TELEFONICA S A
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of 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

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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).

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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%.

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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.

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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

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

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

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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			