

Telefónica

TELEFÓNICA EMISIONES, S.A.U.

(incorporated with limited liability under the laws of The Kingdom of Spain)

guaranteed by

TELEFÓNICA, S.A.

(incorporated with limited liability in The Kingdom of Spain)

€25,000,000,000

PROGRAMME FOR THE ISSUANCE OF WHOLESALE DEBT INSTRUMENTS

This prospectus has been approved by the United Kingdom Financial Services Authority (the “FSA”), which is the competent authority for the purposes of Directive 2003/71/EC (the “Prospectus Directive”) and relevant implementing measures in the United Kingdom, as a base prospectus (the “Base Prospectus”) issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to Telefónica Emisiones S.A.U., Telefónica, S.A. and the issue of debt instruments (the “Instruments”) under the programme described above (the “Programme”) during the period of twelve months after the date hereof.

Applications have been made to the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “FSMA”) for Instruments issued within 12 months from the date hereof to be admitted to the official list of the FSA (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for such Instruments to be admitted to trading on the Regulated Market of the London Stock Exchange. References in this Base Prospectus to Instruments being “listed” (and all related references) shall mean that such Instruments have been admitted to the Official List and have been admitted to trading on the Regulated Market of the London Stock Exchange.

The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Instruments.

Potential investors should note the statements on page 18 regarding the tax treatment in Spain of income obtained in respect of the Instruments and the disclosure requirements imposed by Law 13/1985 of 25 May 1985, as amended by Law 19/2003 of 4 July 2003 and Law 23/2005 of 18 November 2005, on the Guarantor relating to the identity of holders of the Instruments. In particular, payments on the Instruments may be subject to Spanish withholding tax if certain information regarding holders of Instruments is not received by the Guarantor in a timely manner.

Arranger for the Programme

BARCLAYS CAPITAL

Dealers

ABN AMRO
BNP PARIBAS
CITI
CREDIT SUISSE
DEUTSCHE BANK
GOLDMAN SACHS INTERNATIONAL
LEHMAN BROTHERS
MORGAN STANLEY
SOCIÉTÉ GÉNÉRALE CORPORATE &
INVESTMENT BANKING

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.
BARCLAYS CAPITAL
COMMERZBANK CORPORATES & MARKETS
DAIWA SECURITIES SMBC EUROPE
DRESDNER KLEINWORT
JPMORGAN
MERRILL LYNCH INTERNATIONAL
SANTANDER GLOBAL BANKING & MARKETS
UBS INVESTMENT BANK

Each of Telefónica Emisiones S.A.U. (the “Issuer”) and Telefónica, S.A. (“Telefónica” or the “Guarantor”) accepts responsibility for the information contained in the Base Prospectus. To the best of the knowledge and belief of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in the Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

References herein to the “Programme Date” are to the date specified on the cover of the Base Prospectus.

As used herein, “Telefónica”, “Telefónica Group”, “Group” and terms such as “we”, “us” and “our” mean Telefónica, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

As used herein, “Atento” means Atento Holding, Inversiones y Teleservicios, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

As used herein, “O2 Group” means Telefónica O2 Europe PLC and its consolidated subsidiaries, “O2 UK” means O2 (UK) Ltd. and its consolidated subsidiaries and “O2 Germany” means O2 (Germany) GmbH & Co OHG and its consolidated subsidiaries, unless the context requires otherwise.

Below are definitions of certain technical terms used in this Base Prospectus:

- “Access” refers to a connection to any of the telecommunications services offered by the Telefónica Group. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. In addition, we fully count the accesses of all companies over which we exercise control or joint control. The following are the main categories of accesses:
 - Fixed telephony accesses: includes public switched telephone network (“PSTN”) lines (including public use telephony), and integrated services digital network (“ISDN”), lines and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).
 - Internet and data accesses: includes broadband accesses (retail asymmetrical digital subscriber line (“ADSL”), satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and other accesses, including the remaining non-broadband final client circuits.
 - Pay TV: includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.
 - Mobile accesses: includes contract and pre-pay mobile telephony.
 - Unbundled local loop, or ULL: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, “fully UL”) or only DSL service (shared unbundled loop, “shared UL”).
 - Wholesale ADSL: means wholesale asymmetrical digital subscriber line.
 - Other: includes other circuits for other operators.

Certain technical terms used with respect to our business are as follows:

- “ARPU” means the average revenue per user per month. ARPU is calculated by dividing total service revenue (excluding inbound roaming revenue) from sales to customers for the preceding 12 months by the weighted average number of customers for the same period, and then divided by 12 months. ARPU is calculated using gross service revenue before deduction of wholesale discounts.
- “Commercial activity” includes the addition of new lines, replacement of handsets and changes in types of contracts.

- “Duo bundle” means broadband plus voice service. We measure “duo bundles” in terms of units, where each bundle of broadband and voice service counts as one unit.
- “Final clients accesses” means accesses provided to residential and corporate clients.
- “Gross adds” means the gross increase in the customer base in a period.
- “Interconnection revenue” means revenues received from other operators which use our networks to connect to our customers.
- “LMDS” means local multipoint distribution service.
- “Local loop” means the physical circuit connecting the network termination point at the subscriber’s premises to the main distribution frame or equivalent facility in the fixed public telephone network.
- “MOU” means minutes of use. MOU is calculated by dividing the total number of voice minutes for the preceding 12 months by the weighted average number of mobile accesses for the same period, and then divided by 12 months.
- “MVNO” means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays such mobile network operator for using the infrastructure to facilitate coverage to their customers. There are two types of MVNOs: (i) pure MVNOs, which are typically telecommunications companies without licensed frequency allocation and want to complete their telecommunications service portfolio (for example, ONO in Spain); and (ii) reseller MVNOs which are companies that purchase wholesale mobile minutes and resell to end-users, and use their brand and distribution channel (for example, Carrefour in Spain).
- “Net adds” means the difference between the customer base at the end of the period and the beginning of a period.
- “Revenues” means net sales and rendering of services.
- “Trio bundle” means broadband plus voice service plus IPTV. We measure “trio bundles” in terms of units, where each bundle of broadband, voice service and IPTV counts as one unit.
- “UMTS” means Universal Mobile Telecommunications System.
- “VoIP” means voice over Internet protocol.
- “Wholesale accesses” means accesses we provide to our competitors, who then sell such accesses to their residential and corporate clients.

The Base Prospectus should be read and construed with any amendment or supplement thereto and with any other documents incorporated by reference (see “Documents Incorporated by Reference”) and, in relation to any Series (as defined herein) of Instruments, should be read and construed together with the relevant Final Terms (as defined herein).

No person has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with the Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or, as the case may be, the Guarantor or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor or any Dealer (as defined herein).

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in the Base Prospectus. Neither the delivery of the Base Prospectus or any Final Terms nor the offering, sale or delivery of any Instrument shall, in any circumstances, create any implication that the information contained in the Base Prospectus is true subsequent to the date thereof or the date upon which the Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuer, the Guarantor or the Group since the date thereof or, as the case may be, the date upon which the Base Prospectus has been most recently amended or supplemented or the balance sheet date of the most recent financial statements and annual accounts which are deemed to be incorporated into the Base Prospectus by reference or that any other information supplied in

connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of the Base Prospectus and any Final Terms and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession the Base Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of the Base Prospectus or any Final Terms and other offering material relating to the Instruments, see "Subscription and Sale". In particular, Instruments have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may include Instruments in bearer form which are subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to U.S. persons. Neither the Base Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

Neither the Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Instruments and should not be considered as a recommendation by the Issuer, the Guarantor, the Dealers or any of them that any recipient of the Base Prospectus or any Final Terms should subscribe for or purchase any Instruments. Each recipient of the Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Guarantor and the Group.

The maximum aggregate principal amount of Instruments outstanding at any one time under the Programme will not exceed €25,000,000,000 (and for this purpose, any Instruments denominated in another currency shall be translated into Euro at the date of the agreement to issue such Instruments calculated in accordance with the provisions of the Dealership Agreement as defined under "Subscription and Sale"). The maximum aggregate principal amount of Instruments which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement.

This Base Prospectus describes in summary form certain Spanish tax implications and procedures in connection with an investment in the Instruments (see "Risk Factors – Risks Relating to Withholding", "Risk Factors – Risks Relating to Procedures for Collection of Holders' Details" and "Taxation and Disclosure of Information in Connection with Payments – Taxation in the Kingdom of Spain"). Holders of Instruments must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Instruments.

All references in the Base Prospectus to "\$", "U.S.\$." and "USD" are to United States dollars, the lawful currency of the United States of America and all references to "sterling", "pound sterling" or "£" are to the currency of the United Kingdom. All references to "Euro" and "€" are to the single currency of participating member states of the European Union that adopt the single currency introduced at the third stage of European economic and monetary union, as contemplated by the Treaty on European Union.

Documents Incorporated by Reference

The following documents shall be deemed to be incorporated in, and to form part of, the Base Prospectus:

- (1) the audited consolidated financial statements of the Guarantor, and the reports referred to therein, for the years ended 31 December 2007 and 31 December 2006 and the unaudited consolidated financial information of the Guarantor for the 3 months ended 31 March 2008;
- (2) the audited annual accounts of the Issuer and the reports referred to therein for the years ended 31 December 2007 and 31 December 2006;
- (3) the Terms and Conditions of the Instruments as set out on pages 17-46 of the Base Prospectus dated 8 July 2005 relating to the Programme;
- (4) the Terms and Conditions of the Instruments as set out on pages 19-47 of the Base Prospectus dated 5 July 2006 relating to the Programme; and
- (5) the Terms and Conditions of the Instruments as set out on pages 20-48 of the Base Prospectus dated 3 July 2007 relating to the Programme.

The above documents may be inspected as described in paragraph 11. of “General Information”.

Any information incorporated by reference in any of the documents specified above which is not separately incorporated by reference in this Base Prospectus is either not relevant for investors or is covered elsewhere in this Base Prospectus.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF INSTRUMENTS, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF INSTRUMENTS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF INSTRUMENTS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF INSTRUMENTS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Key Features of the Programme

The following is a brief summary only and should be read in conjunction with the rest of this document and, in relation to any Instruments, in conjunction with the relevant Final Terms and, to the extent applicable, the Terms and Conditions of the Instruments set out herein.

Issuer:	Telefónica Emisiones S.A.U.
Guarantor:	Telefónica, S.A.
Guarantee:	The Guarantor will, in a Deed of Guarantee to be dated on or about 3 July 2008 (the “Guarantee”), unconditionally and irrevocably guarantee the due and punctual payment of all amounts under the Instruments.
Arranger:	Barclays Bank PLC
Dealers:	ABN AMRO Bank N.V., Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Daiwa Securities SMBC Europe Limited, Deutsche Bank AG, London Branch, Dresdner Bank Aktiengesellschaft, Goldman Sachs International, Lehman Brothers International (Europe), Merrill Lynch International, J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc, Société Générale and UBS Limited, and any other dealer appointed from time to time by the Issuer and the Guarantor either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Instruments.
Issue and Paying Agent and Principal Registrar:	The Bank of New York Mellon, London Branch
Programme Amount:	€25,000,000,000 in aggregate principal amount of Instruments outstanding at any one time (and, for this purpose, any Instruments denominated in another currency shall be translated into Euro at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of Euro being quoted by the Issue and Paying Agent at approximately 11.00 a.m. (London time) on the date on which the Relevant Agreement (as defined below) in respect of the relevant Tranche was made or such other rate as the Issuer and the Relevant Dealer may agree). The maximum aggregate principal amount of Instruments which may be outstanding under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement as defined under “Subscription and Sale”.
Issuance in Series:	Instruments will be issued in series (each, a “Series”). Each Series may comprise one or more tranches (“Tranches” and each, a “Tranche”) issued on different issue dates. The Instruments of each Series will all be subject to identical terms, except that (i) the issue date and the amount of the first payment of interest may be different in respect of different Tranches and (ii) a Series may comprise Instruments in bearer form and Instruments in registered form and Instruments in more than one denomination. The Instruments of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Instruments in bearer form and Instruments in registered form and may comprise Instruments of different denominations.
Form of Instruments:	Instruments may be issued in bearer form or in registered form. In respect of each Tranche of Instruments issued in bearer form, the Issuer will deliver a temporary global Instrument or (if so specified in the relevant Final Terms in respect of Instruments to which U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the “TEFRA C Rules”) applies (as so specified in such Final Terms)) a permanent global Instrument. Each such global Instrument which is not intended to be issued in new global note form (a “Classic Global Note” or “CGN”), as specified in the

relevant Final Terms, will be deposited on or around the relevant issue date with a depository or a common depository for Euroclear Bank S.A./ N.V., as operator of the Euroclear System (“Euroclear”) and/or Clearstream Banking, société anonyme, Luxembourg (“Clearstream, Luxembourg”) and/or any other relevant clearing system and each such global Instrument which is intended to be issued in new global note form (a “New Global Note” or “NGN”), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each temporary global Instrument will be exchangeable for a permanent global Instrument or, if so specified in the relevant Final Terms, for Instruments in definitive bearer form and/or (in the case of a Series comprising both bearer and registered Instruments and if so specified in the relevant Final Terms) in registered form in accordance with its terms. Each permanent global Instrument will be exchangeable for Instruments in definitive bearer form and/or (in the case of a Series comprising both bearer and registered Instruments and if so specified in the relevant Final Terms) in registered form in accordance with its terms. Instruments in definitive bearer form will, if interest-bearing, have interest coupons (“Coupons”) attached and, if appropriate, a talon (“Talon”) for further Coupons and will, if the principal thereof is repayable by instalments, have a grid for recording the payment of principal endorsed thereon or, if so specified in the relevant Final Terms, have payment receipts (“Receipts”) attached. Instruments in registered form may not be exchanged for Instruments in bearer form unless otherwise specified in the relevant Final Terms.

- Currencies: Instruments may be denominated in any currency or currencies subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Instruments may, subject to compliance as aforesaid, be made in and/or linked to, any currency or currencies other than the currency in which such Instruments are denominated.
- Status of Instruments: Instruments may be issued on a subordinated or unsubordinated basis, as specified in the relevant Final Terms.
- Status of the Guarantee: The obligations of the Guarantor under the Guarantee are, unless otherwise specified in the applicable Final Terms, unsubordinated.
- Issue Price: Instruments may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The issue price and the principal amount of the relevant Tranche of Instruments will be determined before filing of the relevant Final Terms of each Tranche on the basis of then prevailing market conditions.
- Maturities: Instruments may have any maturity of not less than one month, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Instruments have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Instruments is carried out from an establishment maintained by the Issuer in the United Kingdom, such Instruments must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by the Issuer.

Redemption:	<p>Instruments may be redeemed at par or at such other Redemption Amount (detailed in a formula or otherwise) as may be specified in the relevant Final Terms.</p> <p>Any Instruments in respect of which the issue proceeds are received by the Issuer in the United Kingdom and having a maturity of less than one year from their date of issue must (a) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (b) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 by the Issuer.</p>
Early Redemption:	<p>Early redemption will, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements, be permitted for taxation reasons as mentioned in “Terms and Conditions of the Instruments – Early Redemption for Taxation Reasons”, but will otherwise be permitted only to the extent specified in the relevant Final Terms.</p>
Interest:	<p>Instruments shall be interest-bearing. Interest may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.</p>
Denominations:	<p>Instruments will be issued in such denominations as may be specified in the relevant Final Terms, subject to a minimum denomination of €50,000 (or, if the Instruments are denominated in a currency other than Euro, the equivalent amount in such currency at the date of issue) and in compliance with all applicable legal and/or regulatory and/or central bank requirements. In the event that Condition 1.05(c) is stated in the relevant Final Terms as being applicable, the Clearing Systems will not permit trades other than in the denominations specified in the Final Terms or in integral multiples thereof.</p>
Taxation:	<p>Payments in respect of Instruments will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor will (subject to certain exceptions described below) pay such additional amounts as will result in the holders of Instruments or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required. In addition to certain customary exceptions, no such additional amounts shall be payable to: (a) Holders (as defined herein) who are resident for tax purposes in Spain; and (b) Holders of Instruments in respect of whom information regarding their identity and tax residence is not received by the Guarantor in accordance with the procedures implemented to comply with certain disclosure requirements established by Spanish law, as such requirements have been interpreted by the Spanish tax authorities in two binding rulings issued on 28 September 2007 and further clarified by two subsequent binding rulings issued on 31 January 2008, who will receive payments subject to Spanish withholding tax (as at the date of this Base Prospectus, 18 per cent.) (see “Terms and Conditions of the Instruments – Taxation” and “Taxation and Disclosure of Information in Connection with Payments”).</p>

In the case of a Tranche of Instruments in relation to which application has not been made for listing on any stock exchange, a different tax regime from that set out herein under “Taxation and Disclosure of Information in connection with Payments” will apply. In such case, Condition 8 (Taxation) will not apply and the applicable corresponding provisions will be set out in a supplement to this Base Prospectus.

Negative Pledge: The Instruments will have the benefit of a negative pledge as described in Condition 4 (Negative Pledge).

Cross Default: The Instruments will have the benefit of a cross default as described in Condition 7 (Events of Default).

Disclosure of Identity of Holders: Under Law 13/1985, the Guarantor is obliged to disclose to the Spanish tax and supervisory authorities the identity of holders of the Instruments. The Issuer, the Guarantor, the Issue and Paying Agent, the common depositary for the Instruments and the Clearing Systems will follow certain procedures to facilitate the collection of the above details from holders. A summary of those procedures is set out in “Taxation and Disclosure of Information in Connection with Payments – Taxation in the Kingdom of Spain”.

The procedure contained in this Base Prospectus is a summary only and is subject to the detailed procedures of each of the European Clearing Systems and/or any other clearing system in which the Instruments may be cleared and settled from time to time. Such procedures are also subject to any changes in Spanish tax law and/or regulations, or the interpretation thereof, which the Spanish tax authorities may promulgate from time to time. Holders of Instruments must seek their own advice to ensure that they comply with all applicable procedures and to ensure that correct tax treatment of their Instruments. None of the Issuer, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrars or the Clearing Systems assume any responsibility therefor.

Governing Law: The terms and conditions of the Instruments and all related contractual documentation will be governed by, and construed in accordance with, English law, provided that the status of the Instruments and of the Guarantee and the provisions relating to the appointment of the Commissioner and the Syndicate of Holders are governed by Spanish law. See “Terms and Conditions of the Instruments – Law and Jurisdiction”.

Listing and Trading: Applications have been made for Instruments to be admitted during a period of twelve months after the date hereof to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange. The Programme also permits Instruments to be issued on the basis that they will be admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Final Terms or may be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.

Terms and Conditions: The “Terms and Conditions of the Instruments” set out herein will be applicable to each Series of Instruments issued subject to Law 13/1985. Final terms will be prepared in respect of each Tranche of Instruments (the “Final Terms”). The terms and conditions applicable to each Tranche will be those set out herein under “Terms and Conditions of the Instruments” as supplemented, modified or replaced by the relevant Final Terms.

Enforcement of Instruments in Global Form:	In the case of Instruments in global form, Holders' rights will be supported by a Deed of Covenant dated 3 July 2008, a copy of which will be available for inspection at the specified office of the Issue and Paying Agent.
Clearing Systems:	Euroclear, Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Final Terms.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material under the laws of the United States of America, the United Kingdom, Japan and The Kingdom of Spain, see under "Subscription and Sale". Additional restrictions may apply to each Series, as specified in the relevant Final Terms.
Ratings:	Tranches of Instruments may be rated or unrated and, if rated, such ratings will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold Instruments and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Redenomination and Exchangeability:	The relevant Final Terms will indicate whether the Issuer may elect that, with effect from the Redenomination Date, the Instruments of that Tranche (if the currency of such Tranche is not the Euro) shall be redenominated in Euro (if Redenomination is specified) or become exchangeable for Instruments denominated in Euro (if Exchangeability is specified).

Risk Factors

In addition to the other information contained in this Base Prospectus, prospective investors should carefully consider the risks described below before making any investment decision. The risks described below are not the only ones that we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business and results of operations. Our business, financial condition, results of operations and cash flows could be materially adversely affected by any of these risks, and investors could lose all or part of their investment.

Risks Related to our Business

A material portion of our operations and investments are located in Latin America, and we are therefore exposed to risks inherent in operating and investing in Latin America.

At 31 December 2007, approximately 33.2% of our assets were located in Latin America. In addition, approximately 36.2% of our revenues from operations for 2007 were derived from our Latin American operations. Our operations and investments in Latin America (including the revenues generated by these operations, their market value and the dividends and management fees expected to be received from them) are subject to various risks related to the economic, political and social conditions of these countries, including risks related to the following:

- government regulations and administrative policies may change in an unpredictable and adverse manner;
- currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;
- the effects of inflation and currency depreciation may require certain of our subsidiaries to undertake a mandatory recapitalisation or commence dissolution proceedings;
- governments may expropriate or nationalise assets or increase their participation in the economy and companies;
- governments may impose burdensome taxes or tariffs;
- political changes may lead to changes in the business environments in which we operate; and
- economic downturns, political instability and civil disturbances may negatively affect our operations.

In particular, our business may be affected by recent political developments in certain Latin American countries. Certain governments in these countries have announced plans to nationalise or otherwise increase their intervention in various industries. We cannot predict how recent developments and new political conditions in such countries will affect our business and operations.

Our operations are dependent, in many cases, on concessions and other agreements with existing governments. These concessions and agreements, including their renewal, could be directly affected by economic and political instability, altering the terms and conditions under which we operate in such countries.

Our financial condition, results of operations and cash flows may be adversely affected if we do not effectively manage our exposure to foreign currency exchange and interest rate risk.

We are exposed to various types of market risk in the normal course of our business, including the impact of changes in foreign currency exchange rates, as well as the impact of changes in interest rates. We employ risk management strategies to manage this exposure, in part through the use of financial derivatives such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for our risk management purposes, or if we cannot enter into arrangements of the type and for the amounts necessary to limit our exposure to currency exchange rate fluctuations, or if our banking counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect our ~~our~~ financial condition, results of operations and cashflows. Also, our other risk management strategies may not be successful, which could adversely affect our financial condition, results of operations and cash flows, see note 16 to our consolidated financial statements for the year ended 31 December 2007.

Adverse economic conditions could reduce purchases of our products and services.

Our business is impacted by general economic conditions and other similar factors in each of the countries in which we operate. Adverse economic or other market conditions negatively affect the level of demand of existing and prospective customers, as our services may not be deemed critical for these customers. Moreover, in the case of an economic downturn, our customers may reduce their spending on information, communications and entertainment services. As a result, our financial condition, results of operations and cash flows may be negatively affected and our growth targets may not be met.

Failure to generate sufficient cash flow and higher capital expenditure requirements could make us more dependent on external financing. If we are unable to obtain financing, our business may be adversely affected.

The operation, expansion and upgrading of our networks, as well as the marketing and distribution of our services and products, require substantial financing. Moreover, our liquidity and capital resource requirements may increase if we participate in other fixed line or mobile licence award processes or make acquisitions. We also have major capital resource requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

If our ability to generate cash flow were to decrease, we might need to incur additional debt to support our liquidity and capital resources requirements for the ongoing development and expansion of our business in the countries where we operate. A decrease in our cash flow and an increase in our leverage could affect our creditworthiness and we may suffer downgrades in our credit ratings by the rating agencies. Deterioration in our ratings could limit or make more difficult and expensive our access to the capital markets to raise funds and restrict our ability to operate our business or to refinance our debt, if needed, which could adversely affect our financial condition, results of operations and cash flows. Moreover, the deterioration of credit market conditions could limit or make more difficult and expensive our access to the capital markets to raise funds. If we have insufficient internal cash flow or we are unable to raise the funds we need at affordable rates, we may be unable to pursue our business plans, which could adversely affect our financial condition, results of operations and cash flows. Approximately €4.4 billion in financial debt matures in 2009, which we would aim to refinance. The cost of refinancing such debt or incurring additional debt may be higher than it was in the past as demonstrated by the current situation in the financial markets. Financial markets currently imply credit spreads on our debt which could be higher than in the past, with our five-year credit default swaps trading between 61 and 185 basis points in 2008 versus an average of 37 basis points in 2007. For a more detailed description of our liquidity risk management, see note 16 to consolidated financial statements for the year ended 31 December 2007.

The successful implementation of our strategy for our mobile operations in Brazil depends on the development of our joint venture company with Portugal Telecom, SGPS, S.A.

Our mobile business in Brazil is conducted through a 50:50 joint venture company, Brasilcel, N.V. (“Brasilcel”) which is jointly controlled by us and Portugal Telecom, SGPS, S.A. (“Portugal Telecom”). As a result of our less than controlling interest in this joint venture, we do not have absolute control over the operations of the venture and there is an inherent risk of deadlock in its management and operations.

As a result, we must generally obtain the cooperation of Portugal Telecom in order to implement and expand upon our business strategies and to finance and manage the joint venture. If this cooperation is not obtained or if there is a deadlock or disagreement among the joint venture partners, we may not realise the expected benefits from this joint venture, including economies of scale and opportunities to achieve potential synergies and cost savings.

Risks Relating to our Industry

We face intense competition in most of our markets, which could result in decreases in current and potential customers, revenues and profitability.

We face significant competition in all of the markets in which we operate, and we are therefore subject to the effects of actions by our competitors in these markets. Our competitors could:

- offer lower prices, more attractive discount plans or better services and features;

- develop and deploy more rapidly new or improved technologies, services and products;
- bundle offerings of one type of service with others;
- in the case of the mobile industry, subsidise handset procurement; or
- expand and enhance their networks more rapidly.

Furthermore, some of our competitors in certain markets have, and some potential competitors may enjoy, competitive advantages, including the following:

- greater name recognition;
- greater financial, technical, marketing and other resources;
- a significant or dominant position in the market;
- better strategic alliances;
- larger customer bases; and
- well-established relationships with current and potential customers.

To compete effectively with our competitors, we will need to successfully market our services and anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by our competitors, pricing strategies adopted by its competitors, changes in consumer preferences and general economic, political and social conditions. If we are unable to compete effectively with our competitors, it could result in price reductions, lower revenues, under-utilisation of our services, reduced operating margins and loss of market share.

We operate in a highly regulated industry, which could adversely affect our businesses.

As a multinational telecommunications company, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. In addition, the licensing, construction, operation and interconnection arrangements of our communications systems are regulated to varying degrees by the European Union, national, state, regional and local authorities. Furthermore, we are subject to strict regulation in many of the countries and market segments in which we operate, particularly in many areas of the fixed-line network business.

Regulatory authorities regularly intervene in the offering and pricings of our products and services. They could also adopt regulations or take other actions that could adversely affect us, including revocation of or failure to renew any of our licences, changes in spectrum allocation, authorisations or concessions to offer services in a particular market, changes in the regulation of international roaming prices and mobile termination rates, introduction of virtual mobile operators, regulation of mobile data services and regulation of the local loop. Such regulatory actions could place significant competitive and pricing pressure on our operations, and could have a material adverse effect on our business, financial condition, results of operations and cashflows.

Regulatory policies applicable in many of the countries in which we operate generally favour increased competition in most of our market segments, especially in the fixed line, broadband and mobile service industries, including by granting new licences in existing licensed territories in order to permit the entry of new competitors or through the imposition of special rules and obligations to those operators that are said to have a dominant position or significant market power in a certain market. These regulatory policies are likely to have the effect, over time, of reducing our market share in the relevant markets in which we operate.

In addition, because we hold a leading market share in many of the countries in which we operate, we could face regulatory actions by national or supranational antitrust or competition authorities if it is determined that we have prevented, restricted or distorted competition. These authorities could prohibit us from making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on us, which, if significant, could harm our financial performance and future growth.

Finally, we expect the regulatory landscape to change in Europe as a consequence of the process of review of the common regulatory framework currently in place in the European Union, the approval of which is foreseen for 2009 or 2010, which could result in decreases or increases in the regulatory pressure depending on the type of services and the local competitive environment. We may also face possible new regulatory initiatives in the area of mobile telecommunications in

Europe, including increased regulatory pressure on international roaming tariffs for data and SMS services and on mobile call termination rates.

Additional regulation of wholesale services (for example, access to ducts and dark fiber) in several European countries, including Spain, could result in an increase of competitive pressure on our provision of high-speed fixed telecom services.

We operate under licence and concession contracts.

Most of our operating companies require licences, authorisations or concessions from the governmental authorities of the countries in which they operate. The continued existence and terms of our licences, authorisations and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. Moreover, the renewal of these licences and concessions, as well as the terms and conditions of such renewal, could be directly affected by political and regulatory factors.

The terms of these licences granted to our operating companies and conditions of the licence renewal vary from country to country. Licence renewal is not usually guaranteed, although most licences do address the renewal process and terms. As licences approach the end of their terms, we pursue their renewal as provided by each of the licence agreements, though we cannot guarantee that we will always complete this process successfully.

Many of these licences, authorisations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our existing licences, authorisations and concessions typically require that we satisfy certain obligations, including minimum specified quality, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the licence for the relevant area. In addition, the need to meet scheduled deadlines may require our companies to expend more resources than otherwise budgeted for a particular network build-out.

The industry in which we operate is subject to rapid technological changes, which requires us to continuously adapt to such changes and to upgrade our existing networks. If we are unable to adapt to such changes, our ability to provide competitive services could be materially adversely affected.

Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will further develop. These new products and technologies may reduce the prices for our services or they may be superior to, and render obsolete, the products and services we offer and the technologies we use, and may consequently reduce the revenues generated by our products and services and require investment in new technology. In addition, we may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for us to upgrade our products and technology in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect our business, financial condition and results of operations and cash flow.

In particular, we must continue to upgrade our existing mobile and fixed line networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we could be required to upgrade the functionality of our networks to permit increased customisation of services, increase coverage in some of our markets, or expand and maintain customer service, network management and administrative systems.

Many of these tasks are not entirely under our control and may be affected by applicable regulations. If we fail to execute these tasks successfully, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, which would adversely affect our business, financial condition, results of operations and cash flow.

Spectrum capacity may become a limiting factor.

Our mobile operations in a number of countries may rely on our ability to acquire additional spectrum. The failure to obtain sufficient capacity and spectrum coverage would have a material adverse impact on the quality of our services and our ability to provide new services, which could adversely affect our business, financial condition, results of operations and cash flow.

Our business could be adversely affected if our suppliers fail to provide necessary equipment and services on a timely basis.

We depend upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a timely basis, our business and results of operations could be adversely affected. Similarly, interruptions in the supply of telecommunications equipment for our networks could impede network development and expansion, which in some cases could adversely affect our ability to satisfy our licence requirements.

We may be adversely affected by unanticipated network interruptions.

Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in our service, could result in customer dissatisfaction, reduced revenues and traffic and costly repairs and could harm our reputation. We attempt to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and cannot avert every action or event that could damage or disrupt our technical infrastructure. Although we carry business interruption insurance, our insurance policy may not provide coverage in amounts sufficient to compensate us for any losses we incur.

The mobile industry may be harmed by reports suggesting that radio frequency emissions cause health problems.

Over the last few years, the debate about the alleged potential effects of electromagnetic fields on human health has, in many cases, hindered the deployment of the infrastructures necessary to ensure quality of service. Institutions and organisations, such as the World Health Organization, have stated that exposure to the emissions of electromagnetic waves generated by mobile telephony, within the limits established, has no adverse effects on health. In fact, a number of European countries, including Spain, have drawn up complete regulations reflecting the Recommendation of the Council of the European Union dated 12 July 1999. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequencies.

Whether or not other research or studies conclude there is a link between radio-frequency emissions and health, popular concerns about radio-frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on our mobile companies and, as a result, on our financial condition, results of operations and cash flows. While we are not aware of any evidence confirming a link between radio-frequency emissions and health problems, and we continue to comply with good practices codes and relevant regulations, we can provide no assurance of what future medical research may suggest.

Developments in the telecommunications sector have resulted, and may in the future result, in substantial write-downs of the carrying value of certain of our assets.

We review on an annual basis, or more frequently where the circumstances require, the value of each of our assets and subsidiaries, to assess whether those carrying values can be supported by the future cash flows expected to be derived from such assets, which, in some cases, include expected synergies considered in the acquisition cost. Whenever we consider that due to changes in the economic, regulatory, business or political environment, our goodwill, intangible assets or fixed assets may be impaired, we consider the necessity of performing certain valuation tests, which may result in impairment charges. The recognition of impairments of tangible, intangible and financial assets results in a non-cash charge on the income statement, which could adversely affect our results of operations.

Risks Relating to Withholding

Under Spanish law, income in respect of Instruments issued by the Issuer will be subject to withholding tax in Spain, currently at the rate of 18 per cent., in relation to payments to (a) individual Holders (as defined herein) who are resident for tax purposes in Spain; and (b) Holders of Instruments in respect of whom information regarding their identity and tax residence is not

received by the Guarantor in accordance with the procedures implemented to comply with certain disclosure requirements established by Spanish law, as such requirements have been interpreted by the Spanish tax authorities in two binding rulings issued on 28 September 2007 and further clarified by two subsequent binding rulings issued on 31 January 2008. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax in any of the above cases (See “Terms and Conditions of the Instruments – Taxation” and “Taxation and Disclosure of Information in Connection with Payments”).

Despite the Issuer’s and the Guarantor’s opinion that the Instruments are not placed in Spain (on the basis that there will be no public offer into Spain, as contemplated in “Subscription and Sale – The Kingdom of Spain”) for the purposes of the exemption from withholding tax on payments to Spanish corporate Holders (as described in “Taxation and Disclosure of Information in Connection with Payments – 2. Legal Entities with Tax Residency in Spain”), the Spanish tax authorities may determine that a Tranche of Instruments has been placed in Spain and that the exemption referred to above does not apply to such Instruments. If such determination were made, under “Terms and Conditions of the Instruments – Taxation” paragraph (ii), the Issuer would be required to make a withholding at the applicable rate, currently 18 per cent., on payments of interest under the Instruments and no additional amounts will be payable by the Issuer or the Guarantor in such circumstances.

Risks Relating to Procedures for Collection of Holders’ Details

Under Spanish law, income in respect of the Instruments will be subject to withholding tax in Spain, currently at the rate of 18 per cent., in the case of individual holders of Instruments who are resident in Spain. The Guarantor is required pursuant to Spanish law to submit to the Spanish tax authorities certain details relating to holders of the Instruments. Holders of Instruments in respect of whom such information is not provided in accordance with procedures described herein to the Guarantor will receive payments subject to Spanish withholding tax, currently at the rate of 18 per cent. **The Issuer will not gross up payments in respect of any such withholding tax in any of the above cases (see “Taxation and Disclosure of Information in Connection with Payments”).**

The procedure described in this Base Prospectus for the provision of information required by Spanish laws and regulations is a summary only and is subject to the detailed procedures of each of Euroclear and/or Clearstream, Luxembourg and/or any other clearing system in which the Instruments may be cleared and settled from time to time. Such procedures are also subject to any changes in Spanish tax law and/or regulations, or the interpretation thereof, which the Spanish tax authorities may promulgate from time to time. **Holders of Instruments must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Instruments.** None of the Issuer, the Guarantor, the Dealers, the Paying Agents, the Registrars or the Clearing Systems assume any responsibility therefor.

Risks Relating to the Comisario

Under Spanish law, the Issuer is required to appoint a commissioner (*comisario*) (the “Commissioner”) in relation to the Instruments. The Commissioner owes certain obligations to the Syndicate of Holders (as described in “The Regulations”). However, prospective investors should note that the Commissioner will be an individual appointed by the Issuer and that such individual may also be an employee or officer of the Issuer or the Guarantor.

Risks Relating to the Insolvency Law

Certain provisions of the Insolvency Law could affect the ranking of the Instruments on an insolvency of the Issuer or the Guarantor. In particular, there is uncertainty surrounding the interpretation of article 87.6 of the Insolvency Law, which may result in claims against the Issuer under the Senior Instruments or the Subordinated Instruments being re-classified as claims of creditors related to the Issuer as defined in article 92 of the Insolvency Law. However, if such claims were re-classified as described above the payment obligations of the Guarantor under the Guarantee in relation to Senior Instruments would continue to be classified as ordinary debts and the payment obligations of the Guarantor under the Guarantee in relation to Subordinated Instruments would continue to be classified as contractually subordinated debt under article 92 of the Insolvency Law.

Risk Relating To The Instruments

There is no active trading market for the Instruments

Instruments issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Instruments which is already issued). If the Instruments are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although applications have been made for the Instruments issued under the Programme to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such applications will be accepted, that any particular Tranche of Instruments will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Instruments.

Index linked Instruments and dual currency Instruments

The Issuer may issue Instruments with principal or interest determined by reference to an index or formula, to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). In addition, the Issuer may issue Instruments with principal or interest payable in one or more currencies which may be different from the currency in which the Instruments are denominated. Potential investors should be aware that:

- (i) the market price of such Instruments may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency from that expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on payments of principal or interest may, or is likely to be, magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the changes in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any index linked Instruments. Accordingly, an investor should consult its own financial, tax and legal advisers about the risk entailed by an investment in any index linked Instruments and the suitability of such Instruments in light of their particular circumstances.

The Instruments may be redeemed prior to maturity

If in the case of any particular Tranche of Instruments the relevant Final Terms specifies that the Instruments are redeemable at the Issuer’s option in certain other circumstances the Issuer may choose to redeem the Instruments at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Instruments.

Because Instruments in global form are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor

Instruments issued under the Programme may be represented by one or more global Instruments. Such global Instruments will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant global Instrument, investors will not be entitled to receive definitive Instruments. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the global Instruments. While the

Instruments are represented by one or more global Instruments, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Instruments are represented by one or more global Instruments the Issuer and the Guarantor will discharge their payment obligations under the Instruments by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a global Instrument must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Instruments. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the global Instruments.

Holders of beneficial interests in the global Instruments will not have a direct right to vote in respect of the relevant Instruments. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the global Instruments will not have a direct right under the global Instruments to take enforcement action against the Issuer or the Guarantor in the event of a default under the relevant Instruments but will have to rely upon their rights under the Deed of Covenant.

Other Risks

We are involved in disputes and litigation with regulators, competitors and third parties.

We are party to lawsuits and other legal, regulatory and antitrust proceedings in the ordinary course of our business, the final outcome of which is generally uncertain. Litigation and regulatory proceedings are inherently unpredictable. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) could result in significant costs to us. Such disputes and litigation (or settlements thereof) may have a material adverse effect on our business, financial condition, results of operations and cash flows. Moreover, our involvement in these disputes or proceedings may adversely affect our reputation.

Terms and Conditions of the Instruments

The following are the Terms and Conditions of the Instruments which, as supplemented, modified or replaced in relation to any Instruments by Part A of the relevant Final Terms, will be applicable to each Series of Instruments, provided that text contained herein in italics is included for information and shall not form part of the Terms and Conditions:

The Instruments of each Tranche are constituted by a public deed of issuance (the “**Public Deed of Issuance**”) to be executed before a Spanish notary public and to be registered with the Mercantile Registry of Madrid on or prior to the issue date, and which shall contain, among other information, the terms and conditions of the Instruments. The Instruments are issued pursuant to and in accordance with an amended and restated issue and paying agency agreement (as amended, supplemented, restated or replaced from time to time, the “**Issue and Paying Agency Agreement**”) dated 3 July 2008 and made between Telefónica Emisiones S.A.U. (the “**Issuer**”), Telefónica, S.A. (the “**Guarantor**”), The Bank of New York Mellon, London Branch in its capacities as Issue and Paying Agent (the “**Issue and Paying Agent**”, which expression shall include any successor to The Bank of New York Mellon, London Branch in its capacity as such) and as principal registrar (the “**Principal Registrar**”, which expression shall include any successor to The Bank of New York Mellon, London Branch in its capacity as such), The Bank of New York (Luxembourg), S.A. in its capacity as alternative registrar (the “**Alternative registrar**”, which expression shall include any successor to The Bank of New York (Luxembourg), S.A. in its capacity as such) and the paying agents named therein (the “**Paying Agents**”, which expression shall include the Issue and Paying Agent and any substitute or additional paying agents appointed in accordance with the Issue and Paying Agency Agreement). The Instruments have the benefit of a deed of covenant (the “**Deed of Covenant**”) dated 3 July 2008 and executed by the Issuer in relation to the Instruments and a deed of guarantee (the “**Guarantee**”) dated 3 July 2008, executed by the Guarantor in favour of, *inter alia*, the Holders (as defined below). Copies of the Issue and Paying Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection during normal business hours at the specified office of each of the Paying Agents, the Principal Registrar and the Alternative registrar. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, all of the provisions of the Issue and Paying Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Instruments.

The Instruments are issued in series (each, a “**Series**”), and each Series may comprise one or more tranches (“**Tranches**” and each, a “**Tranche**”) of Instruments. Each Tranche will be the subject of final terms (each, “**Final Terms**”), a copy of which will be available for inspection during normal business hours at the specified office of the Issue and Paying Agent and/or, as the case may be, the Registrar (as defined in Condition 2.02). References in these Terms and Conditions to Instruments are to Instruments of the relevant Series and any references to Coupons (as defined in Condition 1.06) and Receipts (as defined in Condition 1.07) are to Coupons and Receipts relating to Instruments of the relevant Series.

References in these Terms and Conditions to the Final Terms are to the Final Terms prepared in relation to the Instruments of the relevant Tranche or Series.

For so long as any of the Instruments is represented by a Permanent Global Instrument or Temporary Global Instrument (as defined below) held on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System (Euroclear) and/or Clearstream Banking, société anonyme (Clearstream, Luxembourg) (the “**Clearing Systems**”) each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Instruments (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Instruments standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor and the Paying Agents as the holder of such nominal amount of such Instruments for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Instruments, for which purpose the bearer of the relevant Bearer Instrument in global form or the registered holder of the relevant Registered Instrument in global form shall be treated by the Issuer, the Guarantor and any Paying Agent as the holder of such nominal amount of such Instruments in accordance with and subject to the terms of the relevant

Temporary Global Instrument or Permanent Global Instrument and the expression Holder and related expressions shall be construed accordingly.

In respect of any Instruments, references herein to these Terms and Conditions are to these terms and conditions as supplemented or modified or (to the extent thereof) replaced by the Final Terms.

1. Form and Denomination

1.01 Instruments are issued in bearer form (“**Bearer Instruments**”) or in registered form (“**Registered Instruments**”), as specified in the Final Terms, and are serially numbered. Registered Instruments will not be exchangeable for Bearer Instruments unless the Final Terms specifies otherwise.

Bearer Instruments

1.02 The Final Terms shall specify whether U.S. Treasury Regulation § 1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) or U.S. Treasury Regulation § 1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) shall apply. Each Tranche of Bearer Instruments is represented upon issue by a temporary global Instrument (a “**Temporary Global Instrument**”), unless the Final Terms specifies otherwise or the TEFRA C Rules apply.

Where the Final Terms applicable to a Tranche of Bearer Instruments specifies that the TEFRA C Rules apply, such Tranche is (unless otherwise specified in the Final Terms) represented upon issue by a permanent global Instrument (a “**Permanent Global Instrument**”).

Interests in the Temporary Global Instrument may be exchanged for:

- (i) interests in a Permanent Global Instrument; or
- (ii) if so specified in the Final Terms, definitive instruments in bearer form (“**Definitive Instruments**”) and/or (in the case of a Series comprising both Bearer Instruments and Registered Instruments and if so specified in the Final Terms) Registered Instruments.

Exchanges of interests in a Temporary Global Instrument for Definitive Instruments or, as the case may be, a Permanent Global Instrument, will be made only on or after the Exchange Date (as specified in the Final Terms) and (unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments) provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system for whose account the Temporary Global Instrument is held) has been received. An exchange for Registered Instruments will be made at any time or from such date as may be specified in the Final Terms, in each case, without any requirement for certification.

1.03 The bearer of any Temporary Global Instrument shall not (unless, upon due presentation of such Temporary Global Instrument for exchange (in whole but not in part only) for a Permanent Global Instrument or for delivery of Definitive Instruments and/or Registered Instruments, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Instruments represented by such Temporary Global Instrument which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.

1.04 Unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments and subject to Condition 1.03, if any date on which a payment of interest is due on the Instruments of a Tranche occurs whilst any of the Instruments of that Tranche are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system for whose account the Temporary Global Instrument is held) has been received by Euroclear or Clearstream Luxembourg or any such other relevant clearing system. Payments of amounts due in respect of a Permanent Global Instrument or (subject to Condition 1.03) a Temporary Global Instrument (if the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments) will be made through Euroclear or Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.

1.05 Interests in a Permanent Global Instrument will be exchanged by the Issuer in whole but not in part only for Definitive Instruments and/or (in the case of a Series comprising both Bearer and

Registered Instruments and if so specified in the Final Terms) Registered Instruments, (a) if an Event of Default (as defined in Condition 7.01) occurs in respect of any Instrument of the relevant Series; or (b) if any of Euroclear, Clearstream, Luxembourg and any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays), announces an intention to cease business permanently or in fact does so or announces its intention to withdraw its acceptance of the Instruments for clearance and settlement through its system or in fact does so; or (c) if so specified in the Final Terms, at the option of the Holder of such Permanent Global Instrument upon such Holder's request, in all cases at the cost and expense of the Issuer. In order to exercise the option contained in (c) of the preceding sentence, the Holder must, not less than 45 days before the date upon which the delivery of such Definitive Instruments and/or Registered Instruments is required, deposit the relevant Permanent Global Instrument with the Issue and Paying Agent at its specified office with the form of exchange notice endorsed thereon duly completed. If the Issuer does not make the required delivery of Definitive Instruments and/or Registered Instruments by 6.00 p.m. (London time) on the day on which the relevant notice period expires or, as the case may be, the thirtieth day after the day on which such Permanent Global Instrument becomes due to be exchanged and, in the case of (a) above, such Instrument is not duly redeemed (or the funds required for such redemption are not available to the Issue and Paying Agent for the purposes of effecting such redemption and remain available for such purpose) by 6.00 p.m. (London time) on the thirtieth day after the day at which such Instrument became immediately redeemable such Permanent Global Instrument will become void in accordance with its terms but without prejudice to the rights conferred by the Deed of Covenant.

1.06 Interest-bearing Definitive Instruments have attached thereto at the time of their initial delivery coupons ("**Coupons**"), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. Interest-bearing Definitive Instruments, if so specified in the Final Terms, have attached thereto at the time of their initial delivery a talon ("**Talon**") for further coupons and the expression "Coupons" shall, where the context so requires, include Talons.

1.07 Instruments, the principal amount of which is repayable by instalments ("**Instalment Instruments**") which are Definitive Instruments, have endorsed thereon a grid for recording the repayment of principal or, if so specified in the Final Terms, have attached thereto at the time of their initial delivery, payment receipts ("**Receipts**") in respect of the instalments of principal.

Denomination

Denomination of Bearer Instruments

1.08 Bearer Instruments are in the denomination or denominations (each of which denomination is integrally divisible by each smaller denomination) specified in the Final Terms (subject to a minimum denomination of Euro 50,000 (or, if the Instruments are denominated in a currency other than Euro, the equivalent amount in such currency at the date of issue)). Bearer Instruments of one denomination may not be exchanged for Bearer Instruments of any other denomination.

In the event that Condition 1.05(c) is stated in the relevant Final Terms as being applicable, the Clearing Systems will not permit trades other than in the denominations specified in the Final Terms or in integral multiples thereof.

Denomination of Registered Instruments

1.09 Registered Instruments are in the minimum denomination specified in the Final Terms (subject to a minimum denomination of Euro 50,000 (or, if the Instruments are denominated in a currency other than Euro, the equivalent amount in such currency at the date of issue)) or integral multiples thereof.

Currency of Instruments

1.10 The Instruments are denominated in such currency as may be specified in the Final Terms. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Partly Paid Instruments

1.11 Instruments may be issued on a partly paid basis ("**Partly Paid Instruments**") if so specified in the Final Terms. The subscription moneys therefor shall be paid in such number of instalments ("**Partly Paid Instalments**"), in such amounts, on such dates and in such manner as may be

specified in the Final Terms. The first such instalment shall be due and payable on the date of issue of the Instruments. For the purposes of these Terms and Conditions, in respect of any Partly Paid Instrument, “**Paid Up Amount**” means the aggregate amount of all Partly Paid Instalments in respect thereof as shall have fallen due and been paid up in full in accordance with the Terms and Conditions.

2. Title and Transfer

2.01 Title to Bearer Instruments, Receipts and Coupons passes by delivery. References herein to the “**Holders**” of Bearer Instruments or of Receipts or Coupons are to the bearers of such Bearer Instruments or such Receipts or Coupons and shall, in relation to Instruments represented by a Temporary Global Instrument or Permanent Global Instrument, be construed as provided above.

2.02 Title to Registered Instruments passes by registration in the register which shall be kept by the Registrar pursuant to the Issue and Paying Agency Agreement. For the purposes of these Terms and Conditions, “**Registrar**” means, in relation to any Series comprising Registered Instruments, the Principal Registrar or, as the case may be, the Alternative registrar, as specified in the Final Terms, provided always that where such Series is listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, “**Registrar**” shall mean the Registrar with its specified office in Luxembourg. References herein to the “**Holders**” of Registered Instruments are to the persons in whose names such Registered Instruments are so registered in the relevant register.

2.03 The Holder of any Bearer Instrument, Coupon or Registered Instrument will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

Transfer of Registered Instruments and exchange of Bearer Instruments for Registered Instruments

2.04 A Registered Instrument may, upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement, be transferred in whole or in part only (provided that such part is, or is an integral multiple of, the minimum denomination specified in the Final Terms) upon the surrender of the Registered Instrument to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. A new Registered Instrument will be issued to the transferee and, in the case of a transfer of part only of a Registered Instrument, a new Registered Instrument in respect of the balance not transferred will be issued to the transferor.

2.05 If so specified in the Final Terms, the Holder of Bearer Instruments may exchange the same for the same aggregate principal amount of Registered Instruments upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement. In order to exchange a Bearer Instrument for a Registered Instrument, the Holder thereof shall surrender such Bearer Instrument at the specified office outside the United States of the Issue and Paying Agent or of the Registrar together with a written request for the exchange. Each Bearer Instrument so surrendered must be accompanied by all unmaturing Receipts and Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined in Condition 2.06) where the exchange date would, but for the provisions of Condition 2.06, occur between the Record Date (as defined in Condition 9B.03) for such payment of interest and the date on which such payment of interest falls due.

2.06 Each new Registered Instrument to be issued upon the transfer of a Registered Instrument or the exchange of a Bearer Instrument for a Registered Instrument will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such exchange or transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the Registrar or the Issue and Paying Agent after the Record Date in respect of any payment due in respect of Registered Instruments shall be deemed not to be effectively received by the Registrar or the Issue and Paying Agent until the day following the due date for such payment.

For the purposes of these Terms and Conditions,

- (i) “**Relevant Banking Day**” means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Instrument for a Registered Instrument where such request for exchange is made to the Issue and Paying Agent, in the place where the specified office of the Issue and Paying Agent is located;
- (ii) the “**exchange date**” shall be the Relevant Banking Day following the day on which the relevant Bearer Instrument shall have been surrendered for exchange in accordance with Condition 2.05; and
- (iii) the “**transfer date**” shall be the Relevant Banking Day following the day on which the relevant Registered Instrument shall have been surrendered for transfer in accordance with Condition 2.04.

2.07 The issue of new Registered Instruments on transfer or on the exchange of Bearer Instruments for Registered Instruments will be effected without charge by or on behalf of the Issuer, the Issue and Paying Agent or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Issue and Paying Agent or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

2.08 No Holder may require the transfer of a Registered Instrument to be registered or a Temporary Global Instrument or, as the case may be, Permanent Global Instrument to be exchanged for a Registered Instrument (i) during the period of 15 days ending on the due date for redemption of that Instrument; (ii) during the period of 15 days prior to any date on which Instruments may be redeemed by the Issuer at its option pursuant to Condition 6.03 or (iii) after any such Instrument has been drawn for redemption in whole or in part.

3. Status of the Instruments and the Guarantee

3A Status – Unsubordinated Instruments

3A.01 This Condition 3A is applicable in relation to Instruments specified in the Final Terms as being unsubordinated or not specified as being subordinated (“**Unsubordinated Instruments**”).

3A.02 The Instruments constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (unless they qualify by law as subordinated debts under article 92 of Law 22/2003 (*Ley Concursal*) dated 9 July 2003 (the “**Insolvency Law**”)) in the event of insolvency (*concurso*) of the Issuer) will at all times rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, except for such payment obligations that are preferred by law under Articles 84, 90 and 91 of the Insolvency Law.

3B Status – Subordinated Instruments

Instruments may be issued on a subordinated basis (“**Subordinated Instruments**”), as specified in the Final Terms.

The Subordinated Instruments constitute direct, unsecured and subordinated obligations of the Issuer and will at all times rank *pari passu* among themselves and *pari passu* with all other present and future subordinated obligations of the Issuer, except for certain subordinated obligations prescribed by law and subordinated obligations which are expressed to rank junior to the Subordinated Instruments.

In the event of insolvency (concurso) of the Issuer, under the Insolvency Law claims of Holders of Subordinated Instruments will fall within the category of “subordinated debts” (créditos subordinados, as defined in the Insolvency Law). After payment in full of all unsubordinated claims but before distributions to shareholders, under article 92 of the Insolvency Law, the Issuer will be required to meet subordinated debts in the following order and pro rata within each class: (i) late or incorrect claims; (ii) contractually subordinated debt (including claims under the Subordinated Instruments); (iii) certain interest, such as interest accrued on the Instruments, unpaid until the commencement of the insolvency proceedings; (iv) fines; (v) claims of creditors related to the Issuer; and (vi) detrimental claims against the Issuer where a Spanish court has determined that the relevant creditor has acted in bad faith (rescisión concursal).

3C Status – Unsubordinated Guarantee

This Condition 3C is applicable to all Instruments other than those which are specified in the Final Terms as being guaranteed on a subordinated basis.

3C.01 Pursuant to the Guarantee, the Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Instruments. The obligations of the Guarantor under the Guarantee (which expression includes any covenant which may be given pursuant to Condition 18.01(a)(iii)) constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid) (unless they qualify by law as subordinated credits under article 92 of the Insolvency Law in the event of the insolvency (*concurso*) of the Guarantor will at all times rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, except for such payment obligations that are preferred by law under Articles 84, 90 and 91 under Law 22/2003.

3C.02 The Guarantor undertakes not to evidence by means of a Spanish Public Document any Relevant Indebtedness of the Guarantor or any guarantee or surety given by the Guarantor in respect of any Relevant Indebtedness of any other Person unless, not later than one day prior thereto, the obligations of the Guarantor under the Guarantee are also notarised or intervened as aforesaid at the expense of the Guarantor except that the provisions of this Condition 3C.02 shall not apply to such Relevant Indebtedness which is, pursuant to mandatory provisions of the laws of the Kingdom of Spain, required to be notarised or intervened as aforesaid.

“Spanish Public Document” means a public deed granted before, or document or instrument witnessed by, a Notary (*escritura pública otorgada ante, o póliza o efecto intervenido por, Notario*).

From the entry into force of the Insolvency Law on 1 September 2004, and in accordance with the insolvency procedures (concurso) regulated therein, creditors whose rights arise from a Spanish Public Document, including Holders, do not have a preference to enforce their rights and do not rank ahead of other creditors whose rights may be recognised by virtue of a document which is not a Spanish Public Document.

3D Status – Subordinated Guarantee

Subordinated Instruments will be guaranteed on a subordinated basis.

The payment obligations of the Guarantor under the Guarantee in relation to Subordinated Instruments constitute direct, unsecured and subordinated obligations of the Guarantor and will at all times rank *pari passu* among themselves and *pari passu* with all other present and future subordinated obligations of the Guarantor, except for certain subordinated obligations prescribed by law and subordinated obligations which are expressed to rank junior to the Guarantee.

In the event of insolvency (concurso) of the Guarantor under the Insolvency Law, claims under the Guarantee by Holders of Subordinated Instruments will fall within the category of “subordinated debts” (créditos subordinados, as defined in the Insolvency Law). After payment in full of all unsubordinated claims but before distributions to shareholders, under article 92 of the Insolvency Law, the Guarantor will be required to meet subordinated debts in the following order and pro rata within each class: (i) late or incorrect claims; (ii) contractually subordinated debt (including claims under the Guarantee); (iii) certain interest; (iv) fines; (v) claims of creditors related to the Guarantor; and (vi) detrimental claims against the Guarantor where a Spanish court has determined that the relevant creditor has acted in bad faith (rescisión concursal).

4. Negative Pledge

This Condition 4 applies to Unsubordinated Instruments only.

So long as any of the Instruments of a Series remains outstanding (as defined in the Issue and Paying Agency Agreement) each of the Issuer and the Guarantor undertakes that it will not create or have outstanding any Encumbrance (as defined below) upon the whole or any part of its assets, present or future, in order to secure any Relevant Indebtedness (as defined below) issued or guaranteed by the Issuer, the Guarantor or by any other Person (as defined below) unless (a) such Instruments are equally and rateably secured therewith, or (b) such other security is provided as the Syndicate (as defined in Condition 13) of the relevant Series shall approve, in each case for as long as such Relevant Indebtedness shall be so secured; provided, however, that the foregoing restriction shall not apply to any Encumbrance securing Relevant Indebtedness issued or guaranteed

by the Guarantor, the Issuer or any other Person if the Relevant Indebtedness so secured (i) was originally offered, distributed or sold primarily to residents of The Kingdom of Spain, (ii) by its terms matures within one year of its date of issue, or (iii) the Encumbrance affects the assets of an entity which, when the Encumbrance was created, was unrelated to the Issuer or the Guarantor, and which was subsequently acquired by the Issuer or the Guarantor; and provided, further, that nothing in this Condition 4 shall limit the ability of the Issuer or the Guarantor, as the case may be, to grant or permit to subsist Encumbrances over any or all of their respective present or future assets to secure Relevant Indebtedness issued or guaranteed by the Issuer, the Guarantor or any other Person, to the extent that the aggregate principal amounts so secured do not exceed 5 per cent. of the consolidated net tangible assets (as defined below) of the Guarantor, as reflected in the most recent balance sheet (prepared in accordance with IFRS at the date of such computation and as applied by the Guarantor) prior to the time such Relevant Indebtedness was issued or guaranteed.

As used in these Terms and Conditions, “**Person**” means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof, “**Encumbrance**” means any mortgage, pledge, lien or other charge, and “**Relevant Indebtedness**” means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, a certificate of indebtedness or in the form of, or represented or evidenced by, bonds, notes or other securities which, in any of the above cases, is or are, or is or are capable of being, quoted, listed, dealt in or traded on a stock exchange or other recognised securities market. For the purposes of avoiding any doubt in respect of asset-backed financings originated by the Issuer or the Guarantor, the expression “obligation for the payment of borrowed money” as used in the definition of Relevant Indebtedness does not include obligations of the Issuer or the Guarantor which, pursuant to the requirements of law and accounting principles generally accepted in the Kingdom of Spain need not, and are not, reflected in the balance sheet of the Issuer or the Guarantor, as the case may be.

As used in this Condition 4, “**consolidated net tangible assets of the Guarantor**” means the total amount of assets of the Guarantor and its consolidated Subsidiaries, including investments in unconsolidated subsidiaries, after deduction of (i) deferred charges, (ii) goodwill in consolidation, (iii) intangible assets, and (iv) amounts due from stockholders for uncalled capital; and “**Subsidiary**” has the meaning given in Condition 18.

5. Interest

Interest

5.01 Instruments may be interest-bearing or non interest-bearing, as specified in the Final Terms. Words and expressions appearing in this Condition 5 and not otherwise defined herein or in the Final Terms shall have the meanings given to them in Condition 5.09.

Interest-bearing Instruments

5.02 Instruments which are specified in the Final Terms as being interest-bearing shall bear interest from their Interest Commencement Date at the Interest Rate payable in arrear on each Interest Payment Date.

Floating Rate Instruments

5.03 If the Final Terms specifies the Interest Rate applicable to the Instruments as being Floating Rate it shall also specify which page (the “**Relevant Screen Page**”) on the Reuters Screen or any other information vending service shall be applicable. If such a page is so specified, the Interest Rate applicable to the relevant Instruments for each Interest Accrual Period shall be determined by the Calculation Agent on the following basis:

- (i) the Calculation Agent will determine the Reference Rate (or, as the case may require, the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 being rounded upwards) of the Reference Rates) in the relevant currency for a period of the duration of the relevant Interest Accrual Period on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (ii) if, on any Interest Determination Date, no such Reference Rate so appears (or, as the case may be, if fewer than two such Reference Rates so appear) or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate quotations of the Reference Rate

and will determine the arithmetic mean (rounded as aforesaid) of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) at which deposits in the relevant currency are offered by four major banks in the London interbank market or, in the case of Instruments denominated or payable in Euro, the euro zone interbank market (unless otherwise specified in the relevant Final Terms), selected by the Calculation Agent, at approximately the Relevant Time on the Interest Determination Date to prime banks in the London interbank market in the case of LIBOR or in the euro zone interbank market in the case of EURIBOR for a period of the duration of the relevant Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time;

- (iii) if, on any Interest Determination Date, only two or three rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates so quoted; or
- (iv) if fewer than two rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates quoted by four major banks in the Relevant Financial Centre (or, in the case of Instruments denominated in Euro, in such financial centre or centres within the euro zone as the Calculation Agent may select) selected by the Calculation Agent, at approximately 11.00 a.m. (Relevant Financial Centre time (or local time at such other financial centre or centres as aforesaid)) on the first day of the relevant Interest Accrual Period for loans in the relevant currency to leading European banks for a period for the duration of the relevant Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time,

and the Interest Rate applicable to such Instruments during each Interest Accrual Period will be the sum of the Margin and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) so determined provided, however, that, if the Calculation Agent is unable to determine a rate (or, as the case may be, an arithmetic mean of rates) in accordance with the above provisions in relation to any Interest Accrual Period, the Interest Rate applicable to such Instruments during such Interest Accrual Period will be the sum of the Margin and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) determined in relation to such Instruments in respect of the last preceding Interest Accrual Period.

ISDA Determination

5.04 If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Instruments for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

Maximum or Minimum Rate of Interest

5.05 If any Maximum or Minimum Rate of Interest is specified in the Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified.

Accrual of Interest

5.06 Interest shall accrue on the Outstanding Principal Amount of each Instrument during each Interest Accrual Period from the Interest Commencement Date. Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount) unless upon due presentation or surrender thereof (if required), payment in full of the Redemption

Amount (as defined in Condition 6.10) or the relevant Instalment Amount is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (both before and after any demand or judgment) at the Interest Rate then applicable or such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which the Issue and Paying Agent having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 that the Issue and Paying Agent has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

Interest Amount(s), Calculation Agent and Reference Banks

5.07 If a Calculation Agent is specified in the Final Terms, the Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation) will determine the Interest Rate and calculate the amount(s) of interest payable (the “**Interest Amount(s)**”) in respect of each denomination of the Instruments (in the case of Bearer Instruments) and the minimum denomination (in the case of Registered Instruments) for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Redemption Amount or any Instalment Amount to be notified to the Issue and Paying Agent, the Registrar (in the case of Registered Instruments), the Issuer, the Guarantor, the Commissioner, the Holders in accordance with Condition 14 and, if the Instruments are listed on a stock exchange and such exchange so requires, such exchange as soon as possible after their determination or calculation but in no event later than the fourth London Banking Day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the relevant stock exchange. The Interest Amounts (provided that any modifications are de minimis) and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of an Interest Accrual Period or the Interest Period. If the Instruments become due and payable under Condition 7, the Interest Rate and the accrued interest payable in respect of the Instruments shall nevertheless continue to be calculated as previously in accordance with this Condition. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon the Issuer, the Guarantor, the Commissioner and the Holders and neither the Calculation Agent nor any Reference Bank shall have any liability to the Holders in respect of any determination, calculation, quote or rate made or provided by it.

The Issuer and the Guarantor will procure that there shall at all times be appointed a Calculation Agent, if provision is made for one in the Terms and Conditions.

If the Calculation Agent is incapable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for any Interest Accrual Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Calculations and Adjustments

5.08 The amount of interest payable in respect of each Instrument for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Instruments are in more than one Specified Denomination, shall be the relevant fixed Coupon Amount in respect of the relevant Specified Denomination. The amount of interest payable in respect of any Instrument for any period for which a Fixed Coupon Amount is not specified shall be calculated by multiplying the product of the Interest Rate and the Calculation Amount by the Day Count Fraction (as defined in Condition 5.09), rounding the resulting figure as described below and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Instrument divided by the Calculation

Amount. Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in the Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in Euro or any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

Definitions

5.09 In these Terms and Conditions, unless the context otherwise requires, the following terms shall have the meanings set out below:

“**Additional Business Centre**” means the city or cities specified as such in the relevant Final Terms.

“**Applicable Business Day Convention**” means the Business Day Convention which may be specified in the Final Terms as applicable to any date in respect of the Instruments unless the Final Terms specifies “No Adjustment” in relation to any date in which case such date shall not be adjusted in accordance with any Business Day Convention. Different Business Day Conventions may apply, or be specified in relation to, the Interest Payment Dates, Interest Period End Dates and any other date or dates in respect of any Instruments.

“**Banking Day**” means, in respect of any city, any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in that city.

“**Business Day**” means a day:

- (i) in relation to Instruments denominated or payable in Euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (ii) in relation to Instruments payable in any other currency, on which commercial banks are open for business and foreign exchange markets settle payments in the Relevant Financial Centre in respect of the relevant currency and in each (if any) Additional Business Centre.

“**Business Day Convention**” means a convention for adjusting any relevant date if it would otherwise fall on a day that is not a Business Day and the following terms, where specified in the Final Terms and used in conjunction with the term “Business Day Convention” in relation to any date applicable to any Instruments, shall have the following meanings:

- (i) “**Following Business Day Convention**” means that such date shall be postponed to the first following day that is a Business Day;
- (ii) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that such date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) “**Preceding Business Day Convention**” means that such date shall be brought forward to the first preceding day that is a Business Day; and
- (iv) “**FRN Convention**” or “**Eurodollar Convention**” means that each such date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Final Terms as the Specified Period after the calendar month in which the preceding such date occurred, provided that:
 - (a) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (b) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

- (c) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred.

“**Calculation Agent**” means such agent as may be specified in the Final Terms as the Calculation Agent.

“**Calculation Amount**” has the meaning given in the Relevant Final Terms.

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (“**Calculation Period**”), such day count fraction as may be specified in the Final Terms and:

- (i) If “**Actual/Actual (ICMA)**” is specified hereon and the Calculation Period is equal to or shorter than the Regular Period (as defined below) during which it falls, the relevant Day Count Fraction will be the actual number of days in the Calculation Period divided by the product of (A) the actual number of days in such Regular Period and (B) the number of Regular Periods in any year;
- (ii) If “**Actual/Actual (ICMA)**” is specified hereon and the Calculation Period is longer than one Regular Period, interest will be calculated on the basis of the sum of:
- (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
- (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (iii) If “**Actual/Actual – ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iv) If “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (v) If “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (vi) if “**30/360**” is so specified, means the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and **D₁** is greater than 29, in which case **D₂** will be 30;

- (vii) if “**30E/360**” or “**Eurobond Basis**” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

(viii) if “30E/360 (ISDA)” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

For the purposes of this definition of Day Count Fraction “**Regular Period**” means:

- (i) in the case of Instruments where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Instruments where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Instruments where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

“euro zone” means the zone comprising the Member States of the European Union that participate or are participating in European Monetary Union and that adopt or have adopted the Euro as their lawful currency.

“First Interest Payment Date” means the date specified in the relevant Final Terms.

“Fixed Coupon Amount” has the meaning given in the relevant Final Terms.

“Interest Accrual Period” means, in respect of an Interest Period, each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date during that Interest Period provided always that the first Interest Accrual Period shall commence on and include the Interest Commencement Date and the final Interest Accrual Period shall end on but exclude the date of final maturity.

“Interest Commencement Date” means the date of issue of the Instruments (as specified in the Final Terms) or such other date as may be specified as such in the Final Terms.

“Interest Determination Date” means, in respect of any Interest Accrual Period, the date falling such number (if any) of Banking Days in such city(ies) as may be specified in the Final Terms prior to the first day of such Interest Accrual Period, or if none is specified:

- (i) in the case of Instruments denominated in Euro, on the second Business Day prior to the first day of such Interest Accrual Period; or
- (ii) in the case of Instruments denominated in Pounds Sterling, the first day of such Interest Accrual Period; or
- (iii) in any other case, the date falling two London Banking Days prior to the first day of such Interest Accrual Period.

“Interest Payment Date” means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention at such Specified Period of calendar months following the date of issue of the Instruments (in the case of the First Interest Payment Date) or the previous Interest Payment Date (in any other case).

“Interest Period” means each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date provided always that the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the date of final maturity.

“Interest Period End Date” means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or, if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as the Interest Accrual Period, such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the Interest Commencement Date (in the case of the first Interest Period End Date) or the previous Interest Period End Date (in any other case) or, if none of the foregoing is specified in the Final Terms, means the date or each of the dates which correspond with the Interest Payment Date(s) in respect of the Instruments.

“Interest Rate” means the rate or rates (expressed as a percentage per annum) or amount or amounts (expressed as a price per unit of relevant currency) of interest payable in respect of the Instruments specified in, or calculated or determined in accordance with the provisions of, the Final Terms.

“ISDA Definitions” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Instruments of the relevant Series (as specified in the Final Terms) as published by the International Swaps and Derivatives Association, Inc.).

“Law 13/1985” means Law 13/1985 of 25 May on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversion, recursos propios y obligaciones de información de los intermediarios financieros*) as amended by Law 19/2003 of 4 July on foreign capital movements and financial transactions and on

certain measures to prevent money laundering (Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas del blanqueo de capitales).

“**Margin**” has the meaning given in the relevant Final Terms.

“**Maturity Date**” has the meaning given in the relevant Final Terms.

“**Outstanding Principal Amount**” means, in respect of an Instrument, its principal amount less, in respect of any Instalment Instrument, any principal amount on which interest shall have ceased to accrue in accordance with Condition 5.06 or, in the case of a Partly Paid Instrument, the Paid Up Amount of such Instrument or otherwise as indicated in the Final Terms.

“**Reference Banks**” means such banks as may be specified in the Final Terms as the Reference Banks or, if none is specified, “**Reference Banks**” has the meaning given in the ISDA Definitions, *mutatis mutandis*.

“**Reference Rate**” has the meaning given in the relevant Final Terms.

“**Relevant Financial Centre**” means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of “**Business Day**” in the ISDA Definitions.

“**Relevant Time**” means the time as of which any rate is to be determined as specified in the Final Terms or, if none is specified, at which it is customary to determine such rate.

“**Reuters Screen**” means, when used in connection with a designated page and any designated information, the display page so designated on the Reuter Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying such information).

“**Specified Period**” has the meaning given in the relevant Final Terms.

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

and

“**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro.

6. Redemption and Purchase

Redemption at Maturity

6.01 Unless previously redeemed, or purchased and cancelled, or unless such Instrument is stated in the Final Terms as having no fixed maturity date, each Instrument shall be redeemed at its final redemption amount (the “**Final Redemption Amount**”) (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in or determined in accordance with the Final Terms) (or, in the case of Instalment Instruments, in such number of instalments and in such amounts (“**Instalment Amounts**”) as may be specified in, or determined in accordance with the provisions of, the Final Terms) on the date or dates (or, in the case of Instruments which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the Final Terms.

Early Redemption for Taxation Reasons

6.02 If, in relation to any Series of Instruments, (i) as a result of any change in the laws, regulations or rulings of the Kingdom of Spain or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws, regulations or rulings which becomes effective on or after the date of issue of such Instruments or any other date specified in the Final Terms, (1) the Issuer or, as the case may be, the Guarantor (if a demand were made under the Guarantee) would be required to pay additional amounts as provided in Condition 8 or (2) the Guarantor or any Subsidiary of the Guarantor is or would be required to deduct or withhold tax on any payment to the Issuer to enable the Issuer to make any payment (whether in respect of principal, premium, interest or otherwise); (ii) in each case, the payment of such additional amount in the case of (1) above or such deduction or withholding in the case of (2) above cannot be avoided by the Issuer or the Guarantor or such Subsidiary taking reasonable measures available to it and (iii) such

circumstances are evidenced by the delivery by the Issuer or the Guarantor to the Commissioner (as defined in Condition 13) and the Issue and Paying Agent of a certificate signed by one director of the Issuer or two directors of the Guarantor stating that the said circumstances prevail and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail, the Issuer may, at its option and having given no less than 30 nor more than 60 days' notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable) to the Holders of the Instruments in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Instruments comprising the relevant Series at their early tax redemption amount (the "**Early Redemption Amount (Tax)**") (which shall be their Outstanding Principal Amount or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest thereon provided, however, that no such notice of redemption may be given earlier than 90 days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current interest period applicable to the Instruments plus 60 days) prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Instruments then due.

If, pursuant to Condition 18.02(ii)(a), a Person into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets has been or would be required to pay any additional amounts as therein provided, each Series of Instruments may be redeemed at the option of such Person in whole, but not in part, in accordance with the first paragraph of this Condition 6.02, which paragraph shall apply *mutatis mutandis*.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 6.06.

Optional Early Redemption (Call)

6.03 If this Condition 6.03 is specified in the Final Terms as being applicable, then the Issuer may, having given the appropriate notice and subject to such conditions as may be specified in the Final Terms, redeem all (but not, unless and to the extent that the Final Terms specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the "**Optional Redemption Amount (Call)**") (which shall be their Outstanding Principal Amount or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest thereon on the date specified in such notice.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 6.06.

6.04 The appropriate notice referred to in Condition 6.03 is a notice given by the Issuer to the Holders of the Instruments of the relevant Series in accordance with Condition 14, which notice shall be irrevocable and shall specify:

- the Series of Instruments subject to redemption;
- whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a Temporary Global Instrument or Permanent Global Instrument) the serial numbers of the Instruments of the relevant Series which are to be redeemed;
- the due date for such redemption, which shall be not less than 30 days nor more than 60 days after the date on which such notice is given and which shall be such date or the next of such dates ("**Optional Redemption Date(s) (Call)**") or a day falling within such period ("**Call Option Period**"), as may be specified in the Final Terms and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable; and
- the Optional Redemption Amount (Call) at which such Instruments are to be redeemed.

Partial Redemption

6.05 If the Instruments of a Series are to be redeemed in part only on any date in accordance with Condition 6.03 and 6.04:

- in the case of Bearer Instruments (other than a Temporary Global Instrument or Permanent Global Instrument), the Instruments to be redeemed shall be drawn by lot in accordance with applicable Spanish law requirements in such European city as the Issue and Paying Agent may specify, or identified in such other manner or in such other place as the Issue and Paying Agent may approve and deem appropriate and fair;
- in the case of a Temporary Global Instrument or a Permanent Global Instrument, the Instruments to be redeemed shall be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system; and
- in the case of Registered Instruments, the Instruments shall be redeemed (so far as may be practicable) pro rata to their principal amounts, provided always that the amount redeemed in respect of each Instrument shall be equal to the minimum denomination thereof or an integral multiple thereof,

subject always to compliance with all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system (if any) on which the relevant Instruments may have been admitted to listing, trading and/or quotation.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.07 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

Optional Early Redemption (Put)

6.06 If this Condition 6.06 is specified in the Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the date specified in the relevant Put Notice (as defined below) at its put early redemption amount (the “**Optional Redemption Amount (Put)**”) (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest thereon. In order to exercise such option, the Holder must, not less than 45 days before the date on which such redemption is required to be made as specified in the Put Notice (which date shall be such date or the next of the dates (“**Optional Redemption Date(s) (Put)**”) or a day falling within such period (“**Put Period**”) as may be specified in the Final Terms), deposit the relevant Instrument (together, in the case of an interest-bearing Definitive Instrument, with all unmatured Coupons appertaining thereto other than any Coupon maturing on or before the date of redemption (failing which the provisions of Condition 9A.06 apply)) during normal business hours at the specified office of, in the case of a Bearer Instrument, any Paying Agent or, in the case of a Registered Instrument, the Registrar together with a duly completed early redemption notice (“**Put Notice**”) in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar specifying, in the case of a Temporary Global Instrument or Permanent Global Instrument or Registered Instrument, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Issue and Paying Agency Agreement).

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.07 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

The Holder of an Instrument may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Issuer of its option to redeem such Instrument under either Condition 6.02 or 6.03.

Purchase of Instruments

6.07 The Issuer, the Guarantor or any of the Guarantor’s other Subsidiaries (as defined in Condition 18) may at any time purchase Instruments in the open market or otherwise and at any price

provided that all unmatured Receipts and Coupons appertaining thereto are purchased therewith. If purchases are made by tender, tenders must be available to all Holders of Instruments alike.

Cancellation of Redeemed and Purchased Instruments

6.08 All unmatured Instruments redeemed in accordance with this Condition 6 will be cancelled forthwith and may not be reissued or resold. Unmatured Instruments, Receipts and Coupons purchased in accordance with this Condition 6 may, at the option of the Issuer, be cancelled, reissued or, as the case may be, resold.

Further Provisions applicable to Redemption Amount and Instalment Amounts

6.09 The provisions of Condition 5.07 and the last paragraph of Condition 5.08 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Final Terms to be made by the Calculation Agent (as defined in Condition 5.09).

6.10 References herein to “**Redemption Amount**” shall mean, as appropriate, the Final Redemption Amount, the final Instalment Amount, Early Redemption Amount (Tax), Optional Redemption Amount (Call), Optional Redemption Amount (Put) and Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms.

7. Events of Default

7.01 If any of the following events as modified by the relevant Final Terms (each an “Event of Default”) occurs and is continuing:

- (i) the Issuer fails to pay, and the Guarantor fails to honour the Guarantee with respect to payments of, any principal, premium (if any) or interest due in respect of the Instruments of the relevant Series or any of them and such default continues for a period of 21 days; or
- (ii) the Issuer fails to perform any other obligation arising from the Instruments of that Series or the Guarantor fails to perform any other obligation arising under the Guarantee of such Instruments and such failure continues for more than 60 days (90 days if the failure to perform relates to an obligation of the Issuer or the Guarantor arising under Condition 18) following the service by the Commissioner or failing which any Holder on the Issuer and the Guarantor of a written notice specifying such failure and requiring it to be remedied, and stating that such notice is a “Notice of Default” hereunder; or
- (iii) the Issuer or the Guarantor fails to fulfill (taking into account any applicable grace periods) any payment obligation in excess of Euro 100,000,000 or its equivalent in any other currency under any Relevant Indebtedness or under any guarantee or suretyship provided for under any Relevant Indebtedness of others, and this failure remains uncured for 30 days; or
- (iv) the holders of any Relevant Indebtedness of the Issuer or the Guarantor accelerate any payment obligation in excess of Euro 100,000,000 or its equivalent in any other currency as a result of the Issuer or the Guarantor entering into a transaction described under Condition 18, which transaction constitutes an event of default in respect of such other Relevant Indebtedness; or
- (v) (1) the Issuer or the Guarantor announces its inability to meet its financial obligations; or (2) a court commences insolvency proceedings against the Issuer or Guarantor; or (3) the Issuer or Guarantor goes into liquidation, unless it is done in connection with a merger or other form of business combination with another company and that company assumes all the obligations of the Issuer or the Guarantor, as the case may be, in connection with the Instruments; or (4) the Issuer or Guarantor makes a filing seeking relief under any applicable bankruptcy or insolvency laws; or
- (vi) the Guarantee ceases to be valid or legally binding for any reason,

then the Commissioner, acting upon a resolution of the Syndicate of Holders of the Instruments in respect of all of the Instruments of the relevant Series or any Holder of an Instrument of the relevant Series in respect of such Instrument and provided that such Holder does not contravene the resolution of the Syndicate (if any) may, by written notice to the Issuer and the Guarantor, declare that such Instruments or Instrument (as the case may be) and (if the Instruments or Instrument are or is interest-bearing) all interest then accrued but unpaid on such Instruments or Instrument (as the case may be) shall be forthwith due and payable, whereupon the same shall (to

the extent permitted by applicable Spanish law) become immediately due and payable at its early termination amount (the “**Early Termination Amount**”) (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with all interest accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Instruments to the contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Instruments of the relevant Series shall have been cured.

Law 22/2003 provides, among other things, that: (i) any claim may become subordinated if it is not included in a company's accounts or otherwise reported to the insolvency administrators within one month from the last official publication of the court order declaring the insolvency, (ii) provisions in a contract granting one party the right to terminate on the other's insolvency may not be enforceable, and (iii) interest shall cease to accrue from the date of the declaration of insolvency.

8. Taxation

8.01 All amounts payable by or on behalf of the Issuer or the Guarantor, as the case may be, (whether in respect of principal, interest or otherwise) in respect of the Instruments will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts receivable by the Holder after such withholding or deduction shall equal the respective amounts which would have been receivable by such Holder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Instrument or Coupon:

- (i) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with The Kingdom of Spain other than (a) the mere holding of such Instrument or Coupon or (b) the receipt of principal, interest or other amount in respect of such Instrument or Coupon; or
- (ii) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish corporation tax if the Spanish tax authorities determine that the Instruments do not comply with exemption requirements specified in the Reply to a Non-Binding Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made; or
- (iii) to, or to a third party on behalf of, a holder in respect of whom the Guarantor, or the Issue and Paying Agent on its behalf, does not receive such details concerning such holder's identity and country of residence as it requires in order to comply with Spanish Law 19/2003 of 4 July, Royal Decree 1065/2007 of 27 July, Royal Legislative Decree 4/2004 of 5 March and Order of 22 December 1999; or
- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting such relevant Instrument or Coupon to another Paying Agent in a Member State of the European Union; or
- (vi) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on or before the expiry of such period of thirty days; or
- (vii) to, or to a third party on behalf of an individual resident for tax purposes in the Kingdom of Spain.

The reference to “Holder” in paragraph (iii) should be interpreted in accordance with applicable Spanish law. Law 13/1985 refers to “titulares” (meaning holders or owners). However, in accordance with the procedures agreed with the Clearing Systems and described under “Procedures for Compliance with Spanish Tax Legislation” in schedule 9 of the Issue and Paying Agency Agreement, the Clearing Systems will request their participants and customers to provide certain certificates relating to the beneficial owners of Instruments for the purposes of the Law 13/1985 reporting requirements and the payment of gross or net interest, as the case may be, will be calculated by the Issue and Paying Agent on the basis of such lists of beneficial owners which are provided to it from time to time by the Clearing Systems.

8.02 For the purposes of these Terms and Conditions, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Issue and Paying Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 14.

8.03 If the Issuer or the Guarantor becomes subject generally at any time (as a result of change in domicile for taxation purposes only) to any taxing jurisdiction other than the Kingdom of Spain references in Condition 6.02 and Condition 8.01 to the Kingdom of Spain shall be read and construed as references to the Kingdom of Spain and/or to such other jurisdiction(s).

8.04 Any reference in these Terms and Conditions to “principal” and/or “interest” in respect of the Instruments shall be deemed also to refer to any additional amounts which may be payable under this Condition 8. Unless the context otherwise requires, any reference in these Terms and Conditions to “principal” shall include any premium payable in respect of an Instrument, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and “interest” shall include all amounts payable pursuant to Condition 5 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

See “Taxation – Disclosure of Information in Connection with Payments” in the Base Prospectus for a fuller description of certain tax considerations relating to the Instruments, the formalities which Holders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Issuer and the Guarantor relating to the identity of Holders.

9. Payments

9A Payments – Bearer Instruments

9A.01 This Condition 9A is applicable in relation to Instruments in bearer form.

9A.02 Payment of amounts (other than interest) due in respect of Bearer Instruments will be made against presentation and (save in the case of partial payment or payment of an Instalment Amount (other than the final Instalment Amount)) surrender of the relevant Bearer Instruments at the specified office of any of the Paying Agents.

Payment of Instalment Amounts (other than the final Instalment Amount) in respect of an Instalment Instrument which is a Definitive Instrument with Receipts will be made against presentation of the Instrument together with the relevant Receipt and surrender of such Receipt.

The Receipts are not and shall not in any circumstances be deemed to be documents of title and if separated from the Instrument to which they relate will not represent any obligation of the Issuer. Accordingly, the presentation of an Instrument without the relative Receipt or the presentation of a Receipt without the Instrument to which it appertains shall not entitle the Holder to any payment in respect of the relevant Instalment Amount.

9A.03 Payment of amounts in respect of interest on Bearer Instruments will be made:

- (i) in the case of a Temporary Global Instrument or Permanent Global Instrument, against presentation of the relevant Temporary Global Instrument or Permanent Global Instrument at the specified office of any of the Paying Agents outside (unless Condition 9A.04 applies) the United States and, in the case of a Temporary Global Instrument, upon due certification as required therein;

- (ii) in the case of Definitive Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Definitive Instruments at the specified office of any of the Paying Agents outside (unless Condition 9A.04 applies) the United States; and
- (iii) in the case of Definitive Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Definitive Instruments, in either case at the specified office of any of the Paying Agents outside (unless Condition 9A.04 applies) the United States.

9A.04 Payments of amounts due in respect of interest on the Bearer Instruments and exchanges of Talons for Coupon sheets in accordance with Condition 9A.07 will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law. If paragraphs (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.

9A.05 If the due date for payment of any amount due in respect of any Bearer Instrument is not a Relevant Financial Centre Day and a local banking day (both as defined in Condition 9C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, if appropriate, Condition 5.10.

9A.06 Each Definitive Instrument initially delivered with Coupons, Talons or Receipts attached thereto should be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Receipts, Coupons and Talons relating thereto, failing which:

- (i) if the Final Terms specifies that this paragraph (i) of Condition 9A.06 is applicable (and, in the absence of specification, this paragraph (i) shall apply to Definitive Instruments which bear interest at a fixed rate or rates or in fixed amounts) and subject as hereinafter provided, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the total Redemption Amount due) (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such Redemption Amount;
- (ii) if the Final Terms specifies that this paragraph (ii) of Condition 9A.06 is applicable (and, in the absence of specification, this paragraph (ii) shall apply to Instruments which bear interest at a floating rate or rates or in variable amounts) all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Definitive Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them;
- (iii) in the case of Definitive Instruments initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them; and
- (iv) in the case of Definitive Instruments initially delivered with Receipts attached thereto, all Receipts relating to such Instruments in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 9A.06 notwithstanding, if any Definitive Instruments should be issued with a maturity date and an Interest Rate or Rates such that, on the presentation for payment of any such Definitive Instrument without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) to be deducted would be greater than the Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Definitive Instrument, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the Redemption Amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to a Definitive Instrument to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

9A.07 In relation to Definitive Instruments initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 9A.04 applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 below. Each Talon shall, for the purpose of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

9B Payments – Registered Instruments

9B.01 This Condition 9B is applicable in relation to Instruments in registered form.

9B.02 Payment of the Redemption Amount (together with accrued interest) due in respect of Registered Instruments will be made by the relevant Paying Agent against presentation and, save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Instruments at the specified office of the relevant Registrar. If the due date for payment of the Redemption Amount of any Registered Instrument is not a Relevant Financial Centre Day (as defined in Condition 9C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, as appropriate, Condition 5.10.

9B.03 Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at opening of business (local time in the place of the specified office of the Registrar) on the fifteenth Relevant Banking Day (as defined in Condition 2.06) before the due date for such payment (the “Record Date”).

9B.04 Notwithstanding the provisions of Condition 9C.02, payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be made in the currency in which such amount is due by cheque (in the case of payment in sterling, drawn on a town clearing branch of a bank in the city of London) and posted to the address (as recorded in the register held by the Registrar) of the Holder thereof (or, in the case of joint Holders, the first-named) on the Relevant Banking Day (as defined in Condition 2.06) not later than the relevant due date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first-named) has applied to the relevant Registrar and the relevant Registrar has acknowledged such application for payment to be made by the relevant Paying Agent to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until

the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, as appropriate, Condition 5.10.

9C Payments – General Provisions

9C.01 Save as otherwise specified in these Terms and Conditions, this Condition 9C is applicable in relation to Instruments whether in bearer or in registered form.

9C.02 Payments of amounts due (whether principal, interest or otherwise) in respect of Instruments will be made in the currency in which such amount is due (a) by cheque (in the case of payment in sterling, drawn on a town clearing branch of a bank in the city of London) or (b) at the option of the payee, by transfer to an account denominated in the relevant currency specified by the payee. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.

9C.03 For the purposes of these Terms and Conditions:

- (i) “**Relevant Financial Centre Day**” means, in the case of any currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre and in any other place specified in the Final Terms or in the case of payment in Euro, a TARGET Settlement Day; and
- (ii) “**local banking day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Instrument or, as the case may be, Coupon.

9C.04 No commissions or expenses shall be charged to the holders of Instruments or Coupons in respect of such payments.

9D Redenomination

9D.01 Where Redenomination is specified in the relevant Final Terms as being applicable, the Issuer may, without the consent of the Holders of the Instruments, the Receipts and the Coupons, on giving at least 30 days’ prior notice to the Commissioner and the Holders of the Instruments in accordance with Condition 14, elect that, with effect from the Redenomination Date (as defined below) specified in the notice, the Instruments shall be redenominated in Euro.

9D.02 The election will have effect as follows:

- (i) each Specified Denomination (as defined below) and, in the case of Fixed Rate Instruments, each amount specified on the Coupons will be deemed to be denominated in such amount of Euro as is equivalent to its denomination or the amount of interest so specified in the Relevant Currency (as defined below) at the Established Rate (as defined below), rounded down to the nearest Euro 0.01;
- (ii) after the Redenomination Date, all payments in respect of the Instruments, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Instruments to the Relevant Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee, or at the option of the payee, by a Euro cheque;
- (iii) if the Instruments are Fixed Rate Instruments and interest for any period ending on or after the Redenomination Date is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (i) the number of those days falling in a leap year divided by 366 and (ii) the number of those days falling in a non-leap year divided by 365);
- (iv) if the Instruments are Floating Rate Instruments the relevant Final Terms will specify any relevant changes to the provisions relating to interest; and

- (v) such other changes shall be made to these Terms and Conditions as the Issuer may decide, after consultation with the Issue and Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to Instruments denominated in Euro or to enable the Instruments to be consolidated with Other Instruments (as defined below) whether or not originally denominated in the Specified Currency (as defined below) or Euro. Any such other changes will not take effect until after they have been notified to the Holders of the Instruments in accordance with Condition 14.

9E Exchangeability

Where Exchangeability is specified in the applicable Final Terms as being applicable, the Issuer may without the consent of the Holders of the Instruments, the Receipts and the Coupons, on giving at least 30 days' prior notice to the Commissioner and the Holders of the Instruments in accordance with Condition 14, elect that, with effect from the Redenomination Date or such later date for payment of interest under the Instruments as it may specify in the notice, the Instruments shall be exchangeable for Instruments expressed to be denominated in Euro in accordance with such arrangements as the Issuer may decide, with the approval of the Issue and Paying Agent and as may be specified in the notice, including arrangements under which Receipts and Coupons unmatured at the date so specified become void.

Definitions: In these Terms and Conditions, the following expressions have the following meanings:

- (i) “**Established Rate**” means the rate for conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into Euro established by the Council of the European Union pursuant to Article 1091(4) of the Treaty;
- (ii) “**Euro**” means the currency of participating member states of the European Union that adopt the single currency introduced at the start of the third stage of European economic and monetary union in accordance with the Treaty;
- (iii) “**Other Instruments**” means, at any time, any one or more series of other instruments of the Issuer which have the same or substantially the same terms and conditions (as then in effect and which have not lapsed and/or the rights in respect of which have not been exercised) as the Instruments (other than in relation to the currency of original denomination and/or denomination and/or the terms and conditions relating to business days or interest accrual bases and/or the stock exchange(s) if any on which such instruments are listed and/or the clearing system(s) on which such instruments are cleared and settled and/or redenomination into Euro and/or notices);
- (iv) “**Redenomination Date**” means any date for payment of interest under the Instruments or any date specified by the Issuer in the notice given to the Holders of Instruments pursuant of paragraph 9D.01 above or, if the country of the Specified Currency is not one of the countries then participating in the third stage of European economic and monetary union pursuant to the Treaty, the date which falls on or after such later date as it does so participate;
- (v) “**Specified Currency**” means the currency specified in the relevant Final Terms;
- (vi) “**Specified Denomination**” means the denomination specified in the relevant Final Terms;
- (vii) “**Treaty**” means the Treaty establishing the European Communities as amended by the Treaty on European Union.

10. Prescription

10.01 Claims against the Issuer for payment, whether of principal and interest or otherwise, in respect of Instruments will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date (as defined in Condition 8.02) for payment thereof.

10.02 In relation to Definitive Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9A.06 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 10 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Instrument.

11. The Paying Agents, the Registrars and the Calculation Agent

11.01 The initial Paying Agents and Registrars and their respective initial specified offices are specified below. The Calculation Agent in respect of any Instruments shall be specified in the Final Terms. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent (including the Issue and Paying Agent) or the Registrar or the Calculation Agent and to appoint additional or other Paying Agents or another Registrar or another Calculation Agent provided that they will at all times maintain (i) a Issue and Paying Agent, (ii) in the case of Registered Instruments, a Registrar, (iii) a Paying Agent (which may be the Issue and Paying Agent) with a specified office in a continental European city which is not a Member State of the European Union, (iv) so long as the Instruments are listed on the Official List and/or any other listing authority, stock exchange and/or quotation system and the rules of the Financial Services Authority and/or such other listing authority, stock exchange and/or quotation system so require, a Paying Agent (which may be the Issue and Paying Agent) and a Registrar each with a specified office in London and/or in such other place as may be required by such other stock exchange, (v) in the circumstances described in Condition 9A.04, a Paying Agent with a specified office in New York City, (vi) a Calculation Agent where required by the Terms and Conditions applicable to any Instruments and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive (in the case of (i), (ii), (iii) and (vi) with a specified office located in such place (if any) as may be required by the Terms and Conditions). The Paying Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of any Paying Agent, the Registrar or the Calculation Agent will be given promptly by the Issuer, failing whom the Guarantor, to the Holders in accordance with Condition 14.

11.02 The Paying Agents, the Registrar and the Calculation Agent act solely as agents of the Issuer and the Guarantor and, save as provided in the Issue and Paying Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument, Receipt or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Issue and Paying Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

12. Replacement of Instruments

If any Instrument, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent or such Paying Agent or Paying Agents as may be specified for such purpose in the Final Terms (in the case of Bearer Instruments and Coupons) or of the Registrar (in the case of Registered Instruments) (“**Replacement Agent**”) and if the Instruments are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its specified office in the place required by such listing authority, stock exchange and/or quotation system, subject to all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system on which the Instruments are listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer, the Guarantor and the Replacement Agent may require. Mutilated or defaced Instruments, Receipts and Coupons must be surrendered before replacements will be delivered therefor. In case any such lost, stolen, mutilated, defaced or destroyed Instrument, Receipt or Coupon has become or is about to become due and payable, the Issuer in its discretion may, instead of delivering replacements therefor, pay such Instrument, Receipt or Coupon.

13. Syndicate of Holders of the Instruments and Modification

The Holders of the Instruments of a relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Holders (the “**Regulations**”). The Regulations contain rules governing the functioning of each Syndicate and the rules governing its relationship with the Issuer

and shall be attached to the Public Deed of Issuance. A set of pro forma Regulations is included in the Issue and Paying Agency Agreement.

A provisional Commissioner will be appointed for each Syndicate. Upon the subscription of the Instruments, the Commissioner will call a general meeting of the Syndicate, the duty of which shall be to ratify or oppose the acts of the Commissioner, confirm his appointment or appoint a substitute and to ratify the Regulations.

Provisions for meetings of the Syndicate of Holders of the Instruments will be contained in the Regulations and the Issue and Paying Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Issuer may, with the consent of the Issue and Paying Agent and the relevant Commissioner, but without the consent of the Holders of the Instruments of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Instruments to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of a resolution of the relevant Syndicate of Holders of Instruments.

For the purposes of these Terms and Conditions,

- (i) “**Commissioner**” means the trustee (*comisario*) within the meaning of the Spanish Corporations Law (*Ley de Sociedades Anónimas*) of each Syndicate of Holders of the Instruments; and
- (ii) “**Syndicate**” means the syndicate (*sindicato*) within the meaning of the Spanish Corporations law (*Ley de Sociedades Anónimas*).

14. Notices

To Holders of Bearer Instruments

14.01 Notices to Holders of Bearer Instruments will, save where another means of effective communication has been specified herein or in the Final Terms, be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be the Financial Times) or, if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe or, if permitted by the relevant stock exchange, in the case of Instruments represented by a Temporary Global Instrument or Permanent Global Instrument, if delivered to Euroclear and Clearstream, Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein. The Issuer and the Guarantor shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Instruments are listed. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers) or, as the case may be, on the fourth weekday after the date of such delivery to Euroclear and Clearstream, Luxembourg and/or such other clearing system. Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition.

To Holders of Registered Instruments

14.02 Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day.

To the Issuer and the Guarantor

14.03 Notices to the Issuer may be delivered to the Managing Director at the specified office for the time being of the Issuer. Notices to the Guarantor may be delivered to the Deputy General Manager of Capital Markets at the specified office for the time being of the Guarantor.

To the Commissioner

14.04 Copies of any notice given to any Holders of the Instruments will be also given to the Commissioner of the Syndicate of Holders of the Instruments of the relevant Series.

15. Further Issues

The Issuer may from time to time, without the consent of the Holders of any Instruments or Coupons, create and issue further instruments, bonds or debentures having the same terms and conditions as such Instruments in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) so as to form a single series with the Instruments of any particular Series.

16. Currency Indemnity

The currency in which the Instruments are denominated or, if different, payable, as specified in the Final Terms or, in the case of Instruments which have been redenominated pursuant to Condition 9D, the Euro (the “**Contractual Currency**”), is the sole currency of account and payment for all sums payable by the Issuer in respect of the Instruments, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Holder of an Instrument or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of an Instrument or Coupon in respect of such Instrument or Coupon the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of an Instrument or Coupon and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Instruments or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder of an Instrument or Coupon and no proof or evidence of any actual loss will be required by the Issuer.

17. Waiver and Remedies

No failure to exercise, and no delay in exercising, on the part of the Holder of any Instrument, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

18. Substitution; Merger, Consolidation, etc. Only on Certain Terms

18.01 Provided the Instruments remain subject to Law 13/1985 at all times, the Guarantor or any of its Subsidiaries (as defined below) (each a “**Substitute Debtor**”) may, without the consent of the Holders of any Instruments, Receipts or Coupons, assume the obligations of the Issuer (or any previous Substitute Debtor) under and in respect of any Instruments upon:

- (a) **Deed poll:** the execution of a deed poll (the “**Deed Poll**”) by the Substitute Debtor and (if the Substitute Debtor is not the Guarantor) the Guarantor in a form which gives full effect to such assumption and which includes (without limitation):
 - (i) a covenant by the Substitute Debtor in favour of the Holders of the relevant Instruments to be bound by these Terms and Conditions as if it had been named herein and therein as the Issuer;

- (ii) if the Substitute Debtor is incorporated, domiciled or resident for tax purposes in a territory other than The Kingdom of Spain, a covenant by the Substitute Debtor corresponding to the provisions of Condition 8 with the addition of such territory to the references to The Kingdom of Spain;
 - (iii) if the Substitute Debtor is not the Guarantor, a covenant by the Guarantor in favour of the Holders of the relevant Instruments guaranteeing the obligations of the Substitute Debtor under and by virtue of the Deed Poll; and
 - (iv) an acknowledgment of the right of the Commissioner and all Holders of the relevant Instruments to the production of the Deed Poll; and
- (b) **Legal opinion:** the delivery by the Issuer to the Issue and Paying Agent and the Commissioner of an opinion of independent legal advisers of recognised standing to the effect that:
- (i) the Deed Poll constitutes legal, valid, binding and enforceable obligations of the Substitute Debtor and, if the Substitute Debtor is not the Guarantor, the Guarantor;
 - (ii) the relevant Instruments constitute legal, valid, binding and enforceable obligations of the Substitute Debtor; and
 - (iii) if the Substitute Debtor is not the Guarantor, the Guarantee constitutes legal, valid, binding and enforceable obligations of the Guarantor in respect of all sums from time to time payable by the Substitute Debtor in respect of the relevant Instruments.

Upon the assumption by the Substitute Debtor of the Issuer's obligations under and in respect of the relevant Instruments, and provided that immediately after giving effect to such assumption, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, the Issuer shall be released from such obligations and, thereafter, all references in the relevant Instruments and the Coupons to the Issuer shall be deemed to be references to the Substitute Debtor.

“**Subsidiary**” means any company in respect of which the Guarantor owns, directly or indirectly, the full voting rights of the shares of such company.

The Deed Poll shall be deposited with and held by the Issue and Paying Agent until all the obligations of the Issuer under and in respect of the relevant Instruments have been discharged in full. Notice of the assumption by the Substitute Debtor of the Issuer's obligations under and in respect of the relevant Instruments shall promptly be given to the Holders of the relevant Instruments.

18.02 Neither the Issuer nor the Guarantor shall consolidate with or merge (which term shall include for the avoidance of doubt a scheme of arrangement) into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and neither the Issuer nor the Guarantor shall permit any Person to consolidate with or merge into the Issuer or the Guarantor or convey, transfer or lease its properties and assets substantially as an entirety to the Issuer or the Guarantor, unless:

- (i) in the case the Issuer or the Guarantor shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Issuer or the Guarantor substantially as an entirety shall be a corporation, partnership or trust, shall be organised and validly existing, under the laws of the jurisdiction of its organisation and shall expressly assume the due and punctual payment of the principal, premium (if any) and interest due in respect of the Instruments and the performance or observance of every covenant under these Terms and Conditions on the part of the Issuer to be performed or observed and, in the case of the Guarantor, the due and punctual payment of the principal, premium (if any) and interest due in respect of the Instruments and the performance or observance of every covenant under these Terms and Conditions on the part of the Guarantor to be performed or observed;
- (ii) if the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets is a Person organised and validly existing under the laws of a jurisdiction other than The Kingdom of Spain, such Person agrees to indemnify the Holders of the Instruments against (a) any tax, assessment or governmental charge imposed on any such

Holder or required to be withheld or deducted from any payment to such Holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and (b) any costs or expenses of the act of such consolidation, merger, conveyance, transfer or lease;

- (iii) immediately prior to the consummation of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred;
- (iv) the consummation of such transaction must not cause an Event of Default under these Terms and Conditions or the Guarantee which the Issuer or the Guarantor, as the case may be, does not reasonably believe that can be cured within 90 days from the date of such transaction; and
- (v) the Issuer of the Guarantor has delivered to the Issue and Paying Agent a certificate signed by one director of the Issuer or one director of the Guarantor and an opinion of counsel (as defined below), each stating that such consolidation, merger, conveyance, transfer or lease comply with this Condition and that all conditions precedent herein provided for relating to such transaction have been complied with.

Upon any consolidation of the Issuer or the Guarantor with, or merger of the Issuer or the Guarantor into, any other Person or any conveyance, transfer or lease of the properties and assets of the Issuer or the Guarantor substantially as an entirety in accordance with this Condition 18.02, the successor Person formed by such consolidation or into which the Issuer or the Guarantor is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer or the Guarantor, as the case may be, under these Terms and Conditions with the same effect as if such successor Person had been named as the Issuer or the Guarantor herein, as the case may be, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under these Terms and Conditions and the Instruments.

For the purposes of this Condition 18.02, “**opinion of counsel**” means a written opinion of independent legal advisers of recognised standing or internal legal counsel for the Issuer or the Guarantor.

18.03 For so long as Law 13/1985 applies to the Instruments, the Guarantor shall maintain direct or indirect ownership of the whole of the voting rights in respect of the shares of the Issuer or, following a substitution in accordance with Condition 18.01, the relevant Substitute Debtor.

19. Law and Jurisdiction

19.01 Save as described below, the Instruments and all matters arising from or connected with the Instruments, the Issue and Paying Agency Agreement, the Deed of Guarantee and the Deed of Covenant are governed by, and shall be construed in accordance with, English law. Condition 3 and the provisions of Condition 13 relating to the appointment of the Commissioner and the Syndicate of Holders are governed by Spanish law.

19.02 The courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising from or connected with the Instruments.

19.03 The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

19.04 Condition 19.03 is for the benefit of the Holders only. As a result, nothing in this Condition 19 (Law and Jurisdiction) prevents any Holder from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, Holders may take concurrent Proceedings in any number of jurisdictions.

19.05 The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Clifford Chance Secretaries Limited, 10 Upper Bank Street, London E14 5JJ or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Issue and Paying Agent and, failing such appointment within 15 days, any Holder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified

office of the Issue and Paying Agent. Nothing in this paragraph shall affect the right of any Holder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

The instruments are issued in accordance with requirements prescribed by Spanish company law. On the insolvency (concurso) of the Issuer or the Guarantor, the Insolvency Law will determine the ranking of the Instruments and/or the Guarantee, and will prevail over certain provisions of Terms and Conditions of the Instruments and/or the Guarantee.

20. Rights of Third Parties

No person shall have any right to enforce any term or condition of any Instrument under the Contracts (Rights of Third Parties) Act 1999.

Form of Guarantee

The text of the Deed of Guarantee is as follows:

THIS GUARANTEE is issued on the 3 July 2008

BY

TELEFÓNICA, S.A. (the “**Guarantor**”)

IN FAVOUR OF the Holders (as defined in the Terms and Conditions of the Instruments) and the Relevant Account Holders (as defined in the Deed of Covenant referred to below).

WHEREAS

- (A) Telefónica Emisiones S.A.U. (the “**Issuer**”), the Guarantor and others have established a programme (the “**Programme**”) for the issuance of debt instruments, in connection with which Programme they have entered into, *inter alia*, an amended and restated issue and paying agency agreement (the “**Issue and Paying Agency Agreement**”) dated 3 July 2008 and made between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch as issue and paying agent (the “**Issue and Paying Agent**”, which expression shall include any successor issue and paying agent) and others and the Issuer has executed and delivered a deed of covenant (the “**Deed of Covenant**”) dated 3 July 2008.
- (B) Instruments may be issued on a listed or unlisted basis. The Base Prospectus relating to the Programme has been approved by the United Kingdom Financial Services Authority (the “**FSA**”), which is the competent authority for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”) and relevant implementing measures in the United Kingdom, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the Instruments. Applications have been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**FSMA**”) for Instruments issued within 12 months from the date hereof to be admitted to the official list of the FSA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Instruments to be admitted to trading on the Regulated Market of the London Stock Exchange.
- (C) The Guarantor has agreed, upon the terms set out herein, to guarantee the payment of all sums expressed to be payable from time to time by the Issuer in respect of Instruments issued under the Programme and under the Deed of Covenant as of or subsequent to the date hereof.

NOW THIS DEED WITNESSES as follows:

1. INTERPRETATION AND BENEFIT OF DEED OF GUARANTEE

- 1.1 Unless otherwise defined herein or unless the context requires otherwise, expressions defined in the Terms and Conditions of the Instruments (the “**Conditions**” and each a “**Condition**”) or the Deed of Covenant have the same meanings in this Guarantee except where the context requires otherwise or unless otherwise stated.
- 1.2 Any Instruments issued under the Programme on or after the date of this Deed of Guarantee shall have the benefit of this Guarantee but shall not have the benefit of any subsequent deed of guarantee relating to the Programme (unless expressly so provided in any such subsequent deed).
- 1.3 Any reference in this Guarantee to a Clause is, unless otherwise stated, to a clause hereof.
- 1.4 All references in this Guarantee to an agreement, instrument or other document (including the Issue and Paying Agency Agreement and the Deed of Covenant) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.
- 1.5 Headings and sub-headings are for ease of reference only and shall not affect the construction of this Guarantee.

2. GUARANTEE AND INDEMNITY

2.1 The Guarantor hereby unconditionally and irrevocably guarantees:

- (a) to the Holder of each Instrument the due and punctual payment of all sums expressed to be payable from time to time by the Issuer in respect of such Instrument as and when the same become due and payable and accordingly undertakes to pay to such Holder, forthwith in the manner and currency prescribed by the relevant Instrument for payments by the Issuer in respect thereof, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Instrument in accordance with the Terms and Conditions of such Instruments and which the Issuer has failed to pay; and
- (b) to each Relevant Account Holder the due and punctual payment of all sums which become payable from time to time by the Issuer to such Relevant Account Holder in respect of the Direct Rights as and when the same become due and payable and accordingly undertakes to pay to such Relevant Account Holder, forthwith in the manner and currency prescribed by the Terms and Conditions of the relevant Instruments for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay to such Relevant Account Holder in respect of the Direct Rights in accordance with the Deed of Covenant and which the Issuer has failed to pay.

2.2 The Guarantor undertakes to the Holder of each Instrument and to each Relevant Account Holder that, if any sum referred to in Clause 2.1 is not recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Instrument or the Deed of Covenant (or any provision thereof) being or becoming void, unenforceable or otherwise invalid under any applicable law), then, notwithstanding that the same may have been known to such Holder or Relevant Account Holder, the Guarantor will, forthwith upon demand by such Holder or Relevant Account Holder, pay such sum by way of a full indemnity in the manner and currency prescribed by such Instrument or (as the case may be) the Deed of Covenant. This indemnity constitutes a separate and independent obligation from the other obligations under this Guarantee and shall give rise to a separate and independent cause of action.

3. TAXATION

The Guarantor covenants in favour of each Holder and Relevant Account Holder that it will duly perform and comply with the obligations expressed to be assumed by it in Condition 8.

4. PRESERVATION OF RIGHTS

4.1 The obligations of the Guarantor hereunder shall be deemed to be undertaken as principal obligor and not merely as surety.

4.2 The obligations of the Guarantor hereunder shall be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and, in particular but without limitation, shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Issuer's obligations under or in respect of any Instrument or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Instruments and under the Deed of Covenant have been paid, and all other obligations of the Issuer thereunder or in respect thereof have been satisfied, in full.

4.3 Neither the obligations expressed to be assumed by the Guarantor herein nor the rights, powers and remedies conferred upon the Holders of Instruments and the Relevant Account Holders by this Guarantee or by law shall be discharged, impaired or otherwise affected by:

- (a) the winding up, bankruptcy (*concurso*), moratorium or dissolution of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership;
- (b) any of the obligations of the Issuer under or in respect of any of the Instruments or the Deed of Covenant being or becoming illegal, invalid or unenforceable;
- (c) time or other indulgence being granted or agreed to be granted to the Issuer in respect of its obligations under or in respect of any of the Instruments or the Deed of Covenant;

- (d) any amendment to, or any variation, waiver or release of, any obligation of the Issuer under or in respect of any of the Instruments or the Deed of Covenant or any security or other guarantee or indemnity in respect thereof; or
 - (e) any other act, event or omission which, but for this Clause 4.3, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Guarantor herein or any of the rights, powers or remedies conferred upon the Holders of the Instruments, the Relevant Account Holders or any of them by this Guarantee or by law.
- 4.4 Any settlement or discharge between the Guarantor and the Holders of the Instruments, the Relevant Account Holders or any of them shall be conditional upon no payment to the Holders of the Instruments, the Relevant Account Holders or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any provision or enactment relating to bankruptcy, insolvency (*concurso*) or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Holders of the Instruments and the Relevant Account holders shall be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.
- 4.5 No Holder of an Instrument or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Guarantee or by law:
- (a) to make any demand of the Issuer, other than the presentation of the relevant Instrument;
 - (b) to take any action or obtain judgment in any court against the Issuer; or
 - (c) to make or file any claim or proof in a winding up or dissolution of the Issuer,
- and, save as aforesaid, the Guarantor hereby expressly waives, in respect of each Instrument, presentment, demand, protest and notice of dishonour.
- 4.6 The Guarantor agrees that, so long as any sums are or may be owed by the Issuer in respect of the Instruments or under the Deed of Covenant or the Issuer is under any other actual or contingent obligation thereunder or in respect thereof, the Guarantor will not exercise any right which the Guarantor may at any time have by reason of the performance by the Guarantor of its obligations hereunder:
- (a) to claim any contribution from any other guarantor of the Issuer's obligations under or in respect of the Instruments or the Deed of Covenant;
 - (b) to take the benefit (in whole or in part) of any security enjoyed in connection with any of the Instruments or the Deed of Covenant by any Holder of an Instrument or Relevant Account Holder; or
 - (c) to be subrogated to the rights of any Holder of an Instrument or Relevant Account Holder against the Issuer in respect of amounts paid by the Guarantor under this Guarantee.

5. STATUS

The Guarantor undertakes that its obligations hereunder will at all times rank as described in Condition 3.

6. DELIVERY

A duly executed original of this Guarantee shall be delivered promptly after execution to the Issue and Paying Agent and such original shall be held to the exclusion of the Guarantor until the date on which complete performance by the Guarantor of the obligations contained in this Guarantee and in all instruments then outstanding from time to time occurs and no further Instruments can be issued under the Programme. A certified copy of this Guarantee may be obtained by the Commissioner and any Holder of an Instrument or any Relevant Account Holder from the Issue and Paying Agent at its specified office at the expense of such Holder or Relevant Account Holder. Any Holder of an Instrument or Relevant Account Holder may protect and enforce his rights under this Guarantee (in the courts specified in Clause 13 below) upon the basis described in the Deed of Covenant (in the case of a Relevant Account Holder) and a copy of this Guarantee certified as being a true copy by a duly authorised

officer of the Issue and Paying Agent without the need for production in any court of the actual records described in the Deed of Covenant or this Guarantee. Any such certification shall be binding, except in the case of manifest error or as may be ordered by any court of competent jurisdiction, upon the Guarantor and all Holders of instruments and Relevant Account Holders. This Clause shall not limit any right of any Holder of an Instrument or Relevant Account Holder to the production of the originals of such records or documents or this Guarantee in evidence.

7. CONTRACTUAL CURRENCY

If any sum due from the Guarantor under this Deed of Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under this Deed of Guarantee or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgement given or made in relation to this Deed of Guarantee, the Guarantor shall indemnify each Holder of an Instrument and each Relevant Account Holder on demand against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Holder of an Instrument or each Relevant Account Holder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Guarantor and shall give rise to a separate and independent course of action.

8. TERMS AND CONDITIONS OF THE INSTRUMENTS

The Guarantor hereby undertakes to comply with and be bound by those provisions of the Conditions which relate to it or which are expressed to relate to it.

9. BENEFIT OF GUARANTEE

- 9.1 This Guarantee shall take effect as a deed poll for the benefit of the Holders of the Instruments and the Relevant Account Holders from time to time.
- 9.2 The obligations expressed to be assumed by the Guarantor herein shall enure for the benefit of each Holder of an Instrument and Relevant Account Holder, and each Holder of an Instrument and each Relevant Account Holder shall be entitled severally to enforce such obligations against the Guarantor.
- 9.3 The Guarantor may not assign or transfer all or any of its rights, benefits or obligations hereunder.
- 9.4 Any Instruments issued under the Programme on or after the date of this Guarantee shall have the benefit of this Guarantee but shall not have the benefit of any subsequent deed of guarantee relating to the Programme (unless expressly so provided in any such subsequent deed).

10. PARTIAL INVALIDITY

If at any time any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the laws of any other jurisdiction shall in any way be affected or impaired thereby.

11. MODIFICATION

This Guarantee may be modified by the Guarantor in respect of the Instruments of any Series with the sanction of a resolution of the General Meeting of the Syndicate of Holders of the Instruments of such Series.

12. NOTICES

12.1 All communications to the Guarantor hereunder shall be made in writing (by letter, telex or fax) and shall be sent to the Guarantor at:

Address: Distrito C
Edificio Central
c/Ronda de la Comunicación, s/n
28050 Madrid

Fax: + 34 91 727 1397

Attention: Eduardo Álvarez Gómez

or to such other address or fax number or for the attention of such other person or department as the Guarantor has notified to the Holders of the Instruments in the manner prescribed for the giving of notices in connection with the Instruments.

12.2 Every communication sent in accordance with Clause 12.1 shall be effective upon receipt by the Guarantor; and provided, however, that any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the Guarantor.

13. LAW AND JURISDICTION

13.1 This Guarantee and all matters arising from or connected with it are governed by, and shall be construed in accordance with, English law. The status of this Guarantee is governed by Spanish Law.

13.2 The courts of England have exclusive jurisdiction to settle any dispute (a “Dispute”) arising from or connected with this Guarantee (including a dispute regarding the existence, validity or termination of this Guarantee) or the consequences of its nullity.

13.3 The parties agree that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that they will not argue to the contrary.

13.4 Clause 13.2 is for the benefit of the Holders of the Instruments and the Relevant Account Holders only. As a result, nothing in this Clause 13 prevents the Holders of the Instruments or the Relevant Account Holders from taking proceedings relating to a Dispute (“Proceedings”) in any other courts with jurisdiction. To the extent allowed by law, the Holders of the Instruments and the Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.

13.5 The Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Clifford Chance Secretaries Limited, 10 Upper Bank Street, London E14 5JJ or, if different, its registered office for the time being or at any address of the Guarantor in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, the Guarantor shall, on the written demand of any Holder of an Instrument or Relevant Account Holder addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Holder of an Instrument or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor or to the specified office of the Issue and Paying Agent. Nothing in this paragraph shall affect the right of any Holder of an Instrument or Relevant Account Holder to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

IN WITNESS whereof this Guarantee has been executed as a deed by the Guarantor and is intended to be and is hereby delivered on the date first above written.

EXECUTED as a deed
by TELEFÓNICA, S.A.
acting by: }

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Instruments will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Instruments and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [●]

TELEFÓNICA EMISIONES, S.A.U.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments]
Guaranteed by TELEFÓNICA, S.A.
under the EUR 25,000,000,000 Debt Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth on pages 20 to 48, inclusive, in the Base Prospectus dated 3 July 2008 [and the supplemental Base Prospectus dated ●] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Instruments and must be read in conjunction with such Base Prospectus [as so supplemented].

Full information on the Issuer, the Guarantor and the offer of the Instruments described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at www.telefonica.es and copies may be obtained from [Gran Vía, 28, 28013 Madrid (being the registered office of the Issuer), at the offices of the Bank of New York Mellon, London Branch at One Canada Square, London E14 5AL and at the offices of the Bank of New York (Luxembourg), S.A. at 1A Hoehenhof, L-1726, Senningerberg, Grand Duchy of Luxembourg].

The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date and the relevant terms and conditions from that base prospectus with an earlier date were incorporated by reference in this Base Prospectus.

Terms used herein shall be deemed to be defined as such for the purposes of the [date] Conditions (the “**Conditions**”) incorporated by reference in the Base Prospectus dated [original date]. These Final Terms contain the final terms of the Instruments and must be read in conjunction with the Base Prospectus dated 3 July 2008 [and the supplemental Base Prospectus dated [date]] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”), save in respect of the Conditions which are set forth in the base prospectus dated [original date] and are incorporated by reference in the Base Prospectus. This document constitutes the Final Terms relating to the issue of Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive.

Full information on the Issuer, the Guarantor and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and 3 July 2008 [and the supplemental Base Prospectuses dated ● and ●]. The Base Prospectuses [and the supplemental Base Prospectus] are available for viewing at www.telefonica.es and copies may be obtained from [Gran Vía, 28, 28013 Madrid (being the registered office of the Issuer), at the offices of the Bank of New York Mellon, London Branch at One Canada Square, London E14 5AL and at the offices of the Bank of New York (Luxembourg), S.A. at 1A Hoehenhof, L-1726, Senningerberg, Grand Duchy of Luxembourg].

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Instrument that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and

consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive].

1. (i) Issuer: Telefónica Emisiones S.A.U.
(ii) Guarantor: Telefónica, S.A.
2. [(i) Series Number:] []
[(ii) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).]
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount: []
[(i) [Series]: []
[(ii) Tranche: []]
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
6. (i) Specified Denominations: []
No Instruments may be issued which have a minimum denomination of less than EUR50,000 (or nearly equivalent in another currency)
(ii) Calculation Amount: []
7. (i) Issue Date: []
(ii) Interest Commencement Date: [Specify/Issue Date/Not Applicable]
8. Maturity Date: [Specify date or (for Floating Rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year]
If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Instruments is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Instruments must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to “professional investors” or (ii) another applicable exemption from section 19 of the FSMA must be available.
9. Interest Basis: [● per cent. Fixed Rate]
[[Specify reference rate] +/- ● per cent. Floating Rate]
[Index Linked Interest]
[Other (Specify)]
(further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency]
[Partly Paid]
[Instalment]
[Other (*Specify*)]
11. Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Instruments into another interest or redemption/payment basis*]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. [(i)] Status of the Instruments: [Senior/[Dated/Perpetual]/Subordinated]
[(ii)] Status of the Guarantee: [Senior/[Dated/Perpetual]/Subordinated]
[(iii)] [Date [Board] approval for issuance of Instruments [and Guarantee] [respectively]] obtained: [] [and []], respectively
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Instruments or related Guarantee)*
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate[(s)] of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
- (ii) Interest Payment Date(s): [] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [] per Calculation Amount
- (iv) Broken Amount(s): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
- (v) Day Count Fraction: [30/360/Actual/Actual (ICMA/ISDA)/other]
- (vi) [Determination Dates: [] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Instruments: [Not Applicable/*give details*]
16. **Floating Rate Instrument Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Period(s): []

- (ii) Specified Period: []
(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")
- (iii) Specified Interest Payment Dates: []
(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")
- (iv) [First Interest Payment Date]: []
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (vi) Additional Business Centre(s): [Not Applicable/*give details*]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other *(give details)*]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Issue and Paying Agent): *[[Name] shall be the Calculation Agent (no need to specify if the Issue and Paying Agent is to perform this function)]*
- (ix) Screen Rate Determination:
- Reference Rate: *[For example, LIBOR or EURIBOR]*
 - Interest Determination Date(s): []
 - Relevant Screen Page: *[For example, Reuters LIBOR 01/EURIBOR 01]*
 - Relevant Time: *[For example, 11.00 a.m. London time/Brussels time]*
 - Relevant Financial Centre: *[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]*
- (x) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (xi) Margin(s): [+/-][] per cent. per annum
- (xii) Minimum Rate of Interest: [] per cent. per annum
- (xiii) Maximum Rate of Interest: [] per cent. per annum
- (xiv) Day Count Fraction: []
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions: []

17. **Index-Linked Interest Instrument/other variable-linked interest Instrument Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula/other variable: [] *[give or annex details]*
- (ii) Calculation Agent responsible for calculating the interest due: []
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: []
- (vi) Interest Determination Date(s): []
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: []
- (vi) Interest or calculation period(s): []
- (vii) Specified Period: []
- (Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")*
- (viii) Specified Interest Payment Dates: []
- (Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
- (ix) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (x) Additional Business Centre(s) : []
- (xi) Minimum Rate/Amount of Interest: [] per cent. per annum
- (xii) Maximum Rate/Amount of Interest: [] per cent. per annum
- (xiii) Day Count Fraction: []
18. **Dual Currency Instrument Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [] *[give details]*
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

19. **Call Option** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s): [] per Calculation Amount
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [] per Calculation Amount
 - (b) Maximum Redemption Amount [] per Calculation Amount
 - (iv) Notice period: []
20. **Put Option** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s): [] per Calculation Amount
 - (iii) Notice period: []
21. **Final Redemption Amount of each Instrument** [] per Calculation Amount
- In cases where the Final Redemption Amount is Index-Linked or other variable-linked:
- (i) Index/Formula/variable: [*give or annex details*]
 - (ii) Calculation Agent responsible for calculating the Final Redemption Amount: []
 - (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: []
 - (iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable: []
 - (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: []
 - (vi) [Payment Date]: []
 - (vii) Minimum Final Redemption Amount: [] per Calculation Amount
 - (viii) Maximum Final Redemption Amount: [] per Calculation Amount
22. **Early Redemption Amount** [Not Applicable]
(If both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Instruments/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Instruments)]
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

23. **Form of Instruments:**
- Bearer Instruments:**
[Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for Definitive Instruments on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]
[Temporary Global Instrument exchangeable for Definitive Instruments on [] days' notice]
[Permanent Global Instrument exchangeable for Definitive Instruments on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]
[Registered Instruments]
24. **New Global Instrument:** [Yes] [No]
25. **Additional Financial Centre(s) or other special provisions relating to payment dates:** [Not Applicable/*give details. Instrument that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(vi) and 17(x) relate*]
26. **Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature):** [Yes/No. *If yes, give details*]
27. **Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment]:** [Not Applicable/*give details*]
28. **Details relating to Instalment Instruments: amount of each instalment, date on which each payment is to be made:** [Not Applicable/*give details*]
29. **Redenomination, renominatisation and reconventioning provisions:** [Not Applicable/The provisions in Condition 9D (*Redenomination*) apply]
30. **Consolidation provisions:** Not Applicable/The provisions in Condition 15 (*Further Issues*) [annexed to this Final Terms] apply
31. **Other final terms:** [Not Applicable/*give details*]
[(*When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.*)]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/*give names*]
(ii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]

- 33. If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- 34. U.S. Selling Restrictions: [Reg. S Compliance Category];
(In the case of Bearer Instruments) – [TEFRA C/TEFRA D/TEFRA not applicable]
(In the case of Registered Instruments) – Not Applicable
- 35. Additional selling restrictions: [Not Applicable/*give details*]
- 36. Commissioner: []

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the Regulated Market of the London Stock Exchange of the Instruments described herein pursuant to the EUR 25,000,000,000 Debt Issuance Programme of Telefónica Emisiones S.A.U.

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [*Relevant third party information*] has been extracted from (*specify source*). Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Telefónica Emisiones S.A.U.:

By:
 Duly authorised

Signed on behalf of Telefónica, S.A.:

By:
 Duly authorised

PART B – OTHER INFORMATION

1. LISTING

(i) Admission to trading

[Application is has been made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [specify relevant regulated market]] with effect from [].] [Application is expected to be made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [specify relevant regulated market] with effect from [].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Instruments are already admitted to trading.)

(ii) Estimate of total expenses related to admission to trading:

[]

2. RATINGS

Ratings:

The Instruments to be issued have been rated:

[S & P: []]

[Moody's: []]

[Fitch: []]

[[Other]: []]

(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale”, so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer.”

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer

[]

(See [“Use of Proceeds”] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

[(ii)] Estimated net proceeds:

[]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii) Estimated total expenses:

[]

(If the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

5. **[Fixed Rate Instruments only – YIELD**
 Indication of yield:
 The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
6. **[Index-linked or other variable-linked Instruments only – PERFORMANCE OF INDEX/ FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**
Need to include details of where past and future performance and volatility of the index/ formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]
[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]
 The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].
7. **[Dual Currency Instruments only – PERFORMANCE OF RATE[S] OF EXCHANGE**
Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.
[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]
8. **OPERATIONAL INFORMATION**
 ISIN Code:
 Common Code:
 Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
 Delivery: Delivery [against/free of] payment
 Names and addresses of initial Paying Agent(s):
 Names and addresses of additional Paying Agent(s) (if any):
 Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No][Not Applicable]
 [Instrument that the designation “yes” simply means that the Instruments are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Instruments will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][include this text if “yes” selected in which case the Instruments must be issued in NGN form]

Use of Proceeds

The net proceeds of the issue of each Tranche of Instruments will be applied by the Issuer to meet part of its general financing requirements.

Telefónica Emisiones, S.A.U.

Introduction

Telefónica Emisiones, S.A.U. was incorporated for an indefinite period under the *Ley de Sociedades Anónimas* (Spanish Companies law) on 29 November, 2004 as a *Sociedad Anónima Unipersonal* (limited liability company with a sole shareholder) registered in the Commercial Registry of Madrid at Tome 20,733, Book 0, Sheet 77, Section 8, Page M-367261, Registration 1. The registered office of the Issuer is at Gran Vía 28, 28013 Madrid, Spain, the Shareholder's office free telephone helpline number (Spain) is +34 900 111 004 and the Investor Relations telephone number is +34 91 482 87 00. The authorised share capital of the Issuer is €62,000 represented by 62,000 registered shares having a nominal value of €1 each, numbered 1 to 62,000. The share capital of the Issuer is fully subscribed and paid up by Telefónica, S.A. as the sole shareholder.

Business

The objects of the Issuer are the issue of *participaciones preferentes* (preferred securities) and/or other financial instruments.

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the establishment and listing of the Programme and matters referred to as contemplated in this Base Prospectus and the authorisation, execution, delivery and performance of the other documents to which it is or will be a party and matters which are incidental or ancillary to the foregoing.

On 12 June 2008, Telefónica Emisiones, S.A.U. completed an issuance amounting to €1,250 million fixed rate notes due in 2013 under the €25,000,000,000 Programme for the Issuance of Wholesale Debt Instruments guaranteed by Telefónica, S.A.

The Issuer has used the proceeds of these issuances to provide loans to Telefónica, S.A.

Directors

The Directors of the Issuer are as follows:

<i>Name</i>	<i>Principal occupation</i>	<i>Principal External Activities</i>
Miguel Escrig Meliá	Director	Director of Telefónica, S.A. Managing Director of Telefónica Europe B.V. Proprietary Director of Fonditel Pensiones Proprietary Director of Telco S.p.A.
Juan José Gómez Migueláñez	Director	Director of Telefónica, S.A. Executive Vice-President of Telefónica Finanzas, S.A. Director of Fonditel Inversiones y Pensiones President of Altair President of Casiopea Director of Antares

The business address of each of the directors of the Issuer is Distrito C, Edificio Central, c/Ronda de la Comunicación, s/n, 28050 Madrid.

There are no potential conflicts of interest between any duties owed by the directors of the Issuer to the Issuer and their respective private interests and/or other duties.

Auditors

The auditors of the Issuer, Ernst & Young, S.L. are registered auditors in Spain in the *Registro Oficial de Auditores de Cuentas*, with registration number S0530.

TELEFÓNICA, S.A.

Introduction

Telefónica, S.A. was incorporated in Spain on 19 April 1924 as a company with limited liability (*sociedad anónima*) under the *Ley de Sociedades Anónimas* (Spanish Companies law) existing under the laws of the Kingdom of Spain and is registered with the Commercial Registry in Madrid under registration 1(a) on page 5,083, folio 122 of the Register of Companies, Volume 152. Telefónica's registered office and head office is located at Gran Vía, 28, 18013 Madrid, Spain.

Telefónica, S.A. is:

- a diversified telecommunication group which provides a comprehensive range of services through one of the world's largest and most modern telecommunications networks;
- mainly focused on providing fixed and mobile telephony services; and
- present principally in Spain, Europe and Latin America.

Significant events in 2007

The following significant events occurred in 2007:

- In April 2007, Telefónica O2 Europe, Plc, our wholly owned subsidiary, sold 100% of the share capital of the U.K. company, Airwave O2, Ltd. ("Airwave"), for £1,932 million (equivalent to €2,841 million at the transaction date).
- On 28 April 2007, we, together with our partners Assicurazioni Generali, S.p.A., Intesa Sanpaolo, S.p.A., Mediobanca, S.p.A. and Sintonía, S.A., entered into a co-investment agreement and shareholders' agreement which established the terms and conditions of our acquisition of an indirect shareholding in Telecom Italia, S.p.A. ("Telecom Italia"), through an Italian company, Telco, S.p.A. ("Telco") in which we have a 42.3% interest. Both agreements were modified on 25 October 2007 to include Assicurazioni Generali group companies, and the shareholders' agreement was further amended on 19 November 2007.
- Through a series of transactions throughout 2007, Telco increased its holdings in Telecom Italia to 23.6%, giving us an indirect holding of 9.98% in the voting shares of Telecom Italia (6.88% of the dividend rights) for €2,314 million.
- In May 2007, we signed an agreement to sell our 99.7% stake in Dutch company Endemol Investment Holding, B.V. to a consortium owned by Mediacinco Cartera, S.L., Cyrte Fond II, B.V. and G.S. Capital Partners VI Fund, L.P. for €2,629 million.
- In October 2007, our Brazilian subsidiary Telecomunicações de São Paulo, S.A. ("Telesp") completed the acquisition of 100% of the Brazilian company NavyTree Participações, S.A. for €361 million.

Business areas

We have implemented a regional, integrated management model based on three business areas, with each area in charge of the fixed and mobile telephone business within its borders:

- Telefónica Spain: oversees the fixed and mobile telephone, broadband, Internet, data, broadband TV, value added services activities and their development in Spain and mobile telephone services in Morocco.
- Telefónica Europe: oversees the fixed and mobile telephone, broadband, Internet, broadband TV, value added services and data businesses in the United Kingdom, Germany, the Isle of Man, Ireland, the Czech Republic and Slovakia.
- Telefónica Latin America: oversees the fixed and mobile telephone, broadband, Internet, broadband TV, data and value added services businesses in Latin America.

In 2007 we also had certain other businesses, some of which involved media and call center activities:

- Telefónica Contenidos: audio-visual media and content in Europe, Latin America and the United States.
- Atento: call centers in Europe, Latin America and North Africa.

Business Overview

Our total accesses increased by 12.5% to 228.5 million accesses at 31 December 2007 from 203.2 million accesses at 31 December 2006. Total accesses at 31 December 2007 includes 169.2 million mobile accesses, 42.0 million fixed telephony accesses, 13.0 million Internet and data accesses and 1.7 million pay TV accesses. Additionally, it includes almost 1.4 million unbundled local loop and 0.6 million wholesale ADSL accesses.

The following table shows our total accesses at the dates indicated:

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in thousands)		
Fixed telephony accesses ⁽¹⁾	40,859.0	42,340.7	41,974.2
Internet and data accesses	11,002.6	12,170.9	12,968.4
Narrowband accesses	5,166.9	3,997.7	2,532.9
Broadband accesses ⁽²⁾	5,653.0	7,974.8	10,277.8
Other accesses ⁽³⁾	182.7	198.4	157.7
Mobile accesses.....	99,124.0	145,125.1	169,219.7
Pay TV.....	683.2	1,064.0	1,748.1
Final clients accesses	<u>151,668.8</u>	<u>200,700.7</u>	<u>225,910.3</u>
Unbundled local loop	441.7	962.2	1,396.5
Shared UL	279.0	527.7	776.4
Full UL.....	162.7	434.5	620.1
Wholesale ADSL ⁽⁴⁾	1,330.1	1,288.6	575.5
Other ⁽⁵⁾	55.6	228.6	656.0
Wholesale accesses.....	<u>1,827.4</u>	<u>2,479.4</u>	<u>2,628.0</u>
Total accesses	<u><u>153,496.2</u></u>	<u><u>203,180.2</u></u>	<u><u>228,538.3</u></u>

(1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 access x30. Telefónica Group's accesses for internal use.

(2) ADSL, satellite, fiber optic, cable modem and broadband circuits.

(3) Remaining non-broadband final client circuits.

(4) Includes unbundled lines by Telefónica Deutschland GmbH, our first company in Germany, which we now include under Telefónica O2 Germany.

(5) Circuits for other operators.

Services and products

Fixed business

The principal services we offer in our fixed businesses in Spain, Europe and Latin America are:

- *Traditional fixed telecommunication services* – Our principal traditional fixed telecommunication services include: PSTN lines; ISDN accesses; public telephone services; local, domestic and international long distance and fixed-to-mobile communications services; corporate communications services; supplementary value-added services (including call waiting, call forwarding, voice and text messaging, advanced voicemail services and conference-call facilities); video telephony; business-oriented value-added service; intelligent network services; leasing and sale of terminal equipment; and telephony information service.
- *Internet and broadband multimedia services* – Our principal Internet and broadband multimedia services include: narrowband switched access to Internet; Internet service provider service; portal and network services; retail and wholesale broadband access through ADSL, LMDS and satellite technologies; residential-oriented value-added services (including instant messaging, concerts and video clips by streaming, e-learning, parental control, firewall, anti-virus, content delivery, personal computer sales); television services such as Imagenio, our

IPTV business, cable television and satellite television; companies-oriented value-added services, like *puesto integral o puesto informático*, which includes ADSL, computer and maintenance for a fixed price, and VoIP services.

- *Data and business-solutions services* – Our data and business-solutions services principally include: leased lines; virtual private network services; fiber optics services; the provision of hosting and application service, including web hosting, managed hosting, content delivery and application, and security services; outsourcing and consultancy services, including network management and desktop services and system integration and professional services.
- *Wholesale services for telecommunication operators* – Our wholesale services for telecommunication operators principally include: domestic interconnection services; international wholesale services; leased lines for other operators' network deployment; and local loop leasing under the unbundled local loop regulation framework.

Mobile business

We offer a wide variety of mobile and related services and products to consumer and business customers. Although the services and products available vary from country to country, our principal services and products are as follows:

- *Mobile voice services* – our principal service in all of our markets is mobile voice telephony which has gained increased usage as a result of our increased customer base and increased market penetration rates.
- *Value added services* – customers in most of our markets have access to a range of enhanced calling features including voice mail, call hold, call waiting, call forwarding and three-way calling.
- *Mobile data and Internet services* – current data services offered include short messaging services (“SMS”) and multimedia messaging services (“MMS”) which allow customers to send messages with images, photographs and sounds. Customers may also receive selected information, such as news, sports scores and stock quotes. We also provides mobile broadband connectivity and Internet access. Through mobile Internet access, our customers are able to send and receive e-mail, browse web pages, download games, purchase goods and services in m-commerce transactions and use our other data services.
- *Wholesale services* – we have signed network usage agreements with three MVNOs (Grupo Corporativo ONO (“ONO”), Fon You Telecom S.L and El Corte Inglés S.A.). As of 31 December 2007, only ONO was operating.
- *Corporate services* – we provide business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing. Telefónica Móviles España, S.A.U. (“Telefónica Móviles España”) offers corporate services through Movistar Corporativo and other advanced solutions for data, developed for specific sectors.
- *Roaming* – we have roaming agreements that allow our customers to use their handsets when they are outside of our service territories, including on an international basis.
- *Fixed wireless* – we provide fixed voice telephony services through mobile networks in (by number of accesses at 31 December 2007) Venezuela, Argentina, Peru, Morocco, Mexico, Ecuador, El Salvador, Guatemala and Nicaragua.
- *Trunking and paging* – in Spain and Guatemala, we provide digital mobile services for closed user groups of clients and paging services.
- *M-payment* – through our subsidiary Telefónica Móviles España, and together with Vodafone España S.A., France Telecom España, S.A. and financial institutions and payment processing companies, we have a 13.36% interest in Mobipay España S.A., a company incorporated to develop micro-payments. We also have a 50% interest in Mobipay International S.A., a company incorporated to expedite payments through mobile phones in an international setting. Banco Bilbao Vizcaya Argentaria, S.A. is the other 50% shareholder in Mobipay International S.A.

Telefónica Spain's Operations

Telefónica Spain's total accesses increased 5.0% to 46 million accesses at 31 December 2007 from 44 million accesses at 31 December 2006. Total accesses at 31 December 2007 includes 23 million mobile accesses, 15.9 million fixed telephony accesses, 5.3 million Internet and data accesses and 0.5 million pay TV accesses. Additionally, it includes 1.4 million unbundled local loop and 0.5 million of wholesale ADSL accesses.

Telefónica Spain provides fixed and mobile telephony services in Spain and mobile telephony services in Morocco.

Telefónica Spain – Fixed business

Telefónica Spain provides fixed telephony services in Spain through the operator Telefónica de España, S.A.U. ("Telefónica de España").

The following table shows the development of Telefónica de España's Spanish telecommunications network since 2005:

	<i>At 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	(in thousands)		
Fixed telephony accesses	16,135.6	15,949.9	15,898.0
Internet and data accesses	4,400.5	4,842.0	5,279.3
Narrowband accesses	1,614.9	1,040.5	660.8
Broadband accesses	2,720.7	3,742.7	4,571.6
Other accesses	64.9	58.8	47.0
Pay TV accesses	206.6	383.0	511.1
Final clients accesses	20,742.6	21,174.9	21,688.4
Unbundled local loop	434.8	939.0	1,353.9
Shared UL	279.0	527.7	776.4
Full UL	155.7	411.3	577.6
Wholesale ADSL	721.9	586.4	499.3
Other	7.4	6.4	6.0
Wholesale accesses	1,164.1	1,531.8	1,859.2
Total accesses	21,906.7	22,706.7	23,547.6

The total Spanish fixed telephony market grew by an estimated 1.9% in 2007 in terms of number of accesses. Telefónica Spain's fixed telephony accesses decreased by 0.3% to 15.9 million accesses at 31 December 2007 from 31 December 2006. Net fixed telephony accesses losses in 2007 were 51,901, down substantially from 185,696 recorded in 2006.

Estimated net adds in the total Spanish broadband market decreased by 18.9% to 1.4 million net adds in 2007 from 1.7 million net adds in 2006. The total Spanish fixed broadband Internet access market stood at an estimated 8.1 million accesses as of 31 December 2007. Telefónica Spain's Internet broadband accesses increased by 22.1% to 4.6 million accesses at 31 December 2007 from 3.7 million accesses at 31 December 2006.

The estimated market share of unbundled local loops in the total Spanish broadband Internet access market increased to almost 17% (14% in 2006). Unbundled local loops at 31 December 2007 amounted to 1,353.9 million accesses of which 57.3% were shared access loops.

Telefónica Spain's total wholesale ADSL accesses decreased by 14.9% to 0.5 million accesses at 31 December 2007 from 0.6 million accesses at 31 December 2006, mainly because of the migration to unbundled local loop.

In 2007, Telefónica Spain continued to increase its presence in the pay TV market with a growth in its customer base to 0.5 million accesses at 31 December 2007. As a result of the growth in its customer base, Telefónica Spain increased its estimated market share to approximately 13% at 31 December 2007, compared to 10% at 31 December 2006.

Since 2005, Telefónica Spain has bundled ADSL products with other products in Duo bundles, which include voice services, and Trio bundles, which include voice and IPTV services. The total number of Duo bundles and Trio bundles increased by 38% to 3.8 million units at 31 December 2007 from 2.7 million units at 31 December 2006. At 31 December 2007, over 80% of Telefónica Spain's broadband accesses are included as part of a Duo or Trio bundle compared to 70% at 31 December 2006.

Telefónica Spain – Mobile business (Spain)

Telefónica Spain provides mobile services in Spain through the operator Telefónica Móviles España.

The Spanish mobile market exceeded 50.7 million accesses at 31 December 2007, which represented a penetration rate of 111%, an increase of more than six percentage points from 31 December 2006. The Spanish mobile market has shown growth as a result of a decline of mobile handset prices and per minute call rates, and the success of pre-pay calling plans, with strong competition in number portability and pressure on pricing, including termination rate reductions, along with the entry of new competitors such as MVNOs.

The following table presents selected statistical data relating to the operations of Telefónica Spain's mobile business:

	<i>At or for the year ended 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
Total mobile accesses (in millions)	19.9	21.5	22.8
Pre-pay accesses (in millions)	9.2	9.3	9.2
MOU (minutes).....	150	156	161
ARPU (in euros)	33.1	32.9	32.3

Our mobile customer base in Spain, measured in terms of accesses, increased by 6.4% to 22.8 million accesses at 31 December 2007 compared to 21.5 million accesses at 31 December 2006. This growth was primarily driven by a 12.4% increase in accesses in the contract segment. At 31 December 2007, approximately 60% of our mobile accesses in Spain were through a contract, which represents an increase of 3 percentage points from 31 December 2006.

In the context of an increasingly competitive market, with strong competition in number portability and pressure on pricing, along with the entry of new competitors, Telefónica Móviles España had the highest share of net adds in the Spanish mobile market in 2007 (38.8%) thanks to our competitive tariffs scheme, strong focus on high value customers and effective marketing and advertisement strategies. Telefónica Spain's mobile business achieved net adds of 1.4 million accesses in 2007 compared to net adds of 1.6 million accesses in 2006, with a noteworthy number of net accesses gains in the contract segment in 2007 (1.5 million accesses, which represents and increase of 4.3% on 2006).

Commercial activity grew by 2.9% to 11.9 million accesses commercial actions in 2007.

In 2007, Telefónica Móviles España had net adds in portability (which signify customers transferring their number to Telefónica Móviles España from a competitor) of 494 lines, with net adds in the contract segment of 0.2 million lines.

In terms of usage, the volume of traffic carried increased by 11.5% to more than 63,300 million minutes in 2007 from over 56,800 million minutes in 2006. On net traffic, which constitutes traffic originated and terminated on our network, rose 14.0% in 2007 compared to 2006. MOU also increased 3.0% to 161 minutes in 2007 from 156 minutes in 2006.

ARPU for Telefónica Spain's mobile business decreased by 1.8% to €32.3 in 2007 from €32.9 in 2006. The decrease was partially driven by a decrease in voice ARPU of 2.8% to €27.6 in 2007 from €28.4 in 2006 as a result of increased competition, interconnection price cuts and roaming-out regulation. Outgoing voice ARPU also decreased 1.0% to €22.9 in 2007 from €23.1 in 2006. These decreases were partially offset by an increase in data ARPU of 4.8% to €4.8 in 2007 from €4.6 in 2006, with outgoing data ARPU growing 5.2% to €4.2 in 2007 from €4.0 in 2006.

At 31 December 2007, Telefónica Spain's customers held more than 3.5 million universal mobile telecommunications system/high speed downlink packet accesses handsets, representing a penetration of 16% of our accesses base, excluding machine to machine, an increase of 10 percentage points from 31 December 2006.

Telefónica Spain – Mobile business (Morocco)

Telefónica Spain provides mobile services in Morocco through Medi Telecom, S.A. (“**Medi Telecom**”) in which it holds a 32.18% interest and shares management responsibilities with Portugal Telecom, SGPS, S.A. (“**Portugal Telecom**”), which also holds a 32.18% interest. Medi Telecom is also owned by local minority shareholders. Medi Telecom is one of three mobile operators in Morocco, with over 6.5 million accesses at 31 December 2007. Medi Telecom commenced offering mobile services in Morocco in March 2000, eight months after it was awarded a Global System for Mobile (“**GSM**”) licence covering the Moroccan national territory. In 2005, Medi Telecom obtained a fixed telephony licence and the company is currently constructing a fixed network using WiMax technology.

Telefónica Móviles España has entered into a shareholders’ agreement with other shareholders of Medi Telecom under which it has the right to appoint the chief executive officer of Medi Telecom. In addition, as of April 2003, the sale or transfer of shares in Medi Telecom triggers a right of first refusal to the other non-transferring shareholder in two steps: first to Telefónica Móviles España and Portugal Telecom and second to the remaining shareholders. In addition, a change of control in the direct or indirect shareholders of Medi Telecom (which specifically includes the acquisition of such interest by a competitor of Telefónica or Portugal Telecom) would entitle the non-affected shareholder to exercise a call option over Medi Telecom’s shares owned by the party undergoing such change of control. The shareholders’ agreement also requires a specified majority of votes to approve most corporate actions.

The following table presents selected statistical data relating to Medi Telecom:

	<i>At or for the year ended 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
Total mobile accesses (in millions)	4.0	5.2	6.5
Pre-pay accesses (in millions)	3.9	5.0	6.4
Fixed wireless accesses (in thousands)	—	1.7	3.9
MOU (minutes)	56.5	48.9	47.6
ARPU (in euros)	8.7	7.5	6.2

With a population of approximately 31 million people, Morocco had 20 million mobile accesses at 31 December 2007, representing a penetration rate of 66%.

Medi Telecom estimates that the Moroccan market grew 25% in 2007 compared to 2006 in terms of number of accesses, and 12% in terms of revenue, reaching approximately €2.8 billion for the year. In 2007, MOU continued to decline but Medi Telecom significantly reduced the decrease in MOU compared with the steep decline from 2005 to 2006 through sustained promotions. Such promotions increased retention among higher-value customers but also led to a 17% decrease in ARPU by attracting lower-spending customers.

Telefónica Europe

Telefónica Europe’s principal activities are the provision of mobile telecommunications services in the United Kingdom, Germany, Ireland and Slovakia, and fixed and mobile services, broadband and Internet in the United Kingdom, Germany, the Czech Republic and in the Isle of Man.

Following the strategic review announced in December 2006 of its Airwave business, which provided both voice and data communications for emergency services, Telefónica Europe sold this business for £1,932 million (equivalent to €2,841 million at the transaction date) on 20 April 2007 to Guardian Digital Communications Ltd, wholly owned by Macquarie Communications Infrastructure Group and Macquarie European Infrastructure Fund II. This sale generated a gain in 2007 of €1,296 million.

The following table presents statistical data relating to our operations in Europe:

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in thousands)		
Fixed telephony accesses.....	3,021.6	2,462.9	2,130.0
Internet and Data accesses.....	613.5	607.1	734.2
Narrowband accesses.....	366.9	143.7	56.6
Broadband accesses.....	233.7	451.9	670.3
Other accesses.....	12.8	11.6	7.3
Mobile accesses.....	32,095.0	35,225.2	38,263.8
Pay TV accesses.....	—	15.6	73.2
Final clients accesses.....	35,730.1	38,310.9	41,201.2
Wholesale accesses.....	597.3	243.8	706.2
Total accesses.....	36,327.4	38,554.7	41,907.3

Telefónica Europe's total accesses increased 8.7% to 41.9 million accesses at 31 December 2007 from 38.6 million accesses at 31 December 2006. Total accesses at 31 December 2007 included 38.3 million mobile accesses, 2.1 million fixed telephony accesses, 0.7 million Internet and data accesses and 0.1 million pay TV accesses. Additionally, it included 0.7 million wholesale ADSL accesses.

United Kingdom – O2 (UK) Ltd (“O2 UK”)

The following table presents statistical data relating to our operations in the United Kingdom:

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in thousands)		
Internet and data accesses.....	—	16.8	70.7
Broadband accesses.....	—	16.8	70.7
Mobile accesses.....	15,980.9	17,633.2	18,382.1
Pre-pay accesses.....	10,479.2	11,415.1	11,573.4
Final clients accesses.....	15,980.9	17,650.0	18,452.8
Total accesses.....	15,980.9	17,650.0	18,452.8

The mobile penetration rate in the United Kingdom increased 5 percentage points from 31 December 2006 to 119% at 31 December 2007.

O2 UK, Telefónica Europe's operating company in the United Kingdom, had net adds of 0.7 million accesses in 2007, 54.7% less than its net adds in 2006. This slowdown in growth is a result of strong competition and due to the fact that the U.K. market is highly penetrated. Total accesses increased by 4.2% to 18.5 million accesses at 31 December 2007 compared to 17.7 million accesses at 31 December 2006 (excluding the mobile customer base resulting from a joint venture with Tesco Mobile Ltd. in which O2 UK holds a 50% stake and whose customers use the O2 UK network).

O2 UK added 0.6 million contract accesses in 2007, bringing the total at 31 December 2007 to 6.8 million contract accesses, an increase of 9.5% from 31 December 2006. Pre-pay accesses increased by 0.2 million accesses from 31 December 2006 to 11.6 million accesses at 31 December 2007. At 31 December 2007 contract accesses made up 37.0% of O2 UK's mobile customer base, compared to 35.3% at 31 December 2006.

Contract ARPU increased to €63.2 in 2007 from €62.9 in 2006 (an increase of 1.1% in local currency). Pre-pay ARPU increased to €18.2 in 2007 from €17.5 in 2006 (an increase of 4.0% in local currency). ARPU for the year was €34.4 in 2007 from €33.4 in 2006 (an increase of 3.6% in

local currency), reflecting the increased proportion of contract accesses in the customer base, customer adoption of new products and services and the continued growth in both data and voice ARPUs. MOU increase 10.6% to 190 minutes in 2007 from 2006.

Germany – O2 (Germany) GmbH & Co OHG (“O2 Germany”)

The following table presents statistical data relating to our operations in Germany:

	<i>At 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	(in thousands)		
Internet and data accesses	—	19.0	74.7
Broadband accesses.....	—	19.0	74.7
Mobile accesses.....	9,768.8	11,024.8	12,471.5
Pre-pay accesses.....	4,798.9	5,544.1	6,235.0
Final clients accesses	9,768.8	11,043.8	12,546.2
Wholesale accesses	—	149.3	596.0
Total accesses	9,768.8	11,193.1	13,142.3

The mobile penetration rate in Germany increased to 116% at 31 December 2007, an increase of 13 percentage points compared to the penetration rate at 31 December 2006.

O2 Germany's total customer base, in terms of accesses, increased by 1.4 million accesses from 31 December 2006 to 12.5 million accesses at 31 December 2007. O2 Germany's joint venture with Tchibo Mobilfunk GmbH & Co. KG was responsible for 0.4 million of this increase in accesses from 31 December 2006 to 1.2 million accesses at 31 December 2007, while O2 Germany's “Fonic” low-cost brand, added 0.1 accesses from 31 December 2006, giving it a customer base of 0.2 million accesses at 31 December 2007. In addition at 31 December 2007, 2.1 million of O2 Germany's accesses were on the “Genion S/M/L” tariff structure, which is a flat rate tariff for calls made within and outside of the “Homezone”.

O2 Germany had net adds of 0.8 million contract accesses and 0.7 million pre-pay accesses in 2007, bringing the pre-pay customer base at 31 December 2007 to 6.2 million accesses.

ARPU decreased 15.7% to €20.4 in 2007 from €24.2 in 2006. Contract ARPU decreased 13.7% to €34.1 in 2007 from €39.5 in 2006, primarily as a result of an approximately 10% cut in the interconnection rate in November 2007, the level of competition in the German market and the migration of O2 Germany's existing customer base to new customer offers. Pre-pay ARPU decreased 23.5% to €6.7 in 2007 from €8.7 in 2006. MOU in 2007 was 131 minutes, an increase of 3.0% compared to 2006.

At 31 December 2007 O2 Germany had a customer base of 0.1 million broadband accesses. O2 Germany reported an increase to 0.7 million ULL lines at 31 December 2007 from 0.2 million lines at 31 December 2006.

Czech Republic and Slovakia – Telefónica O2 Czech Republic, a.s. (“Telefónica O2 Czech Republic”) and Telefónica O2 Slovakia, s.r.o. (“Telefónica O2 Slovakia”)

Telefónica Europe provides fixed line and mobile services in Czech Republic and mobile services in Slovakia, where it launched operations during the first quarter of 2007.

The following table presents, at the dates indicated, selected statistical data relating to Czech Republic.

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in thousands)		
Fixed telephony accesses	3,021.6	2,402.5	2,069.2
Internet and Data accesses.....	605.4	560.3	573.3
Narrowband accesses.....	366.9	143.7	56.6
Broadband accesses.....	225.7	405.1	509
Other accesses.....	12.8	11.6	7.3
Mobile accesses.....	4,676.0	4,864.5	5,125.4
Pre-Pay accesses.....	3,130.4	2,989.7	2,881.5
Pay TV accesses.....	—	15.6	73.2
Final clients accesses	8,303.0	7,842.9	7,841.0
Wholesale accesses.....	62.3	94.5	110.2
Total accesses	8,365.3	7,937.4	7,951.2

The mobile penetration rate in Czech Republic increased to 126% at 31 December 2007, 5% higher than the penetration rate at 31 December 2006.

Telefónica O2 Czech Republic's fixed telephony accesses decreased by 13.9% to 2.1 million accesses at 31 December 2007 from 2.4 million accesses at 31 December 2006, mainly as the result of fixed-to-mobile substitution. The rate of decrease in fixed telephony accesses slowed in 2007 compared to 2006 as a result of an increased number of gross adds in 2007 and a lower number of disconnections.

Telefónica O2 Czech Republic's final client and wholesale ADSL accesses increased 21.3% compared to 31 December 2006 to 0.6 million accesses at 31 December 2007. In addition, the pay TV customer base increased to 0.1 million accesses at 31 December 2007. These increases are as a result of increased demand of the services in the Czech Republic.

Telefónica O2 Czech Republic's mobile accesses increased 5.4% to 5.1 million accesses at 31 December 2007 from 4.9 million accesses at 31 December 2006. Contract accesses accounted for 43.8% of these accesses at 31 December 2007, up from 38.5% at 31 December 2006. The number of pre-pay accesses decreased by 3.6% to 2.9 million accesses at 31 December 2007 from 3.0 million accesses at 31 December 2006.

ARPU increased to €19.9 in 2007 from €18.0 in 2006 (an increase of 2.5% in local currency). Pre-pay ARPU increased to €9.4 in 2007 from €8.4 in 2006 (an increase of 3.5% in local currency). Contract ARPU decreased by from €34.5 in 2007 to €32.9 in 2006 (a decrease of 8.3% in local currency).

MOU for 2007 stood at 117, 14.7% above the 2006 level.

During 2007, Telefónica O2 Slovakia successfully continued increasing its footprint in the Slovak market. By 31 December 2007, Telefónica O2 Slovakia's total number of mobile accesses in Slovakia amounted to 0.6 million accesses, of which the majority were pre-pay accesses.

Ireland – O2 Communications (Ireland) Ltd. ("O2 Ireland")

The following table presents, at the dates indicated, selected statistical data relating to Ireland:

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in thousands)		
Total mobile accesses.....	1,601.8	1,631.7	1,646.1
Pre-pay accesses.....	1,173.2	1,146.7	1,090.9

The mobile penetration rate in Ireland reached 116% at 31 December 2007, a 2 percentage point increase over the penetration rate at 31 December 2006.

O2 Ireland had net adds of 14,000 in 2007. O2 Ireland's customer base, in terms of accesses, increased 0.9% from 31 December 2006 to 1.6 million accesses at 31 December 2007. Of O2 Ireland's total customer base, there were 24,500 mobile broadband accesses at 31 December 2007, after a successful launch in July 2007.

O2 Ireland had net adds of 70,000 contract accesses in its mobile business in 2007, including the mobile broadband accesses mentioned above, an increase of 24.2% on 2006. Contract ARPU decreased 3.1% to €82.3 in 2007 from €85.1 in 2006 due to the introduction of new customer offers and promotions. ARPU increased by 1.6% in 2007 to €45.9 from €45.2 in 2006, mainly due to the higher proportion of contract accesses in O2 Ireland's customer base. MOU for the year was 248, with a year-on year growth of 4.9%.

Telefónica Latin America

Telefónica Latin America provides fixed line and mobile, satellite and cable TV services through the operators described in the following sections in the main Latin American markets. In addition, Telefónica Latin America's other members include: Telefónica Empresas, following its segregation and subsequent integration into the Telefónica Latin America's fixed line activities in Latin America during 2005; Telefónica International Wholesale Services, S.L. (ESPAÑA) the business unit responsible for other telecommunications operators and for managing the Group's international services and the network which supports these services; and Terra Networks Latin América, as a result of the merger of Terra Networks, S.A. (ESPAÑA) into Telefónica in July 2005.

The following table presents statistical data relating to our operations in Latin America:

	<i>At 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	(in thousands)		
Fixed telephony accesses	21,649.1	23,916.9	23,946.3
Internet and data accesses	5,975.4	6,723.7	6,954.8
Narrowband accesses	3,185.1	2,813.5	1,815.6
Broadband accesses	2,685.4	3,780.3	5,035.9
Other accesses.....	105.0	130.0	103.4
Mobile accesses.....	70,534.7	83,298.4	101,976.9
Pay TV.....	462.2	665.3	1,163.8
Final clients accesses	98,621.4	114,604.4	134,041.8
Wholesale accesses.....	66.0	65.9	62.6
Total accesses	98,687.4	114,670.3	134,104.4

Telefónica Latin America's total accesses increased 16.9% to 134.1 million accesses at 31 December 2007 from 114.7 million accesses at 31 December 2006. Total accesses at 31 December 2007 include 102.0 million mobile accesses, 23.9 million fixed telephony accesses, 7.0 million Internet and data accesses and 1.2 million pay TV accesses. Additionally, it includes 0.1 million of wholesale accesses.

The following table sets forth certain information as of 31 December 2007 regarding the principal Latin American operating companies of Telefónica Latin America.

<i>Country</i>	<i>Company</i>	<i>Population</i>	<i>Interest</i>
		(in millions)	(%)
Brazil.....	Telecomunicações de São Paulo, S.A.-Telesp	39.7 ^(*)	87.95
	Brasilcel, N.V. ⁽¹⁾	190.0	50.00
Mexico	Telefónica Móviles México, S.A. de C.V.	108.1	100.00
Panama.....	Telefónica Móviles Panamá, S.A.	3.4	100.00
Nicaragua.....	Telefónica Móviles Nicaragua, S.A.	5.3	100.00
Guatemala.....	Telefónica Móviles Guatemala, S.A.	13.4	100.00
El Salvador.....	Telefónica Móviles El Salvador, S.A. de C.V.	5.8	100.00
Venezuela.....	Telcel, S.A.	27.5	100.00
Colombia.....	Colombia Telecomunicaciones, S.A. ESP.	43.0	52.03
	Telefónica Móviles Colombia, S.A.		100.00
Peru	Telefónica del Perú, S.A.A.	27.7	98.18
	Telefónica Móviles Perú, S.A.C.		96.06
Ecuador	Otecel, S.A.	14.2	100.00
Argentina.....	Telefónica de Argentina, S.A.	39.4	98.04
	Telefónica Móviles Argentina S.A.		100.00
Chile.....	Telefónica Chile, S.A. ⁽²⁾	16.2	44.89
	Telefónica Móviles Chile, S.A.		100.00
Uruguay.....	Telefónica Móviles Uruguay, S.A.	3.3	100.00

(*) Concession area only.

(1) Jointly controlled and managed by Telefónica and Portugal Telecom. Brasilcel N.V. is the holding company which controls the mobile operating company Vivo, S.A.

(2) Telefónica Latin America appoints a majority of the members of the board of directors.

Brazil

The following table presents statistical data relating to our operations in Brazil:

	<i>At 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	(in thousands)		
Fixed telephony accesses	12,340.3	12,107.1	11,960.0
Internet and data accesses	3,266.5	3,556.8	3,288.6
Narrowband accesses	1,986.7	1,856.6	1,155.9
Broadband accesses	1,213.8	1,608.2	2,069.6
Other accesses.....	66.0	92.0	63.1
Mobile accesses.....	29,804.6	29,053.1	33,483.5
Pre-pay accesses.....	24,060.8	23,543.4	27,236.4
Pay TV.....	—	—	230.9
Final clients accesses	45,411.4	44,716.9	48,963.1
Wholesale accesses.....	32.6	38.4	37.4
Total accesses	45,444.0	44,755.3	49,000.5

Telefónica Latin America accesses in Brazil increased 9.5% to 49.0 million accesses at 31 December 2007 from 44.7 million accesses at 31 December 2006. This growth reflects a 15.2% year-on-year increase in Vivo's (defined below, Telefónica Latin America's Brazilian mobile business), customer base and, to a lesser extent, the expansion of Telesp's, (Telefónica Latin America's Brazilian fixed line business) broadband business and the incorporation of NavyTree do Brasil Ltda.'s ("Navy Tree") multichannel multipoint distribution service ("MMDS") pay TV customers. These increases were offset by a reduction in the number of fixed telephony accesses at Telesp and a decrease in narrowband Internet accesses primarily as a result of the implementation in the second quarter of

2007 of stricter internal accounting criteria (based on activities) for recording narrowband Internet accesses.

Brazil Fixed Business – Telesp

Telesp provides fixed line and other telecommunications services in the Brazilian state of São Paulo under concessions and licences from Brazil's federal government.

Telesp's fixed telephony, broadband and TV accesses decreased by 1.2% to 15.5 million accesses at 31 December 2007 from 15.7 million accesses at 31 December 2006, due to the reduction in the number of fixed telephony accesses, in the context of increased fixed-to-mobile substitution as a result of strong growth in Brazil's mobile sector and the implementation of more restrictive internal accounting criteria (based on activity) for narrowband Internet accesses. Telesp's fixed telephony accesses decreased by 1.2% to 12.0 million accesses at 31 December 2007 from 12.1 million accesses at 31 December 2006. Of these fixed telephony accesses, 22% were pre-pay accesses or accesses with consumption limits. With the acquisition of Navy Tree, Telesp added an additional 0.2 million accesses related to MMDS TV at 31 December 2007 to its DTH customer base of 34,600. DTH was launched in August 2007.

The Brazilian broadband market continued to grow strongly in 2007. Telesp increased its retail broadband customer base by 28.7% to 2.1 million accesses at 31 December 2007 from 1.6 million accesses at 31 December 2006. In 2007 Telesp launched the "Trio Telefónica" triple play bundle with different connection speed options and a range of TV content choices, included GloboSat Programadora LTDA content in its TV offer and in the fourth quarter completed the acquisition of Navy Tree's MMDS operations.

Telesp's traffic increased by 1.5% in 2007 (to 71,140 million minutes) compared to 2006, due mainly to growth in long distance traffic by personal mobile services accesses as a result of a joint marketing strategy rolled out with Vivo. Local traffic levels were similar to those recorded in 2006 despite the reduction in the number of fixed line accesses. Fixed-to-mobile traffic, measured in minutes, fell by 4.4% in 2007 compared to 2006 as a result of heavy migration to mobile networks.

On 29 October 2006, Telesp entered into an agreement with Abril Comunicações S.A., TVA Sistema de Televisão S.A., Comercial Cabo TV São Paulo Ltda., TVA Sul Paraná Ltda., and TVA Radioenlaces Ltda. (the "**Abril Group**"), whereby Telesp agreed to combine its telecommunications and broadband services with the broadband and cable services of Tevecap S.A., the second largest Brazilian pay TV provider with operations in the Brazilian states of Parana, Rio Grande do Sul, São Paulo and Rio de Janeiro. Through this transaction, we broadened our services to meet our users' increasing demands, combining the Abril Group's expertise in content and media production and placement with our expertise in the telecommunications segment.

On 31 October 2007, the board of Agencia Nacional de Telecomunicações ("**ANATEL**") concluded its regulatory review of the association between the Abril Group and Telesp, approving the transaction, which involves (i) the acquisition by Telesp of all of the Abril Group's MMDS and broadband operations and (ii) the acquisition by Telesp of a significant stake, within the limits set forth in the applicable laws and regulations, in the Abril Group's cable television dealers, both within and outside of the State of São Paulo. This decision was published in the Official Gazette of the Federal Executive on 19 November 2007. The transaction continues to be analysed by ANATEL, solely with respect to antitrust matters, and requires final approval by *Conselho Administrativo de Defesa Econômica* ("**CADE**"), the Brazilian competition authority.

Brazil mobile business – Brasilcel N.V. ("Brasilcel" or "Vivo")

With 121.0 million mobile accesses, Brazil ranked first in Latin America in terms of number of mobile accesses at 31 December 2007. At 31 December 2007, Brazil had an estimated mobile market penetration rate of 63.5% nationwide and of 65.6% in the areas where Brasilcel, the joint venture through which Telefónica Latin America's conducts its Brazilian mobile operations, is licenced to do business.

Telefónica and Portugal Telecom are 50:50 shareholders in Brasilcel, a joint venture which combines Telefónica's and Portugal Telecom's mobile businesses in Brazil. This joint venture is the leading mobile operator in Brazil in terms number of mobile accesses at 31 December 2007. All of the operating companies participating in the joint venture have been operating under the brand name "Vivo" since April 2003. The licensed areas of Brasilcel include 20 states in Brazil with an aggregate population of approximately 138.9 million.

Vivo's customer base, in terms of number of accesses, increased 15.2% to 33.5 million accesses at 31 December 2007 from 29 million accesses at 31 December 2006. Of these, 6.2 million accesses were contract accesses. The primary factors contributing to this growth include the wider range of handsets available, Vivo's leadership in terms of brand and distribution chain, ongoing marketing campaigns for pre-pay traffic and an improved capacity to attract contract accesses with its "Vivo Escolha" plans. At 31 December 2007, 42% of contract accesses had subscribed to a Vivo Escolha plan, demonstrating the popularity of this offer. These plans also helped to increase customer loyalty, by encouraging increased minute consumption and reducing the perception in the market that Vivo is higher priced relative to its competitors. These plans are divided in different categories depending on the number of minutes included as well as additional upgrade features, such as extra SMS, extra minutes of long distance calls and extra MMS.

Mexico

Mexico mobile business – Telefónica Móviles México, S.A. de C.V. ("Telefónica Móviles México")

The following table presents selected statistical data related to our operations in Mexico:

	<i>At 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
Total mobile accesses (in millions)	6.4	8.6	12.5
Pre-pay accesses (in millions)	6.0	8.0	11.8
Fixed wireless accesses (in thousands).....	0.6	2.0	3.6

The mobile penetration rate in Mexico was approximately 64% at 31 December 2007 an increase of 11 percentage points from 31 December 2006.

During 2007, Telefónica Latin America, through Telefónica Móviles México once again focused on launching innovative products to maintain current customers and attract additional ones. In addition, Telefónica Móviles México has focused on the further development of its commercial network and ongoing improvements to the quality of its network, which has enabled the company to maintain robust growth.

Telefónica Móviles México's customer base increased 46.6% to 12.5 million mobile accesses at 31 December 2007 from 8.6 million accesses at 31 December 2006. Of these, 0.1 million were contract accesses. Net adds for 2007 totaled 4.0 million accesses, 1.8 times the figure recorded in 2006.

Venezuela

Venezuela mobile business – Telcel, S.A. ("Telcel")

The following table presents selected statistical data related to our operations in Venezuela.

	<i>At 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
Total mobile accesses (in millions)	6.2	8.8	10.4
Pre-pay accesses (in millions)	5.2	7.5	8.9
Fixed wireless accesses (in thousands).....	608.8	836.6	995.9

The mobile penetration rate in Venezuela stood at an estimated 87% at 31 December 2007, an increase of 17 percentage points from 31 December 2006.

Telefónica Latin America operates in Venezuela through Telcel whose accesses increased 18.2% to 10.4 million accesses at 31 December 2007 from 8.8 million accesses at 31 December 2006. This growth was the result of net adds of over 1.6 million accesses in 2007. Since the GSM network was launched at the beginning of 2007, 61% of the total gross adds were GSM and GSM accesses made up over 35% of the total mobile accesses at 31 December 2007.

Chile

The following table presents statistical data relating to our operations in Chile:

	<i>At 31 December</i>		
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	(in thousands)		
Fixed telephony accesses	2,429.1	2,206.2	2,172.4
Internet and data accesses	446.9	557.7	686.8
Narrowband accesses.....	130.5	53.3	31.8
Broadband accesses	302.0	494.5	646.0
Other accesses.....	14.5	10.0	8.9
Mobile accesses.....	5,275.8	5,680.2	6,282.7
Pre-pay accesses.....	4,384.1	4,507.6	4,742.2
Pay TV.....	—	94.2	219.9
Final clients accesses	8,151.8	8,538.4	9,361.7
Wholesale accesses.....	25.9	19.9	15.4
Total accesses	8,177.7	8,558.3	9,377.2

At 31 December 2007 Telefónica Latin America managed a total of 9.4 million accesses in Chile, 9.6% more than at 31 December 2006, underpinned by growth in mobile accesses, which increased by 10.6% to 6.3 million accesses at 31 December 2007 from 5.7 million accesses at 31 December 2006. Growth was also driven, to a lesser extent, by a 30.6% increase in final client broadband Internet accesses to 0.6 million accesses at 31 December 2007 and a 133.4% increase in pay TV accesses to 0.2 million accesses. This growth was offset in part by a 1.5% decrease in fixed telephony accesses to 2.2 million accesses at 31 December 2007.

Chilean fixed business – Telefónica Chile, S.A. (“Telefónica Chile”)

Telefónica Latin America conducts its Chilean fixed business through Telefónica Chile (formerly Compañía de Telecomunicaciones de Chile), the leading fixed line telecommunications operator in Chile based on number of accesses, according to information provided by its competitors and regulatory authorities.

Telefónica Chile’s accesses increased 7.5% to 3.1 million accesses at 31 December 2007 from 2.9 million accesses at 31 December 2006. Telefónica Chile’s fixed telephony accesses decreased by 1.5% from 31 December 2006 to 2.2 million accesses at 31 December 2007. Broadband and pay TV accesses continued to grow in 2007, and Telefónica Chile managed 0.6 million broadband accesses at 31 December 2007, maintaining its leadership of the Chilean broadband market.

Telefónica Chile’s pay TV business grew to 0.2 million accesses at 31 December 2007. After eighteen months of operations, Telefónica Chile has established itself as the second pay TV operator in Chile, by number of accesses. In June 2007, Telefónica Chile launched its IPTV service in certain areas of Santiago, becoming the first company to do so in Latin America. In addition, new services on the DTH platform, such as decoders equipped with personal video recorders, were launched in the final months of 2007.

Chilean mobile business – Telefónica Móviles Chile, S.A. (“Telefónica Móviles Chile”)

The Chilean market grew strongly again during 2007 with estimated penetration up eight percentage points from 2006 to 90%.

Telefónica Latin America conducts its Chilean mobile business through Telefónica Móviles Chile whose customer base increased 10.6% to 6.3 million accesses at 31 December 2007, making it the market leader in Chile in terms of mobile accesses. Growth in the customer base was driven by net adds to the GSM service, which accounted for 89% of the total customer base, 17 percentage points more than at 31 December 2006. The number of contract accesses rose by 31.4% to 1.5 million accesses at 31 December 2007 from 1.2 million accesses at 31 December 2007, accounting for more than 60% of net adds in 2007.

Argentina

The following table presents statistical data relating to our operations in Argentina:

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in thousands)		
Fixed telephony accesses	4,532.2	4,636.3	4,578.2
Internet and data accesses	885.1	973.7	1,149.9
Narrowband accesses	564.0	439.2	312.2
Broadband accesses	304.3	517.7	819.3
Other accesses	16.8	16.8	18.4
Mobile accesses	8,335.0	11,199.4	13,734.0
Pre-pay accesses	5,035.8	7,315.8	8,836.0
Fixed wireless	179.9	140.7	104.3
Final clients accesses	<u>13,752.3</u>	<u>16,809.4</u>	<u>19,462.1</u>
Wholesale accesses	<u>6.9</u>	<u>7.3</u>	<u>9.3</u>
Total accesses	<u><u>13,759.2</u></u>	<u><u>16,816.6</u></u>	<u><u>19,471.4</u></u>

Telefónica Latin America managed a total of 19.5 million accesses in Argentina at 31 December 2007, an increase of 15.8% from 31 December 2006. This increase was underpinned by the sharp growth in mobile accesses, which increased by 22.6% to 13.7 million accesses at 31 December 2007 from 11.2 million accesses at 31 December 2006, and by growth in the number of broadband accesses, which increased by 58.3% to 0.8 million accesses at 31 December 2007 from 0.5 million accesses at 31 December 2006.

Argentina fixed business – Telefónica de Argentina, S.A. (“Telefónica de Argentina”)

Telefónica Latin America conducts its Argentine fixed business through Telefónica de Argentina the leading provider of fixed line public telecommunications services and basic telephone services in Argentina in 2007 based on number of accesses, according to information provided by its competitors and regulatory authorities.

As of 31 December 2007, approximately 57% of Telefónica de Argentina’s lines in service were in the Greater Buenos Aires metropolitan area (including the 19% of Telefónica de Argentina’s lines in service that were located within the City of Buenos Aires). Approximately 86% of Telefónica de Argentina’s lines in service as of 31 December 2007 were residential, with the remainder being business and governmental customers.

Telefónica de Argentina’s accesses increased 2.1% to 5.7 million accesses at 31 December 2007 from 5.6 million accesses at 31 December 2006. This growth was primarily driven by a 58.3% increase in retail broadband accesses to 0.8 million accesses at 31 December 2007 from 0.5 million accesses at 31 December 2006. The growth in broadband accesses helped offset a decrease in fixed telephony accesses of 1.3% to 4.6 million accesses at 31 December 2007 from 4.6 million accesses at 31 December 2006.

Total voice traffic (measured in minutes) remained stable during 2007 as compared to 2006 despite the sharp growth of mobile to fixed traffic. Local and interconnection fixed-to-fixed traffic (measured in minutes) decreased by 5.6% and 4.8%, respectively, in the year ended 31 December 2007 compared to the year ended 31 December 2006. These decreases were offset by an increase in mobile-to-fixed interconnection traffic of 27.4% over the same period. Public use telephony traffic (measured in minutes) in 2007 fell by 20.8% compared to the year ended 31 December 2006.

Argentina mobile business – Telefónica Móviles Argentina, S.A. (“Telefónica Móviles Argentina”)

The Argentine mobile market continued to grow at a strong pace in 2007, with an increase in its penetration rate of 20 percentage points from 31 December 2006 to 97% at 31 December 2007, based on number of accesses.

Telefónica Latin America conducts its Argentine mobile business through Telefónica Móviles Argentina whose accesses increased 22.6% to 13.7 million accesses at 31 December 2007 from 11.2 million accesses at 31 December 2006. Telefónica Móviles Argentina also increased its number of contract accesses by 28.1% to 4.8 million accesses at 31 December 2007 from 3.7 million accesses at 31 December 2006. Of Telefónica Móviles Argentina's total customer base at 31 December 2007, 86.5% were on Telefónica Móviles Argentina's GSM network, which represents an increase of 13.3 percentage points from 31 December 2006.

Colombia

Colombian fixed business – Colombia Telecomunicaciones, S.A. ESP (“Colombia Telecom”)

Telefónica Latin America conducts its Colombian fixed telephony business through Colombia Telecom which is present in approximately 1,000 municipalities in Colombia. In April 2006, Telefónica Internacional, S.A. (“Telefónica Internacional”), acquired 50% plus one share of Colombia Telecom for approximately €289 million pursuant to an auction process. In December, this company merged with Telefónica Data Colombia, S.A. As a result of the merger, Telefónica Internacional, S.A.'s stake increased to 52.03%.

The following table presents selected statistical data related to our fixed line operations in Colombia.

	<i>At 31 December</i>	
	<u>2006</u>	<u>2007</u>
Fixed telephony accesses (in millions).....	2.4	2.3
Broadband accesses (in thousands)	68.0	200.3
Pay TV(in thousands).....	—	72.9
Total accesses (in millions).....	<u>2.4</u>	<u>2.6</u>

Colombia Telecom reached 2.6 million accesses at 31 December 2007, which represents an increase of 7.1% from 2.4 million accesses at 31 December 2006. Of these accesses, 0.2 million accesses were broadband accesses, which represents an almost three-fold increase compared to 31 December 2006. This increase in broadband accesses also helped offset the decrease of 1.3% in fixed telephony accesses from 2.4 million accesses at 31 December 2006 to 2.3 million accesses at 31 December 2007.

Colombia Telecom also launched a satellite TV product at the beginning of 2007, allowing it to begin offering Trio triple play bundles (voice, broadband and TV). As of 31 December 2007, Colombia Telecom had 0.1 million satellite TV accesses.

Colombia Telecom has a finance lease agreement with PARAPAT, a consortium which owns the telecommunications assets and manages the pension funds for the entities which were predecessors to Colombia Telecom and which regulates the operation of assets, goods and rights relating to the provision of telecommunications services by the company. This agreement includes the finance lease of the telecom assets and the transfer of these assets to Colombia Telecom once the last installment of the lease has been paid which, in accordance with the payment schedule, is expected to be in 2022.

Colombian mobile business – Telefónica Móviles Colombia, S.A. (“Telefónica Móviles Colombia”)

The following table presents selected statistical data related to our mobile operations in Colombia:

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in millions)		
Total mobile accesses.....	6.0	7.8	8.4
Pre-pay accesses.....	4.7	6.0	6.6

At 31 December 2007 the Colombian mobile market had 32.3 million accesses, representing an estimated mobile penetration rate of 75%. This 75% penetration rate represents an increase of 8 percentage points from 31 December 2006.

Telefónica Latin America conducts its Colombian mobile business through Telefónica Móviles Colombia whose customer base increased by 7.9% from 31 December 2006 to 8.4 million accesses at 31 December 2007, 81.4% of which were GSM accesses. The number of GSM accesses at 31 December 2007 represents a 21.8 percentage point increase from 31 December 2006.

In 2007 Telefónica Móviles Colombia focused on its commercial restructuring, and increased the breadth and depth of its distribution capabilities. Telefónica Móviles Colombia also demonstrated higher productivity in 2007 through screening and reactivating customers and expanding its GSM coverage. Also, Telefónica Móviles Colombia continued to work on a commercial offering with similar price schemes regardless of call destination.

Peru

The following table presents statistical data relating to our operations in Peru:

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in thousands)		
Fixed telephony accesses	2,347.6	2,498.5	2,781.9
Internet and data accesses	401.2	525.5	623.1
Narrowband accesses	52.5	47.8	40.3
Broadband accesses	341.1	468.5	572.1
Other accesses	7.6	9.2	10.7
Mobile accesses	3,455.0	5,129.8	8,128.7
Pre-pay accesses	2,804.3	4,353.3	7,238.1
Fixed wireless accesses	71.1	71.3	61.5
Pay TV accesses	462.2	557.2	640.0
Final clients accesses	<u>6,666.0</u>	<u>8,710.9</u>	<u>12,173.8</u>
Wholesale accesses	<u>0.5</u>	<u>0.4</u>	<u>0.5</u>
Total accesses	<u><u>6,666.5</u></u>	<u><u>8,711.4</u></u>	<u><u>12,174.3</u></u>

At 31 December 2007, Telefónica Latin America in Peru had 12.2 million accesses, which represents an increase of 39.8% from 31 December 2006. This growth in accesses was primarily driven by a 58.5% increase in mobile accesses from 31 December 2006 to 8.1 million mobile accesses at 31 December 2007, mostly in the pre-pay segment. The “IRIS project”, a collaboration between fixed line telephony and mobile operators in Peru, which was launched in March 2007 with the aim of increasing fixed line telephony penetration, as well as continued growth in broadband and TV accesses, also contributed to the overall growth in accesses.

Peruvian fixed business – Telefónica del Perú, S.A.A. (“Telefónica del Perú”)

Telefónica Latin America conducts its Peruvian fixed business through Telefónica del Perú which at 31 December 2007 was the leading fixed line telecommunications operator in Peru based on number of fixed telephony accesses.

Telefónica del Perú had total accesses of 4.0 million at 31 December 2007, an increase of 13.0% from 31 December 2006, due primarily to increases in fixed wireless telephony, broadband and TV accesses. Fixed telephony accesses, increased by 11.3% from 31 December 2006 to 2.8 million accesses at 31 December 2007, primarily as a result of growth in fixed wireless telephony accesses, which totaled 0.2 million accesses at 31 December 2007. Broadband accesses grew by 22.1% from 31 December 2006 to 0.6 million at 31 December 2007. In addition, pay TV accesses totaled 0.6 million accesses at 31 December 2007 recording a growth of 14.9% from 31 December 2006 primarily due to satellite clients.

Peruvian mobile business – Telefónica Móviles Perú, S.A.C. (“Telefónica Móviles Perú”)

The pace of growth of the Peruvian mobile market accelerated in 2007, with an estimated mobile penetration rate of 48% at 31 December 2007, which represents an increase of 16 percentage points compared to 31 December 2006.

Telefónica Latin America conducts its Peruvian mobile business through Telefónica Móviles Perú whose customer base increased by 58.5% from 31 December 2006 to 8.1 million accesses at 31 December 2007. This increase was primarily driven by a 66% increase in the number of pre-pay accesses from 31 December 2006 to 31 December 2007. In 2007, Telefónica Móviles Perú continued the migration to GSM technology, and at 31 December 2007, GSM accesses accounted for 77% of its total customer base, which represents an increase of 43% from 31 December 2006.

Ecuador

Ecuador mobile business – Otecel, S.A. (“Otecel”)

The Ecuadorian mobile market experienced strong growth in 2007, with an estimated mobile penetration rate of 70% by the end of the year, which represents an increase of 7 percentage points from 31 December 2006.

The following table presents selected statistical data related to our operations in Ecuador.

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total mobile accesses (in millions)	1.9	2.5	2.6
Pre-pay accesses (in millions).....	1.5	2.1	2.2
Fixed wireless accesses (in thousands).....	2.4	1.7	1.3

Telefónica Latin America conducts its Ecuadorian mobile business through Otecel which had a customer base of 2.6 million accesses at 31 December 2007. Of these, 70.3% were GSM accesses, which represents an increase of 18.8 percentage points from 31 December 2006. Growth in the number of accesses on the “movistar” and “multicolour” tariffs, which are preferential tariff plans for on-net and off-net calls, respectively, has been particularly strong, with an approximate ten-fold aggregate increase to 1.0 million accesses at 31 December 2007.

Telefónica Central America

Telefónica Central América (which includes Panama, Guatemala, El Salvador and Nicaragua) substantially stepped up its commercial activity in 2007 compared to 2006, especially in Guatemala.

At the end of 2007, the mobile penetration rate of the Central American market, where Telefónica operates, was 69% which represents an increase of 23 percentage points from 31 December 2006. Telefónica Central América’s customer base increased by 36.4% from 31 December 2006 to 5.4 million accesses at 31 December 2007 of this, Telefónica Central América had 268,186 fixed wireless and 381,230 contract accesses. Growth was fuelled by the effectiveness of commercial campaigns carried out throughout 2007, which focused on traffic promotions and flat tariff plans (with a very competitive average charge per minute) to increase usage. Net adds during the year ended 31 December 2007 were 1.4 millions accesses.

	<i>At 31 December</i>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in thousands)		
Fixed telephony accesses	109.4	109.4	125.3
Internet data and accesses	24.2	26.0	22.0
Broadband accesses	22.3	24.1	19.8
Pay TV accesses	14.4	14.0	—
Mobile accesses.....	2,799.4	3,829.5	5,278.1
Total accesses	<u>2,947.4</u>	<u>3,978.9</u>	<u>5,425.3</u>

Atento – Call center business

Atento offers integrated telephone assistance services as well as sophisticated customer relationship management services, such as the development and implementation of customer loyalty programs, telemarketing services and market research. In addition, Atento rents call centers and provides staff for such centers to third parties. Atento has sought to diversify its client base and serves

companies in the financial, consumer and energy sectors, as well as public institutions. At 31 December 2007, Atento operated more than 80 call centers and had 114,892 call center personnel in 13 countries on three continents, including Europe (Spain), Latin America and Northern Africa (Morocco).

Strategic Partnerships

China Netcom Group Corporation (Hong Kong) Limited (“CNC”)

In June 2005, Telefónica Internacional acquired through open market purchases 2.99% of the outstanding shares of CNC a Chinese telecommunications company, for an equivalent of approximately €240 million. In September 2005, Telefónica Internacional increased its stake in CNC to 5.0% of its outstanding shares through open market purchases for a total equivalent of approximately €424 million.

Subsequently, both companies entered into a strategic alliance agreement (on 14 November 2005) and a supplemental agreement (on 12 November 2006) which provide Telefónica the right to appoint two members of the board of directors of CNC.

Portugal Telecom

At 31 December 2007, we held an 8.32% effective interest in Portugal Telecom, (or 9.16% if shares held by Portugal Telecom in treasury are not counted as outstanding) our joint venture partner in Brazil. See “Telefónica Latin America – Brazil mobile business”.

Telecom Italia

Through a series of transactions throughout 2007, we acquired an indirect holding of 9.98% in the voting shares of Telecom Italia (6.88% of the dividend rights). The Telecom Italia group is principally engaged in the communications sector and, particularly, in telephone and data services on fixed lines for final and wholesale customers, in the development of fiber optic networks for wholesale customers, in the provision of broadband services and Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analog and digital terrestrial technology and in the office products sector. Telecom Italia operates primarily in Europe, the Mediterranean basin and in South America. In March 2008, Telco acquired 0.91% of Telecom Italia’s ordinary share capital, and as a result Telco’s holding in Telecom Italia’s ordinary share capital rose from 23.6% to 24.5%. Our indirect stake in Telecom Italia’s ordinary share capital is, therefore, 10.4%.

Legal Proceedings

Telefónica and its group companies are party to several lawsuits which are currently in progress in the courts of law and the arbitration bodies of the various countries in which the Telefónica Group is present.

We highlight the following unresolved cases:

Procedures deriving from bankruptcy proceeding of Sistemas e Instalaciones de Telecomunicación, S.A.U. (“Sintel”)

Sintel, our former subsidiary, was declared bankrupt in 2001. As a result of the voluntary bankruptcy proceeding heard by the Madrid Court of First Instance no. 42 (case 417/2001), two criminal proceedings commenced which affect us.

In the first proceeding (“Abbreviated” proceeding no. 273/2001) heard by Central Examining Court No. 1, Telefónica and Telefónica de España, S.A.U. filed a civil suit for damages against the directors of Sintel and of Mastec Internacional, S.A. on 24 September 2002.

The second proceeding (Preliminary proceeding No. 362/2002), being heard by Central Examining Court No. 1, was for a possible offence of extortion. This proceeding was subsequently assimilated to the preliminary proceedings in case No. 273/2001 above.

The two proceedings were combined in April 2004. The motion filed by our counsel to have the case dismissed was rejected and it was ruled that the preliminary proceedings should continue. Nonetheless, to date no liability has been established against us and the plaintiffs’ claim in this regard has been explicitly dismissed.

In its ruling of 12 December 2007, Examining Court No. 1 changed into an “Abbreviated” proceeding the suit for bankruptcy due to criminal negligence and crimes against the Spanish Treasury, charging those that could be responsible, all managers and directors of Sintel, which occurred after the sale of the company by us. Accordingly, our executives have been exempted from liability.

Contentious proceedings in connection with Telefónica’s takeover bid for Terra Networks and Terra Networks’ subsequent merger with us

Proceedings related to the takeover bid

- (i) Class actions – On 29 May 2003, certain Terra Networks shareholders filed two class actions with the Supreme Court of New York State against us, Terra Networks and certain directors of Terra Networks. The actions primarily alleged that the takeover bid by us was the result of non-compliance with the fiduciary commitments of this company and of the board of directors of Terra Networks. The lawsuits, for undetermined amounts, requested payments of damages as well as legal costs. Since the actions were brought, both have remained inactive.
- (ii) Proceeding against the Spanish National Securities Market Commission’s (“CNMV”) authorisation – The World Association of Shareholders of Terra Networks (“ACCTER”) filed an appeal for judicial review at the National Appellate Court against the ruling of 19 June 2003 by the CNMV authorising the takeover offer by Telefónica for Terra Networks. Telefónica appeared as an intervening non-party.

The appeal was rejected by the National Appellate Court via ruling issued 27 January 2006, against which ACCTER filed an administrative appeal. The Third Section of the Supreme Court has yet to rule on the admissibility of this appeal.

Proceedings related to the merger

- (i) ACCTER’s Complaint – On 30 June 2005, ACCTER and its president, on his own account, filed a complaint contesting the merger resolution adopted at the shareholders’ meeting of Terra Networks of 2 June 2005. The Court of First Instance rejected the claim, and the plaintiffs filed an appeal which has yet to be resolved.
- (ii) Shareholders’ civil claim – On 26 September 2006, we and one of our directors were notified of a claim filed by former shareholders of Terra Networks (Campoaguas, S.L., Panabeni, S.L. and others) alleging breach of contract by us with the shareholders of Terra Networks in respect of the terms and conditions set forth in the prospectus of the initial public offering of shares of Terra Networks. The court date has been set for 19 July 2008.

Claim at the International Center for Settlement of Investment Disputes (the "ICSID")

As a result of the enactment by the Argentine government of Public Emergency and Exchange Rules Reform Law 25,561, of 6 January 2002, we considered that the terms and conditions of the share transfer agreement approved by Decree 2332/90 and the pricing agreement ratified by Decree 2585/91, both of which were executed by us with the Argentine government in relation to our acquisition of Sociedad Licenciataria Sur, S.A. (subsequently renamed Telefónica de Argentina, S.A. ("**Telefónica Argentina**")), were significantly affected, since the law rendered ineffective any dollar or other foreign currency adjustment clauses, or indexation clauses based on price indices of other countries, or any other indexation mechanism in contracts with the public authorities. The law also required that prices and rates derived from such clauses be denominated in pesos at an exchange rate of one peso (ARS 1) to one U.S. dollar (\$1).

Accordingly, since negotiations with the Argentine government were unsuccessful, on 14 May 2003, we filed a request for arbitration with the ICSID pursuant to the Agreement for the Promotion and Reciprocal Protection of Investments between the Argentine Republic and the Kingdom of Spain. On 6 July 2004, the first hearing at the ICSID took place in Washington, D.C. and a 90-day stay was ordered in an attempt to reach a settlement. Following the expiration of the stay without any settlement having been achieved, on 6 December 2004, Telefónica filed the "memorial" or claim with the ICSID together with the initial supporting testimonies. The court is currently considering a plea filed by the Argentine government alleging that the matter is outside the jurisdiction of the arbitration court.

On 15 February 2006, Telefónica Argentina signed a memorandum of understanding with the Argentine government as a prerequisite to reaching an agreement to renegotiate the transfer contract approved by Royal Decree-Law 2332/90 pursuant to the provisions of Article 9º of Law 25,561.

Among other issues, this memorandum of understanding envisaged the suspension by Telefónica Argentina and Telefónica for a period of 210 working days, of proceedings for all claims, appeals and demands planned or underway, with the administrative, arbitral or legal courts of Argentina or abroad, which were based on events or measures taken as a result of the emergency situation established by Law Nº 25,561 with regard to the transfer agreement and the licence granted to us. The suspension came into force on 6 October 2006.

As the initial stay expired, we requested several extensions which the Argentine government did not oppose. The courts agreed to extend the stay.

Appeal for judicial review of the Spanish Competition Court (the "TDC") ruling of 1 April 2004

On 1 April 2004, the TDC ruled that Telefónica de España S.A.U. had engaged in unfair trade practices prohibited under Article 6 of Antitrust Law 16/1989, dated 17 July and Article 82 of the EC Treaty, consisting of the abuse of a dominant market position, by conditioning the provision of certain services to the non-existence of predialling arrangements with rival operators and running unfair advertising campaigns. It imposed a fine of €57 million.

Telefónica de España S.A.U. filed an appeal for judicial review of this decision.

On 31 January 2007, the National Appellate Court ruled in favor of the appeal, thereby overturning the TDC's ruling. The State attorney filed an appeal before the Supreme Court to overturn the National Appellate Court ruling in which we appeared. This appeal has yet to be resolved.

Cancellation of the UMTS licence granted to Quam GMBH ("Quam") in Germany

In December 2004, the German Regulatory Authority for Telecommunications and Post ("**RegTP**") revoked the UMTS licence granted to Quam, a Telefónica affiliate in Germany, in 2000. After obtaining a suspension of the revocation order, on 16 January 2006, Quam filed a suit against the order with the German courts. There were two main parts to this claim: the first seeking to uphold the suspension of the licence revocation order issued by the RegTP; and the second, in the event the first did not prevail, seeking the total or partial repayment of the original amount paid for the licence.

At the end of February 2007, Quam filed allegations, and the public hearing was scheduled for 25 April 2007. At the hearing, the court issued a ruling rejecting Quam's claim. This ruling has been appealed.

Appeal against the European Commission ruling of 4 July 2007 against Telefónica de España's broadband pricing policy

On 22 February 2006, we were sent a statement of objections, initiating disciplinary proceedings for conduct that goes against Article 82 of EC Treaty rules. Subsequently, on 9 July 2007, the European Commission issued a decision, imposing a fine of €152 million on us and Telefónica de España, S.A.U. The ruling charged us with applying a margin squeeze between the prices we charged competitors to provide regional and national wholesale broadband services and its retail broadband prices using ADSL technology from September 2001 to December 2006. We and Telefónica de España, S.A.U. both filed appeals to overturn the decision before the Court of First Instance of the European Communities. The Kingdom of Spain also lodged an appeal to overturn the decision. These appeals are still outstanding.

Proceedings by ANATEL against various companies from the Brasilcel group (Telerj Celular, S.A., Telems Celular, S.A., Tele Centro Oeste Celular Participações, S.A., and others) regarding the inclusion of interconnection revenues and revenues from network usage by operators in the Fundo de Universalização de Serviços de Telecomunicações ("FUST")

The Brasilcel (Vivo) group operators appealed ANATEL's decision modifying the basis for calculating amounts payable into FUST a fund to pay for telecommunications services providers' obligations to provide universal service (fixed line and mobile). The FUST's income consists of 1% of the operators' gross operating revenues.

According to ANATEL criteria, revenues obtained from transfers received by other operators (interconnection and network usage) should be included in FUST's taxable income, with no deduction of interconnection expenses from the tax base.

The operators of Brasilcel, together with other mobile operators, requested a stay of execution in order to be able to continue calculating the FUST calculation basis exclusive of said revenues. Their petition was rejected on 24 January 2006. However, on 13 March 2006, the plaintiffs were granted an injunction allowing that revenues from transfers received by other operators be excluded from the base for calculating the FUST's taxable income.

In addition, at the same time Telesp and Telefónica Empresas Brasil, together with other fixed line operators through *Associação Brasileira de Concessionárias de Serviço Telefónico Fixo Comutado* ("ABRAFIX"), requested an injunction that would allow them to continue including these revenues and deducting expenses from FUST's taxable income. The request was rejected on 9 January 2006. On 17 April 2006 an injunction was granted, allowing ANATEL's decision to modify the revenues included in taxable income for the FUST's calculation to not have any retroactive effect.

Appeal for judicial review against the ruling of the Central Economic-Administrative Tribunal dated 15 February 2007 rejecting several economic-administrative claims filed by Telefónica against assessments from the National Inspection Office of the Spanish Treasury related to consolidated taxes in 1998, 1999 and 2000

On 25 September 2002, tax inspections commenced at several companies included in Tax Group 24/90, of which Telefónica, S.A. is the parent company. The taxes inspected were corporate income tax (for the years from 1998 to 2000) and VAT, tax withholdings and prepayments relating to personal income tax, tax on investment income, property tax and non-resident income tax (1998 to 2001). The tax audits were concluded in 2005. The final outcome of the tax assessments is not expected give rise to significant additional liabilities on the Group's consolidated financial statements.

These assessments, which included settlement agreements and imposed fines on Telefónica were signed by the company in disagreement in October 2004 and July 2005. The total amount of the assessments was €140 million.

In April 2007, Telefónica, S.A. filed an administrative appeal before the National Court of Justice. The company also requested that the execution of the appealed settlements and penalties be suspended by providing the appropriate guarantees. On 26 July 2007 the lawsuit was formalised, with Telefónica providing expert testimonies supporting its allegations. In December, the parties submitted the evidence on which their cases were based.

Against the evidence admission, the Legal Bar of the State filed an appeal for reversal, which was estimated by the National Administrative Court through the Order dated on 25th April 2008, rejecting the admission of the expert evidence proposed by Telefónica.

Proceeding before Prague District Court no. 3 initiated by Telefónica O2 Czech Republic, against the ruling of the Czech Telecommunications Office dated 22 December 2003 (Reference n° 27865/2003-603/IV)

On 22 December 2003, the Czech Telecommunications Office issued a ruling that required Cesky Telecom a.s. (now Telefónica O2 Czech Republic) to pay T-Mobile Czech Republic, a.s. ("T-Mobile") 898,606,196 Czech crowns (€26,356,119.73) in interconnection fees (call termination) for the period from January to November 2001.

At the petition of Telefónica O2 Czech Republic, the court granted a stay of execution on the Czech Telecommunications Office's ruling during the judicial procedure.

On 27 October 2006, the District Court of Prague issued a ruling rejecting Telefónica O2 Czech Republic's action, considering that the decision corresponded to an administrative proceeding. This ruling was appealed and upheld by the Appellate Court, bringing the civil proceeding to an end.

As a result, Telefónica O2 Czech Republic filed a new suit before the administrative courts requesting that the execution of the Czech Telecommunications Office's ruling be suspended. The procedure arising from this suit is still pending.

Although this administrative procedure had yet to be resolved, in 2007 T-Mobile asked Prague District Court 3 to execute the ruling of 23 December 2003 entailing an amount of 1,859,277,925.29 Czech crowns (€57,284,352.88) (in principal and interest). The court accepted the petition and on 23 May 2007 issued a ruling to initiate the execution against any asset of Telefónica O2 Czech Republic. Recently, Telefónica O2 Czech Republic requested that the execution ordered by Prague District Court 3 be limited to certain assets or be ruled inadmissible. No definitive ruling has yet been made.

In order to avoid the effects of the execution order, and in addition, unlock the freezing order existing on the Telefónica O2 Czech Republic assets (in amounts much higher than the ones claimed), Telefónica O2 Czech Republic paid to T-Mobile the disputed amount. However, the litigation will continue with the aim of Telefónica O2 Czech Republic recovering the amount paid, by filing the appropriate action on the belief that there are reasonable grounds for such recovery.

Suit filed by the Treasury of São Paulo (Brazil) against Telesp

Three lawsuits were filed by the State Treasury of São Paulo against Telesp in relation to the Merchandise Circulation Tax, similar to the value added tax levied on telecommunications services applicable to revenue from international calls during different periods between 1996 and 1999. The amount claimed is approximately €168 million.

Two of the administrative procedure concluded with an unfavorable ruling against Telesp. The company filed the related appeals, but no judicial rulings have been issued as of yet. No administrative ruling has been issued on the third.

In accordance with applicable legislation and the services provided by Telesp in this period (which did not include international carrier services, as these were provided by another operator at the time), the company considers that it is not liable for the tax claimed by the Brazilian tax authorities.

Major Shareholders

At 3 July 2008, we had 4,773,496,485 shares outstanding, each having a nominal value of €1 per share. All outstanding shares have the same rights.

At 31 December 2007, according to information provided to us, beneficial owners of 3% or more of our voting stock were as follows:

<i>Name of Beneficial Owner</i>	<i>Number of Shares</i>	<i>Percent</i>
Banco Bilbao Vizcaya Argentaria, S.A.....	298,717,001	6.258%
Caja de Ahorros y Pensiones de Barcelona ("la Caixa") ⁽¹⁾	261,746,565	5.483%
Chase Nominees LTD ⁽²⁾	487,376,897	9.904%

(1) La Caixa's main position in Telefónica is held through Criteria Caixacorp, S.A.

(2) Held by Chase Nominees LTD. on behalf of beneficial owners. Based on information obtained from a communication made to the CNMV on 7 September 2005

To the extent that our shares are represented by account in the book-entry form, we do not keep a shareholder registry and our ownership structure cannot be known precisely. Based on the information available to us there is no individual or corporation that directly or indirectly through one or more intermediaries may exercise any type of control over us. Nevertheless, we have certain shareholders whose holdings are considered material.

At 31 December 2007, approximately 220,497,045 of our shares were held in the form of American Depositary shares ("ADSs") by 960 holders of record, including Cede & Co., the nominee of the Depository Trust Company. The number of ADSs outstanding was 73,499,015 at 31 December 2007.

Recent Developments

The principal events that have occurred since 31 December 2007 are set forth below.

On 18 January 2008, Telefónica Internacional, S.A.U. reached an agreement to acquire, subject to certain conditions, an additional stake equal to approximately 2.22% of the share capital of CNC, the Chinese telecommunications company, which would increase our stake to approximately 7.22%.

On 27 February 2008, we announced the launch of a new share buy-back program for a total amount of 100 million shares, representing approximately 2.095% of our share capital as of that date. The program will be effective during 2008. The execution schedule of the program will be dependent on the pace of cash-flow generation, the share price level and other market conditions, and will be subject to any applicable limitations established by law, regulations or our bylaws.

In March 2008, Telco acquired 0.91% of Telecom Italia's ordinary share capital, and as a result Telco's holding in Telecom Italia's ordinary share capital rose from 23.6% to 24.5%. Our indirect stake in Telecom Italia's ordinary share capital is, therefore, 10.4%.

In 2007, certain companies of the Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") group exercised a put option requiring us to purchase their 8.65% stake in Atento. On 1 April 2008 the period for the price adjustment associated with such put option expired, with no adjustment required to the final price paid to the BBVA group of €70 million in 2007. Following our acquisition of the BBVA's stake, we own 100% of Atento.

On 3 April 2008, we obtained the necessary administrative authorisations to give effect to the agreement signed on 2 August 2007 between Telpart Participações S.A. ("Telpart") and Vivo for the acquisition of: (i) 22.72% of the total capital of Telemig Celular Participações S.A., the controlling shareholder of Telemig Celular S.A., a mobile telephony operator in the State of Minas Gerais, Brazil; and (ii) 19.34% of the total capital of Tele Norte Celular Participações S.A., the controlling shareholder of Amazônia Celular S.A., a mobile telephony operator in the Brazilian states of Amazonas, Roraima, Amapá, Pará and Maranhão.

In addition, on 8 April 2008, Vivo, through its subsidiary TCO IP, S.A. launched a voluntary tender offer for shares representing up to one third of the free float represented by the preferred stock of Telemig Celular Participações S.A. and its subsidiary company and Telemig Celular S.A. with a price per share of 63.90 reais and 654.72 reais, respectively. This offer was concluded on 12 May 2008, with close to 100% of the preferred shareholders tendering their shares. Furthermore, in accordance with Brazilian securities market legislation, TCO IP, S.A. has launched a mandatory tender offer for all the voting stock in Telemig Celular Participações S.A. and Telemig Celular S.A., with a price per share of 80% of the purchase price of the respective voting stock of these companies.

In relation to the other company originally contemplated in the sale and purchase agreement, Tele Norte Celular Participações S.A., on 20 December 2007 Vivo entered into an agreement with TNL PCS S.A. (Telemar Group) undertaking, subject to prior approval by ANATEL, to sell the shares in Tele Norte Celular Participações S.A. which Telpart undertook to sell to Vivo, on similar terms and conditions to those on which Vivo undertook to purchase those shares. After the relevant administrative authorisations were obtained, the sale was completed on 3 April 2008, simultaneously with the acquisition of Telemig Celular Participações S.A.

On 22 April 2008 our annual general shareholders' meeting approved the reduction of our share capital by the amount of €68,500,000 by means of the cancellation of 68,500,000 shares of our treasury stock. This reduction will not be effective until it is filed with the Mercantile Registry of Madrid. At the date of this Base Prospectus, the reduction has not been filed.

On 22 April 2008 the annual general shareholders' meeting approved the payment of a dividend of €0.40 per share. This dividend was paid on 13 May 2008.

On 9 May 2008, we disposed of our 16.79% interest in Sogecable, S.A. pursuant to the takeover bid launched by Promotora de Comunicaciones, S.A.

Management of Telefónica

Board of Directors

At 3 July 2008, our directors, their respective positions on our Board and the year they were appointed to such positions were as follows:

<i>Name</i>	<i>Age</i>	<i>First Appointed</i>	<i>Current Term Ends</i>
César Alierta Izuel ⁽¹⁾	63	1997	2012
Isidro Fainé Casas ⁽¹⁾⁽²⁾	65	1994	2011
Vitalino Manuel Nafría Aznar ⁽³⁾⁽⁴⁾⁽⁶⁾⁽⁸⁾⁽⁹⁾	57	2005	2011
Julio Linares López ⁽¹⁾	62	2005	2011
José María Abril Pérez ⁽¹⁾⁽³⁾⁽⁶⁾	56	2007	2013
José Fernando de Almansa Moreno-Barreda ⁽⁶⁾⁽⁸⁾	59	2003	2013
Jose María Álvarez-Pallete López.....	44	2006	2012
David Arculus ⁽⁶⁾⁽⁸⁾	61	2006	2011
Eva Castillo Sanz	45	2008	2013
Carlos Colomer Casellas ⁽¹⁾⁽⁵⁾⁽⁷⁾	64	2001	2011
Peter Erskine ⁽¹⁾⁽⁵⁾	56	2006	2011
Alfonso Ferrari Herrero ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁸⁾⁽⁹⁾	66	2001	2011
Luiz Fernando Furlán ⁽⁶⁾	61	2008	2013
Gonzalo Hinojosa Fernández de Angulo ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁹⁾	62	2002	2012
Pablo Isla Álvarez de Tejera ⁽⁵⁾⁽⁷⁾⁽⁸⁾⁽⁹⁾	44	2002	2012
Antonio Massanell Lavilla ⁽²⁾⁽⁴⁾⁽⁷⁾⁽⁹⁾	53	1995	2011
Francisco Javier de Paz Mancho ⁽¹⁾⁽⁶⁾⁽⁸⁾⁽⁹⁾	49	2007	2013

(1) Member of the Executive Commission of the Board of Directors.

(2) Nominated by Caja de Ahorros y Pensiones de Barcelona ("La Caixa").

(3) Nominated by BBVA.

(4) Member of the Audit and Control Committee of the Board of Directors.

(5) Member of the Nominating, Compensation and Corporate Governance Committee.

(6) Member of the International Affairs Committee.

(7) Member of the Service Quality and Customer Service Committee.

(8) Member of the Regulation Committee.

(9) Member of the Human Resources, Reputation and Corporate Responsibility Committee.

The business address of each of the above directors is Gran Vía 28, 28013 Madrid, Spain.

The principal activities inside and outside the Group of each of the directors of Telefónica, S.A. are as follows:

<i>Name</i>	<i>Principal activities inside the Group</i>	<i>Principal Activities outside the Group</i>
César Alierta Izué	Executive Chairman of Telefónica, S.A.	Director of Telecom Italia, S.p.A. Director of China Netcom Group Corporation
Isidro Fainé Casas	Vice Chairman of Telefónica, S.A.	Chairman of Caja de Ahorros y Pensiones de Barcelona ("la Caixa") Director of Criteria CaixaCorp, S.A. Chairman of Abertis Infraestructuras, S.A. Director of Port Aventura, S.A. Director of Caifor, S.A. Vice Chairman 2° of Repsol YPF, S.A.
Vitalino Manuel Nafría Aznar	Vice Chairman of Telefónica, S.A.	
Julio Linares López	Chief Operating Officer ("COO") of Telefónica, S.A. Director of Telefónica de España, S.A. Director of Telefónica DataCorp, S.A. Director of Telefónica O2 Europe, Plc.	Director of Telecom Italia, S.p.A.
José María Abril Pérez	Director of Telefónica, S.A.	
Fernando de Almansa Moreno-Barreda	Director of Telefónica, S.A. Director of Telefónica Internacional, S.A. Director of Telefónica del Perú, S.A.A. Director of Telefónica de Argentina, S.A. Director of Telecomunicações de Sao Paulo, S.A. Director of Telefónica Móviles México, S.A. de C.V.	CEO of the Mexican company Servicios Externos de Apoyo Empresarial, S.A. de C.V. Substitute Director of BBVA Bancomer México, S.A. de C.V.
José María Alvarez-Pallete López	Director of Telefónica, S.A. General Manager of Telefónica Latinoamérica of Telefónica, S.A. Executive Chairman of Telefónica Internacional, S.A. Director of Telefónica Móviles España, S.A. Director of Telefónica de España, S.A. Director of Telefónica DataCorp, S.A. Substitute Director of Telefónica de Argentina, S.A. Director Vice Chairman of Telecomunicações de Sao Paulo, S.A. Substitute Director of Compañía de Telecomunicaciones de Chile, S.A. Director Vice Chairman of Telefónica Móviles México, S.A. de C.V. Director of Colombia Telecomunicaciones, S.A. ESP Director of Telefónica del Perú, S.A.A. Substitute Director of Telefónica Móviles Colombia, S.A.	Director of China Netcom Group Corporation Director of Portugal Telecom, SGPS, S.A. Chairman of the Supervisory Board of Brasilcel, N.V.
David Arculus	Director of Telefónica, S.A. Director of Telefónica O2 Europe, Plc.	Member of the Oxford University Press Finance Committee
Eva Castillo Sanz	Director of Telefónica, S.A.	Member of Merrill Lynch EMEA Executive Committee, Global Wealth Management Executive and Operating Committees
Carlos Colomer Casellas	Director of Telefónica, S.A.	Vice Chairman of Indo Internacional, S.A. Director of Altadis, S.A. Chairman of Inversiones Mobiliarias Urquiola, S.A., SICAV Chairman of Ahorro Bursátil, S.A. SICAV
Peter Erskine	Director of Telefónica, S.A. Director of Telefónica O2 Europe Plc.	Member of the Advisory Board of the University of Reading Business School.
Alfonso Ferrari Herrero	Director of Telefónica, S.A. Substitute Director of Compañía de Telecomunicaciones de Chile, S.A. Director of Telefónica del Perú, S.A.A. Director of Telefónica Móviles Chile, S.A.	

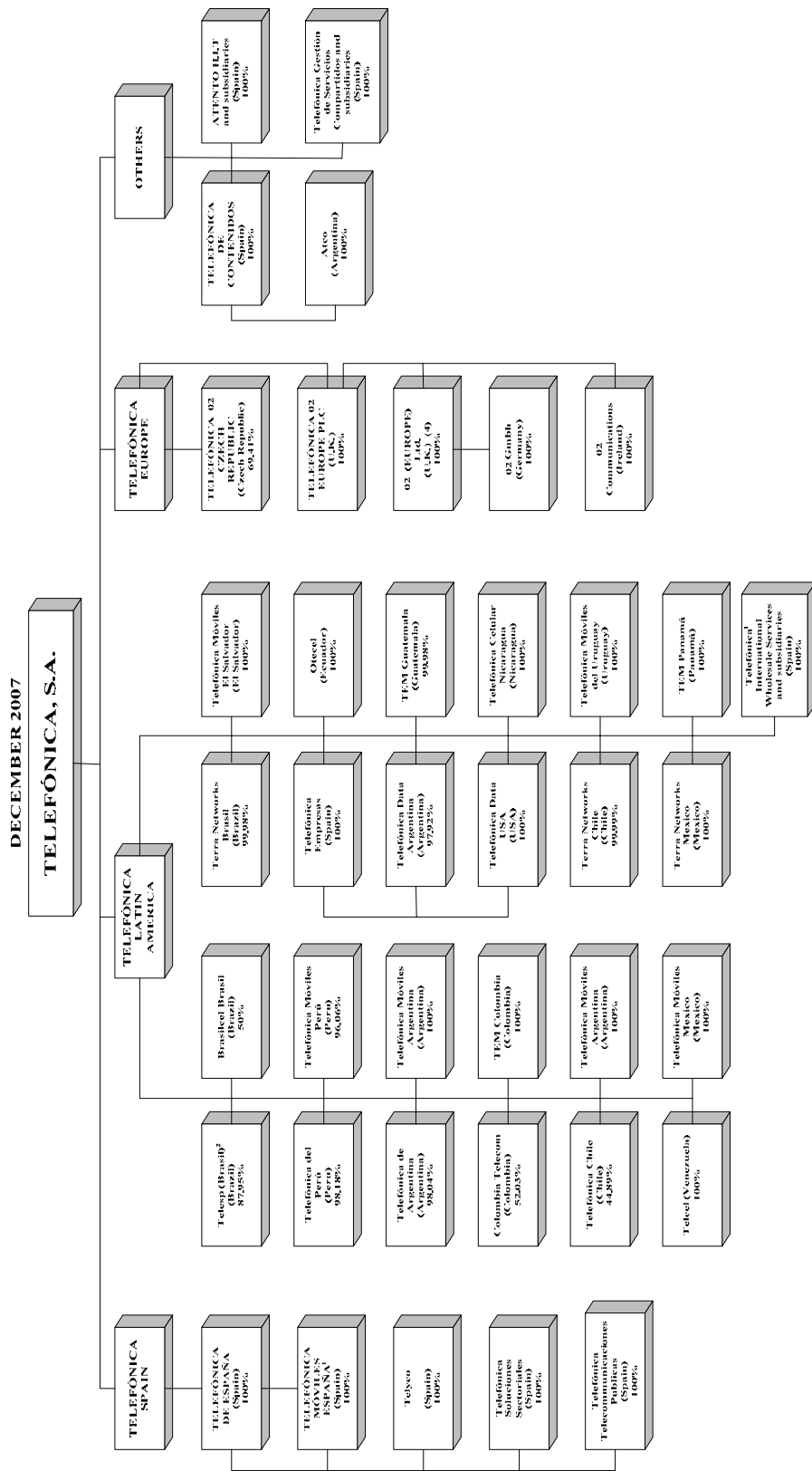
<i>Name</i>	<i>Principal activities inside the Group</i>	<i>Principal Activities outside the Group</i>
Luiz Fernando Furlán	Director of Telefónica, S.A.	Chairman of Amazonas Sustainability Foundation Director of Redecard S.A. Director of Amil Participações S.A. Director of Kroton Educacional S.A. Director of Marisa S.A. Director of Stefanini IT Solutions S.A.
Gonzalo Hinojosa Fernández de Angulo	Director of Telefónica, S.A.	Director of Dinamia Capital Privado, S.A., SCR
Pablo Isla Alvarez de Tejera	Director of Telefónica, S.A.	Vice Chairman 1° and CEO of Inditex, S.A.
Antonio Massanell Lavilla	Director of Telefónica ,S.A.	Executive Deputy General Manager of Caja de Ahorros y Pensiones de Barcelona (“la Caixa”). Director of Port Aventura, S.A. Executive Chairman of Serveis Informàtics la Caixa, S.A. Director of Caixa Capital Risc, S.G.E.C.R, S.A. Director of Caixa Capital Desarrollo, S.C.R., S.A. Director of Espacio Pyme, S.A. Director of Bousorama S.A. Director of e-la Caixa 1, S.A. Chairman of Fundació Barcelona Digital
Francisco Javier de Paz Mancho	Director of Telefónica, S.A. Director of Telefónica de Argentina, S.A. Director of Telecomunicações de Sao Paulo, S.A.	

Conflicts of Interest

As of the date of this Base Prospectus, there were no conflicts of interest in relation to members of the Board of Directors between any duties owed to Telefónica, S.A. and their private interests and other duties.

Organisational Structure

The following chart shows the organisational structure of the principal subsidiaries of the Telefónica Group at 31 December 2007 including their jurisdictions of incorporation and our ownership interest.



(1) Ownership in Telefónica Móviles España, S.A.U. is held directly by Telefónica, S.A.

(2) 85.5% representing voting interest.

(3) Ownership in Telefónica Internacional Wholesale Services. S.L. (Spain) is held 92.51% by Telefónica, S.A. (Spain) and 7.94% by Telefónica Datacorp, S.A.U (Spain).

(4) Ownership in O2 (Europe) Ltd. is held directly by Telefónica, S.A.

TAXATION AND DISCLOSURE OF INFORMATION IN CONNECTION WITH PAYMENTS

The information provided below does not purport to be a complete summary of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Instruments, and does not purport to deal with the tax consequences applicable to all categories of investors, some of whom (such as dealers in securities) may be subject to special rules. Prospective investors should consult with their own professional advisers.

Taxation in the Kingdom of Spain

Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Base Prospectus:

- (a) of general application, Additional Provision Two of Law 13/1985, of 25 May on investment ratios, own funds and information obligations of financial intermediaries, as amended by Law 19/2003, of 4 July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures Law 62/2003, of 30 December and Law 23/2005, of 18 November, on certain measures to promote productivity, as well as Royal Decree 1065/2007 (“**Royal Decree 1065/2007**”), of 27 July approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes;
- (b) for individuals with tax residency in Spain who are personal income tax (“**Personal Income Tax**”) tax payers, Law 35/2006, of 28 November on Personal Income Tax and on the partial amendment of the Corporate Income Tax Law, Non Residents Income Tax Law and Wealth Tax Law (the “**Personal Income Tax Law**”), and Royal Decree 439/2007, of 30 March promulgating the Personal Income Tax Regulations, along with Law 19/1991, of 6 June on Wealth Tax and Law 29/1987, of 18 December on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are corporate income tax (“**Corporate Income Tax**”) taxpayers, Royal Legislative Decree 4/2004, of 5 March promulgating the Consolidated Text of the Corporate Income Tax Law, and Royal Decree 1777/2004, of 30 July promulgating the Corporate Income Tax Regulations (the “**Corporate Income Tax Regulations**”); and
- (d) for individuals and legal entities who are not resident for tax purposes in Spain and are non-resident income tax (“**Non-Resident Income Tax**”) taxpayers, Royal Legislative Decree 5/2004, of 5 March promulgating the Consolidated Text of the Non-Resident Income Tax Law, as amended by Royal Decree Law 2/2008 of 21 April on measures to promote economic activity and Royal Decree 1776/2004, of 30 July promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6 June on Wealth Tax and Law 29/1987, of 18 December on Inheritance and Gift Tax.

Whatever the nature and residence of the holder of a beneficial interest in the Instruments (a “**holder of Instruments**”), the acquisition and transfer of the Instruments will be exempt from indirect taxes in Spain, for example exempt from transfer tax and stamp duty, in accordance with the consolidated text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September, and exempt from value added tax, in accordance with Law 37/1992, of 28 December regulating such tax.

1. Individuals with Tax Residency in Spain

1.1 *Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)*

Payments of both interest periodically received and income deriving from the transfer, redemption or repayment of the Instruments constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law, and must be included in each investor’s taxable savings and taxed at the rate of 18 per cent.

Both such types of income are subject to a withholding on account of Personal Income Tax at the rate of 18 per cent.

1.2 *Wealth Tax (Impuesto sobre el Patrimonio)*

Individuals with tax residency in Spain and who hold Instruments on 31 December in any given year will be subject to Wealth Tax in Spain for such year.

1.3 *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Individuals with tax residency in Spain who acquire ownership or other rights over any Instruments by inheritance, gift or legacy will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional or state rules.

2. Legal Entities with Tax Residency in Spain

2.1 *Corporate Income Tax (Impuesto sobre Sociedades)*

Payments of both interest periodically received and income deriving from the transfer, redemption or repayment of the Instruments must be included in the profit and taxable income of legal entities with tax residency in Spain for Corporate Income Tax purposes in accordance with the rules for Corporate Income Tax.

In accordance with Section 59.s) of the Corporate Income Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporate Income Tax taxpayers (which include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. On 27 July 2004, the Directorate General for Taxation (*Dirección General de Tributos*) issued a reply to a non-binding consultation indicating that in the case of issues made by entities resident in Spain, such as the Issuer, the exemption applies in the case of Instruments placed outside Spanish territory, in another OECD country.

The Issuer and Guarantor consider that the Instruments will fall within this exemption as the Instruments are to be placed outside Spain and in the international capital markets. Consequently, the Issuer will not make any withholding on payments to Spanish Corporate Income Tax taxpayers that provide the relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter, however, the Issuer will be bound by that opinion and shall make the appropriate withholding and the Issuer will not, as a result, be under any obligation to pay additional amounts.

In order to implement the exemption from withholding, the Order of 22 December 1999 will be followed. No reduction percentage will be applied (see "Disclosure of holder information in connection with Payments" below).

2.2 *Wealth Tax (Impuesto sobre el Patrimonio)*

Spanish resident legal entities are not subject to Wealth Tax.

2.3 *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Legal entities with tax residency in Spain which acquire ownership or other rights over the Instruments by inheritance, gift or legacy are not subject to Inheritance and Gift Tax and must include the market value of the Instruments in their taxable income for Spanish Corporate Income Tax purposes.

3. Individuals and Legal Entities with no tax residency in Spain

3.1 *Non-resident Income Tax (Impuesto sobre la Renta de No Residentes)*

(a) *Non-Spanish resident investors acting through a permanent establishment in Spain*

Ownership of the Instruments by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Instruments form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Instruments are similar to those for Spanish Corporate Income Tax taxpayers.

(b) *Non-Spanish resident investors not acting through a permanent establishment in Spain*

Pursuant to Law 13/1985, payments of both interest periodically received and income deriving from the transfer, redemption or repayment of the Instruments, obtained by individuals or legal entities without tax residency in Spain, and who are Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are, in principle, exempt from Non-Resident Income Tax.

Holders of Instruments wishing to be eligible for the exemption from Non-Resident Income Tax will need to provide (or arrange to be provided on their behalf) certain information relating to the identity and residence of such holders, in the manner detailed under “Disclosure of holder information in connection with Payments” pursuant to section 44 of Royal Decree 1065/2007. If the relevant information is not provided the Issuer will be obliged by Spanish law to apply withholding tax at the rate of 18 per cent. (or at such other rate as may be established by Spanish law from time to time) and the Issuer will not pay additional amounts.

3.2 *Wealth Tax (Impuesto sobre el Patrimonio)*

To the extent that income deriving from the Instruments is exempt from Non-Resident Income Tax, individuals who are not tax resident in Spain on 31 December in any given year will be exempt from Wealth Tax.

Furthermore, individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax will generally not be subject to Wealth Tax.

If the provisions of the foregoing two paragraphs do not apply, individuals who are not tax resident in Spain on 31 December in a given year will be subject to Wealth Tax, to the extent that rights deriving from the Instruments can be exercised within the Spanish territory.

Non-Spanish resident legal entities are not subject to Spanish Wealth Tax.

3.3 *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Instruments by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional and state legislation, to the extent that rights deriving from the Instruments can be exercised within the Spanish territory.

Non-Spanish resident legal entities which acquire ownership or other rights over the Instruments by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to Non-Resident Income Tax. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

4. Tax Rules for payments made by the Guarantor

On the basis that payments of principal and interest made by the Guarantor under the Deed of Guarantee are characterised as an indemnity under Spanish law, such payment may be made free of withholding or deduction on account of any Spanish tax.

However, although there is no precedent or regulation on the matter, if the Spanish tax authorities take the view that the Guarantor has effectively assumed the obligations of the Issuer under the Instruments (whether contractually or by any other means) they may determine that payments made by the Guarantor, if the Deed of Guarantee is enforced, relating to interest on the Instruments will be subject to the same tax rules previously set out for payments made by the Issuer.

5. Disclosure of holder information in connection with Payments

5.1 *Tax Reporting Obligations of the Guarantor*

The Guarantor is required by Spanish law to file an annual return with the Spanish tax authorities in which it reports on certain information relating to payments made in respect of the Instruments. The Spanish tax authorities may rely on such returns in order to assess whether or not the Guarantor has correctly withheld tax on payments made by it under the Instruments.

The Guarantor completes each annual return on the basis of the information provided to it by, or on behalf of, holders of Instruments. Holders of Instruments who are individuals or legal entities without tax residency in Spain, who are legal entities with tax residency in Spain, and who are not individuals resident in Spain may receive payments in respect of the Instruments free of withholding provided that they provide (or arrange to be provided on their behalf) accurate and timely information enabling them to qualify for such an exemption from withholding.

The information required by the Guarantor in order to comply with its annual reporting obligations and make payments under the Instruments free of withholding is that set out in Section 44 of Royal Decree 1065/2007 and Order of 22 December 1999.

5.2 *Rulings on the Disclosure Procedures of Euroclear and Clearstream, Luxembourg (the "ICSDs")*

On 6 November 2007, the Spanish tax authorities published two binding rulings (the "**November rulings**") in response to concurrent and substantially identical consultations made by each of the ICSDs regarding the procedures put in place by them to assist Spanish issuers in complying with the reporting obligations required by Spanish tax law and regulations. The tax authorities' responses set out their interpretation of the requirements of the Spanish regulations summarised below. On 31 January 2008, the Spanish tax authorities published two further rulings (the "**January rulings**") in response to a request for clarification brought by the ICSDs. In response to the combined effect of the November rulings and the January rulings, the ICSDs have adapted their procedures.

The following is a summary only of the procedures implemented by the ICSDs following from the November rulings and the January rulings. The following summary is subject to the detailed procedures of each ICSD, as well as to any changes in Spanish tax law and/or regulations, or the interpretation thereof, which the Spanish tax authorities may promulgate from time to time. Holders of Instruments must seek their own advice to ensure that they comply with all procedures to ensure the correct tax treatment of their Instruments and should consult the latest announcements in relation to the procedures on the ICSDs websites (www.euroclear.com and www.clearstream.com). None of the Issuer, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrars or the ICSDs (or any other clearing system) assume any responsibility therefor.

5.3 *Individuals and Legal Entities without tax residency in Spain*

In accordance with sub-section 44(1) of Royal Decree 1065/2007, each annual return filed by the Guarantor with the Spanish tax authorities must include the following information with respect to the relevant Instruments:

- (a) the identity and country of residence of the recipient of the income from the Instruments. When such income is received on behalf of the holder of Instruments by a third party, the identity and country of residence of that third party;
- (b) the amount of income received; and
- (c) details identifying the Instruments.

In accordance with sub-section 44(2) of Royal Decree 1065/2007, for the purpose of preparing the return referred to in sub-section 44(1), certain documents with information regarding the identity and country of residence of each non-Spanish resident holder of Instruments must be received by the Guarantor at the time of each payment in respect of the Instruments. In particular, non-Spanish resident holders of Instruments wishing to receive payments free of Spanish withholding tax on the relevant payment date must provide (or

arrange to be provided on their behalf by the ICSDs as their legal representatives (each, a “**Legal Representative**”)¹⁾ the documents described below no earlier than the close of business on the day preceding the relevant payment date:

- (A) a non-Spanish resident holder of Instruments who acts on its own account and is a central bank, other public institution or international organisation, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities resident in an OECD country or in a country with which Spain has entered into a treaty for the avoidance of double-taxation subject to a specific administrative registration or supervision scheme, must certify its name and tax residency in accordance with Annex I of the Order of 16 September 1991 establishing the procedure for the payment on Book Entry State Debt to non-residents who invest in Spain without a permanent establishment, developing the Royal Decree 1285/1991 of 2 August, the form of which is attached hereto as Annex I;
- (B) in the case of transactions in which any of the entities indicated in the foregoing paragraph (A) is not the holder of Instruments but acts as an intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each non-Spanish resident holder of Instruments in accordance with Annex II of the Order of 16 September 1991, the form of which is attached hereto as Annex II;
- (C) in the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by the law of another OECD member country (for example, Euroclear and Clearstream), the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each non-Spanish resident holder of Instruments on the relevant payment date in accordance with Annex II of the Order of 16 September 1991, the form of which is attached hereto as Annex II; and
- (D) in all other cases,²⁾ the relevant non-Spanish resident holder of Instruments must arrange annually for the delivery to the Spanish tax authorities of a tax residency certificate issued by the tax authorities of the country in which it is resident for tax purposes.

In accordance with sub-section 44(3) of Royal Decree 1065/2007, on the relevant payment date the Issuer must arrange for the net amounts payable after deduction of Spanish withholding tax at the applicable rate (currently 18 per cent.) to be transferred to the entities referred to in paragraphs (A), (B) and (C). Withholding tax will be applied to the whole amount of the interest payable on the relevant Instruments on the relevant payment date. If the documents referred to in (A), (B) and (C) are accurately completed by the Legal Representatives (in reliance on accurate and timely information provided to them in accordance with their procedures) and delivered by them (along with all other information required to be collected by the Guarantor in accordance with its tax reporting obligations under Spanish law) to the Paying Agents by the relevant time on the payment date, the Issuer will pay an immediate refund of amounts withheld to those non-Spanish resident holders of Instruments entitled to receive payments free of withholding on that date. Payments made to non-Spanish resident holders of Instruments who provide the relevant document (or in respect of whom the relevant document is provided) to the Paying Agents other than by the Legal Representative, or in respect of whom the relevant document is provided after the relevant time on the payment date will be subject to Spanish withholding tax on the relevant payment date at the current rate of 18%, although such holders may be entitled to a refund at a later date of amounts withheld as further described under paragraphs 5.5 and 5.6, below.

5.4 Legal Entities with tax residency in Spain subject to Spanish Corporate Income Tax

Holders of Instruments who are legal entities resident for tax purposes in Spain and subject to Spanish Corporate Income Tax may receive payments in respect of the Instruments free of withholding provided that they provide (or arrange to be provided on their behalf by their Legal Representative) accurate and timely information enabling them to qualify for such an

1 The principle of legal representative could permit, in the appropriate cases, the ICSDs to prepare, issue and sign the relevant Annexes under a power of attorney provided by the participants and customers of the ICSDs.

2 For example, in circumstances where Instruments are not cleared and settled through the ICSDs or any other clearing system recognised as such by the laws of Spain as of an OECD country.

exemption from withholding. In particular, if the Legal Representatives of the entities referred to in 5.3(A) above provide to the Paying Agents by the relevant time on the relevant payment date a list of holders of Instruments who are subject to Spanish Corporate Income Tax, specifying each holder's name, address and Tax Identification Number as well as the ISIN code of the relevant Instruments, the number of such Instruments held on the relevant payment date, the gross income and the amount withheld, all substantially in the form set out in Annex III below, along with all other information required to be collected by the Guarantor in accordance with its tax reporting obligations under Spanish law, the Issuer will pay an immediate refund of amounts withheld to those holders of Instruments entitled to receive payments free of withholding on that date. Payments made to holders of Instruments who provide the relevant information (or in respect of whom the relevant information is provided) to the Paying Agents other than by the Legal Representative, or in respect of whom the relevant document is provided after the relevant payment date will be subject to Spanish withholding tax on the relevant payment date at the current rate of 18%, although such holders may be entitled to a refund at a later date of amounts withheld as further described under paragraphs 5.5 and 5.6, below.

5.5 Quick Refund by the Issuer

In the case of both paragraph 5.3 and paragraph 5.4 above, in order for a holder of Instruments to benefit from an applicable exemption from Spanish withholding tax, the documentation described in paragraphs 5.3 and 5.4 must be received by the Paying Agents in accordance with the detailed procedures established in the Issuing and Paying Agency Agreement (which may be inspected during normal business hours at the specified office of the Paying Agents).

If the Paying Agents do not receive the relevant certificate in respect of an eligible holder of Instruments by the relevant time on the relevant payment date, it will be obliged to transfer payment to such holder (or to a nominee on behalf of such holder) subject to Spanish withholding tax (currently at the rate of 18 per cent.). However, the holder of Instruments may obtain a refund by the Issuer of the amount withheld by ensuring that the Paying Agents receive the relevant, correctly completed certificate by no later than 10:00 am (CET) on the 10th calendar day of the month following the relevant payment date (or if such date is not a Local Banking Day (as defined in the Issuing and Paying Agency Agreement), the Local Banking Day immediately preceding such date) (the "**Quick Refund Deadline**").

5.6 Refund by the State

Holders of Instruments who might otherwise have been entitled to a refund but in respect of whom the Paying Agents does not receive the relevant, accurately completed certificate on or before a Quick Refund Deadline may seek a refund of Spanish tax withheld directly from the Spanish tax authorities.

Set out below are Annexes I, II and III. Sections in English are an accurate and direct translation of the original Spanish. In the event of any discrepancy between the Spanish language version of the certificates contained in each of Annexes I, II and III and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.

The language of this Base Prospectus is English. The Spanish language text of Annexes I, II and III has been included in order that the correct technical meaning may be ascribed to such text under applicable Spanish law.

Annex I

Modelo de certificación en inversiones por cuenta propia Form of Certificate for Own Account Investments

(Nombre)

Name _____

(Domicilio)

Address _____

(NIF)

(Fiscal id number) _____

(en calidad de) (function) _____, en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 44.2a) del Real Decreto 1065/2007,

in the name and on behalf of the Entity indicated below, for the purposes of article 44.2a) of Royal Decree 1065/2007,

Certifico:

I certify:

1. **Que el nombre o razón social de la Entidad que represento es:**
that the name of the Entity I represent is: _____

2. **Que su residencia fiscal es la siguiente:**
that its residence for tax purposes is: _____

3. **Que la Entidad que represento está inscrita en el Registro _____ de**
that the institution I represent is recorded in the _____ Register of _____
(país, estado, ciudad), con el número
(country, state, city), under number _____

4. **Que la Entidad que represento está sometida a la supervisión de _____ (Órgano supervisor)**
that the institution I represent is supervised by _____ (Supervisory body)
en virtud de _____ (normativa que lo regula)
under _____ (governing rules).

Todo ello en relación con:

All the above in relation to:

Identificación de los valores poseídos por cuenta propia

Identification of securities held on own account _____

Importe de los rendimientos

Amount of income _____

Lo que certifico en _____ a _____ de _____ de 20
I certify the above in _____ on the _____ of _____ of 20

Annex II

Modelo de Certificación en inversiones por cuenta ajena Form of certificate for third party investments

(Nombre)

Name _____

(Domicilio)

Address _____

(NIF)

(Fiscal id number) _____

(en calidad de) (function) _____, en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 44.2.b) y c) del Real Decreto 1065/2007,

in the name and on behalf of the Entity indicated below, for the purposes of article 44.2.b) and c) of Royal Decree 1065/2007,

Certifico:

I certify:

1. Que el nombre o razón social de la Entidad que represento es:

that the name of the Entity I represent is: _____

2. Que su residencia fiscal es la siguiente:

that its residence for tax purposes is: _____

3. Que la Entidad que represento está inscrita en el Registro _____ de

that the institution I represent is recorded in the _____ Register of _____

(país, estado, ciudad), con el número
(country, state, city), under number _____

4. Que la Entidad que represento está sometida a la supervisión de _____ (Órgano supervisor)
that the institution I represent is supervised by _____ (Supervisory body)

en virtud de _____ (normativa que lo regula)
under _____ (governing rules).

5. Que, de acuerdo con los Registros de la Entidad que represento, la relación de titulares adjunta a la presente certificación, comprensiva del nombre de cada uno de los titulares no residentes, su país de residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o Entidades residentes en España.

That, according to the records of the Entity I represent, the list of beneficial owners hereby attached, including the names of all the non-resident holders, their country of residence and the corresponding income amounts, is accurate and does not include person(s) or institution(s) resident in Spain.

Lo que certifico en _____ a _____ de 20
I certify the above in _____ on the _____ of _____ of 20

RELACIÓN ADJUNTA A CUMPLIMENTAR:

TO BE ATTACHED:

Identificación de los valores:

Identification of the securities

Listado de titulares:

List of beneficial owners:

Nombre/País de residencia/Importe de los rendimientos

Name/Country of residence/Amount of income

Annex III

Modelo de certificación para hacer efectiva la exclusión de retención a los sujetos pasivos del Impuesto sobre Sociedades y a los establecimientos permanentes sujetos pasivos del Impuesto sobre la Renta de no Residentes (a emitir por las entidades citadas en el art. 44.2a) del Real Decreto 1065/2007

Certificate for application of the exemption on withholding to Spanish Corporate Income Tax taxpayers and to permanent establishments of Non-Resident Income Tax taxpayers to be issued by entities mentioned under article 44.2a) of Royal Decree 1065/2007

(Nombre)

Name _____

(Domicilio)

Address _____

(NIF)

(Fiscal id number) _____

(en calidad de) (function) _____, en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 59. s) del Real Decreto 1777/2004, in the name and on behalf of the Entity indicated below, for the purposes of article 59. s) of Royal Decree 1777/2004,

Certifico:

I certify:

1. **Que el nombre o razón social de la Entidad que represento es:**
That the name of the Entity I represent is: _____
2. **Que su residencia fiscal es la siguiente:**
That its residence for tax purposes is: _____
3. **Que la Entidad que represento está inscrita en el Registro _____ de _____**
That the institution I represent is recorded in the _____ Register of _____
(país, estado, ciudad), con el número
(country, state, city), under number _____
4. **Que la Entidad que represento está sometida a la supervisión de _____ (Órgano supervisor)**
That the institution I represent is supervised by _____ (Supervisory body)
en virtud de _____ (normativa que lo regula)
under _____ (governing rules).
5. **Que, a través de la Entidad que represento, los titulares incluidos en la relación adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en España de sujetos pasivos del Impuesto sobre la Renta de no Residentes, son perceptores de los rendimientos indicados.**
That, through the Entity I represent, the list of holders hereby attached, are Spanish Corporate Income Tax taxpayers and permanent establishments in Spain of Non-Resident Income Tax taxpayers, and are recipients of the referred income.
6. **Que la Entidad que represento conserva, a disposición del emisor, fotocopia de la tarjeta acreditativa del número de identificación fiscal de los titulares incluidos en la relación.**
That the Entity I represent keeps, at the disposal of the Issuer, a photocopy of the card evidencing the Fiscal Identification Number of the holders included in the attached list.

Lo que certifico en _____ a _____ de 20
I certify the above in _____ on the _____ of _____ of 20

RELACIÓN ADJUNTA

TO BE ATTACHED:

Identificación de los valores:

Identification of the securities

Razón social/Domicilio/Número de identificación fiscal/Número de valores/Importe de los rendimientos brutos/Retención al 18%

Name/Domicile/Fiscal Identification Number/Number of securities/Gross income/Amount withheld at 18%.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

Subscription and Sale

Instruments may be sold from time to time by the Issuer to any one or more of ABN AMRO Bank N.V., Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Daiwa Securities SMBC Europe Limited, Deutsche Bank AG, London Branch, Dresdner Bank Aktiengesellschaft, J.P. Morgan Securities Ltd., Goldman Sachs International, Lehman Brothers International (Europe), Merrill Lynch International, Morgan Stanley & Co. International plc, Société Générale and UBS Limited (the “Dealers”). Instruments may also be sold by the Issuer direct to institutions who are not Dealers. The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealership agreement dated 3 July 2008 (as amended, supplemented, restated or replaced from time to time, the “Dealership Agreement”) and made between the Issuer, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.

United States of America: *Regulation S; Category 2; TEFRA D, unless TEFRA C is specified as applicable in the relevant Final Terms;*

Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

Instruments in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Instruments, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Instruments comprising the relevant Tranche, as certified to the Issue and Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Instruments to or through more than one Dealer, by each of such Dealers as to Instruments of such Tranche purchased by or through it, in which case the Issue and Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to or for the account or benefit of U.S. persons, and such Dealer will have sent to each dealer to which it sells Instruments during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to or for the account or benefit of U.S. persons.

In addition, until 40 days after the commencement of the offering of Instruments comprising any Tranche, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

In relation to each Tranche of Instruments, each Dealer subscribing for or purchasing such Instruments has represented to and agreed with, or will represent to and agree with, the Issuer, the Guarantor and each other such Dealer (if any) that:

- (a) **No deposit-taking:** in relation to any Instruments having a maturity of less than one year from the date of their issue:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons:

- (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
- (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Instruments would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

- (b) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

Japan

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has undertaken that it will not offer or sell any Instruments directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for reoffering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, “**Japanese Person**” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

The Kingdom of Spain

Each Dealer has represented and agreed that the Instruments may not be sold, offered or distributed in Spain in circumstances which constitute a public offer of securities in Spain within the meaning of Spanish Securities Market Law and further relevant legislation unless such sale, offer or distribution is made in compliance with the provisions of the Spanish Securities Market Law and any other applicable legislation. No publicity or marketing of any kind shall be made in Spain in relation to the Instruments.

General

Each Dealer has represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with all applicable securities laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Instruments or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense.

Other persons into whose hands the Base Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Instruments or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “General” above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer and the Guarantor. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Instruments) or (in any other case) in a supplement to this Base Prospectus.

General Information

1. The admission of the Instruments to the Official List and to trading on the Regulated Market of the London Stock Exchange, will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be admitted to the Official List and to trading on the Regulated Market of the London Stock Exchange will be so admitted upon submission to the FSA and the London Stock Exchange, of the relevant Final Terms and any other information required by the FSA and the London Stock Exchange, subject to the issue of the relevant Instruments. Prior to official listing, dealings will be permitted by the FSA and the London Stock Exchange, in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Instruments may be issued pursuant to the Programme which will not be admitted to the Official List or any stock exchange or which will be listed with such listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.
2. The establishment of the Programme was authorised by a resolution of the sole shareholder of the Issuer passed on 30 December 2004 and the giving of the Guarantee by the Guarantor in relation to the update of the Programme was authorised by a resolution of the delegation committee of the Board of Directors of the Guarantor passed on 13 June 2008. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments, if any.
3. The Instruments have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Instruments for clearance together with any further appropriate information.
4. Bearer Instruments (other than Temporary Global Instruments (as defined in “Terms and Conditions of the Instruments – Form and Denomination”)) and any Coupon appertaining thereto will bear a legend substantially to the following effect: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.” The sections referred to in such legend provide that a United States person who holds a Bearer Instrument or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Instrument or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.
5. Settlement arrangements will be agreed between the Issuer, the relevant Dealer and the Issue and Paying Agent or, as the case may be, the Registrar in relation to each Tranche of Instruments.
6. The admission of the Programme to listing on the Official List and to trading on the Regulated Market of the London Stock Exchange is expected to take effect on or about 8 July 2008.
7. There are no, nor have there been any governmental, legal or arbitration proceedings involving the Issuer, the Guarantor or any of the Guarantor’s subsidiaries (and no such proceedings are pending or threatened) which have or may have or have had during the twelve months prior to the date of this document, individually or in the aggregate, a significant effect on the financial position or profitability of the Issuer or of the Guarantor and its subsidiaries taken as a whole.
8. Since 31 March 2008 there has been no significant change in the financial or trading position and, since 31 December 2007 there has been no material adverse change in the prospects of the Guarantor. Since 31 December 2007, there has been no significant change in the financial or trading position nor any material adverse change in the prospects of the Issuer.
9. The consolidated financial statements of the Guarantor for the financial years ended 31 December 2006 and 31 December 2007 were audited by Ernst & Young S.L. of Plaza Pablo Ruiz Picasso, 1, 28020, Madrid, registered in ROAC under number S0530 and unqualified opinions were reported thereon.

10. Ernst & Young S.L. audited the annual accounts of the Issuer for the years ended 31 December 2006 and 31 December 2007 and unqualified opinions were reported thereon.
11. For so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the following documents (and, where applicable, translation into English) may be inspected during normal business hours at the specified office of the Issue and Paying Agent and Principal Registrar (or other, the specified office(s) of the Paying Agent(s) in the United Kingdom) and at the registered/head office of the Issuer and the Guarantor, namely:
 - (a) the constitutional documents of the Issuer and the Guarantor together with translations into English;
 - (b) this Base Prospectus, together with any supplements thereto;
 - (c) the Issue and Paying Agency Agreement;
 - (d) the Deed of Covenant;
 - (e) the Deed of Guarantee;
 - (f) the Dealership Agreement;
 - (g) the audited consolidated financial statements of the Guarantor, and the reports referred to therein for the years ended 31 December 2006 and 31 December 2007 and the unaudited consolidated financial information of the Guarantor for the 3 months ended 31 March 2008;
 - (h) the annual accounts of the Issuer, and the reports referred to therein, for the years ended 31 December 2006 and 31 December 2007; and
 - (i) any Final Terms relating to Instruments which are listed on any stock exchange. (In the case of any Instruments which are not listed on any stock exchange, copies of the relevant Final Terms will only be available for inspection by a Holder of, or, as the case may be, a Relevant Account Holder (as defined in the Deed of Covenant) in respect of, such Instruments).

In addition, the Base Prospectus and any information incorporated by reference therein may be viewed on the following website: www.telefonica.es.

REGISTERED AND HEAD OFFICE OF THE ISSUER

Gran Vía, 28
28013 Madrid

REGISTERED AND HEAD OFFICE OF THE GUARANTOR

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DEALERS

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Daiwa Securities SMBC Europe Limited
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Citigroup Global Markets Limited
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Canada Square
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Credit Suisse Securities (Europe) Limited
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London EC2N 2DB

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133 Fleet Street
London EC4A 2BB

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London E14 4QA

UBS Limited
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AUDITORS OF THE GUARANTOR

Ernst & Young S.L.
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ALTERNATIVE REGISTRAR

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Grand Duchy of Luxembourg

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To the Dealers
As to English law and Spanish law
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