



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)

€40,000,000,000

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"), 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 Telefonía Emisiones, S.A.U., Telefonía, 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 pages 16-17 and 97-104 regarding the tax treatment in Spain of income obtained in respect of the Instruments. In particular, payments on the Instruments will be exempt from Spanish withholding tax if the Issue and Paying Agent provides the Issuer and the Guarantor with certain documentation in a timely manner.

Tranches of Instruments issued under the Programme may be rated or unrated. If a Tranche of Instruments is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "CRA Regulation"), or (2) issued by a credit rating agency which is not established in the European Union nor registered under the CRA Regulation, or (3) issued by a credit rating agency which is not established in the European Union but will be endorsed by a CRA which is established in the European Union and registered under the CRA Regulation, or (4) issued by a credit rating agency which is not established in the European Union but which is certified in accordance with the CRA Regulation, will be disclosed in the relevant Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the European Union but is endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the European Union which is certified in accordance with the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Each of Standard & Poor's Credit Market Services Europe Limited ("S&P"), Moody's Investors Service España, S.A. ("Moody's"), Fitch Ratings Limited ("Fitch") and the Japan Credit Rating Agency, Ltd. ("JCR Agency") has rated the Guarantor, see page 72. Each of S&P, Moody's and Fitch is established in the European Union and is registered under the CRA Regulation. JCR Agency is not established in the European Union but is certified in accordance with the CRA Regulation.

Arranger for the Programme

BNP PARIBAS

Dealers

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

BARCLAYS

BOFA MERRILL LYNCH

COMMERZBANK

DAIWA CAPITAL MARKETS EUROPE

GOLDMAN SACHS INTERNATIONAL

MIZUHO SECURITIES

SANTANDER GLOBAL BANKING & MARKETS

THE ROYAL BANK OF SCOTLAND

BANCO ESPAÑOL DE CRÉDITO, S.A.

BNP PARIBAS

CITIGROUP

CREDIT SUISSE

DEUTSCHE BANK

J.P. MORGAN

MORGAN STANLEY

SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING

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.

Certain terms and conventions

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.U. 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 us. 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. The following are the main categories of accesses:
- "**Fixed telephony accesses**": includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or 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", very high bit-rate digital subscriber line "VDSL", 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. "Naked ADSL" allows customers to subscribe for a broadband connection without a monthly fixed line fee.
- "**Pay TV**": includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.
- "**Mobile accesses**": includes accesses to mobile network for voice and/or data services (including connectivity). Mobile broadband includes internet access from devices used to make voice calls and smartphones (mobile internet), and internet access from devices that complement fixed broadband, such as PCCards/dongles, and enable large amounts of data to be downloaded on the move (mobile connectivity). Mobile accesses are categorised into contract and prepay accesses.
- "**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**" is 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 accesses for the same period, and then divided by 12 months. ARPU is calculated using gross service revenue before deduction of wholesale discounts.
- "**Cloud computing**" is the delivery of computing as a service rather than a product, whereby shared resources, software, and information are provided to computers and other devices as a utility over a network (typically the Internet).
- "**Final client accesses**" means accesses provided to residential and corporate clients.
- "**FTTx**" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop typically used for the last mile of telecommunications wiring.
- "**ISP**" means Internet service provider.
- "**IT**", or information technology, is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.
- "**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.
- "**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.
- "**Net adds**" means the difference between the customer base measured in terms of accesses at the end of the period and the beginning of a period.
- "**Non SMS data revenues**" means data revenues excluding SMS revenues.
- "**OTT (over the top) services**" means TV services over the Internet.
- "**Push to talk**" is a method of conversing over half-duplex communication lines, including two-way radio, using a button to switch from voice reception mode to transmit mode.
- "**Revenues**" means net sales and revenues from rendering of services.
- "**Service revenues**" means revenues less revenues from handset sales.
- "**Traffic**" means voice minutes used by our customers over a given period, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic (free minutes included in commercial promotions) is included. Traffic not associated with our mobile customers (roaming-in; MVNOs; interconnection of third parties and other business lines) is excluded. To arrive at the aggregate traffic for a given period, the individual components of traffic are not rounded.
- "**UMTS**" means Universal Mobile Telecommunications System.
- "**VoIP**" means voice over Internet protocol.
- "**Wholesale accesses**" means accesses we provide to our competitors, who then sell services over such accesses to their residential and corporate clients.

In this Base Prospectus we make certain comparisons in local currency or on a "constant Euro basis" or "excluding foreign exchange rate effects" in order to present an analysis of the development of our results

of operations from year-to-year without the effects of currency fluctuations. To make comparisons on a local currency basis, we compare financial items in the relevant local currency for the periods indicated as recorded in the relevant local currency for such periods. To make comparisons on a "constant Euro basis" or "excluding foreign exchange rate effects," we convert the relevant financial item into Euro using the prior year's average Euro to relevant local currency exchange rate. In addition, we present certain financial information excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, 2010 and 2011 by eliminating all adjustments made as a result of such consideration.

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 statement of financial position 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 €40,000,000,000 (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 – Taxation in Spain" 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 "\$", and "dollar" 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 currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the Euro, as amended.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (1) English language translations of the audited consolidated financial statements of the Guarantor, and the reports referred to therein, for the years ended 31 December 2011 and 31 December 2010 and the unaudited interim consolidated financial information of the Guarantor for the 3 months ended 31 March 2012 (set out in the document entitled "Interim Management Statement January – March 2012");
- (2) English language translations of the financial statements of the Issuer, and the audit reports thereon, for the years ended 31 December 2011 and 31 December 2010;
- (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;
- (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;
- (6) the Terms and Conditions of the Instruments as set out on pages 20-48 of the Base Prospectus dated 3 July 2008 relating to the Programme;
- (7) the Terms and Conditions of the Instruments as set out on pages 20-48 of the Base Prospectus dated 3 July 2009 relating to the Programme;
- (8) the Terms and Conditions of the Instruments as set out on pages 22-50 of the Base Prospectus dated 23 June 2010 relating to the Programme; and
- (9) the Terms and Conditions of the Instruments as set out on pages 23-52 of the Base Prospectus dated 20 June 2011 relating to the Programme.

Translations in English have been translated from the original Spanish, and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy, the Spanish language version of the relevant document prevails.

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

Any information contained in the documents listed at (1) to (9) (inclusive) above which is not incorporated by reference in this Base Prospectus is either not relevant to 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 has, in a Deed of Guarantee dated 12 June 2012 (the " Guarantee "), unconditionally and irrevocably guarantee the due and punctual payment of all amounts under the Instruments.
Arranger	BNP Paribas
Dealers	Banco Bilbao Vizcaya Argentaria, S.A., Banco Español de Crédito, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, Merrill Lynch International, J.P. Morgan Securities Ltd., Mizuho International plc, Morgan Stanley & Co. International plc, Société Générale, The Royal Bank of Scotland plc 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	€40,000,000,000 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 " <i>Subscription and Sale</i> ".
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 depositary or a common depositary for Euroclear Bank S.A./ N.V. ("**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 be 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 the 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 FSMA by the Issuer.

Redemption	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. 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 FSMA by the Issuer.
Early Redemption	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 " <i>Terms and Conditions of the Instruments - Early Redemption for Taxation Reasons</i> ", but will otherwise be permitted only to the extent specified in the relevant Final Terms.
Interest	Instruments shall be interest-bearing. Interest may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.
Denominations	Instruments will be issued in such denominations as may be specified in the relevant Final Terms, subject to a minimum denomination of €100,000 (or, if the Instruments are denominated in a currency other than Euro, the equivalent amount in such currency at the date of issue) in the case of Instruments to be admitted to trading on a regulated market as defined in Article 4, paragraph 1, point 14 of Directive 2004/39/EC, 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.
Taxation	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 (the " Holders ") 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 who are resident for tax purposes in Spain; and (b) Holders of Instruments in respect of whose Instruments the Issuer or the Guarantor does not receive such information from the Issue and Paying Agent in a timely manner as may be required in order to comply with the applicable Spanish tax reporting obligations (see " <i>Terms and Conditions of the Instruments - Taxation</i> " and " <i>Taxation and Disclosure of Information in Connection with Payments</i> ").
Negative Pledge	The Instruments will have the benefit of a negative pledge as described in Condition 4 (<i>Negative Pledge</i>).
Cross Default	The Instruments will have the benefit of a cross default as described in Condition 7 (<i>Events of Default</i>).

Information requirements under Spanish Tax Law	<p>Under Spanish Law 13/1985 and Royal Decree 1065/2007, each as amended, income obtained in respect of the Instruments will not be subject to withholding tax in Spain, provided that the Issue and Paying Agent provides the Issuer and the Guarantor, in a timely manner, with certain information relating to the Instruments. See "<i>Taxation and Disclosure of Information in Connection with Payments</i>".</p> <p>If the Issue and Paying Agent fails to provide the Issuer and the Guarantor with the required information described under "Taxation in the Kingdom of Spain— Information about the Instruments in Connection with Payments" in a timely manner, the Issuer will be required to withhold tax and pay income in respect of the relevant Instruments net of the Spanish withholding tax applicable to such payments (currently at the rate of 21 per cent.).</p> <p>If this were to occur, affected Holders will receive a refund of the amount withheld, with no need for action on their part, if the Issue and Paying Agent submits the required information to the Issuer and the Guarantor no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, following the 20th calendar day of the month immediately following the relevant payment date, Holders may apply directly to the Spanish tax authorities for any refund to which they may be entitled. Neither the Issuer nor the Guarantor will pay additional amounts in respect of any such withholding tax.</p> <p>None of the Issuer, the Guarantor, the Arranger, the Dealers, the Registrars or any clearing system (including Euroclear and Clearstream, Luxembourg) assume any responsibility therefor.</p>
Governing Law	<p>The terms and conditions of the Instruments, all related contractual documentation and all non-contractual obligations arising out of or in connection with the terms and conditions of the Instruments and all related contractual documentation will be governed by 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 "<i>Terms and Conditions of the Instruments - Law and Jurisdiction</i>".</p>
Listing and Trading	<p>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 competent 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.</p>
Terms and Conditions	<p>The "<i>Terms and Conditions of the Instruments</i>" 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 "<i>Terms and Conditions of the Instruments</i>" as supplemented by the relevant Final Terms.</p>
Enforcement of Instruments Global Form	<p>In the case of Instruments in global form, Holders' rights will be in supported by a Deed of Covenant dated 12 June 2012, a copy of which will be available for inspection at the specified office of the Issue and Paying Agent.</p>
Clearing Systems	<p>Euroclear, Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Final Terms.</p>
Selling Restrictions	<p>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</p>

United States of America, the United Kingdom, Japan and the Kingdom of Spain, see "*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. It shall also be specified if the relevant credit rating agency is or is not established in the European Union and whether such agency is or is not registered under the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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 following is a description of the principal risk factors that we believe may affect our ability to fulfil our obligations under the Instruments issued under the Programme. Most of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring. 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 flow could be materially adversely affected by any of these risks, and investors could lose all or part of the value of their investment.

Risks Relating to Our Business

The risk factors set out below are applicable to the Issuer as a member of the Telefónica Group, and the Guarantor.

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 2011, approximately 48.5 per cent. of our assets were located in our Latin America segment. In addition, approximately 46.5 per cent. of our revenues for 2011 were derived from our Latin American segment operations. At 31 December 2011, 54.5 per cent. of Latin America assets and 49.0 per cent. of Latin America revenues were derived from our operations in Brazil. Our business is thus particularly sensitive to any of the risks relating to Latin America discussed in this section to the extent they arise or manifest themselves in Brazil. 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 therefrom) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

- government regulation or administrative policies may change unexpectedly including changes that modify the terms and conditions of concessions and their renewal, which could negatively affect our interests in such countries;
- the effects of inflation or currency depreciation or currency restrictions and other restraints on transfers of funds that may be imposed;
- governments may expropriate or nationalise assets or increase their participation in the economy and companies; and
- economic downturns, political instability and civil disturbances may negatively affect our operations.

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

We are exposed to various types of market risk in the normal course of our business, including, above all, the impact of changes in interest rates of foreign currency exchange rates. We use a variety of strategies to manage this risk, mainly through the use of financial derivatives, which themselves are susceptible to risks, including counterparty risk. Our risk management strategies may not achieve their desired effect, which could adversely affect our business, financial condition and results of operations.

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

Our business is impacted by general economic conditions in each of the countries in which we operate. The current uncertainty about whether the economic recovery will continue may negatively affect the level of demand of existing and prospective customers, as our services may not be deemed critical for these customers. The principal macroeconomic factors that could have an adverse impact on consumption and, accordingly, demand for our services include access to credit, unemployment rates, consumer confidence and other general macroeconomic factors.

Existing or worsening conditions in the international financial markets may limit our ability to carry out our business plan.

The operation, expansion and upgrading of our networks, the development and distribution of our services as well as the development and implementation of new technologies or license award renewal processes, require substantial financing.

International financial markets continue to be affected by current uncertainties surrounding the pace of economic recovery, the health of the international banking system and increasing concerns regarding burgeoning public deficits in certain European countries. Worsening conditions in the international credit markets due to any of these factors may make it more difficult and more expensive to refinance our financial debt (at 31 December 2011, our net average debt scheduled to mature in the next six years was approximately €6,850 million) or to incur additional debt, if needed.

In addition, if our credit ratings were downgraded, our capacity to raise capital in the international capital markets could be impaired, in terms of access and cost. Although following recent downgrades in our long-term debt we have successfully tapped the capital markets in several instances, we can give no assurance regarding our ability to raise capital in the international capital markets on a timely basis or at all, or at interest rates acceptable to us.

Furthermore, market conditions may make it more difficult to renew our unused bilateral credit facilities, 24% of which as of 31 December 2011 are scheduled to mature prior to 31 December 2012. Finally, the current financial situation may also make it more difficult and costly for us to raise additional equity capital.

Risks Relating to Our Industry

We operate in a highly regulated industry, which could adversely affect our businesses, and we depend on government concessions.

As a multinational telecommunications company that operates in regulated markets, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. Such laws and regulations are promulgated and enforced to varying degrees by supranational regulators such as the European Union and national, state, regional and local authorities. Regulation is particularly strict in the markets of those countries in which we hold a significant market position. In this respect, regulatory authorities regularly intervene in the retail and wholesale offering and pricing of our products and services and throughout 2011 generally placed downward pressure on wholesale and retail voice rates, roaming rates, termination rates and SMS messaging rates. Additional regulations could require us to further reduce roaming prices and termination rates in mobile and/or fixed line networks, require us to offer access to our network to other operators, and result in the imposition of fines if we fail to fulfil our service commitments. Such regulations and 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 cash flow.

We provide most of our services under licenses, authorisations and concessions and, as such, are substantially dependent upon them. Regulatory authorities may adopt further regulations or take additional actions that could adversely affect us, including revocation of or failure to renew any of our licenses, authorisations or concessions, implementation of changes to the spectrum allocated to us or the granting of new licenses, authorisations or concessions to our competitors to offer services in the relevant markets. While we pursue license renewals to the extent provided by their contractual terms, we cannot guarantee that we will always complete this process successfully or on beneficial terms for us. In many cases we must satisfy certain obligations, including, among others, minimum specified quality standards, service and coverage conditions and capital investment thresholds in order to qualify for renewal. Failure to comply with these obligations could result in the imposition of fines or even revocation or forfeiture of the license, authorisation or concession.

In addition, because we hold a leading market share in many of the counties where we operate, we could face regulatory actions by antitrust or competition authorities. These authorities could prohibit us from taking further actions such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on us, which, if significant, could result in loss of market share and harm to our financial performance and future growth.

We operate in highly competitive markets and 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.

We operate in markets that are highly competitive and subject to constant technological development. Therefore, we are subject to the effects of actions by competitors in these markets and rely on our ability to anticipate and adapt to constant technological changes taking place in the industry. To compete effectively with our competitors, we need to successfully market our products and services and respond to both commercial actions by competitors and other competitive factors affecting these markets, anticipating and adapting promptly to technological changes, changes in consumer preferences and general economic, political and social conditions. Failure to do so effectively could have an adverse impact on our business, results of operations and financial condition. New products and technologies arise constantly while the development of existing products and technologies can render obsolete the products and services we offer and the technologies we use. This can force us to invest in the development of new products, technology and services so that we can continue to compete effectively with current or future competitors. Such investments can reduce the revenue margins we obtain. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are arising from mobile Internet. One technology that telecommunications operators, including us (in Spain and Latin America), are focused on is the new FTTx-type network, which offers broadband access using optical fiber with superior services, such as high speed Internet and HD television services. However, significant investment is required to deploy these networks, which entails fully or partially substituting the copper wire with fiber optic cables. Currently, minimal demand for the capabilities offered by these new networks to end users could make it difficult to quantify the return on investment and justify the high investment. In addition, many of these networks upgrade tasks and the ability to offer new products or services are not entirely under our control and may be affected by applicable regulations.

Spectrum capacity may become a limiting and costly factor.

Our mobile operations in a number of countries may rely on spectrum availability. Failure to obtain sufficient or adequate spectrum coverage and the costs related to obtaining this capacity could have a material adverse impact on the quality of our services, on our ability to provide new services and on our cash flow, adversely affecting our business, financial condition and results of operations.

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

As a mobile and fixed telephony operator and provider of telecommunications services and products, we, like other companies in the industry, 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, it could jeopardise our network deployment and expansion plans, which could adversely affect our ability to satisfy our license terms and requirements and have a material, adverse effect on our businesses, results of operations and financial condition.

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, penalties or other measures imposed by regulatory authorities, 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 may incur.

The mobile industry may be harmed by concerns stemming from actual or perceived health risks associated with radio frequency emissions.

As at the date of this Base Prospectus, there is significant public concern regarding alleged potential effects of electromagnetic fields emitted by mobile telephones and base stations on human health. This concern has caused certain governments and administrations to take measures that have hindered the deployment of the infrastructure necessary to ensure quality of service and has affected the deployment criteria of new networks.

In May 2011, the specialised body of the World Health Organisation for research on cancer (IARC) classified electromagnetic fields of mobile telephony as "possibly carcinogenic", a classification which also includes products such as coffee and pickled foods. The World Health Organisation subsequently indicated, in fact sheet no. 193, published in June 2011, that to date it cannot be confirmed that the use of a mobile telephone has adverse effects on health, although it also announced that in 2012 an official assessment of this risk will be conducted, taking into account all scientific evidence available.

We have devised plans to help assure compliance with codes of good practices and relevant regulations in the various countries in which we operate. Nevertheless, this concern may affect our ability to capture or retain customers, may discourage the use of the mobile telephone and may result in the adoption of new measures by governments or any other regulatory interventions, any of which could materially and adversely affect our business, results of operations and financial condition.

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 cash generating units to assess whether their carrying values can be supported by the future cash flows expected to be derived from such assets and cash generating units, considering in some cases synergies included in their acquisition costs. Changes in the regulatory, business, economic or political environment may result in the necessity of recognising impairment charges on our goodwill, intangible assets or fixed assets.

Although the recognition of impairments of tangible, intangible and financial assets result in a non-cash charge on the income statement, such charge would adversely affect our results of operations and consequently, our ability to achieve our growth targets. For example, we have faced several corrections regarding the value of certain of our assets that have impacted our results of operations for the year in which the corrections were made. In 2011, an impairment loss was recognised on our stake in Telco, S.p.A., which, among other effects, resulted in a negative impact of €620 million, reducing the value of our stake in Telecom Italia, S.p.A. This value is evaluated at each reporting date for indications of impairment losses.

Risks Relating to Withholding

Risks in relation to Spanish Taxation

The Issuer and the Guarantor are required to receive certain information relating to the Instruments. If such information is not received by the Issuer or the Guarantor, as the case may be, in a timely manner, the Issuer will be required to apply Spanish withholding tax to any payment of interest in respect of the relevant Instruments, or to income arising from the payment of Instruments issued below par.

Under Spanish Law 13/1985 and Royal Decree 1065/2007, each as amended, payments of income in respect of the Instruments will be made without withholding tax in Spain provided that the Issue and Paying Agent provides the Issuer and the Guarantor in a timely manner with a certificate containing certain information relating to the Instruments in the Spanish language substantially in the form set out in Exhibit I, attached hereto.

This information must be provided by the Issue and Paying Agent to the Issuer and the Guarantor, before the close of business on the Business Day (as defined in the Terms and Conditions of the Instruments) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Instruments (each a "**Payment Date**") is due.

The Issuer, the Guarantor and the Issue and Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Instruments. If, despite these procedures, the relevant information is not received by the Issuer and the Guarantor on each Payment Date, the Issuer will withhold tax at the then-applicable rate (currently 21%) from any payment in respect of the relevant Instruments. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

The Issue and Paying Agency Agreement provides that the Issue and Paying Agent will, to the extent applicable, comply with the relevant procedures to deliver the required information concerning the Instruments to the Issuer and the Guarantor in a timely manner. See "*Taxation in Spain—Information about the Instruments in Connection with Payments*".

These procedures may be modified, amended or supplemented, among other reasons, to reflect a change in applicable Spanish law, regulation, ruling or an administrative interpretation thereof. None of the Issuer, the Guarantor or the Dealers assumes any responsibility therefor.

Royal Decree 1145/2011, of 29 July which amends Royal Decree 1065/2007, of 27 July provides that any payment of interest made under securities originally registered in a non-Spanish clearing and settlement entity recognised by Spanish legislation or by the legislation of another OECD country will be made with no withholding or deduction from Spanish taxes provided that the relevant paying agent submits in a timely manner certain information about the securities to the issuer. In the opinion of the Issuer and the Guarantor, payments in respect of the Instruments will be made without deduction or withholding of taxes in Spain provided that the relevant information about the Instruments is timely submitted by the Issue and Paying Agent to them, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation, by virtue of which identification of Spanish tax resident investors may be provided to the Spanish tax authorities.

Risks in relation to Instruments held by Spanish corporate entities

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 the Instruments have been placed, totally or partially, in Spain and that the exemption referred to above does not apply to any of the 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 21 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 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

In the event of Instruments specified in the Final Terms as being subordinated, the obligations of the Issuer with respect to subordinated Instruments will be subordinated and unsecured and will rank junior to all unsubordinated obligations of the Issuer. Although subordinated Instruments may pay a higher rate of interest than comparable instruments which are not subordinated, there is a risk that an investor in subordinated Instruments may not recover all or part of its investment in the event of insolvency (*concurso*) of both the Issuer and the Guarantor.

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. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) may have a material adverse effect on our business, financial condition, results of operations and cash flow.

For a more detailed description of current material legal proceedings, see "*Legal Proceedings*".

TERMS AND CONDITIONS OF THE INSTRUMENTS

The following are the Terms and Conditions of the Instruments which, as supplemented in relation to any Instruments by Part A of the relevant Final Terms, will be applicable to each Series of Instruments, provided that the 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 12 June 2012 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 Mellon (Luxembourg), S.A. in its capacity as alternative registrar (the "**Alternative registrar**", which expression shall include any successor to The Bank of New York Mellon (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 12 June 2012 and executed by the Issuer in relation to the Instruments and a deed of guarantee (the "**Guarantee**") dated 12 June 2012, 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. (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 are 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 €100,000 in the case of Instruments to be admitted to trading on a regulated market as defined in Article 4, paragraph 1, point 14 of Directive 2004/39/EC (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 €100,000 in the case of Instruments to be admitted to trading on a regulated market as defined in Article 4, paragraph 1, point 14 of Directive 2004/39/EC (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 unmatured 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 as subordinated debts under Article 92 of Law 22/2003 (*Ley Concursal*) dated 9 July 2003 (the "**Law 22/2003**")) 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 Law 22/2003.

Interest on the Instruments accrued but unpaid as at the commencement of any insolvency proceeding (concurso) relating to the Issuer under Spanish law shall thereupon constitute subordinated obligations of the Issuer ranking below its unsecured and unsubordinated obligations. Under Spanish law, no further interest on the Instruments shall be deemed to accrue from the date of any declaration of insolvency.

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 in the event of insolvency (*concurso*) of the Issuer will at all times rank *pari passu* among themselves and *pari passu* with all other present and future contractually subordinated obligations of the Issuer, except for subordinated obligations pursuant to Articles 92.3 to 92.7 of Law 22/2003, 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 Law 22/2003, claims relating to the Subordinated Instruments will fall within the category of "subordinated debts" (créditos subordinados, as defined in Law 22/2003). The obligations of the Issuer under the Subordinated Instruments, whether on account of principal, interest or otherwise, are subordinated to all other unsubordinated obligations of the Issuer. After payment in full of unsubordinated debts, under article 92 of Law 22/2003, the Issuer will meet such subordinated debts in the following order and on a pro rata basis within each class: (i) claims lodged belatedly or inaccurately in the context of insolvency proceedings (concurso); (ii) contractually subordinated debt (such as the Subordinated Instruments); (iii) certain interest (such as interest due on the Instruments accrued and unpaid until the commencement of the insolvency proceedings (concurso)); (iv) fines; (v) claims of creditors which are specially related to the Issuer; (vi) debt arising from transactions set aside by Spanish courts in the context of insolvency proceedings (rescisión concursal) and in respect of which the court has determined that the relevant creditor has acted in bad faith and (vii) credits arising from agreements with reciprocal obligations, as referred to in articles 61, 62, 68 and 69 of the Law 22/2003, whenever the court rules, prior to the administrators' report of insolvency (administración concursal), that the creditor has, on a repetitive basis, impeded the performance of the agreement to the detriment of the insolvency proceedings.

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 as subordinated credits under Article 92 of the Law 22/2003) 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 of Law 22/ 2003.

3C.02 The Guarantor undertakes not to evidence by means of a Spanish Public Document (as defined below) 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 a 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 Law 22/2003 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 in the event of insolvency (*concurso*) of the Guarantor will at all times rank *pari passu* among themselves and *pari passu* with all other present and future contractually subordinated obligations of the Guarantor, except for subordinated

obligations pursuant to Articles 92.3 to 92.7 of Law 22/2003, 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 Law 22/2003, claims relating to the Subordinated Guarantee will fall within the category of "subordinated debts" (créditos subordinados, as defined in Law 22/2003). After payment in full of unsubordinated debts, under article 92 of Law 22/2003, the Guarantor will meet such subordinated debts in the following order and pro rata within each class: (i) claims lodged belatedly or inaccurately in the context of insolvency proceedings; (ii) contractually subordinated debt (such as the claims under the Subordinated Guarantee); (iii) certain interest; (iv) fines; (v) claims of creditors which are specially related to the Guarantor; (vi) debt arising from transactions set aside by Spanish courts in the context of insolvency proceedings (rescisión concursal) and in respect of which the court has determined that the relevant creditor has acted in bad faith; and (vii) credits arising from agreements with reciprocal obligations, as referred to in articles 61, 62, 68 and 69 of Law 22/2003, whenever the court rules, prior to the administrators' report of insolvency (administración concursal), that the creditor has, on a repetitive basis, impeded the performance of the agreement to the detriment of the bankruptcy proceedings.

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 statement of financial position (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 (as defined below), including investments in unconsolidated subsidiaries, (as defined below) after deduction of (i) goodwill in consolidation and (ii) intangible assets; and "**Subsidiary**" means any company in respect of which the Guarantor owns, directly or indirectly, more than half of the voting rights of the shares of such company, or when the Guarantor owns half or less of the voting power but controls such company, i.e. has the

power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

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 a 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:

- (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 the 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 inversión, 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 de prevención del blanqueo de capitales*); Law 23/2005 of 18 November on Certain Tax Measures to Promote Productivity (*Ley 23/2005, de 18 de noviembre, de reformas en materia tributaria para el impulso a la productividad*); Law 4/2008 of 23 December that abolishes the Spanish Net Wealth Tax, generalises the VAT monthly refund system and introduces other tax measures (*Ley 4/2008, de 23 de diciembre, por la que se suprime el gravamen del Impuesto sobre el Patrimonio, se generaliza el sistema de devolución mensual en el Impuesto sobre el Valor Añadido, y se introducen otras modificaciones en la normativa tributaria*); and Law 6/2011, of 11 April.

"**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 Conditions 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 (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amounts, at their discretion) 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 competent 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 fulfil (taking into account any applicable grace periods) any payment obligation in excess of €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 €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, (iii) interest accrued and unpaid until the commencement of the insolvency proceedings (concurso) shall become subordinated, and (iv) 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 the Spanish Corporation Income Tax if the Spanish tax authorities determine that the Instruments do not comply with applicable exemption requirements including those 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 if the Issuer or the Guarantor does not receive in a timely manner certain information about the Instruments of such Holder as it is required by the applicable Spanish tax laws and regulations; 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 law implementing or complying with, or introduced in order to conform to, this 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 30 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 if the Spanish Tax Authorities determine that payments made to such individuals are not exempt from Spanish withholding tax and require a withholding to be made.

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 in the Kingdom of Spain –Information about the Instruments in Connection with Payments" in the Base Prospectus for a fuller description of certain tax considerations relating to the Instruments and the formalities that must be followed so that Holders may receive the payments under the Instruments free from Spanish withholding tax.

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 5.09.

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 5.09.

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 close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "Clearing System Business Day" means a day on which each clearing system for which the Registered Instrument is being held is open for business.

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 5.09.

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 unmaturing 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 Union regulations) into Euro established by the Council of the European Union pursuant to Article 1091(4) of the Treaty;
- (ii) "**Euro**" means the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the Euro, as amended;
- (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 competent authority, stock exchange and/or quotation system and the rules of the Financial Services Authority and/or such other competent 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 law implementing or complying with, or introduced in order to conform to, this 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 competent 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 competent authority, stock exchange and/or quotation system, subject to all applicable laws and the requirements of any competent 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 consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*) of each Syndicate of Holders of the Instruments; and
- (ii) "**Syndicate**" means the syndicate (*sindicato*) within the meaning of the consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*).

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 in relation to any Person, any other Person (whether or not now existing) which is controlled directly or indirectly, or more than 50% of whose issued equity share capital (or equivalent) is then held or beneficially owned by, the first Person and/or any one or more of the first Person's Subsidiaries, and "**control**" means the power to appoint the majority of the members of the governing body or management of, or otherwise to control the affairs and policies of, that Person.

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 or 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 non-contractual obligations arising out of or in connection with the Instruments, the Issue and Paying Agency Agreement, the Deed of Guarantee and the Deed of Covenant are governed by 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 (including a dispute relating to the existence, validity or termination of the Instruments or any non-contractual obligations arising out of or in connection with the Instruments or the consequences of their nullity).

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 the Companies Act 2006. 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 Law 22/2003 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 12 June 2012

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 12 June 2012 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 12 June 2012.
- (B) Instruments will be issued on a listed 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 Telefónica
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 non-contractual obligations arising out of or in connection with it are governed by, and 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 relating to non-contractual obligations arising from or in connection with this Guarantee, or a dispute regarding the existence, validity or termination of this Guarantee or any non-contractual obligations arising out of or in connection with the 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 the Companies Act 2006. 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 [40,000,000,000] 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 [•] to [•], inclusive, of the Base Prospectus dated [date] [and the supplemental Base Prospectus dated [•] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of 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 Mellon (Luxembourg), S.A. at Vertigo Building – Polaris, 2-4 rue Eugène Ruppert, L-2453 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 [date]. These Final Terms contain the final terms of the Instruments and must be read in conjunction with the Base Prospectus dated [date] [and the supplemental Base Prospectus dated [date]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of 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 Prospectus dated [date] [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 Mellon (Luxembourg), S.A. at Vertigo Building – Polaris, 2-4 rue Eugène Ruppert, L-2453 Luxembourg].

[Include whichever of the following apply or specify as "Not applicable" (N/A). Note 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 consideration should be given as to whether any 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: | [•] |
| | <i>Instruments to be admitted to trading on a regulated market as defined in Article 4, paragraph 1, point 14 of Directive 2004/39/EC, may not have a minimum denomination of less than EUR100,000 (or nearly equivalent in another currency)</i> | |
| | (ii) Calculation Amount: | [•] |
| 7. | (i) Issue Date: | [•] |
| | (ii) Interest Commencement Date: | [Specify/Issue Date/Not applicable] [Specify date or (for Floating Rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year] |
| 8. | Maturity Date: | <i>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.</i> |
| 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 subparagraphs 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 subparagraphs 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: [•]
 - (iv) 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 sub-paragraphs 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 subparagraphs 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**
- 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 [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

different from that set out in the Conditions): *principal amount of the Instruments*]

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. Relevant Financial Centre(s) or other special provisions relating to payment dates: [Not applicable/give details]
Note 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, renominalisation 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 completing any final terms consideration should be given as to whether any 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.])

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 40,000,000,000 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 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 [•].]
(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]: [•]]
- [Option 1: Credit Rating Agency ("CRA") is (i) established in the EU and (ii) registered under the CRA Regulation: [Insert legal name of particular credit rating agency entity providing rating] is established in the EU and registered under Regulation (EC) No 1060/2009, as amended (the "CRA Regulation").]**
- [Option 2: Credit Rating Agency ("CRA") is not established in the EU nor registered under the CRA Regulation: [Insert legal name of particular credit rating agency entity providing rating] is not established in the EU and is not registered under Regulation (EC) No 1060/2009, as amended (the "CRA Regulation").]**
- [Option 3: CRA is not established in the EU but the relevant rating is endorsed by a CRA which is established and registered under the CRA Regulations: [Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but the rating it has given to the Instruments is endorsed by [insert legal name of credit rating agency], which is established in the EU and registered under Regulation (EC) No 1060/2009 (the "CRA Regulation").]**
- [Option 4: CRA is not established in the EU and the relevant rating is not endorsed under the CRA Regulation, but the CRA is certified in accordance with the CRA Regulation: [Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but is certified under Regulation (EC) No 1060/2009 (the "CRA Regulation").]**

(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 completing any final terms consideration should be given as to whether any 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.]

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

[(i) Reasons for the offer [•]

(See ["Use of Proceeds"] wording in Base 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 any final terms consideration should be given as to whether any 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.)]

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 any final terms consideration should be given as to whether any 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.)]

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]
[Only applicable to Bearer Instruments]
[Note 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 recognised 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 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 Via 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.

The Issuer is governed by the consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*).

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.

The principal events that have occurred since 31 December 2011 are set forth below:

- On 7 February 2012, Telefónica Emisiones, S.A.U. issued €120 million 4.75% instruments with a maturity date of 7 February 2017, fungible with an issue of €1,200 million instruments issued on 7 February 2011.
- On 21 February 2012, Telefónica Emisiones, S.A.U. issued €1,500 million 4.797% instruments with a maturity date of 21 February 2018.
- On 12 March 2012, Telefónica Emisiones, S.A.U. issued £700 million 5.597% instruments with a maturity date of 12 March 2020.
- On 30 March 2012, Telefónica Emisiones, S.A.U. issued CZK1,250 million 3.934% instruments with a maturity date of 30 March 2017.
- On 17 April 2012, Telefónica Emisiones, S.A.U. redeemed €500 million fixed rate instruments, guaranteed by Telefónica, S.A., issued on 17 October 2006.

All issues were made under Telefónica Emisiones, S.A.U.'s European Medium Term Note Programme, up to a limit of €40,000 million, guaranteed by Telefónica, S.A. of 20 June 2011. The Issuer has used the proceeds of these issuances to provide loans to the Guarantor.

Directors

The Directors of the Issuer are as follows:

<u>Name</u>	<u>Principal occupation</u>	<u>Principal External Activities</u>
Eduardo Álvarez Gómez	Director	Head of Financing Director at Telefónica, S.A. Joint and several Director of Telefónica Participaciones, S.A. Managing Director of Telefónica Europe, B.V.
Juan Jose Gómez Migueláñez	Director	Head of Treasury, Risk and Corporate Insurance at

Telefónica, S.A.
Executive Vice-Chairman of TelefónicaFinanzas, S.A.U.
Executive Vice Chairman of Fisatel Mexico
Chairman of Telfisa Global, B.V.
Joint and several director of TelefónicaParticipaciones,
S.A.U
Director of Telefónica Factoring España
Director of Telefónica Factoring Peru
Director of Telefónica Factoring Colombia
Director of Telefónica Factoring Brasil
Director of Telefónica FactoringMexico
Director of Telefónica Factoring Chile
Director of Antares
Director and Chairman of Casiopea Re
Director and Chairman of Telefónica Insurance
Director and Chairman of TelefónicaLuxembourg Holding
Proprietary director of Fonditel
Director and Chairman of Pléyade Peninsular

The business address of each of the directors of the Issuer is Distrito Telefónica, 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., is a corporation duly organised and existing under the laws of the Kingdom of Spain, incorporated on 19 April 1924. The registered office of the Issuer is at Gran Via 28, 28013 Madrid, Spain, telephone number (Spain) +34 91 482 34 33. We are:

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

Telefónica has been assigned long term credit ratings of BBB, Baa1¹, BBB+ and A, respectively, by S&P, Moody's, Fitch and the JCR Agency. Telefónica has been assigned short term credit ratings of A2, P2 and F2, respectively, by S&P, Moody's and Fitch. Each of S&P, Moody's and Fitch is established in the European Union and is registered under the CRA Regulation. JCR Agency is not established in the European Union but is certified in accordance with the CRA Regulation.

The following significant events occurred in 2011:

- On 23 January 2011, Telefónica and China Unicom signed an extension to their strategic alliance agreement, pursuant to which both companies agreed to strengthen and deepen their strategic cooperation in certain business areas and committed to investing the equivalent of \$500 million in ordinary shares of the other party toward the alliance. On 28 January 2011, China Unicom completed its acquisition of Telefónica shares, resulting in its ownership of 1.37% of our outstanding share capital. Likewise, on 9 September 2011, we completed our acquisition of China Unicom shares. As a consequence of this acquisition, we are the owner of approximately 9.6% of China Unicom's ordinary share capital.
- On 25 March 2011, pursuant to a corporate restructuring of our subsidiaries in Brazil, Telecomunicações de São Paulo S.A. – Telesp ("**Telesp**") and Vivo Participações, S.A., ("**Vivo**"), the Board of Directors of both companies approved the terms and conditions for a merger of shares, by which the totality of Vivo's shares were merged into Telesp. Former Vivo shareholders received 1.55 new shares of Telesp in exchange for each Vivo share.
- On 7 July 2011, Telefónica de España, S.A.U. agreed with certain Spanish labour unions to the terms of a redundancy plan affecting up to 6,500 jobs. The redundancy plan was approved by the Spanish labour authorities on 14 July 2011.
- On 29 July 2011, Telefónica Móviles España, S.A.U. submitted a winning bid for 5 frequency blocks, giving the company access to spectrum in all bands assigned to mobile services. The total cost of the spectrum blocks amounted to €842 million, with payment distributed over two years (€441 million was paid in 2011 and the remaining amount will be paid in the second quarter of 2012).
- On 5 September 2011, the Executive Commission of our Board of Directors approved a new organisational structure, the principal features of which include:
 - the creation of a new business unit, Telefónica Digital, headquartered in London and headed by Mathew Key, who previously headed Telefónica Europe;
 - the configuration of two large geographical blocks: Europe (including operations in Spain) and Latin America. José María Álvarez-Pallete, former head of Telefónica Latin America, oversees Europe, while Santiago Fernández Valbuena, previously General Manager of Strategy, Finance and Corporate Development, is in charge of Latin America; and

¹ On review for downgrade.

- the creation of a Global Resources operating unit overseen by Guillermo Ansaldo, former head of Telefónica Spain.

Business areas

Throughout 2011, we followed our historical regional, integrated management model based on three business areas by geographical market and integrated fixed line and mobile businesses in Spain, Latin America and the rest of Europe.

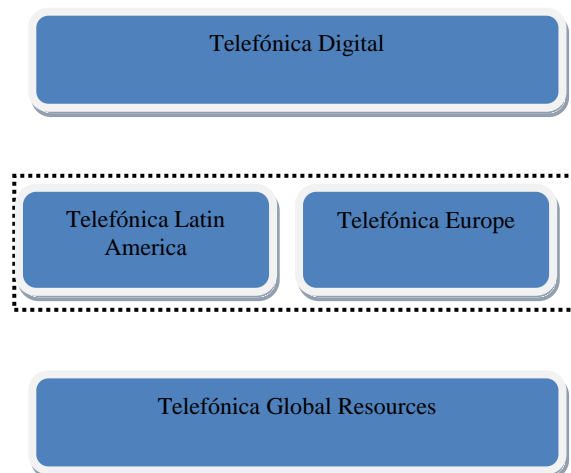
- Telefónica Spain: oversees the fixed and mobile telephony services, broadband, internet, data, broadband TV, value added services operations and their development in Spain.
- Telefónica Latin America: oversees the fixed and mobile telephony services, broadband, internet, data, broadband TV, value added services operations and their development in Latin America.
- Telefónica Europe: oversees the fixed and mobile telephony services in the United Kingdom, Germany, Ireland, the Czech Republic and Slovakia. Also includes Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA), whose activities are primarily focused on the provision of services to multinationals as well as the provision of global wholesale telecommunications services to international fixed and mobile voice operators, ISPs and content providers.

We are also involved in the media and contact centre segments through Telefónica de Contenidos and Atento, respectively.

Business Overview

We are one of the world's leading mobile and fixed communications services providers. Our strategy is to become the leader in the new digital world and transform its possibilities into reality.

Against this backdrop, and with the aim of reinforcing our growth story, actively participating in the digital world and maximising opportunities afforded by our scale and industrial alliances, in September 2011 we approved a new organisational structure for the Telefónica group. This new structure, which we expect to become fully operational in 2012, is organised as follows:



This new organisational structure is aimed toward reinforcing our place in the digital world, enabling us to tap growth opportunities, drive innovation, strengthen our product and services portfolio and maximise advantages afforded by our large customer bases in an increasingly connected world. In addition, the creation of our Global Resources operating unit is aimed toward driving the profitability and sustainability of the business by leveraging economies of scale and driving Telefónica's transformation into a fully global group.

Telefónica Europe's and Telefónica Latin America's objective is to shore up the results of the business and generate sustainable growth through available capacity, backed by the global corporation. Our three historical segments, Telefónica Spain, Telefónica Europe and Telefónica Latin America, have been maintained for purposes of this Base Prospectus because the organisational change was approved in September 2011, and we expect to implement it throughout the course of 2012.

Our growth strategy for the next few years is geared towards:

- Improving the customer experience in order to continue increasing our number of accesses
- Promoting growth:
 - Boosting the penetration of smartphones in our markets in order to accelerate the growth of mobile data usage.
 - Reinforcing our competitive position in the fixed line business with a focus on broadband, offering faster speeds, bundled offers and full IP voice and video services.
 - Leveraging growth opportunities arising from an increasingly digital environment (e.g. video, OTT, financial services, cloud computing eHealth and media).
- Continuing efforts to transform our operating model:
 - Increasing network capacity in key markets through technological advances or acquisitions of spectrum.
 - Focusing on the IT area to accelerate the transformation.
 - Proceeding towards becoming an international digital and online service provider group.
- Maximising economies of scale to boost efficiency.

We have operations in Spain, the United Kingdom, Germany, the Czech Republic, Ireland and Slovakia in Europe, as well as Mexico, several countries in Central America, Brazil, Venezuela, Colombia, Peru, Argentina, Chile, Uruguay and Ecuador.

We also have an industrial alliance with Telecom Italia and a strategic alliance with China Unicom, in which we increased our stake to 9.6% of its voting share capital in 2011. In addition, we rolled out our "Partners Program" in 2011 with the objective of unlocking the value of our scale. Three operators have already signed up for this program (Bouygues Telecom, Etisalat Telecommunications Corporation and Sunrise Telecom). This initiative makes a host of services available to selected operators under commercial terms that allow the partners to leverage our scale and foster cooperation in key business areas (e.g. roaming, services to multinationals, procurement and handsets).

2011 Highlights

The amount of cash flow available for distribution to Telefónica, S.A. shareholders, to protect solvency levels (financial debt and commitments) and to accommodate strategic flexibility at 31 December 2011 amounted to €9,270 million up 9.5% from 2010, while we maintained strong investment objectives amid an adverse economic environment.

Growth in accesses remained strong (7%), driven by an 8.4% increase in mobile accesses.

Also noteworthy was the sharp growth of our data business, thanks to increasing mobile broadband penetration, accounting for 16% of our mobile access base in 2011, up from 11% in 2010.

Meanwhile, revenues grew 3.5%, with Telefónica Latin America as the Group's main growth driver, contributing 6.4 percentage points to consolidated revenue growth (excluding the effects of foreign exchange-rates and Venezuela being considered a hyperinflationary economy) and representing 47% of our consolidated revenue and 54% of OIBDA.

Investment remained at high levels (€10,224 million of capital expenditures, including €1,296 million of spectrum acquisitions in Spain, Brazil, Costa Rica and Colombia), aimed at future growth.

Total Group Accesses

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	40,606.0	41,355.7	40,119.20	1.8%	(3.0)%
Internet and data accesses	15,082.5	18,611.4	19,134.2	23.4%	2.8%
Narrowband accesses	1,427.5	1,314.1	909.2	(7.9)%	(30.8)%
Broadband accesses ⁽²⁾	13,492.6	17,129.6	18,066.3	27.0%	5.5%
Other accesses ⁽³⁾	162.4	167.8	158.7	3.3%	(5.4)%
Mobile accesses	202,332.5	220,240.5	238,748.6	8.9%	8.4%
Pre-pay accesses	142,806.6	151,273.9	162,246.9	5.9%	7.3%
Contract accesses	59,525.9	68,966.6	76,501.7	15.9%	10.9%
Pay TV accesses ⁽⁴⁾	2,489.2	2,787.4	3,309.9	12.0%	18.7%
Final clients accesses	260,510.2	282,994.9	301,311.8	8.6%	6.5%
Unbundled local loop accesses.....	2,206.0	2,529.2	2,928.7	14.7%	15.8%
Shared UL accesses	447.7	264.0	205.0	(41.0)%	(22.3)%
Full UL accesses	1,758.3	2,265.3	2,723.7	28.8%	20.2%
Wholesale ADSL accesses ⁽⁵⁾	463.4	687.4	849.3	48.3%	23.6%
Other accesses ⁽⁶⁾	1,426.0	1,420.7	1,518.0	(0.4)%	6.8%
Wholesale accesses	4,095.3	4,637.4	5,296.0	13.2%	14.2%
Total accesses	264,605.5	287,632.3	306,607.8	8.7%	6.6%

(1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 access x30. Includes our accesses for internal use. It also includes VoIP and naked ADSL accesses.

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

(3) Includes remaining non-broadband retail circuits.

(4) Includes accesses by 153 thousand TVA clients at June 2011.

(5) Includes unbundled lines rented by the Group in Germany.

(6) Includes circuits for other operators. Includes Wholesale Rental of Telephone Access in Spain.

Our Services and Products

Mobile business

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

- *Mobile voice services.* Our principal service in all of our markets is mobile voice telephony.
- *Value added services.* Customers in most of our markets have access to a range of enhanced mobile 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, or SMS, and Multimedia Messaging Services, or 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 provide mobile broadband connectivity and Internet access. Through mobile Internet access, our customers are able to send and receive e-mail, browse the Internet, 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 several MVNOs in different countries.
- *Corporate services.* We provide business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible on line billing.

- *Roaming.* We have roaming agreements that allow our customers to use their mobile 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 Venezuela, Argentina, Peru, 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.

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 services; intelligent network services; leasing and sale of handset equipment; and telephony information services.
- *Internet and broadband multimedia services.* Our principal Internet and broadband multimedia services include Internet service provider service; portal and network services; retail and wholesale broadband access through ADSL; naked ADSL (broadband connection without the monthly fixed line fee); narrowband switched access to Internet for universal service, and other technologies; residential-oriented value-added services (including instant messaging, concerts and video clips by streaming video, e-learning, parental control, firewall protection, anti-virus protection, content delivery and 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. Telefónica Spain provides services based on Fiber to the Home (FTTH), including a new range of products and services name "FUTURA". This line of products includes high speed Internet access (currently up to 30 Mb), which allows Telefónica Spain to provide its customers with advanced IPTV services, such as Multiroom (allowing clients to watch different TV channels in different rooms) and Digital Video Recording (DVR).
- *Data and business-solutions services.* Our data and business-solutions services principally include leased lines; virtual private network, or VPN, services; fiber optics services; the provision of hosting and application, or ASP, service, including web hosting, managed hosting, content delivery and application, and security services; outsourcing and consultancy services, including network management, or CGP; 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. It also includes bit stream services, bit stream naked, wholesale line rental accesses and leased ducts for other operators' fiber deployment.

Telefónica Latin America

The following table presents, at the dates indicated, selected statistical data relating to our operations in Latin America:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	24,578.3	24,403.6	23,960.7	(0.7)%	(1.8)%
Internet and data accesses	7,605.2	8,235.1	8,885.9	8.3%	7.9%
Narrowband accesses ⁽²⁾	1,070.6	674.8	389.4	(37.0)%	(42.3)%

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
Broadband accesses ⁽³⁾⁽⁴⁾	6,426.8	7,442.3	8,385.9	15.8%	12.7%
Other accesses ⁽⁵⁾	107.8	118.0	110.6	9.5%	(6.3)%
Mobile accesses.....	134,698.9	149,255.4	166,297.9	10.8%	11.4%
Pre-pay accesses.....	111,503.6	119,359.1	131,087.2	7.0%	9.8%
Contract accesses.....	23,195.4	29,896.3	35,210.7	28.9%	17.8%
Pay TV accesses ⁽⁶⁾	1,648.6	1,792.7	2,257.7	8.7%	25.9%
Final clients accesses.....	168,531.1	183,686.9	201,402.2	9.0%	9.6%
Wholesale accesses.....	56.1	55.9	50.9	(0.4)%	(9.0)%
Total accesses.....	168,587.2	183,742.8	201,453.0	9.0%	9.6%

- (1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access.
- (2) Includes Terra Brazil and Terra Colombia narrowband ISP accesses.
- (3) Includes Terra Brazil and Terra Mexico narrowband ISP accesses.
- (4) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits.
- (5) Includes remaining non-broadband retail circuits.
- (6) Includes accesses by 153 thousand TVA clients at June 2011.

Key trends in the mobile business:

We achieved considerable growth in accesses in 2011 (11%), driven by an 18.7% increase in Brazil to 71.6 million accesses, despite the disconnection of approximately one million inactive pre-pay mobile accesses during the year. This represented an acceleration in the pace of growth compared with the prior year and boosted Brazil's share of total accesses.

Our contract customer base grew 18% in 2011 and represented 21% of total mobile accesses in Latin America, in line with our growth strategy for the region.

Mobile broadband accesses increased 114% and represented 10% of the region's total accesses, helping drive overall growth in revenues.

Traffic in Telefónica Latin America grew 13% in 2011, outpacing the growth of accesses.

Total mobile ARPU in the Latin American region, excluding foreign exchange rate and hyperinflation effects, increased despite cuts to interconnection prices during the year.

Key trends in the fixed line business:

Broadband accesses grew 13% in 2011 to 8.4 million, as a result of improved service and faster speeds offered at more competitive prices amid fierce competition. Our commercial repositioning, through new high definition channels and prepaid TV offers in some business units, drove a 26% increase in TV accesses to 2.3 million. There were fixed line access losses of 2%, despite our ongoing commitment to bundling services, which we consider our best line-retention tool.

Brazil

The following table presents, at the dates indicated, selected statistical data relating to our operations in Brazil:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	11,253.8	11,292.6	10,977.4	0.3%	(2.8)%
Internet and data accesses.....	3,440.2	3,848.2	3,942.6	11.9%	2.5%
Narrowband accesses.....	723.1	446.2	214.5	(38.3)%	(51.9)%
Broadband accesses ⁽²⁾	2,638.4	3,319.2	3,648.0	25.8%	9.9%
Other accesses ⁽³⁾	78.7	82.8	80.0	5.2%	(3.3)%
Mobile accesses.....	51,744.4	60,292.5	71,553.6	16.5%	18.7%
Pre-pay accesses.....	41,960.7	47,658.6	55,438.1	13.6%	16.3%
Contract accesses.....	9,783.7	12,633.9	16,115.5	29.1%	27.6%
Pay TV accesses ⁽⁴⁾	487.2	486.3	698.6	(0.2)%	43.7%
Final clients accesses.....	66,925.7	75,919.6	87,172.1	13.4%	14.8%

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Wholesale accesses	34.2	33.9	28.0	(0.9)%	(17.3)%
Total accesses	66,959.8	75,953.5	87,200.1	13.4%	14.8%

- (1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use and total accesses from "fixed wireless".
- (2) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits.
- (3) Includes remaining non-broadband retail circuits.
- (4) Includes accesses by 153 thousand TVA clients at June 2011.

The Brazilian telecommunications market continues to grow rapidly. It leads the region in adopting new services, with significant progress in mobile and broadband data. In this setting, our operations in Brazil during 2011 also fared well. Telefónica Brasil remained the market leader in mobile accesses and revenues in 2011, although its share in fixed broadband accesses eroded due to aggressive commercial efforts by competitors. It managed to do this by improving the products and services offered. During the year, the company launched fixed wireless service in 90 cities outside Sao Paulo, expanding fixed services beyond its traditional service territories. It also launched a push-to-talk mobile service and began offering high definition products to satellite TV customers. Additionally, after acquiring spectrum in 2010, the company commenced commercial activity in 2011 in the 1800Mhz band in the North and North-eastern regions (in October), Bahia, Sergipe and Espiritu Santo (in November), and Sao Paulo, Rio and Parana Santa Catalina (in December), boosting its commercial position, particularly in the pre-pay segment.

It also repositioned pre-pay with a new "Vivo sempre" rate, boosting top-ups and local and long-distance traffic.

As a result of all the new commercial initiatives, Telefónica ended 2011 with 87.2 million accesses in Brazil (a 15% increase compared with 2010), with strong growth in both mobile (19% increase) and fixed broadband (10% increase) accesses.

Argentina

The following table presents, at the dates indicated, selected statistical data relating to our operations in Argentina:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	4,607.7	4,621.5	4,611.0	0.3%	(0.2)%
Fixed wireless accesses	36.2	35.5	38.2	(1.9)%	7.6%
Internet and data accesses	1,351.0	1,505.4	1,630.7	11.4%	8.3%
Narrowband accesses	112.7	65.7	35.7	(41.7)%	(45.7)%
Broadband accesses ⁽²⁾	1,238.3	1,439.7	1,595.1	16.3%	10.8%
Mobile accesses	15,931.9	16,148.9	16,766.7	1.4%	3.8%
Pre-pay accesses	10,736.8	10,370.4	10,581.3	(3.4)%	2.0%
Contract accesses	5,195.2	5,778.5	6,185.4	11.2%	7.0%
Final clients accesses	21,890.7	22,275.8	23,008.4	1.8%	3.3%
Wholesale accesses	9.3	13.0	13.9	39.8%	7.0%
Total accesses	21,900.0	22,288.8	23,002.3	1.8%	3.3%

- (1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use and total accesses from "fixed wireless".
- (2) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits.

Telefónica de Argentina continued to focus more on value than volume in 2011, causing it to lose mobile access market share (down 1.2 percentage points from 2010 to 29.8%), but enabling it to remain the leader in terms of revenues. Commercial activity in the mobile business was strong in 2011. Net adds in accesses grew during the year, while the contract segment also delivered a solid performance, with growth of 7% and a penetration rate of 37% of the total access base.

In the fixed line business, the company remained the leader in both fixed line and broadband accesses in Argentina, maintaining growth in number of lines in contrast to the rest of its operations in the region.

Venezuela

The following table presents, at the dates indicated, selected statistical data relating to our operations in Venezuela:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Mobile accesses	10,531.4	9,514.7	9,438.7	(9.7)%	(0.8)%
Pre-pay accesses	9,891.1	8,740.3	8,570.9	(11.6)%	(1.9)%
Contract accesses	640.3	774.4	867.8	20.9%	12.1%
Fixed wireless accesses	1,214.3	966.2	883.4	(20.4)%	(8.6)%
Pay TV accesses	62.8	69.3	114.3	10.4%	65.0
Total accesses	11,808.5	10,550.2	10,436.4	(10.7)%	(1.1)%

Telefónica Móviles Venezuela remained the market leader in 2011 in terms of accesses. The company reinforced its leadership by focusing its strategy on innovating and maximizing customer value. Services launched in the year include Movitalk (push-to-talk) and HD pay-TV services. In a country with high smartphone penetration, the company also continued to focus on commercial campaigns to promote mobile broadband adoption.

Chile

The following table presents, at the dates indicated, selected statistical data relating to our operations in Chile:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	2,028.0	1,939.3	1,848.1	(4.4)%	(4.7)%
Internet and data accesses	807.2	836.0	887.4	3.6%	6.1%
Narrowband accesses	15.9	6.6	5.8	(58.5)%	(12.3)%
Broadband accesses ⁽²⁾	783.2	821.5	878.1	4.9%	6.9%
Other accesses ⁽³⁾	8.1	7.9	3.5	(2.5)%	(55.9)%
Mobile accesses	7,524.7	8,794.0	9,548.1	16.9%	8.6%
Pre-pay accesses	5,435.9	6,179.3	6,732.7	13.7%	9.0%
Contract accesses	2,088.8	2,614.7	2,815.4	25.2%	7.7%
Pay TV accesses	285.1	341.2	390.8	19.7%	14.5%
Final clients accesses	10,645.0	11,910.5	12,674.4	11.9%	6.4%
Wholesale accesses	8.9	5.3	5.2	(40.4)%	(2.2)%
Total accesses	10,653.8	11,915.8	12,679.6	11.8%	6.4%

(1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use and total accesses from "fixed wireless".

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

(3) Includes remaining non-broadband retail circuits.

Telefónica Chile managed 9.5 million mobile accesses at December 31, 2011, an increase of 9% for the year amid fierce competition. During the year, the company disconnected 0.4 million inactive pre-pay accesses. The company remained the market leader in accesses, with a 39.1% share, despite aggressive commercial activity in the country.

In the fixed line business, broadband accesses increased by 7%. The TV business also fared well due to the launch of HD channels, in line with our strategy aimed at segmenting our product portfolio.

Mexico

The following table presents, at the dates indicated, selected statistical data relating to our operations in Mexico:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Mobile accesses	17,400.5	19,661.6	19,742.4	13.0%	0.4%
Pre-pay accesses	16,328.3	18,061.3	18,149.8	10.6%	0.5%
Contract accesses	1,072.1	1,600.2	1,592.6	49.3%	(0.5)%
Fixed wireless	334.3	565.5	745.3	69.2%	31.8%
Total accesses	17,734.8	20,227.1	20,487.7	14.1%	1.3%

The year 2011 was marked by Telefónica Mexico's commercial repositioning, aimed toward adapting its rates in the wake of interconnection price cuts, and by the more restrictive customer acquisition and retention policy adopted by the company. Telefónica Mexico managed 19.7 million mobile accesses at the end of 2011, roughly in line with the prior year.

Peru

The following table presents, at the dates indicated, selected statistical data relating to our operations in Peru:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	2,971.2	2,871.2	2,848.4	(3.4)%	(0.8)%
Fixed wireless	582.7	537.8	444.6	(7.7)%	(17.3)%
Internet and data accesses	800.6	885.4	1,120.4	10.6%	26.5%
Narrowband accesses	16.9	15.4	9.4	(8.9)%	(38.7)%
Broadband accesses ⁽²⁾	768.0	850.8	1,090.6	10.8%	28.2%
Other accesses ⁽³⁾	15.6	19.2	20.4	23.1%	6.1%
Mobile accesses	11,458.2	12,507.1	13,998.3	9.2%	11.9%
Pre-pay accesses	10,214.2	10,104.4	11,079.6	(1.1)%	9.7%
Contract accesses	1,244.1	2,402.7	2,918.7	93.1%	21.5%
Pay TV accesses	686.3	690.6	799.0	0.6%	15.7%
Final clients accesses	15,916.3	16,954.3	18,766.1	6.5%	10.7%
Wholesale accesses	0.5	0.5	0.4	N/A	(3.7)%
Total accesses	15,916.8	16,954.8	18,766.6	6.5%	10.7%

(1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use and total accesses from "fixed wireless".

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

(3) Includes remaining non-broadband retail circuits.

Telefónica reinforced its leadership of the Peruvian market in 2011, with an 11% increase in total accesses, driven by growth in the mobile, pay TV and fixed broadband businesses.

Colombia

The following table presents, at the dates indicated, selected statistical data relating to our operations in Colombia:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	1,639.8	1,586.9	1,480.6	(3.2)%	(6.7)%
Internet and data accesses	428.4	553.6	620.3	29.2%	12.0%
Narrowband accesses	5.9	5.6	7.9	(5.1)%	41.5%
Broadband accesses ⁽²⁾	420.3	548.0	612.3	30.4%	11.7%
Other accesses ⁽³⁾	2.2	0.0	0.0	N/A	N/A
Mobile accesses	8,964.6	10,004.5	11,391.1	11.6%	13.9%
Pre-pay accesses	7,203.2	7,679.1	8,626.8	6.6%	12.3%
Contract accesses	1,761.4	2,325.5	2,764.2	32.0%	18.9%
Pay TV accesses	127.2	205.3	255.0	61.4%	24.2%
Final clients accesses	11,159.9	12,350.3	13,746.9	10.7%	11.3%
Wholesale accesses	3.3	3.3	3.3	N/A	N/A
Total accesses	11,163.2	12,353.6	13,750.2	10.7%	11.3%

- (1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use and total accesses from "fixed wireless".
- (2) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits.
- (3) Includes remaining non-broadband retail circuits.

Despite strong competition, Telefónica was very active commercially in Colombia in 2011, ending the year with 13.8 million accesses, an increase of 11% compared with 2010.

Telefónica Spain

The following table presents, at the dates indicated, selected statistical data relating to our operations in Spain:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	14,200.1	13,279.7	12,305.4	(6.5)%	(7.3)%
Free ADSL.....	14.7	38.1	34.4	159.2%	(9.6)%
Internet and data accesses	5,722.5	5,879.8	5,710.9	2.7%	(2.9)%
Narrowband accesses	219.5	136.1	84.4	(38.0)%	(38.0)%
Broadband accesses ⁽²⁾	5,476.8	5,722.3	5,608.6	4.5%	(2.0)%
Other accesses ⁽³⁾	26.2	21.4	17.9	(18.3)%	(16.6)%
Mobile accesses	23,538.6	24,309.6	24,174.3	3.3%	(0.6)%
Pre-pay accesses	8,204.5	7,919.8	7,359.4	(3.5)%	(7.1)%
Contract accesses	15,334.1	16,389.7	16,814.9	6.9%	2.6%
Pay TV accesses	703.0	788.2	833.2	12.1%	5.7%
Final clients accesses	44,164.2	44,257.4	43,023.8	0.2%	(2.8)%
AMLT ⁽⁴⁾	97.4	294.5	440.6	N/S	49.6%
Rented Bundles	2,153.8	2,477.1	2,881.1	15.0%	16.3%
Shared UL accesses.....	447.7	264.0	205.0	(41.0)%	(22.3)%
Unbundled local loop accesses ⁽⁵⁾	1,706.1	2,213.1	2,676.1	29.7%	20.9%
Wholesale ADSL.....	359.0	561.3	709.6	56.4%	26.4%
Other accesses ⁽⁶⁾	3.7	0.9	0.6	(75.7)%	(29.2)%
Wholesale accesses	2,614.0	3,333.8	4,031.9	27.5%	20.9%
Total accesses	46,778.2	47,591.2	47,055.7	1.7%	(1.1)%

- (1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use, VOIP and free ADSL.
- (2) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits.
- (3) Rented circuits.
- (4) Wholesale rental of *Linea Telefónica*.
- (5) Includes naked shared UL.
- (6) Wholesale circuits.

In 2011 the Spanish market was shaped by the economic downturn, with declines in the principal macroeconomic indicators in the latter months of the year, and a fiercely competitive environment with intense commercial pressure.

At the end of 2011, Telefónica Spain managed a total of 47.1 million accesses, nearly the same as in 2010 (a 1% decline) despite heavy pressure from competitors. Against this backdrop, Telefónica Spain's market share fell slightly.

Fixed broadband Internet accesses fell 2.0% in 2011 as our commercial strategy focused more on "value" amid stiff competition, with a slowdown in promotional activity in certain months of the year before the September launch of a new ADSL offer boosted activity and net adds in the latter part of the year.

Telefónica Spain took a number of steps during the course of the year focused on reducing its operating costs (primarily the labour force reduction plan) and improving its competitive position. At the end of the third quarter, the company launched its new services catalogue, which promotes customer exclusivity by offering cross discounts for customers whose entire telecommunications spend is with Movistar. The company also completed the repositioning of its commercial offerings in the fourth quarter of 2011 with the launch of new mobile rates for contract customers. The new rates combine voice, data and SMS offerings, eliminate the voice rate structure that varied depending on time of call and call destination and

include unlimited SMS in all data tariffs. Rates are now structured by usage corresponding to the amount each customer wishes to spend. Also, in the fourth quarter of 2011, voice tariffs were streamlined for pre-pay customers with a highly competitive and flexible offer.

In the fixed line business, in the third quarter of 2011, Telefónica launched 10 mega ADSL with value-added services at €24.9 per month, while in the fourth quarter of the year it enhanced its offerings with a basic ADSL plan at €19.9 per month (excluding value-added services and fixed-to-mobile calls). Value-added services packages enjoyed greater adoption during the year.

Telefónica Europe

The following table presents, at the dates indicated, selected statistical data relating to our operations in Europe:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	1,827.5	3,672.4	3,853.1	101.0%	4.9%
Internet and data accesses	1,754.7	4,496.4	4,537.4	156.2%	0.9%
Narrowband accesses	137.3	503.2	435.4	N/S	(13.5)%
Broadband accesses	1,589.1	3,964.9	4,071.8	149.5%	2.7%
Other accesses ⁽²⁾	28.3	28.3	30.3	0.0%	6.9%
Mobile accesses	44,095.0	46,675.5	48,276.4	5.9%	3.4%
Pre-pay accesses	23,098.5	23,994.9	23,800.3	3.9%	(0.8)%
Contract accesses	20,996.5	22,680.6	24,476.1	8.0%	7.9%
Pay TV accesses	137.6	206.4	219.0	50.0%	6.1%
Final clients accesses	47,814.9	55,050.6	56,885.9	15.1%	3.3%
Wholesale accesses ⁽³⁾	1,425.2	1,247.7	1,213.2	(12.5)%	(2.8)%
Total accesses	49,240.1	56,298.3	58,099.1	14.3%	3.2%

(1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use, VOIP and free ADSL.

(2) Includes remaining non-broadband retail circuits.

(3) Includes unbundled lines rented by Telefónica Germany. As of March 2010, Telefónica Europe accesses include HanseNet TelekommuniKation GmbH (HanseNet) accesses.

Key trends in the mobile business:

- Telefónica Europe achieved a 3% growth in accesses, led by Germany, where accesses increased 6.1% to 24.5 million at 31 December 2011, due to a 7.8% increase in mobile accesses.
- Commercial momentum was healthy, backed by a sharp increase in mobile contract customers, with net adds of 1.8 million 2011, an increase of 8% from 2010.
- Mobile broadband accesses increased 31% and represented 31% of the region's total accesses, driving growth in revenues.
- ARPUs of Telefónica and some other European operators were under heavy pressure, affected by interconnection price cuts, an adverse economic backdrop (with waning consumption) and, in some cases, decreases in prices amid fierce competitive pressures.

United Kingdom

The following table presents, at the dates indicated, selected statistical data relating to our operations in the United Kingdom:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	0.0	86.7	216.1	N/A	N/S
Internet and data accesses	591.5	671.6	620.3	13.5%	(7.6)%
Broadband accesses	591.5	671.6	620.3	13.5%	(7.6)%
Mobile accesses	21,299.3	22,211.5	22,167.5	4.3%	(0.2)%
Pre-pay accesses	11,740.3	11,712.3	11,227.3	(0.2)%	(4.1)%

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Contract accesses	9,558.9	10,499.2	10,940.3	9.8%	4.2%
Final clients accesses	21,890.8	22,969.8	23,003.9	4.9%	0.1%
Wholesale accesses ⁽²⁾	0.0	0.0	26.7	N/A	N/A
Total accesses	21,890.8	22,969.8	23,030.7	4.9%	0.3%

(1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use, VOIP and free ADSL.

(2) Includes unbundled lines rented by Telefónica United Kingdom.

The United Kingdom market remained extremely competitive in 2011, and was also impacted by adverse economic conditions. The company focused on a "value over volume" strategy in the first half of the year, before ramping up commercial efforts again in the second half of the year, offering a new rate structures for smartphones in August and implementing a pro-active customer retention program in the contract segment. The company reinforced its commitment to offering customers the best service experience, including innovative digital services, quality customer service and a range smartphone offerings.

Telefónica United Kingdom's mobile contract accesses increased by 4% in 2011, representing 49% of the total mobile customer base of 22.2 million (an increase of 2.1 percentage points from 2010). Steady demand for smartphones increased the penetration of these handsets to 38% at the end of 2011, up from 29% the prior year.

Germany

The following table presents, at the dates indicated, selected statistical data relating to our operations in Germany:

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	0.0	1,916.4	2,055.1	N/A	7.2%
Internet and data accesses	285.1	2,914.7	2,922.3	N/S	0.3%
Narrowband accesses	0.0	385.7	334.6	N/A	(13.2)%
Broadband accesses	285.1	2,529.1	2,587.7	N/S	2.3%
Mobile accesses	15,507.4	17,049.2	18,380.1	9.9%	7.8%
Pre-pay accesses	7,807.0	8,795.2	9,144.5	12.7%	4.0%
Contract accesses	7,700.4	8,254.0	9,235.7	7.2%	11.9%
Pay TV accesses	0.0	77.2	83.3	N/A	7.9%
Final clients accesses	15,792.5	21,957.5	23,440.9	39.0%	6.8%
Wholesale accesses⁽²⁾	1,316.8	1,116.5	1,042.4	(15.2)%	(6.6)%
Total accesses	17,109.3	23,074.0	24,483.2	34.9%	6.1%

(1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use, VOIP and free ADSL.

(2) Includes unbundled lines rented by Telefónica Germany.

Telefónica Germany performed well in 2011, bolstering its competitive position in the German market with a higher market share and seizing commercial momentum with its "O2 Blue" rates, its "MyHandy" offer, activity with partners and progress toward unlocking the value of its data business.

Telefónica Germany achieved a 6% increase in accesses in 2011, driven by an 8% growth in mobile accesses and a 12% larger contact customer base. Demand for smartphones remained strong in the year, raising mobile broadband penetration by six percentage points to 26% at December 31, 2011.

Fixed broadband accesses grew 2% in 2011, ending the year at 2.6 million.

Czech Republic and Slovakia

The following table presents, at the dates indicated, selected statistical data relating to our operations in the Czech Republic and Slovakia:

Czech Republic

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Fixed telephony accesses ⁽¹⁾	1,770.6	1,669.2	1,581.9	(5.7)%	(5.2)%
Free ADSL accesses	62.1	163.7	237.4	163.6%	45.0%
VOIP accesses	16.9	38.6	52.1	128.4%	35.0%
Internet and data accesses	848.7	898.8	970.6	5.9%	8.0%
Narrowband accesses	137.3	117.5	100.7	(14.4)%	(14.3)%
Broadband accesses	683.1	753.0	839.6	10.2%	11.5%
Other accesses ⁽²⁾	28.3	28.3	30.3	0.0%	6.9%
Mobile accesses	4,944.6	4,838.6	4,941.7	(2.1)%	2.1%
Pre-pay accesses	2,130.2	1,975.0	1,892.4	(7.3)%	(4.2)%
Contract accesses	2,814.4	2,863.6	3,049.3	1.7%	6.5%
Pay TV accesses	137.6	129.2	135.6	(6.1)%	5.0%
Final clients accesses	7,701.5	7,535.8	7,629.8	(2.2)%	1.2%
Wholesale accesses	108.4	131.2	144.1	21.0%	9.8%
Total accesses	7,810.0	7,667.0	7,773.9	(1.8)%	1.4%

(1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access 2/6 access x30; includes our accesses for internal use, VOIP and free ADSL.

(2) Retail circuits other than broadband.

Slovakia

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Mobile accesses	552.9	880.4	1,164.1	59.2%	32.2%
Pre-pay accesses	357.2	545.9	666.1	52.8%	22.0%
Contract accesses	195.6	334.5	498.0	71.0%	48.9%
Total accesses	552.9	880.4	1,164.1	59.2%	32.2%

Accesses in the Czech Republic increased 1.4% in 2011, primarily due to growth in mobile and fixed broadband accesses. Access growth remained strong in Slovakia, above all in the contract segment.

Ireland

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

	At 31 December			Percent Change	
	2009	2010	2011	2009 vs. 2010	2010 vs. 2011
	<i>(in thousands)</i>				
Internet and data accesses	-	11.2	24.2	N/A	N/S
Broadband accesses	-	11.2	24.2	N/A	N/S
Mobile accesses	1,714.3	1,695.8	1,622.9	(1.1)%	(4.3)%
Pre-pay accesses	1,022.5	966.5	870.1	(5.5)%	(10.0)%
Contract accesses	691.8	729.4	752.9	5.4%	3.2%
Total accesses	1,714.3	1,707.1	1,647.2	(0.4)%	(3.5)%

In Ireland, results were hampered by an extremely adverse business environment, with a reduction in the customer base, due mostly to a smaller number of pre-pay customers as the contract customer base held steady.

Strategic Partnerships

China Unicom

Since 2005, we have had a stake in China Unicom and its predecessor company. On 6 September 2009 we entered into a strategic alliance agreement with China Unicom, which provides for, among other areas for cooperation, joint procurement of infrastructure and client equipment, common development of

mobile service platforms, joint provisions of service to multinational customers, roaming, research and development, sharing of best practices and technical, operational and management know-how, joint development of strategic initiatives in the area of network evolution, joint participation in international alliances and exchanges of senior management. In furtherance of this strategic alliance we entered into a subscription agreement with China Unicom, pursuant to which we increased our voting interest in the share capital of China Unicom to 8.06% and China Unicom obtained 0.87% voting interest in our share capital in October 2009.

Pursuant to the strategic alliance agreement mentioned above, China Unicom has agreed to use its best endeavours to maintain a listing of all the issued ordinary shares of China Unicom on the Hong Kong Stock Exchange. For so long as the strategic alliance agreement with us is in effect, China Unicom shall not (i) offer, issue or sell any significant number of its ordinary shares (including treasury shares), or any securities convertible into or other rights to subscribe for or purchase a significant number of China Unicom's ordinary shares (including treasury shares), to any current major competitor of Telefónica; or (ii) make any significant investment, directly or indirectly, in any current major competitor of Telefónica. We have made similar undertakings.

The strategic alliance agreement between us and China Unicom terminates on 6 September 2012 subject to automatic annual renewal, subject to either party's right to terminate on six months' notice. Also, the strategic alliance agreement may be terminated by China Unicom if our shareholding in China Unicom drops below 5% of its issued share capital or if China Unicom's shareholding in us drops below 0.5% of our issued share capital. In addition, the strategic alliance agreement is subject to termination in the event either party is in default and automatically terminates on a change in control of China Unicom.

On 28 January 2011, China Unicom completed its acquisition of 21,827,499 Telefónica shares, representing approximately 1.37% of our voting share capital.

As of the date of this Base Prospectus, Telefónica, through its wholly-owned subsidiary, Telefónica Internacional, has acquired 282,063,000 ordinary shares of China Unicom through several transactions executed in the period between 23 January 2011 and 7 September 2011, investing an aggregate amount equivalent to approximately 500 million U.S. dollars (equivalent to €358 million). Telefónica's shareholding in China Unicom amounts to 9.6% of its capital stock as of the date of this Base Prospectus. In addition, at our General Shareholders' Meeting on 18 May 2011 Mr. Chang Xiaobing, a nominee proposed by China Unicom, was appointed as a member of our Board of Directors.

Telecom Italia

Through a series of transactions from 2007 through 2009, we acquired an indirect holding of 10.49% in the voting shares of Telecom Italia (7.21% of the dividend rights) through our holdings in Telco. 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 analogue and digital terrestrial technology and in the office products sector. Telecom Italia operates primarily in Europe, the Mediterranean basin and in South America.

Telco, through which we hold our stake in Telecom Italia, is included in our Consolidated Financial Statements using the equity method.

LEGAL PROCEEDINGS

Telefónica and its group companies are party to several legal proceedings which are currently in progress in the courts of law and the arbitration bodies of the various countries in which we are present. We highlight the following unresolved legal proceedings or those underway in 2011:

Contentious proceeding in connection with the merger between Terra Networks, S.A. and Telefónica, S.A.

On 26 September 2006, Telefónica was notified of the claim filed by former shareholders of Terra Networks, S.A. (Campoaguas, S.L., Panabeni, S.L. and others) alleging breach of contract in respect of the terms and conditions set forth in the prospectus of the initial public offering of shares of Terra Networks, S.A. dated 29 October 1999. This claim was rejected by a ruling issued on 21 September 2009, and the appellants ordered to pay court costs. This ruling was appealed in June 2010. Telefónica objected to the appeal on 5 January 2011.

Cancellation of the UMTS license granted to Quam GMBH in Germany

In December 2004, the Germany Telecommunications Market Regulator revoked the UMTS license granted in 2000 to Quam GmbH, in which Telefónica has a stake. After obtaining a suspension of the revocation order, on 16 January 2006, Quam GmbH filed a suit against the order with the German courts. This claim sought to overturn the revocation order and, if this failed, to be reimbursed for the total or partial payment of the original amount paid for the license.

This claim was rejected by the Cologne Administrative Court. Quam GmbH appealed the decision before the Supreme Administrative Court of North Rhine-Westphalia, which also rejected its appeal. Quam GmbH filed a new appeal before the Federal Supreme court for Administrative Cases, which appeal was also rejected on 17 August 2011. Finally, in October 2011 Quam GmbH submitted a constitutional complaint before the Federal Constitutional Court that it is still pending resolution.

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. The ruling charged us with applying a margin squeeze between the prices we charged competitors to provide regional and national wholesale broadband services and our retail broadband prices using ADSL technology from September 2001 to December 2006.

On 10 September 2007, we and Telefónica de España both filed appeals to overturn the decision before the Court of First Instance of the European Community. The Kingdom of Spain also lodged an appeal to overturn the decision. Meanwhile, France Telecom and the Spanish Association of Bank Users (AUSBANC) filed requests to intervene, to which we have submitted our comments.

The ECTA (European Competitive Telecommunications Association) has submitted an application dated 4 November 2010 to intervene in the ruling supporting the EU's conclusions. Telefónica objected the intervention of ECTA on 7 December 2010. A hearing was held on 23 May 2011.

On 29 March 2012, the General Court of the EU (former Court of First Instance of the European Community) upheld the decision of the European Commission. Telefónica has announced that it will lodge an appeal with the European Court of Justice for its annulment.

Appeal against the decision by Agencia Nacional de Telecomunicações (ANATEL) regarding the inclusion of interconnection and network usage revenues in the Fundo de Universalização de Serviços de Telecomunicações (FUST).

Brasilcel (Vivo) Group operators, together with other Brazilian mobile operators, appealed ANATEL's decision of 16 December 2005, to include interconnection and network usage revenues and expenses in the calculation of the amounts payable into the Fund for Universal Access to Telecommunications Services (*Fundo de Universalização de Serviços de Telecomunicações*, or FUST for its initials in Portuguese), a fund to pay for the obligations to provide universal service, with retroactive application

from 2000. On 13 March 2006, the Brasilia Federal Regional Court granted the injunction requested by the appellants, preventing ANATEL's decision from being applied. On 6 March 2007, a ruling in favour of the mobile operators was issued, stating that it was not appropriate to include the revenues received from other operators in the taxable income for the FUST calculation and rejecting the retroactive application of ANATEL's decision. ANATEL filed an appeal to overturn this decision with the Brasilia Regional Federal Court no.1. This appeal is pending resolution.

At the same time, Telesp and Telefónica Empresas, S.A., together with other fixed line operators through ABRAFIX (*Associação Brasileira de Concessionárias de Serviço Telefónico Fixo Comutado*) appealed ANATEL's decision of 16 December 2005, also complaining that ANATEL include interconnection, network usage revenues and expenses, and, for the fixed line operator, the exploration industrial of dedicated lines (*Exploração Industrial de Linhas Dedicadas*, or EILD for its initials in Portuguese), obtaining injunctions. On 21 June 2007, Federal Regional Court No. 1 ruled that it was not appropriate to include the interconnection and network usage revenues and expense in FUST taxable income and rejected the retroactive application of ANATEL's decision. ANATEL filed an appeal to overturn this ruling on 29 April 2008 before Brasilia Federal Regional Court No. 1. This appeal is pending resolution.

Public civil procedure by the São Paulo government against Telesp for alleged repeated malfunctioning in the services provided by Telesp requesting compensation for damages to the customers affected.

On 3 February 2009, the Public Ministry of the State of São Paulo initiated proceedings against Telesp for alleged repeated malfunctioning in the telecommunication services provided by Telesp. The proceedings sought compensation for damages to the customers affected. A general claim was filed by the Public Ministry of the State of São Paulo suggesting an indemnification of 1,000 million Brazilian reais, calculated on the company's revenues base over the last five years. Telesp's potential responsibility will only be known in the calculation and enforcement of the award by affected consumers.

This proceeding was suspended via resolution dated 5 November 2009, for a period of 90 days, to assess the proposed agreement being negotiated between the parties. As no agreement was reached, the suspension was lifted and the procedure remains in the courts. A judgment was issued on 20 April 2010, imposing payment of damages suffered by all consumers who proved to be eligible for the award. Telesp filed an appeal on 5 May 2010, which is still pending. It is not currently possible to evaluate the amount involved in this lawsuit.

Case before the Directorate General for Competition of the European Commission – Telefónica / Portugal Telecom

On 5 January 2011, the European Commission sent a request to Telefónica, S.A. for information on the agreements entered into with Portugal Telecom SGPS, S.A. (Portugal Telecom) for the purchase of its ownership interest in Brasilcel, a joint venture in which both parties own an interest in the Brazilian company, Vivo. On 19 January 2011, the European Commission initiated formal proceedings to investigate whether Telefónica and Portugal Telecom had infringed on European Union anti-trust laws with respect to a clause contained in these agreements. After responding to a number of requests for information from the European Commission, on 24 September 2011, Telefónica received a list of charges from the European Commission. On 13 January 2012, it presented its response to the charges. Due to the preliminary nature of these proceedings, we are unable to form an opinion concerning the amount of any potential liability related to this matter or the likelihood of an adverse judgment.

Tax proceedings

Tax Inspections 1998-2000

On 25 September 2002, tax inspections for the years 1998 to 2000 commenced at several companies included in tax group 24/90, of which Telefónica is the parent company.

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

In April 2007, Telefónica filed an administrative appeal before the National Court of Justice, requesting the annulment of the settlement as well as the inclusion of other concepts in its favour not contemplated

in the tax inspection. In the process, Telefónica requested suspension of the execution of the settlements and penalties appealed by providing the appropriate guarantees.

On 22 February 2010, Telefónica received the notification of the ruling by the National Court of Justice dated 4 February 2010, in which it partially accepted the Company's allegations, annulling the imposition of sanctions.

On 18 May 2010, the National Court of Justice accepted Telefónica, S.A.'s appeal and ruled on 5 April 2010 to refer the case to the Supreme Court. On 4 June 2010, the tax authorities filed an appeal before the Supreme Court against one of the rulings of the National Court of Justice partially accepting Telefónica's allegations. In January 2011, Telefónica submitted a brief of opposition against that appeal before the Supreme Court.

On 8 February 2012 the Supreme Court dictated its sentence which was partially favourable to Telefónica's interests.

Tax Inspections 2001-2004

A new tax inspection for the periods 2001-2004 commenced in June 2006 and concluded in July 2008. The income tax statements for such periods included a negative adjustment for €2,317 million which was challenged by the Spanish tax authorities, although this did not affect the consolidated financial statements as it was not recognised. At the same time, the Spanish Treasury challenged the export credits claimed, which amounted to deductions of approximately €346 million.

Telefónica filed an administrative appeal before the Central Administrative Economic Court, which on 10 September 2009 ruled against the interests of the Company. In April 2010 Telefónica filed an administrative appeal before the National Court of Justice against this resolution of 10 September 2009 and presented its written conclusions in April 2011.

Tax Inspections 2005-2007

In June 2010, new inspections of various companies within the 24/90 tax group, of which Telefónica, S.A. is the parent, were initiated. The taxes subject to review were corporate income tax for the years 2005 to 2007, VAT, tax withholdings and payments on account in respect of personal income tax, tax on investment income, property tax and non-resident income tax for the years 2006 to 2007.

Brazil Tax Proceedings

On 13 June 2011 the Treasury of the State of São Paulo initiated new proceedings against Telesp (currently Telefónica Brasil) with respect to the services subject to the ICMS tax (VAT-like tax on telecommunications services).

At present Telefónica is bringing various proceedings (both administrative and judicial) against the Treasury of the State of São Paulo concerning the *Imposto sobre Circulação de Mercadorias e Serviços* (ICMS). The Tax Administration demands withholding of the ICMS on some services that are not basic telecommunication services but complementary or supplementary to them. Telefónica does not share this interpretation and therefore has impeached all the Tax Administration resolutions produced in this sense. As of the date of this Base Prospectus, the aggregate amount of these proceedings including interest, penalties and other items was approximately €1,110 million.

The last proceeding on this matter was initiated by the Tax Administration of the State of São Paulo on 13 June 2011.

Proceeding against Telefónica del Perú, S.A.A. regarding the income tax for years 2000 and 2001

On 11 February 2011, Telefónica del Perú, S.A.A. was notified of an adverse decision by the tax court in a matter initiated by tax authorities in 2005 relating to income tax payments for the 2000 and 2001 tax years. The dispute relates to the deductibility of certain expenses (such as financial expenses, provision for bad debts, leases and personnel expenses) and the tax neutrality of the restructuring process carried out by Telefónica del Perú, S.A.A. in January 2000.

Telefónica del Perú, S.A.A. filed a legal action in the relevant court, seeking to reverse the administrative resolution, as the Company believes that this ruling has no reasonable basis. However, pursuant to an enforcement resolution issued by the Peruvian tax authority (SUNAT) Telefónica del Perú has paid approximately €38 million. An appeal has been filed against the said resolution in order to get the money back until a final decision on the merits is released.

Tax Inspections open in other countries

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain, as a result of the tax audit completed in 2008, the main companies of the tax group are open to inspection for all years from 2005.

In the other countries in which the Telefónica Group has a significant presence, the possible number of years that could be open for inspection review by the relevant authorities are generally as follows:

- The last seven years in Argentina
- The last five years in Brazil, Mexico, Colombia and the Netherlands
- The last four years in Venezuela, Nicaragua and Peru
- The last three years in Chile, Ecuador, El Salvador, the US and Panama
- The last two years in Uruguay
- In Europe, the main companies have open to inspection the last six years in the United Kingdom, the last eight years in Germany, and the last three years in the Czech Republic.

The tax audit of the open years is not expected to give rise to additional material liabilities for the Group.

MAJOR SHAREHOLDERS

As of June 2012, we had 4.551.024.586 shares outstanding, each having a nominal value of €1.00 per share. All outstanding shares have the same rights.

At June 2012, according to information provided to us or to the Spanish National Securities Commission, the CNMV, beneficial owners of 3% or more of our voting stock were as follows:

Name of Beneficial Owner	Number of Shares	Percent
Banco Bilbao Vizcaya Argentaria, S.A. ⁽¹⁾	258,217,137	5.657%
Caja de Ahorros y Pensiones de Barcelona ("la Caixa") ⁽²⁾	246,898,917	5.410%
Blackrock, Inc. ⁽³⁾	177,257,649	3.88%

(1) Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as at 31 December 2011 for the 2011 Annual Report on Corporate Governance.

(2) Based on information provided by Caja de Ahorros y Pensiones de Barcelona, "la Caixa" as at 31 December 2011 for the 2011 Annual Report on Corporate Governance. The 5.409% indirect shareholding in Telefónica is owned by Caixa Bank, S.A.

(3) According to notification sent to the Spanish National Securities Commission, the CNMV, dated 4 February 2010.

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 2011 approximately 252,954,331 of our shares were held in the form of ADSs by 870 holders of record, including Cede & Co., the nominee of the Depository Trust Company. The number of ADSs outstanding was 252,954,331 at 31 December 2011.

RECENT DEVELOPMENTS

The principal events that have occurred since 31 December 2011 are set forth below:

- On 21 February 2012, Telefónica de Contenidos, S.A.U., a Telefónica wholly-owned company, reached an agreement with Abertis Telecom, S.A. to sell the 13.23% stake of Hispasat S.A. owned by Telefónica de Contenidos, S.A.U. in exchange for €124 million to be received in cash upon the closing of the transaction. The closing of the transaction is subject, among other conditions, to the approval of the Council of Ministers.
- On 30 March 2012 Telefónica Móviles Colombia, S.A. (a company fully owned by Telefónica), Colombia Telecomunicaciones, S.A. ESP (a company 52% owned by Telefónica Group and 48% by the Colombian government (hereinafter "**the Government**")) and the Government reached a final agreement to restructure their fixed and mobile business in Colombia. Such agreements include, among other commitments, the assumption by the Government of the 48% of the payment obligations not yet due of Colombia Telecomunicaciones, S.A. ESP to PARAPAT (the consortium which owns the telecommunications assets and manages the pension funds for the entities that comprise the National Telecommunications Operator).

The agreements reached also include an amendment to the Operating Contract for the extension in six years, to 2028, of the payment obligations not yet due of Colombia Telecomunicaciones, S.A. ESP to the PARAPAT.

As a result of these agreements, the net financial debt which will be fully consolidated in the financial statements of the Telefónica Group, will fall by approximately €1,300 million.

- On 14 May 2012, the Annual General Shareholders' Meeting of Telefónica, S.A. approved all of the resolutions submitted by the Board of Directors for deliberation and vote by the General Shareholders' Meeting including, among others, a reduction of the share capital by means of the cancellation of shares of the Company's own stock as well as an increase in share capital linked to the shareholders compensation by means of a scrip dividend.

On 25 May 2012, the capital reduction was executed by the cancellation of 84,209,363 of the own shares of Telefónica.

Finally, on 8 June 2012, the increase in share capital linked to the shareholders compensation by means of the approved scrip dividend was executed by the issuance of 71,237,464 ordinary shares with a nominal value of one euro. As a result, the Company's share capital stands at €4,551,024,586.

- On 30 May 2012, the Board of Directors of Telefónica, decided to proactively manage the Company's assets' portfolio, including launching preparations for an initial public offering of Telefónica Germany, the analysis of potential listing alternatives for Latin American businesses and selective asset monetisations, accelerating the disposal process of non-core assets.
- On 7 June 2012, Telefónica announced that Telefónica UK and Vodafone UK have proceeded to strengthen their existing network collaboration in the UK, including plans to form a shared network "grid" in Britain and to expand their 2G and 3G national population coverage by pooling their basic network infrastructure.
- On 10 June 2012, Telefónica and China United Network Communications Group Company Limited ("**Unicom Parent**") signed a definitive agreement under which the latter will acquire 1,073,777,121 shares of China Unicom (Hong Kong) Limited ("**China Unicom**"), owned by Telefónica (equivalent to 4.56% of the share capital of China Unicom), at a price of HK\$10.21 per share, for a total amount of HK\$10,963.3 million (approximately €1,128.9 million at current exchange rates). This transaction is intended to allow Telefónica to increase its financial flexibility, while at the same time continuing to be a key shareholder of China Unicom, with a 5.01% stake. Telefónica has undertaken not to sell the shares of China Unicom over a period of 12 months from the date of the agreement. Furthermore, Mr. César Alierta, Chairman of Telefónica, will continue to be a board director of China Unicom, while Mr. Chang Xiaobing, Chairman of China Unicom, will remain a member of the Board of Directors of Telefónica.

MANAGEMENT OF TELEFÓNICA

During 2011, our Board of Directors met 14 times. At June 2012 our Board of Directors had met six times during 2012. At 12 June 2012, our directors, their respective positions on our Board and the year they were appointed to such positions were as follows:

Name	Age	First Appointed	Current Term Ends
Chairman			
Mr. César Alierta Izuel ⁽¹⁾	67	1997	2017
Vice-chairmen			
Mr. Isidro Fainé Casas ⁽¹⁾⁽²⁾	69	1994	2016
Mr. José María Abril Pérez ⁽¹⁾⁽³⁾⁽⁵⁾⁽⁸⁾	60	2007	2013
Members (vocales)			
Mr. Julio Linares López ⁽¹⁾⁽⁸⁾	66	2005	2016
Mr. Ignacio Moreno Martínez (3)	54	2011	2017
Mr. José Fernando de Almansa Moreno-Barreda ⁽⁵⁾⁽⁶⁾⁽⁹⁾	63	2003	2013
Mr. Jose María Álvarez –Pallete López	48	2006	2017
Mr. David Arculus ⁽⁵⁾⁽⁶⁾	66	2006	2016
Ms. Eva Castillo Sanz ⁽⁶⁾⁽⁹⁾⁽¹¹⁾	49	2008	2013
Mr. Carlos Colomer Casellas ⁽¹⁾⁽⁸⁾⁽¹⁰⁾⁽¹¹⁾	68	2001	2016
Mr. Peter Erskine ⁽¹⁾⁽⁸⁾⁽⁹⁾⁽¹⁰⁾	60	2006	2016
Mr. Alfonso Ferrari Herrero ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁹⁾⁽¹⁰⁾⁽¹¹⁾	70	2001	2016
Mr. Luiz Fernando Furlán ⁽⁵⁾	65	2008	2013
Mr. Gonzalo Hinojosa Fernández de Angulo ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁷⁾⁽⁹⁾⁽¹⁰⁾⁽¹¹⁾	66	2002	2017
Mr. Pablo Isla Álvarez de Tejera ⁽⁶⁾⁽⁷⁾⁽¹⁰⁾⁽¹¹⁾	48	2002	2017
Mr. Antonio Massanell Lavilla ⁽²⁾⁽⁴⁾⁽⁷⁾⁽⁸⁾⁽¹¹⁾	57	1995	2016
Mr. Francisco Javier de Paz Mancho ⁽¹⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	53	2007	2013
Mr. Chang Xiaobing ⁽¹²⁾	54	2011	2016

- (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 Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA").
- (4) Member of the Audit and Control Committee of the Board of Directors.
- (5) Member of the International Affairs Committee.
- (6) Member of the Regulation Committee.
- (7) Member of the Human Resources and Corporate Reputation and Responsibility Committee.
- (8) Member of the Innovation Committee.
- (9) Member of the Strategy Committee.
- (10) Member of the Nominating, Compensation and Corporate Governance Committee.
- (11) Member of the Service Quality and Customer Service Committee.
- (12) Nominated by China Unicom (Hong Kong) Limited

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

Name	Principal activities inside the Group	Principal Activities outside the Group
César Alierta Izuel	Executive Chairman of Telefónica, S.A.	Director of Telecom Italia, S.p.A. Director of China Unicom (Hong Kong) Limited Director of International Consolidated Airlines Group (AIG)
Isidro Fainé Casas	Vice Chairman of Telefónica, S.A.	Chairman of Caja de Ahorros y Pensiones de Barcelona ("la Caixa") Chairman of Caixabank, S.A.

Name	Principal activities inside the Group	Principal Activities outside the Group
		Chairman of Criteria Caixaholding, S.A.
		Vice Chairman of Abertis Infraestructuras, S.A.
		Chairman of Confederación Española de Cajas de Ahorros
		Vice Chairman 2º of Repsol YPF, S.A.
		Director of Banco Portugués de Investimento, SA (BPI)
		Vice Chairman of Sociedad General de Aguas de Barcelona, S.A. (AGBAR)
		Non-executive Director of the Bank of East Asia
Ignacio Moreno Martínez	Director of Telefónica, S.A.	Chief Executive Officer of N+1 Private Equity
Julio Linares López	Chief Operating Officer ("COO") of Telefónica, S.A.	Director of Telecom Italia, S.p.A.
José María Abril Pérez	Vice Chairman of Telefónica, S.A.	Director of Advancell, S.A.
Fernando de Almansa Moreno Barreda	Director of Telefónica, S.A.	Substitute Director of Grupo Financiero BBVA Bancomer, S.A. de C.V.
	Director of Telefónica del Perú, S.A.A.	Substitute Director of BBVA Bancomer, S.A.
	Director of Telefónica de Argentina, S.A.	
	Director of Telefónica Brasil, S.A.	
	Director of Telefónica Móviles México, S.A. de C.V.	
José María Alvarez Pallete López	Director of Telefónica, S.A.	
	Chairman of Telefónica Europe	
	Chairman of the Supervisory Board of Telefónica Czech Republic, a.s.	
David Arculus	Director of Telefónica, S.A.	Chairman of Numis, Plc.
		Chairman of Aldemore Bank, Plc.
		Director of Pearson, Plc.
Eva Castillo Sanz	Director of Telefónica, S.A.	Director of Old Mutual, Plc.
	1st Vice Chairman of Supervisory Board of Telefónica Czech Republic, a.s.	
Carlos Colomer Casellas	Director of Telefónica, S.A.	Chairman of Inversiones Mobiliarias Urquiola, S.A., SICAV
		Chairman of Ahorro Bursátil, S.A. SICAV
		Executive Chairman of The Colomer Group
Peter Erskine	Director of Telefónica, S.A.	Member of the Advisory Board of the Henley Management Centre
		Chairman of Ladbrokes, Plc
Alfonso Ferrari Herrero	Director of Telefónica, S.A.	
	Substitute Director of Telefónica Chile, S.A.	
	Director of Telefónica del Perú, S.A.A.	
Luiz Fernando Furlán	Director of Telefónica, S.A.	Chairman of Amazonas Sustainability Foundation
	Director of Telefónica Brasil, S.A.	Co-Chairman of Brasil Foods, S.A.
		Director of AGCO Corporation
		Director of Amil Participações S.A.
		Member of the Advisory/Consultative Board of Panasonic (Japan) and McLarty& Associates (USA)
Gonzalo Hinojosa Fernández de Angulo	Director of Telefónica, S.A.	
Pablo Isla Alvarez de Tejera	Director of Telefónica, S.A.	Chairman and CEO of Inditex, S.A.
Antonio Massanell Lavilla	Director of Telefónica, S.A.	Executive Deputy General Manager of Caja

Name	Principal activities inside the Group	Principal Activities outside the Group
Francisco Javier de Paz Mancho	<p>Director of Telefónica, S.A.</p> <p>Director of Telefónica de Argentina, S.A.</p> <p>Director of Telefónica Brasil, S.A.</p> <p>Non-executive Chairman of Atento Inversiones y Teleservicios, S.A.</p>	<p>de Ahorros y Pensiones de Barcelona ("la Caixa").</p> <p>Chairman of Port Aventura Entertainment, S.A.</p> <p>Chairman of Barcelona Digital Centre Tecnologic (formerly Fundación Barcelona Digital)</p> <p>Director of Serveis Informàtics la Caixa, S.A. (SILK)</p> <p>Director of Caixa Capital Risc, S.G.E.C.R, S.A.</p> <p>Director of Bousorama S.A.</p> <p>Director of La Caixa, S.A.</p> <p>Director of Mediterranea Beach & Golf Community, S.A.</p> <p>Member of the Executive Committee of the Chambers Board (<i>Consejo Superior de Cámaras</i>)</p>
Chang Xiaobing	<p>Director of Telefónica, S.A.</p>	<p>Chairman of China United Network Communications Group Company Limited</p> <p>Chairman of China United Network Communications Limited</p> <p>Executive Director, Chairman and Chief Executive Officer of China Unicom (Hong Kong) Limited</p> <p>Chairman of China United Network Communications Corporation Limited</p>

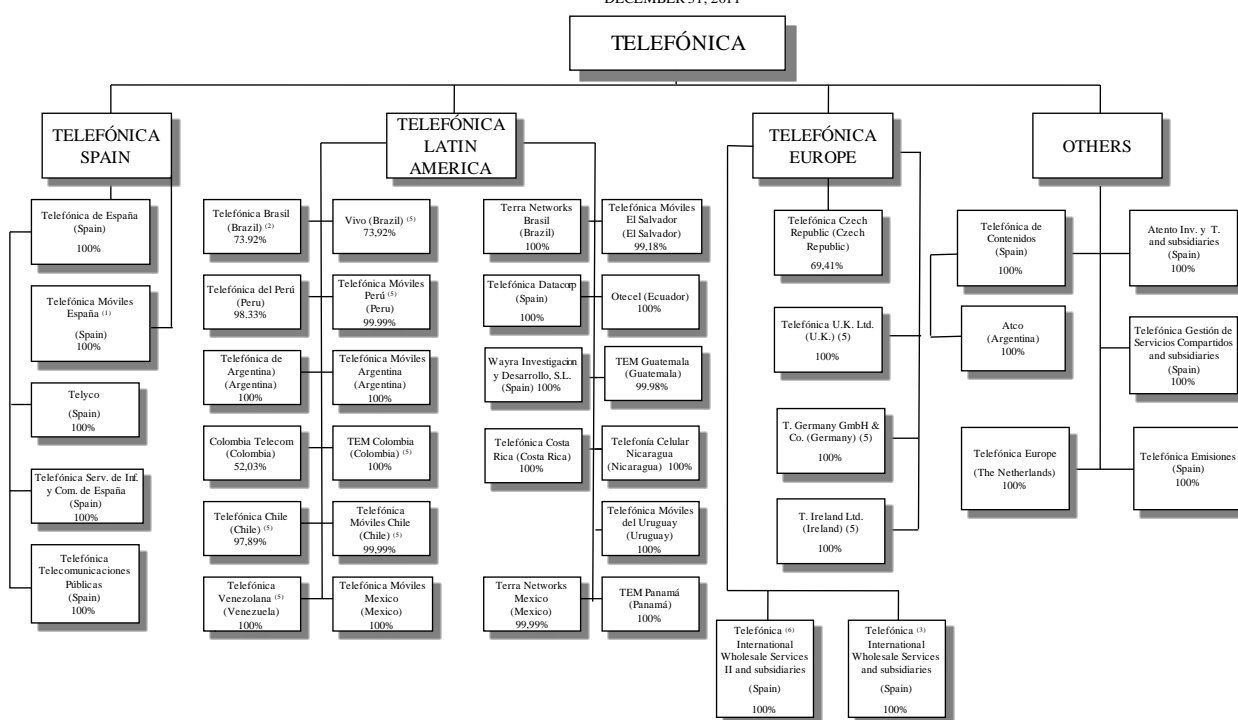
CONFLICTS OF INTEREST

As of the date of this Base Prospectus, there were no current or potential 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 2011, including their jurisdictions of incorporation and our ownership interest.

DECEMBER 31, 2011



- (1) Ownership in Telefónica Móviles España, S.A.U. is held directly by Telefónica, S.A.
- (2) 91.76% representing voting interest.
- (3) Ownership in Telefónica International Wholesale Services, S.L. is held 92.51% by Telefónica, S.A. and 7.49% by Telefónica Datacorp, S.A.U.
- (4) Ownership in O2 (Europe) Ltd. (U.K.) is held directly by Telefónica, S.A.
- (5) Companies held indirectly.
- (6) Ownership in TIWS II 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 administrative 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, Law 23/2005, of 18 November, on certain taxation measures to promote productivity, Law 4/2008, of 23 December abolishing the Wealth Tax levy, generalising the Value Added Tax monthly refund system and introducing other amendments to the tax legal system and Law 6/2011, of 11 April, as well as 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, as amended by Royal Decree 1145/2011, of 29 July ("**Royal Decree 1065/2007**") and Royal Decree-Law 13/2011, of 16 September, on the temporary reinstatement of wealth tax;
- (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 Net 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, subject to 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 it will be 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, repayment or exchange 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 Personal Income Tax savings taxable base pursuant to the provisions of the aforementioned law, and taxed according to the then-applicable rate. According to Additional Provision Thirty five of the Personal Income Tax Law, introduced by Royal Decree-Law 20/2011, the savings taxable base of tax years 2012 and 2013 will be taxed at the rate of 21 per cent. up to €6,000, 25 per cent. for taxable income between €6,001 and €24,000, and 27 per cent. for taxable income exceeding €24,000.

According to Section 44.5 of Royal Decree 1065/2007, of 27 July as amended by Royal Decree 1145/2011, of 29 July, and in the opinion of the Issuer and the Guarantor, the Issuer will pay interest as well as income derived from the redemption or repayment of the Instruments without withholding to individual Holders who are resident for tax purposes in Spain provided that the information about the Instruments required by Exhibit I is submitted by the Issue and Paying Agent in a timely manner, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation. In addition, income obtained upon transfer or exchange of the Instruments may also be paid without withholding.

In any event, the individual Holder may credit the withholding against his or her Personal Income Tax liability for the relevant year.

1.2 ***Wealth Tax (Impuesto sobre el Patrimonio)***

Individuals with tax residency in Spain are subject to Wealth Tax on the 2012 tax year to the extent that their net worth exceeds a certain limit. This limit has been set at €700,000 for 2012. Therefore, they should take into account the value of the Instruments which they hold as at 31 December 2012, the applicable rates ranging between 0.2% and 2.5%. The autonomous communities may have different provisions on this respect.

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. The applicable tax rates currently range between 7.65% and 34%. Relevant factors applied (such as previous net wealth or family relationship among transferor and transferee) do determine the final effective tax rate that currently range between 0% and 81.6%.

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 44.5 of Royal Decree 1065/2007, of 27 July as amended by Royal Decree 1145/2011, of 29 July, and in the opinion of the Issuer and the Guarantor, there is no obligation to withhold on income payable to Spanish Corporate Income Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold tax on interest payments to Spanish Corporate Income Tax taxpayers as well as on income derived from the redemption of the Instruments provided that the information about the Instruments required by Exhibit I is submitted by the Issue and Paying Agent in a timely manner, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

However, with regard to income derived from the transfer of the Instruments, in accordance with Section 59.s of the CIT regulations, there is no obligation to withhold on income obtained by Spanish CIT taxpayers from financial assets traded on organised markets in OECD countries. We will make an application for the Instruments to be traded on the Official List of the London Stock Exchange and, upon admission to trading on such Official List, the Instruments will fulfil the requirements set forth in the legislation for exemption from withholding.

On 27 July 2004, the Directorate General for Taxation (*Dirección General de Tributos*) issued a ruling indicating that in the case of issues made by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that, in addition to being traded on an organised market in an OECD country, the Instruments be placed outside Spain in another OECD country. We believe that the issue of the Instruments will fall within this exemption as the Instruments are to be sold outside Spain and in the international capital markets. Consequently, no withholding on account of CIT should be made on income derived from the transfer of the Instruments by Spanish CIT taxpayers that provide relevant information to qualify as such.

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, such permanent establishment will be subject to Non-Resident Income Tax on similar terms as those previously set out for Spanish Corporate Income Tax taxpayers.

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

Both interest payments periodically received and payments of 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 on the same terms as laid down for income from public debt.

In order to be eligible for the exemption from Non-Resident Income Tax, certain requirements must be met, including the provision by the Issue and Paying Agent of certain information relating to the Instruments, in a timely manner as detailed under "*Information about the Instruments in Connection with Payments*" as laid down in section 44 of Royal Decree 1065/2007. If the Issue and Paying Agent fails or for any reason is unable to deliver the required information in the manner indicated, the Issuer will withhold 21% and will not pay additional amounts with respect to any such withholding.

Holders not resident in Spain for tax purposes and entitled to exemption from Non-Resident Income Tax but, in respect of whose Instruments, the Issuer and the Guarantor do not receive information from the Issue and Paying Agent in a timely fashion in accordance with the procedure described in detail as set forth in Exhibit I hereto, would

have to apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish Non-Resident Income Tax law.

3.2 **Wealth Tax (*Impuesto sobre el Patrimonio*)**

For tax years 2011 and 2012, Spanish non-resident tax individuals are subject to Spanish Wealth Tax, which imposes a tax on property and rights in excess of €700,000 that are located in Spain, or can be exercised within the Spanish territory, on the last day of any year.

However, to the extent that income derived from the Instruments is exempt from Non-Resident Income tax, individual Holders not resident in Spain for tax purposes who hold Instruments on the last day of any year will be exempt from Spanish Wealth Tax. Furthermore, Holders who benefit from a convention for the avoidance of double taxation with respect to wealth tax that provides for taxation only in the Holder's country of residence will not be subject to Spanish Wealth Tax.

If the provisions of the foregoing paragraph do not apply, non-Spanish tax resident individuals whose net worth related to property located, or rights that can be exercised, in Spain is above €700,000 and who hold Instruments on the last day of any year, would therefore be subject to Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the Instruments during the last quarter of such year.

Non-Spanish resident legal entities are not subject to 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. **Information about the Instruments in Connection with Payments**

As described above, interest and other income paid with respect to the Instruments will not be subject to Spanish withholding tax unless the Issue and Paying Agent fails or for any reason is

unable to provide the Issuer and the Guarantor, in a timely manner, with the information described in Exhibit I of this Base Prospectus.

The information obligations to be complied with in order to apply the exemption are those laid down in Section 44 of Royal Decree 1065/2007 ("**Section 44**"), as amended by Royal decree 1145/2011 of 29 July.

In accordance with Section 44 paragraph 5, before the close of business on the Business Day (as defined in the Terms and Conditions of the Instruments) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Instruments (each, a "**Payment Date**") is due, the Issuer and the Guarantor must receive from the Issue and Paying Agent the following information about the Instruments:

- (a) the identification of the Instruments with respect to which the relevant payment is made;
- (b) the date on which the relevant payment is made;
- (c) the total amount of the relevant payment;
- (d) the amount of the relevant payment paid to each entity that manages a clearing and settlement system for securities situated outside of Spain (such as Euroclear and Clearstream).

In particular, the Issue and Paying Agent must certify the information above about the Instruments by means of a certificate, the form of which is attached as Exhibit I of this Base Prospectus.

In light of the above, the Issuer, the Guarantor and the Issue and Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Instruments by the close of business on the Business Day immediately preceding each relevant Payment Date. If, despite these procedures, the relevant information is not received by the Issuer and the Guarantor on each Payment Date, the Issuer will withhold tax at the then-applicable rate (currently 21%) from any payment in respect of the relevant Instruments. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

Notwithstanding the above, if, before the tenth calendar day of the month following the month in which the relevant income is paid, the Issue and Paying Agent provides the required information, the Issuer will reimburse the amounts withheld. In addition, following the twentieth calendar day of the month following the month in which the relevant income is paid, Holders may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Prospective Holders of Instruments should note that none of the Issuer, the Guarantor or the Dealers accepts any responsibility relating to the procedures established for the collection of information concerning the Instruments. Accordingly, none the Issuer, the Guarantor or the Dealers will be liable for any damage or loss suffered by any Holder who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding. See "Risk Factors - Risks relating to Withholding".

Set out below is Exhibit I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Exhibit I 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 Exhibit I has been included in order that the correct technical meaning may be ascribed to such text under applicable Spanish law. Any foreign language text included in this Base Prospectus does not form part of this Base Prospectus.

EXHIBIT 1

Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007

Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos

Annex to 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

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Don (nombre), con número de identificación fiscal (...)⁽¹⁾, en nombre y representación de (entidad declarante), con número de identificación fiscal (...)⁽¹⁾ y domicilio en (...) en calidad de (marcar la letra que proceda):

Mr. (name), with tax identification number (...)⁽¹⁾, in the name and on behalf of (entity), with tax identification number (...)⁽¹⁾ and address in (...) as (function - mark as applicable):

(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.

(a) Management Entity of the Public Debt Market in book entry form.

(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

(d) Agente de pagos designado por el emisor.

(d) Issuing and Paying Agent appointed by the issuer.

Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:

Makes the following statement, according to its own records:

1. En relación con los apartados 3 y 4 del artículo 44:

1. In relation to paragraphs 3 and 4 of Article 44:

1.1 Identificación de los valores.....

1.1 Identification of the securities.....

1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)

1.2 Income payment date (or refund if the securities are issued at discount or are segregated)

1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados).....

1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)

1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora

1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved.....

1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).

1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).

2. En relación con el apartado 5 del artículo 44.

2. In relation to paragraph 5 of Article 44.

2.1 Identificación de los valores.....

2.1 Identification of the securities.....

2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)

2.2 Income payment date (or refund if the securities are issued at discount or are segregated)

2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados)

2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)

2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.

2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.

2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.

2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.

2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.

2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro ena dede

I declare the above in on the.... of of

⁽¹⁾**En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia**

⁽¹⁾In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

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 and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent.. 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.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

Instruments may be sold from time to time by the Issuer to any one or more of Banco Bilbao Vizcaya Argentaria, S.A., Banco Español de Crédito, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd., Goldman Sachs International, Merrill Lynch International, Mizuho International plc, Morgan Stanley & Co. International plc, Société Générale, The Royal Bank of Scotland plc 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 a dealership agreement dated 12 June 2012 (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, and each further Dealer appointed under the Programme will be required to agree, 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, and each further Dealer appointed under the Programme will be required to 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 Act of Japan (Act No. 25 of 1948, as amended) and, accordingly, each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake, 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, as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act of Japan (Act No. 228, as amended).

The Kingdom of Spain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, 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 (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and further relevant legislation unless such sale, offer of distribution is made in compliance with the provisions of the Spanish Securities Market Law (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) 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, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, 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 and acceptance of the Instruments to trading, dealings in the Instruments will be permitted by 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 be listed with such competent 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 Board of Directors of the Guarantor passed on 14 May 2012. 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 12 June 2012.
7. Save as disclosed on pages 86 to 89 of this Base Prospectus (see "*Legal Proceedings*"), 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 2012 there has been no significant change in the financial or trading position of the Guarantor save for (i) the partial repayment by the Guarantor's syndicated credit facility dated 28 July 2010 in an aggregate amount of €915 million, in two payment tranches (repayment of €650 million on 5 April 2012 and repayment of €265 million on 10 April 2012); (ii) the drawdown by the Guarantor's syndicated credit facility dated 28 July 2010 in the amount of €700 million on 18 May 2012; and (iii) on 31 May 2012 Telefónica Europe B.V. made a €750 million drawdown under its syndicated loan dated 7 December 2006.

Since 31 December 2011, there has been no significant change in the financial or trading position of the Issuer save for the principal events described on page 70 of this Base Prospectus.

Since 31 December 2011, there has been no material adverse change in the prospects of the Issuer or the Guarantor.

9. The consolidated financial statements of the Guarantor for the financial years ended 31 December 2011 and 31 December 2010 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 2011 and 31 December 2010 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, direct and accurate 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) English language translations of the audited consolidated financial statements of the Guarantor, and the reports referred to therein for the years ended 31 December 2011 and 31 December 2010, the unaudited interim consolidated financial information of the Guarantor for the 3 months ended 31 March 2012 (set out in the document entitled "Interim Management Statement January – March 2012");
 - (h) English language translations of the annual accounts of the Issuer, and the reports referred to therein, for the years ended 31 December 2011 and 31 December 2010; and
 - (i) any Final Terms relating to Instruments which are listed on any stock exchange.

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

Telefónica Emisiones, S.A.U.
Gran Vía, 28
28013 Madrid
Spain

REGISTERED AND HEAD OFFICE OF THE GUARANTOR

Telefónica, S.A.
Gran Vía, 28
28013 Madrid
Spain

DEALERS

Banco Bilbao Vizcaya Argentaria, S.A.

Via de los Poblados sn
28033 Madrid
Spain

Banco Santander, S.A.
Ciudad Grupo Santander
Avenida de Cantabria s/n
28660 Boadilla del Monte
Madrid
Spain

BNP PARIBAS
10 Harewood Avenue
London NW1 6AA
United Kingdom

Commerzbank Aktiengesellschaft

Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main
Federal Republic of Germany

Daiwa Capital Markets Europe Limited

5 King William Street
London EC4N 7AX
United Kingdom

Goldman Sachs International

Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

Merrill Lynch International

2 King Edward Street
London EC1A 1HQ
United Kingdom

Banco Español de Crédito, S.A.

Mesena 80
28033 Madrid
Spain

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Citigroup Global Markets Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Credit Suisse Securities (Europe) Limited

One Cabot Square
London E14 4QJ
United Kingdom

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB

J.P. Morgan Securities Ltd.

125 London Wall
London EC2Y 5AJ
United Kingdom

Mizuho International plc

Bracken House
1 Friday Street
London EC4M 9JA
United Kingdom

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Société Générale

29 boulevard Haussmann
75009 Paris
France

The Royal Bank of Scotland plc

135 Bishopsgate
London EC2M 3UR
United Kingdom

UBS Limited

1 Finsbury Avenue
London EC2M 2PP
United Kingdom

AUDITORS OF THE ISSUER

Ernst & Young S.L.

Torre Picasso, Plaza Pablo Ruiz
Picasso n° 1, 28020 Madrid
Spain

AUDITORS OF THE GUARANTOR

Ernst & Young S.L.

Torre Picasso, Plaza Pablo Ruiz
Picasso no 1, 28020 Madrid
Spain

ISSUE AND PAYING AGENT AND PRINCIPAL REGISTRAR

The Bank of New York Mellon, London Branch

One Canada Square
London E14 5AL
United Kingdom

ALTERNATIVE REGISTRAR

The Bank of New York Mellon (Luxembourg), S.A.

Vertigo Building – Polaris
2-4 rue Eugene Ruppert
L-2453 Luxembourg

PAYING AGENT

The Bank of New York Mellon (Luxembourg), S.A.

Vertigo Building – Polaris
2-4 rue Eugene Ruppert
L-2453 Luxembourg

LEGAL ADVISERS

To the Dealers

As to English law and Spanish law

Clifford Chance S.L.

Paseo de la Castellana, 110
28046 Madrid
Spain