TELEFONICA S A
Form 6-K
May 13, 2011

Table of Contents

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of May, 2011
Commission File Number: 001-09531
Telefónica, S.A.
(Translation of registrant s name into English)
Distrito C, Ronda de la Comunicación s/n,
28050 Madrid, Spain
3491-482 85 48
(Address of principal executive offices)

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

Form 20-F þ Form 40-F o

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 o No þ

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 o No þ

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 o No þ

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

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.

Table of Contents

TELEFÓNICA
Market Size

(Data in thousands accesses)

January March 2011 Results TELEFÓNICA

5

Table of Contents

TELEFÓNICA
ACCESSES
Unaudited figures (thousands)

	March		
	2011	2010	% Chg
Final Clients Accesses	285,634.6	269,216.3	6.1
Fixed telephony accesses (1)	40,946.4	42,002.4	(2.5)
Internet and data accesses	18,769.4	17,895.6	4.9
Narrowband	1,185.4	1,737.7	(31.8)
Broadband (2)	17,423.2	15,996.2	8.9
Other (3)	160.8	161.7	(0.5)
Mobile accesses	223,053.5	206,704.7	7.9
Prepay	152,471.6	144,882.8	5.2
Contract	70,581.9	61,821.9	14.2
Pay TV	2,865.3	2,613.6	9.6
Wholesale Accesses	4,856.4	4,052.6	19.8
Unbundled loops	2,630.3	2,313.1	13.7
Shared ULL	240.3	380.1	(36.8)
Full ULL	2,390.0	1,933.0	23.6
Wholesale ADSL (4)	747.3	526.6	41.9
Other (5)	1,478.8	1,212.9	21.9
Total Accesses	290,491.0	273,268.9	6.3

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 ULL rented by T. Germany.*

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

TELEFÓNICA

Consolidated Results

The structure 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 these 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. In any case, these effects do not have an impact on consolidated results.

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.

From January 1st, 2011, and in accordance with the new organization 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 Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) in its consolidation perimeter, whose activities are mainly 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 Latinoamerica. 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. As this is an intragroup change, Telefónica results for 2010 are not affected.

Also, in the context of the organisation and integrated management of the fixed and wireless businesses in Latinoamérica, 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 Latinoamérica, 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 three months of the year, the Company focused its commercial strategy on value rather than volume, with special attention to new services with strong growth, such as mobile broadband. This strategy has led to continued growth in accesses (+6% year-on-year, both in organic and reported terms) to 290.5 million by March 2011. Of particular note are the expansion of the customer base at Telefónica Latinoamérica (+8% year-on-year) and Telefónica Europe (+6% year-on-year organic). By access type:

Telefónica s **mobile accesses** reached 223.1 million by the end of the first quarter of 2011, up 8% year-on-year, both in organic and reported terms.

The focus of commercial efforts on higher-value customers and on new services is reflected in the contract segment s growing contribution to net additions, which reached 57% in the first quarter of 2011, leading the total contract customer base to 70.6 million (+14% year-on-year in organic terms), which represents almost 32% of the total mobile access base (+2 percentage points year-on-year in organic terms).

Table of Contents

Likewise, the strong adoption of **mobile broadband services**, on the back of increased tariff segmentation and the availability of a higher range of handsets with more competitive prices across all the segments, enabled the Company to reach 26.5 million mobile broadband accesses by the end of March 2011. This figure represents a penetration rate of 12% of Telefónica s total mobile access base, a level that reaches over 20% at Telefónica España and Telefónica Europe. All these accesses have a data rate attached and therefore are active users of the service.

Retail fixed broadband accesses reached a total of 17.4 million, up 9% 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 in Latin America, 89% of retail fixed broadband accesses are bundled as part of either a dual or triple service package.

The number of **Pay TV accesses** stood at 2.9 million at the end of the first quarter (+10% year-on-year), which represents a pick up in the growth rate thanks to the success of commercial repositioning of the service in Latin America.

Fixed telephony accesses totalled 40.9 million, down 2% year-on-year in organic terms.

It is important to bear in mind that Vivo has been fully consolidated from 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.

The increased customer base and the growing contribution from the mobile data business drove growth in **revenues**, which totalled 15,435 million euros in the first quarter, up 10.8% year-on-year. Changes in the consolidation perimeter accounted for 6.0 percentage points of this growth, while foreign exchange rates added 3.3 percentage points.

In organic terms, revenues rose 1.4% in the first quarter, negatively impacted by mobile termination rates cuts, which dragged 1.0 percentage points to revenue growth.

Telefónica s high-class diversification is a key factor behind the revenue growth. By region, it is particularly noteworthy the sustained year-on-year revenue growth at Telefónica Latinoamérica and Telefónica Europe, which account for 2.4 percentage points and 0.6 percentage points of organic growth in consolidated revenues respectively, and offset the lower contribution from Telefónica España (-1.8 percentage points). In the first quarter, Telefónica Latinoamérica and Telefónica Europe accounted for almost 71% of consolidated revenues, compared to Telefónica España s contribution of around 28%.

Consolidated **operating expenses** for the first quarter totalled 10,176 million euros (+12.8% year-on-year in reported terms), an increase of 2.7% in organic terms:

Supply costs amounted to 4,476 million euros, a rise of 2.0% in organic terms versus the first quarter of 2010 (+11.2% in reported terms), as a result of increased handset costs in the three regions, associated to the growing smartphone adoption across all the markets, although this effect is partially offset by lower mobile termination in the three regions.

Personnel expenses amounted to 2,077 million euros, rising 6.2% in organic terms (+12.8% in reported terms), mainly due to higher personnel expenses in Latin America, mainly related with the in-sourcing processes developed in Brazil in 2010, and in Atento, affected by higher inflation in some of the markets of operations and by a headcount increase due to higher activity in the quarter.

The average number of employees at the end of March 2011 was 284,352 (25,113 more than at March 2010), mainly due to the larger workforce at Atento. Excluding Atento, Telefónica s consolidated average workforce would stand at 133,834 employees.

Subcontract expenses amounted to 3,129 million euros in the first quarter, up 3.5% on March 2010 in organic terms (+17.6% reported). This performance is largely due to increased commercial efforts in the three regions and higher network management expenses at Telefónica Latinoamérica. In the quarter, it is worth highlighting the higher expenses in Brazil derived from the bad weather conditions.

At the same time, Telefónica s global projects continued to make a positive contribution to consolidated results in the first quarter (69 million euros in revenues and 66 million in OIBDA).

Table of Contents

Gains on sale of fixed assets totalled 104 million euros during the first three months of the year, including mainly the positive impact of the partial reduction of our economic exposure to Portugal Telecom.

Operating income before depreciation and amortization (OIBDA) for the first quarter stood at 5,574 million euros, with a solid year-on-year growth rate of 9.0%. Changes in the consolidation perimeter contributed 6.9 percentage points to this growth, while foreign exchange rates accounted for 2.9 percentage points. The reported OIBDA margin stood at 36.1% for the first quarter, virtually unchanged year-on-year (-0.6 percentage points).

In organic terms, OIBDA dropped 1.0% year-on-year, with the OIBDA margin at 35.6%, posting a limited erosion of 0.9 percentage points versus the first quarter of 2010, in line with the Company s expectations.

By region, Telefónica Latinoamérica s increased its contribution to consolidated OIBDA by 5.6 percentage points year-on-year, to over 45%. This, together with the contribution from Telefónica Europe, meant that nearly 64% of consolidated OIBDA was generated outside Telefónica España in the first quarter of 2011.

Depreciation and amortization totalled 2,517 million euros, a year-on-year increase of 15.2% in reported terms, primarily due to the full consolidation of Vivo and the amortization of Vivo s purchase price allocation (86 million euros). The depreciation and amortization charges derived from purchase price allocation processes amounted to 324 million euros in the first quarter, with a notable 12.9% year-on-year increase.

In organic terms, depreciation and amortization fell by 0.7% from the same period a year earlier.

As a result, **operating income (OI)** in the January-March 2011 period amounted to 3,057 million euros, up 4.3% year-on-year in reported terms (-1.3% in organic terms).

Profit from associates stood at -16 million euros in the quarter versus +36 million euros a year earlier. The year-on-year change is mainly the result of Portugal Telecom s deconsolidation beginning in the second half of 2010 (this company contributed 32 million euros in the first quarter of 2010) and lower contribution from China Unicom year-on-year.

Total **financial expenses** up to March 2011 reached 579 million euros, which yield an effective cost of 4.23% over total average debt of 55,608 million euros in the first quarter of the year. As a result, financial expenses rose 1.1% year-on-year (6.3 million euros) which is lower than the 20% increase of the average consolidated debt in both periods (9.1 billion euros). Debt has increased mainly in currencies with low interest rates (primarily euro) which has allowed the Company to reduce the effective cost of servicing the debt. Effective cost in the first quarter was 78 basis points lower than in the year-earlier period. Changes in foreign exchange results accumulated up to end of March 2011 yielded an expense increase of 1 million euros year-on-year.

Free Cash Flow generation up to March 2011 amounted to 966 million euros, a decrease of 260 million euros year-on-year. Free Operating Cash Flow before working capital rose 2.5% versus the first quarter of 2010, which was more than offset by the increase in working capital, a result of higher CapEx payments.

Net Financial Debt has been reduced by 1,373 million euros from 2010 year end (55,593 million euros), due to cash generation net of investments, depreciation of currencies against the euro, higher interest payments and other accounting effects, standing at 54,220 million euros at of the end of March 2011.

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 relating to the Fundación Telefónica s social welfare activities), was reduced to 2.4 times at March 2011, mainly due to the net debt reduction since December 2010. Assuming the leverage ratio was calculated considering the annualized Q1 2011 OIBDA (that is multiplying it by four), the leverage ratio would stand at 2.5 times.

During the first quarter of 2011, the **financing activity** of Telefónica, excluding short term Commercial Paper Programmes activity, rose to approximately 4,000 million equivalent euros, with the main objective of financing in advanced 2011 debt at the Holding level, leading to a cash position at the end of March above the net debt maturities for the year. It is worth highlighting the financing activity of the Company during the first quarter of 2011 in the bond markets:

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

In the US, Telefónica 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 millions US dollars.

Table of Contents

As a consequence of the activity in the bond markets, and given that the average debt life of these last issuances stands above 7 years, Telefónica ´s average net debt life exceeds 6 years as of March 2011 (compared with 5.72 years as of December 2010), coming back to our minimum liquidity commitment, after a temporary deviation from our target due to the Brasilcel acquisition in July 2010, that was partially financed with a 3 year tranche of a syndicated facility. In this sense, it is worth highlighting the recent extension on previously mentioned 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.

Telefónica S.A. and its holding companies have continued active during the first quarter of 2011 under its various Commercial Paper Programmes (Domestic and European), for an outstanding balance of 1,850 million euros at the end of March.

Regarding Latin America, Telefónica ´s subsidiaries have tapped the capital markets up to March for an amount above 400 million equivalent euros, mainly for refinancing 2011 maturities.

At the end of March 2011, bonds and debentures represented 63%, on the **consolidated financial debt** breakdown, while debt with financial institutions reached a 37% weight.

Corporate income taxes in the first quarter totalled 728 million euros, which, over an income before taxes amounting to 2,461 million euros, results in an accrued rate of 29.5%, although fiscal effects derived from the acquisition of Vivo have not been recorded yet.

Profit attributable to minority interests dragged 110 million euros to net income in the first quarter, mainly due to minority interests in earnings from Vivo with a material increase versus the first quarter of 2010 given the change in the consolidation method and sound performance of the company s net income-, Telesp and Telefónica O2 Czech Republic, which more than offset the minority interests in Telefónica Telecom s losses.

As a result, **consolidated net income** amounted to 1,624 million euros (-1.9% year-on-year), while **basic earnings per share** stood at 0.36 euros (-1.5% year-on-year).

CapEx stood at 1,551 million euros, up 30.2% on the year-earlier figure (+11.5% in organic terms). The Company continues to focus its investments on growth and transformation projects (81% of total investment), fostering the development of broadband services, both fixed and mobile. It should be noted that the year-on-year growth in the quarter 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 4,022 million euros in the first quarter of 2011 (+2.5% year-on-year). In organic terms, operating cash flow dropped 4.9% year-on-year.

Definitions

Organic growth: In financial terms, it assumes constant average exchange rates as of January-March 2010 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-March 2010 the consolidation of Vivo, HanseNet and Tuenti are included whereas the results of Manx Telecom are excluded. In OIBDA terms, in January-March 2011, the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded from organic growth calculation. Results from the Costa Rica operation are excluded from 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.

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

Table of Contents

TELEFÓNICA
Financial Data
TELEFÓNICA
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - March		
	2011	2010	% Chg
Revenues	15,435	13,932	10.8
Internal exp capitalized in fixed assets	169	150	12.8
Operating expenses	(10,176)	(9,021)	12.8
Supplies	(4,476)	(4,024)	11.2
Personnel expenses	(2,077)	(1,842)	12.8
Subcontracts	(3,129)	(2,660)	17.6
Bad Debt Provisions	(181)	(216)	(16.1)
Taxes	(312)	(278)	12.1
Other net operating income (expense)	42	23	81.4
Gain (loss) on sale of fixed assets	104	5	n.m.
Impairment of goodwill and other assets	(0)	25	c.s.
Operating income before D&A (OIBDA)	5,574	5,114	9.0
OIBDA margin	*36.1%*	*36.7%*	*(0.6 p.p.)*
Depreciation and amortization	(2,517)	(2,184)	15.2
Operating income (OI)	3,057	2,930	4.3
Profit from associated companies	(16)	36	c.s.
Net financial income (expense)	(579)	(573)	1.1
Income before taxes	2,461	2,393	2.9
Income taxes	(728)	(714)	2.0
Income from continuing operations	1,733	1,679	3.2
Income (Loss) from discontinued ops.			
Non-controlling interests	(110)	(23)	n.m.
Net income	1,624	1,656	(1.9)
Weighted average number of ordinary shares outstanding during the period (millions)	4,524	4,543	(0.4)
Basic earnings per share (euros)	0.36	0.36	(1.5)

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.

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.

2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Table of Contents

TELEFÓNICA
RESULTS BY REGIONAL BUSINESS UNITS
Unaudited figures (Euros in millions)

	REVENUES January - March			OIBDA January - March			OIBDA MARGIN January - March		
	2011	2010	% Chg	2011	2010	% Chg	2011	2010	Chg
Telefónica España (1)	4,372	4,633	(5.6)	1,925	2,153	(10.6)	44.0%	46.5%	(2.4 p.p.)
Telefónica Latinoamérica (1)(2)	7,006	5,561	26.0	2,535	2,038	24.4	36.2%	36.7%	(0.5 p.p.)
Telefónica Europe (1)(2)	3,892	3,591	8.4	1,028	931	10.4	26.4%	25.9%	0.5 p.p.
Other companies and eliminations	165	147	12.7	86	(8)	c.s.	n.m.	n.m.	n.m.
Telefónica (1)	15,435	13,932	10.8	5,574	5,114	9.0	36.1%	36.7%	(0.6 p.p.)

	OPERATING INCOME January - March			CAPEX January - March			OpCF (OIBDA-CAPEX) January - March		
	2011	2010	% Chg	2011	2010	% Chg	2011	2010	% Chg
Telefónica España (1)	1,402	1,660	(15.5)	386	333	15.8	1,540	1,820	(15.4)
Telefónica Latinoamérica (1)(2)	1,383	1,114	24.1	705	478	47.5	1,830	1,560	17.3
Telefónica Europe (1)(2)	223	196	13.8	337	333	1.4	691	599	15.3
Other companies and eliminations	47	(41)	c.s.	124	48	159.3	(38)	(56)	(31.9)
Telefónica (1)	3,057	2,930	4.3	1,551	1,191	30.2	4,022	3,923	2.5

(1) *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.*

(2) *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.*

Notes:

OIBDA and OI are presented bebore 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.

Table of Contents

TELEFÓNICA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Unaudited figures (Euros in millions)

	March 2011	December 2010	% Chg
Non-current assets	104,510	108,721	(3.9)
Intangible assets	24,038	25,026	(3.9)
Goodwill	28,806	29,582	(2.6)
Property, plant and equipment and Investment properties	34,443	35,802	(3.8)
Non-current financial assets and investments in associates	11,958	12,618	(5.2)
Deferred tax assets	5,265	5,693	(7.5)
Current assets	21,692	21,054	3.0
Inventories	1,059	1,028	3.0
Trade and other receivables	11,841	12,426	(4.7)
Current tax receivable	1,280	1,331	(3.9)
Current financial assets	1,628	1,574	3.5
Cash and cash equivalents	5,507	4,220	30.5
Non-current assets classified as held for sale	377	475	(20.6)
Total Assets = Total Equity and Liabilities	126,203	129,775	(2.8)
Equity	31,441	31,684	(0.8)
Equity attributable to equity holders of the parent	25,159	24,452	2.9
Non-controlling interests	6,282	7,232	(13.1)
Non-current liabilities	65,696	64,599	1.7
Non-current financial debt	52,793	51,356	2.8
Deferred tax liabilities	5,784	6,074	(4.8)
Non-current provisions	4,750	4,865	(2.4)
Other non-current liabilities	2,370	2,304	2.8
Current liabilities	29,065	33,492	(13.2)
Current financial debt	7,527	9,744	(22.8)
Trade and other payables	8,493	9,314	(8.8)
Current tax payables	2,564	2,822	(9.1)
Current provisions and other liabilities	10,481	11,612	(9.7)
Financial Data			
Net financial Debt (1)	54,220	55,593	(2.5)

(1) Figures in million euros. Includes: Long term financial debt + other long term liabilities(1,803) + Short term financial debt + short-term provisions and other liabilities(1,984) non-current financial assets and investments in associates (2,752) temporary financial investment included in current financial assets cash and cash equivalents.

Note: 2010 and 2011 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 - March		
		2011	2010	% Chg
I	Cash flow from operations	4,517	4,376	3.2
II	Net interest payment (1)	(878)	(891)	
III	Payment for income tax	(476)	(532)	
A=I+II+III	Net cash provided by operating activities	3,164	2,953	7.1
B	Payment for investment in fixed and intangible assets	(2,433)	(1,969)	
C=A+B	Net free cash flow after CapEx	730	984	(25.8)
D	Net Cash received from sale of Real Estate	8	2	
E	Net payment for financial investment	(893)	(1,215)	
F	Net payment for operations with minority shareholders and treasury stock (2)	342	(448)	
G=C+D+E+F	Free cash flow after dividends	188	(678)	c.s.
H	Effects of exchange rate changes on net financial debt	(408)	1,945	
I	Effects on net financial debt of changes in consolid. and others	(777)	(892)	
J	Net financial debt at beginning of period	55,593	43,551	
K=J-G+H+I	Net financial debt at end of period			