circuits.*
- (3) *Retail circuits other than broadband.*
- (4) *Includes 150 thousand clients of TVA from June 2011.*
- (5) *Includes ULL rented by T. Germany.*
- (6) *Circuits for other operators. Includes Wholesale Line Rental (WLR) in Spain.*

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

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

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

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

Also, in the context of the organisation and integrated management of the fixed and wireless businesses in Latin America, and with the objective of facilitating understanding and monitoring of the financial performance of the Company's operations in this region and avoiding distortions which, without affecting the consolidated results of Telefónica España, may result in an erroneous interpretation of the individual performance of each of the businesses – especially at the level of operating expenses and investment -, from the first quarter of 2011 the Company has decided to publish the selected consolidated financial data corresponding to Telefónica Latinoamérica, providing breakdown by business only at a revenue level. The Company has continued to report all the operating metrics previously reported.

During the first six months of 2011 the Company focused its commercial strategy on value rather than volume, increasing efforts to improve customer satisfaction and loyalty, while fostering at the same time a strong adoption of smartphones and other mobile broadband devices in our customer base, increasing tariff segmentation and widening the range of devices available.

This strategy has led to continued growth in accesses (+6% year-on-year in both organic and reported terms) to 295.0 million at the end of June 2011. By region, Telefónica Latinoamérica and Telefónica Europe, with year-on-year organic growth of 8% and 5% respectively, were the main contributors to the growth in Telefónica's customer base.

Telefónica's **mobile accesses** totalled 227.3 million by the end of the first half of 2011, up 8% year-on-year in both organic and reported terms, underpinned by the sustained increase in the **contract** segment (+13% year-on-year in organic terms), which now accounts for 32% of the total mobile access base (+1.4 percentage points year-on-year in organic terms).

The focus of commercial efforts on higher-value customers and on new services is reflected in the contract segment's growing contribution to total net additions, which reached 47% in the first half of 2011.

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Mobile broadband accesses -accesses with a data rate attached and therefore active users of the service- reached 29.8 million at the end of June 2011. This figure represents a penetration rate of 13% of Telefónica's mobile access base (+2 percentage points versus December 2010). Telefónica Europa reached a penetration rate of 28%, followed by Telefónica España (23%), while there is huge scope to increase penetration at Telefónica Latinoamérica (7% in June 2011).

Retail fixed broadband accesses reached 17.6 million, up 8% year-on-year in both reported and organic terms. Bundles of voice, broadband, and television services remain key to this strategy and especially to churn control. Both in Spain and Latin America, close to 90% of retail fixed broadband accesses are bundled as part of either a dual or triple service package.

Pay TV accesses stood at 3.1 million at the end of the first half (+16% year-on-year), representing a pick-up in the growth rate thanks to the success of the commercial repositioning of the service in Latin America and the inclusion of TVA's customers in Brazil from June.

Fixed telephony accesses totalled 40.7 million (-3% year-on-year).

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

Revenues totalled 30,886 million euros in the first half of the year, up 6.3% year-on-year, pushed by the higher revenues from Telefónica Latinoamérica (+18.4% year-on-year; 20.9% year-on-year excluding Mexico) and from Telefónica Europe (+2.2% year-on-year). Changes in the consolidation perimeter accounted for 5.6 percentage points of this growth, while foreign exchange rates dragged 0.2 percentage points to revenue growth.

In organic terms, revenues rose 0.9% in the first half, negatively impacted by mobile termination rate cuts, which reduced growth by 1.2 percentage points.

By region, Telefónica Latinoamérica remained the main growth driver and was the largest contributor to revenue growth (+2.4 percentage points), which together with Telefónica Europe (+0.1 percentage points), offset the lower contribution from Telefónica España (-1.9 percentage points). This highlights the benefits of the Company's high diversification.

In the first half, Telefónica Latinoamérica and Telefónica Europe accounted for 71% of consolidated revenues (+4 percentage points from June 2010), compared to Telefónica España's lower contribution of around 28%.

Consolidated **operating expenses** for the first half totalled 20,306 million euros (+8.2% year-on-year in reported terms), an increase of 2.4% in organic terms in January-June 2011:

Supply costs were 8,893 million euros, a rise of 2.3% year-on-year in organic terms (+6.7% in reported terms), as a result of increased handset costs in the three regions associated with growing smartphone adoption across all markets, although this effect was partially offset by lower mobile termination rates in the three regions.

Subcontract expenses amounted to 6,311 million euros, up 2.4% year-on-year in organic terms (+12.5% reported), mainly as a result of the higher commercial effort in Telefónica Latinoamérica, associated to mobile and broadband accesses growth, as well as higher network management expenses.

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Personnel expenses reached 4,139 million euros, rising 5.9% in organic terms (+9.1% in reported terms), mainly due to higher personnel expenses in Spain, after salaries review linked to 2010 CPI, in Latin America, due to in-sourcing processes developed in Brazil in 2010 and higher inflation in some markets of the region, and in Atento.

The average number of employees at the end of June 2011 was 285,089 (23,441 more than at the end of June 2010), mainly due to the larger workforce at Atento. Excluding Atento, Telefónica's average workforce would stand at 133,615 employees (125,792 employees in June 2010).

At the same time, Telefónica's global projects continued to make a positive contribution to consolidated results in the first half (274 million euros in revenues and 230 million in OIBDA). In this context, and putting in value the benefits of our scale, it is worth to highlight the announcement in July that Bouygues and Etisalat will join *Telefónica's Partners Program*, a new initiative that makes available to selected operators and under commercial terms a host of services that allows partners to leverage on Telefónica's scale and to cooperate on key business topics (roaming, services to multinationals, procurement, devices, etc.).

Gains on sales of fixed assets totalled 245 million euros in the first six months of the year, including mainly the positive impact of the partial reduction of the Company's economic exposure to Portugal Telecom (183 million euros).

Operating income before depreciation and amortization (OIBDA) for the first half stood at 11,304 million euros, with a year-on-year growth rate of 3.7%, mainly driven by the growth at Telefónica Latinoamérica (+16.6% year-on-year; +20.1% excluding Mexico) and to a lesser extent, at Telefónica Europe (+1.2% year-on-year). Changes in the consolidation perimeter contributed 5.0 percentage points to this growth, while foreign exchange rates dragged 0.2 percentage points to growth. The reported OIBDA margin stood at 36.6% for the first half (-0.9 percentage points year-on-year).

In organic terms, OIBDA dropped 2.2% year-on-year, with the OIBDA margin at 36.0%, in line with the previous quarter, and showing a limited erosion of 1.2 percentage points versus the first half of 2010, in line with the Company's expectations.

By region, the contribution of Telefónica Latinoamérica to reported OIBDA increased by 5.1 percentage points year-on-year to 46%. This, together with the contribution from Telefónica Europe, meant that 64% of consolidated OIBDA was generated outside Telefónica España in the first half of 2011.

Depreciation and amortization totalled 4,956 million euros in the first half, a year-on-year increase of 11.4% in reported terms, primarily due to the full consolidation of Vivo together with the amortization of Vivo's purchase price allocation (171 million euros in the first half). Total depreciation and amortization charges derived from purchase price allocation processes amounted to 564 million euros in the first half (+9.3% year-on-year). In organic terms, depreciation and amortization fell by 1.2% from the same period a year earlier.

As a result, **operating income (OI)** in January-June 2011 amounted to 6,348 million euros, down 1.7% in reported terms and -3.0% in organic terms.

Profit from associates stood at -534 million euros in the first half versus +72 million euros a year earlier. This year-on-year change is largely due to the non-cash impact of Telco, S.p.A.'s revision of the value of its investment in Telecom Italia. As a result, the Company has recorded a 505 million euros loss (353 million euros after the related tax effect at Telefónica, S.A.). This item is also affected by the deconsolidation of Portugal Telecom beginning in the second half of 2010 (contribution of 43 million euros in the first half of 2010) and the lower year-on-year contribution from China Unicom.

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Total **financial expenses** up to June 2011 reached 1,165 million euros, which yield an effective cost of 4.21% over total average financial net debt of 55,828 million euros in the first half of the year, including the effect from the extraordinary dividend distributed by Portugal Telecom. Compared to the same period last year, financial expenses excluding foreign exchange results decreased 0.5% year-on-year, despite the 17% increase of the average debt of the Group in the period (7,988 million euros). Debt increased mainly in currencies with low interest rates (primarily euro), which has allowed the Company to reduce the effective cost of servicing the debt by 73 basis points year-on-year. Changes in foreign exchange results up to the end of June 2011 yielded a decrease in expenses of 83 million euros year-on-year.

Free Cash Flow generated by Telefónica in the first six months of 2011 reached 3,133 million euros, an increase of 666 million euros year-on-year. Operating cash flow after working capital and gains on sale of fixed assets reached 5,506 million euros, increasing 11.0% versus January-June 2010, when the Company paid for the spectrum bought in Germany.

Net Financial Debt rose by 826 million euros from 2010 year end (55,593 million euros) to reach 56,420 million euros at the end of June 2011. Free cash flow after shareholder remuneration and financial investments and divestments made in the first six months of the year led to an increase of debt of 1,520 million euros. In addition, the depreciation of currencies versus the euro, higher interest payments with respect to those accrued in the period and other accounting effects have reduced financial debt in 694 million euros.

The **leverage ratio**, net debt over last twelve months OIBDA (including accumulated 100% of Vivo's OIBDA over last twelve months, excluding results on the sale of fixed assets and adjusted by firm commitments related to the Fundación Telefónica's social welfare activities), stands at 2.49 times at June 2011, and at 2.56 including commitments.

During the first half of 2011, the **financing activity** of Telefónica, excluding short term Commercial Paper Programmes activity and including the extension on the Vivo syndicated facility, rose to above 8,000 million equivalent euros, with the main objective of financing 2011 debt and smoothing our debt maturity profile for 2013 at the Holding level. It is worth highlighting the financing activity of the Company during the first six months of 2011, both, in the bank and bond markets:

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

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

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

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

Telefónica S.A. and its holding companies have continued active during the first half of 2011 under its various Commercial Paper Programmes (Domestic and European), for an outstanding balance of 1,743 million euros at the end of June.

Regarding Latin America, Telefónica's subsidiaries have tapped the capital markets up to June for an amount of approximately 700 million equivalent euros, mainly for refinancing 2011 maturities.

At the end of June 2011, bonds and debentures represented 62%, on the **consolidated financial debt** breakdown, while debt with financial institutions reached a 38% weight.

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Corporate income taxes in the first half totalled 1,271 million euros, which, over an income before taxes amounting to 4,649 million euros, results in an accrued tax rate of 27.3%, although fiscal effects derived from the acquisition of Vivo have not been produced yet.

Profit attributable to minority interests dragged 216 million euros from net income in the first half, mainly due to minority interests in earnings from Vivo with a material increase versus the first half of 2010 due to the change in the consolidation method and the sound performance of the Company's net income-, Telesp and Telefónica Czech Republic, which more than offset the minority interests in Telefónica Telecom's losses.

As a result, **consolidated net income** amounted to 3,162 million euros (compared with 3,775 million euros in the first half of 2010) and **basic earnings per share** stood at 0.70 euros. Both items were affected by the non-cash impact from the revision of the value of Telco SpA's stake in Telecom Italia mentioned before.

CapEx stood at 3,838 million euros in the first half of the year (-10.6% year-on-year). It is worth mentioning that the CapEx reported in the second quarter of 2011 includes the spectrum costs in Brazil and Costa Rica, both granted in 2010, while first-half CapEx in 2010 included basically the investment in spectrum in Germany in the second quarter. In organic terms, CapEx increased by 7.3% versus January-June 2010.

The Company continues to focus its investments on growth and transformation projects (80% of total investment), fostering the development of fixed and mobile broadband services. It should be noted that the year-on-year growth in the first half cannot be extrapolated to the full year given the different levels of execution of CapEx in both years.

Consequently, **operating cash flow (OIBDA-CapEx)** totalled 7,466 million euros in the first half (-5.7% in organic terms).

Definitions

Organic growth: In financial terms, it assumes constant average exchange rates as of January-June 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-June 2010 the consolidation of Vivo, HanseNet and Tuenti are included whereas the results of Manx Telecom are excluded. In OIBDA terms, in January-June 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded, along with the impact of the capital gain from the sale of Manx Telecom booked in the second quarter of 2010. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's Capex excludes the Real Estate Efficiency Programme at T. España, the real estate commitments associated with Telefónica's new headquarters in Barcelona and investments in spectrum. In terms of accesses, changes in the consolidation perimeter are excluded and in terms of organic net adds customer disconnections made in the second quarter of 2010 are excluded. 2011 Financial results and accesses include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.

Average total debt: Average balance at June 2011 of the items shown in the Net financial debt and commitments table.

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CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	2011	January 2010	June % Chg	2011	April 2010	June % Chg
Revenues	30,886	29,053	6.3	15,451	15,120	2.2
Internal exp capitalized in fixed assets	352	334	5.4	183	184	(0.5)
Operating expenses	(20,306)	(18,763)	8.2	(10,130)	(9,742)	4.0
Supplies	(8,893)	(8,334)	6.7	(4,417)	(4,309)	2.5
Personnel expenses	(4,139)	(3,793)	9.1	(2,061)	(1,951)	5.7
Subcontracts	(6,311)	(5,611)	12.5	(3,182)	(2,951)	7.8
Bad Debt Provisions	(351)	(434)	(19.0)	(170)	(218)	(21.9)
Taxes	(612)	(592)	3.3	(300)	(314)	(4.5)
Other net operating income (expense)	129	145	(11.2)	87	122	(28.7)
Gain (loss) on sale of fixed assets	245	99	146.3	141	95	48.4
Impairment of goodwill and other assets	(2)	37	c.s.	(1)	12	c.s.
Operating income before D&A (OIBDA)	11,304	10,905	3.7	5,730	5,791	(1.0)
<i>OIBDA margin</i>	<i>36.6%</i>	<i>37.5%</i>	<i>(0.9.p.p)</i>	<i>37.1%</i>	<i>38.3%</i>	<i>(1.2.p.p)</i>
Depreciation and amortization	(4,956)	(4,449)	11.4	(2,439)	(2,264)	7.7
Operating income (OI)	6,348	6,456	(1.7)	3,291	3,527	(6.7)
Profit from associated companies	(534)	72	c.s.	(518)	36	c.s.
Net financial income (expense)	(1,165)	(1,254)	(7.1)	(586)	(681)	(14.0)
Income before taxes	4,649	5,274	(11.9)	2,187	2,882	(24.1)
Income taxes	(1,271)	(1,428)	(11.0)	(543)	(714)	(24.0)
Income from continuing operations	3,378	3,846	(12.2)	1,645	2,167	(24.1)
Income (Loss) from discontinued ops.						
Non-controlling interests	(216)	(71)	n.m.	(106)	(47)	124.4
Net income	3,162	3,775	(16.3)	1,538	2,120	(27.4)
Weighted average number of ordinary shares outstanding during the period (millions)	4,524	4,532	(0.2)	4,525	4,521	0.1
Basic earnings per share (euros)	0.70	0.83	(16.1)	0.34	0.47	(27.5)

Notes:

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

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- *2011 T. Latinoamérica results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica s perimeter since the fourth quarter of 2007.*
- *Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) have been included in the consolidation perimeter of Telefónica Europe since 1st January 2011 (previously in the consolidation perimeter of Telefónica Latam). As a result, the results of Telefónica Europe and Telefónica Latinoamérica have been restated for the fiscal year 2010, to reflect the above mentioned new organization. Telefónica consolidated results for 2010 are not affected.*
- *For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IAS rule 33 Earnings per share . Thereby, there are not been taken into account as outstanding shares the weighted average number of shares held as treasury stock during the period.*