

Telefónica

TELEFÓNICA EMISIONES S.A.U.

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

guaranteed by

TELEFÓNICA, S.A.

(incorporated with limited liability in The Kingdom of Spain)

€15,000,000,000

PROGRAMME FOR THE ISSUANCE OF WHOLESALE DEBT INSTRUMENTS

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

Applications have been made to the 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 London Stock Exchange's Gilt-Edged and Fixed Interest Market. 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 London Stock Exchange's Gilt-Edged and Fixed Interest Market.

The London Stock Exchange's Gilt-Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC (the "Investment Services Directive").

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

Arranger for the Programme

BARCLAYS CAPITAL

Dealers

ABN AMRO	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.
BNP PARIBAS	BARCLAYS CAPITAL
CITIGROUP	COMMERZBANK AKTIENGESELLSCHAFT
CREDIT SUISSE FIRST BOSTON	DAIWA SECURITIES SMBC EUROPE
DEUTSCHE BANK	DRESDNER KLEINWORT WASSERSTEIN
GOLDMAN SACHS INTERNATIONAL	JPMORGAN
LEHMAN BROTHERS	MERRILL LYNCH INTERNATIONAL
MORGAN STANLEY	SANTANDER CENTRAL HISPANO
SOCIÉTÉ GÉNÉRALE	UBS INVESTMENT BANK

8 July 2005

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

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

As used herein:

- “Atento” means Atento N.V., our subsidiary that conducts our call center business.
- “Telefónica”, Telefónica Group“, “Group” and terms such as “we”, “us” and “our” mean Telefónica, S.A. and its consolidated subsidiaries unless the context otherwise requires;
- “Telefónica de España” means Telefónica de España, S.A., our subsidiary that conducts our fixed line telecommunications services business in Spain, and its consolidated subsidiaries;
- “Telefónica Móviles” means Telefónica Móviles, S.A.U., our subsidiary that conducts our worldwide wireless communications services business, and its consolidated subsidiaries;
- “Telefónica de Contenidos” (formerly “Admira”) means Telefónica de Contenidos, S.A.U., our subsidiary that conducts our worldwide audiovisual content and media business, and its consolidated subsidiaries;
- “Telefónica Latinoamerica” means Telefónica International, S.A.U., our subsidiary that conducts our fixed line telecommunications business in Latin America, and its consolidated subsidiaries; and
- “Terra Networks” (formerly “Terra Lycos”) and the “Terra Group” mean Terra Networks, S.A., our subsidiary that conducts our worldwide Internet-related business, and its consolidated subsidiaries.
- “Telefónica Publicidad e Información” or “TPI” means “Telefónica Publicidad en Información, S.A., our subsidiary that conducts our Directories business.

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

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

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in the Base Prospectus. Neither the delivery of the Base Prospectus or any Final Terms nor the offering, sale or delivery of any Instrument shall, in any circumstances, create any implication that the information contained in the Base Prospectus is true subsequent to the date thereof or the date upon which the Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuer, the Guarantor or the Group since the date thereof or, as the case may be, the date upon which the Base Prospectus has been most recently amended or supplemented or the balance sheet date of the most recent financial statements 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 €15,000,000,000 (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.

It is expected that the Issuer, the Guarantor, the Issue and Paying Agent, the common depository for the Instruments and the Clearing Systems will follow certain procedures to facilitate the collection from Holders of the information referred to in “Risk Factors – Risks Relating to Withholding”. A summary of those procedures is set out in schedule 9 to the Issue and Paying Agency Agreement and should be read together with “Taxation and Disclosure of Information in Connection with Payments”. Such procedures may be revised from time to time in accordance with applicable Spanish laws and regulations, further clarification from the Spanish tax authorities regarding such laws and regulations and the operational procedures of the Clearing Systems. Holders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Instruments. None of the Issuer, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrars and the Clearing Systems assume any responsibility therefor.

If any Clearing System is, in the future, unable or unwilling to assist with the collection of such information it may decline to clear the Instruments through such Clearing System and this may affect the liquidity of the Instruments. In such circumstances, Instruments which are represented by global Instruments will be exchanged for definitive Instruments (See “Terms and Conditions of the Instruments – Form and Denomination”).

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

Documents Incorporated by Reference

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

- (1) the audited consolidated financial statements of the Guarantor, and the reports referred to therein, for the years ended 31 December 2004 and 31 December 2003 and the unaudited consolidated financial statements of the Guarantor for the 3 months ended 31 March 2005;
- (2) the audited financial statements of the Issuer and the report referred to therein for the year ended 31 December 2004; and
- (3) any supplementary Base Prospectus.

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

Table of Contents

	<i>Page</i>
Key Features Of The Programme	6
Risk Factors.....	11
Terms And Conditions Of The Instruments	17
Form of Guarantee	47
Form of Final Terms	52
Use of Proceeds	62
Telefónica Emisiones S.A.U.....	63
Telefónica, S.A.	64
Legal and Arbitration Proceedings.....	70
Major Shareholders.....	75
Recent Developments.....	76
Management Of Telefónica	78
Conflicts of Interest.....	81
Organisation Structure.....	82
Taxation And Disclosure Of Information In Connection With Payments	83
Subscription And Sale	91
General Information.....	93

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 (PROVIDED THAT, IN THE CASE OF ANY TRANCHE OF INSTRUMENTS TO BE ADMITTED TO TRADING ON THE LONDON STOCK EXCHANGE, THE AGGREGATE PRINCIPAL AMOUNT OF INSTRUMENTS ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE RELEVANT TRANCHE) 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.

Key Features of the Programme

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

Issuer:	Telefónica Emisiones S.A.U.
Guarantor:	Telefónica, S.A.
Guarantee:	The Guarantor will, in a Deed of Guarantee to be dated on or about 8 July 2005 (the “ Guarantee ”), unconditionally and irrevocably guarantee the due and punctual payment of all amounts under the Instruments.
Arranger:	Barclays Bank PLC
Dealers:	ABN AMRO Bank N.V., Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander Central Hispano, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse First Boston (Europe) Limited, Daiwa Securities SMBC Europe Limited, Deutsche Bank AG, London Branch, Dresdner Bank Aktiengesellschaft, Goldman Sachs International, Lehman Brothers International (Europe), Merrill Lynch International, J.P. Morgan Securities Ltd., Morgan Stanley & Co. International Limited, Société Générale and UBS Limited, and any other dealer appointed from time to time by the Issuer and the Guarantor either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Instruments.
Issue and Paying Agent and Principal Registrar:	JPMorgan Chase Bank, N.A.
Programme Amount:	€15,000,000,000 in aggregate principal amount of Instruments outstanding at any one time (and, for this purpose, any Instruments denominated in another currency shall be translated into Euro at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of Euro being quoted by the Issue and Paying Agent at approximately 11.00 a.m. (London time) on the date on which the Relevant Agreement (as defined below) in respect of the relevant Tranche was made or such other rate as the Issuer and the Relevant Dealer may agree). The maximum aggregate principal amount of Instruments which may be outstanding under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement as defined under “Subscription and Sale”.
Issuance in Series:	Instruments will be issued in series (each, a “ Series ”). Each Series may comprise one or more tranches (“ Tranches ” and each, a “ Tranche ”) issued on different issue dates. The Instruments of each Series will all be subject to identical terms, except that (i) the issue date and the amount of the first payment of interest may be different in respect of different Tranches and (ii) a Series may comprise Instruments in bearer form and Instruments in registered form and Instruments in more than one denomination. The Instruments of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Instruments in bearer form and Instruments in registered form and may comprise Instruments of different denominations.
Form of Instruments:	Instruments may be issued in bearer form or in registered form. In respect of each Tranche of Instruments issued in bearer form, the Issuer will deliver a temporary global Instrument or (if so specified in the relevant Final Terms in respect of Instruments to which U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the “ TEFRA C Rules ”) applies (as so specified in such Final Terms)) a permanent global Instrument. Such global Instrument will be deposited on or before the relevant issue date

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

Currencies:	Instruments may be denominated in any currency or currencies subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Instruments may, subject to compliance as aforesaid, be made in and/or linked to, any currency or currencies other than the currency in which such Instruments are denominated.
Status of Instruments:	Instruments may be issued on a subordinated or unsubordinated basis, as specified in the relevant Final Terms.
Status of the Guarantee:	The obligations of the Guarantor under the Guarantee are, unless otherwise specified in the applicable Final Terms, unsubordinated.
Issue Price:	Instruments may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The issue price and the principal amount of the relevant Tranche of Instruments will be determined before filing of the relevant Final Terms of each Tranche on the basis of then prevailing market conditions.
Maturities:	Instruments may have any maturity of not less than one month, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption:	<p>Instruments may be redeemed at par or at such other Redemption Amount (detailed in a formula or otherwise) as may be specified in the relevant Final Terms.</p> <p>Any Instruments in respect of which the issue proceeds are received by the Issuer in the United Kingdom and having a maturity of less than one year from their date of issue must (a) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (b) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 by the Issuer.</p>
Early Redemption:	Early redemption will, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements, be permitted for taxation reasons as mentioned in “Terms and Conditions of the

Instruments – Early Redemption for Taxation Reasons”, but will otherwise be permitted only to the extent specified in the relevant Final Terms.

Interest: Instruments may be interest-bearing or non-interest bearing. Interest (if any) 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 €50,000 (or, if the Instruments are denominated in a currency other than Euro, the equivalent amount in such currency at the date of issue) and in compliance with all applicable legal and/or regulatory and/or central bank requirements. However, for so long as the Instruments are represented by a global Instrument and Euroclear and Clearstream, Luxembourg so permit, the Instruments shall be tradeable in minimum principal amounts of €50,000 and integral multiples of €1,000 thereafter.

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 or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required. In addition to certain customary exceptions, no such additional amounts shall be payable to: (a) Holders (as defined herein) who are resident in Spain; (b) Holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5 July as amended from time to time); and (c) Holders in respect of whom the Issuer or the Guarantor does not receive such information (which may include a tax residence certificate) concerning such Holder’s identity and tax residence as it may require in order to comply with 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 del blanqueo de capitales*) (“Law 13/1985”) and any implementing legislation. (See “Terms and Conditions of the Instruments – Taxation” and “Taxation and Disclosure of Information in Connection with Payments”.)

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

Disclosure of Identity of Holders: Under Law 13/1985, the Guarantor is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of Holders of the Instruments. It is expected that the Issuer, the Guarantor, the Issue and Paying Agent, the common depositary for the Instruments and the

Clearing Systems (as defined in “Terms and Conditions of the Instruments”) will follow certain procedures to facilitate the collection of the above details from Holders. A summary of those procedures is set out in schedule 9 to the Issue and Paying Agency Agreement and should be read together with “Taxation and Disclosure of Information in Connection with Payments – The Kingdom of Spain”. Such procedures may be revised from time to time in accordance with applicable Spanish laws and regulations, further clarification from the Spanish tax authorities regarding such laws and regulations and the operational procedures of the Clearing Systems. Holders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Instruments. None of the Issuer, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrars and the Clearing Systems assume any responsibility therefor.

If any Clearing System is, in the future, unable or unwilling to assist with the collection of such information it may decline to clear the Instruments through such Clearing System and this may affect the liquidity of the Instruments. In such circumstances, Instruments which are represented by global Instruments will be exchanged for definitive Instruments (See “Terms and Conditions of the Instruments – Form and Denomination”).

- Governing Law: The terms and conditions of the Instruments and all related contractual documentation will be governed by, and construed in accordance with, English law, provided that the status of the Instruments and of the Guarantee and the provisions relating to the appointment of the Commissioner and the Syndicate of Holders are governed by Spanish law. See “Terms and Conditions of the Instruments – Law and Jurisdiction”.
- Admission to Trading: Each Series may be admitted to the Official List and to trading on the Gilt-Edged and Fixed Interest Market of the London Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Final Terms or may be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.
- Terms and Conditions: The “Terms and Conditions of the Instruments” set out herein will be applicable to each Series of Instruments issued subject to Law 13/1985. Final terms will be prepared in respect of each Tranche of Instruments (the “Final Terms”). The terms and conditions applicable to each Tranche will be those set out herein under “Terms and Conditions of the Instruments” as supplemented, modified or replaced by the relevant Final Terms.
- Enforcement of Instruments in Global Form: In the case of Instruments in global form, Holders’ rights will be supported by a Deed of Covenant dated 8 July 2005, a copy of which will be available for inspection at the specified office of the Issue and Paying Agent.
- Clearing Systems: Euroclear, Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Final Terms.
- Selling Restrictions: For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material under the laws of the United States of America, the United Kingdom, Japan and The

Kingdom of Spain, see under “Subscription and Sale”. Additional restrictions may apply to each Series, as specified in the relevant Final Terms.

Ratings:

Tranches of Instruments may be rated or unrated and, if rated, such ratings will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold Instruments and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Redenomination and Exchangeability:

The relevant Final Terms will indicate whether the Issuer may elect that, with effect from the Redenomination Date, the Instruments of that Tranche (if the currency of such Tranche is not the Euro) shall be redenominated in Euro (if Redenomination is specified) or become exchangeable for Instruments denominated in Euro (if Exchangeability is specified).

Risk Factors

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

Risks Related to Telefónica's Business

A material portion of Telefónica's foreign operations and investments is located in Latin America, and Telefónica is therefore exposed to risks inherent in operating and investing in Latin America.

At 31 December 2004, approximately 41.8% of Telefónica's assets were located in Latin America. In addition, approximately 37.1% of Telefónica's revenue from operations for 2004 was derived from its Latin American operations. Telefónica's foreign operations and investments in Latin America are subject to various risks, including risks related to the following:

- government regulations and administrative policies may change quickly;
- currencies may be devalued or may depreciate (such as the Brazilian real and the Argentine peso, which experienced negative trends in 2002) or currency restrictions and other restraints on transfer of funds may be imposed;
- governments may expropriate assets;
- governments may impose burdensome taxes or tariffs;
- political changes may lead to changes in the business environments in which Telefónica operates;
- Telefónica's operations are dependent on concessions and other agreements with existing governments;
- economic downturns, political instability and civil disturbances may negatively affect Telefónica's operations; and
- Republic of Argentina bonds remain in default and this may influence measures taken by its government affecting business development in the private sector.

In addition, revenues from operations of Telefónica's Latin American subsidiaries, their market value and the dividends and management fees received from them are exposed to material country risk as a result of adverse economic conditions in the region that may adversely affect demand, consumption and exchange rates.

For example, Telefónica's operations in Argentina were affected by the devaluation of the Argentine peso, the adverse macroeconomic conditions in Argentina and the related legislative measures adopted by the Argentine Government in past years. During 2003 and 2004 the Argentine economy began to recover. However, the effects from the economic crisis continue to affect the results of operations and financial condition of Telefónica de Argentina and Telefónica Comunicaciones Personales.

The Public Emergency Law enacted in response to the economic crisis provides that any rate and tariff index clauses or any other index mechanism incorporated in the agreements executed by the Argentine government, including those agreements with telecommunication service providers, are void and not applicable. The Public Emergency Law indicates that rates and tariffs must be established in pesos using a Ps.1.00 per U.S.\$1.00 exchange rate. Any increase in inflation will result in a further decrease of Telefónica de Argentina's fixed line revenues in real terms, as tariffs are not adjusted for inflation, which could have a material adverse effect on Telefónica's results of operations and financial conditions. Telefónica de Argentina is in the process of renegotiating the tariffs it charges customers for fixed line telephone service with the Argentine government. No assurance can be given that the outcome of these negotiations will be favorable to Telefónica de Argentina.

Telefónica's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange and interest rate risk.

Telefónica is exposed to various types of market risk in the normal course of its business, including the significant impact of changes in foreign currency exchange rates, as well as the impact of

changes in interest rates. Telefónica employs risk management strategies to manage this exposure, in part through the use of financial derivatives such as foreign currency forwards, currency swap agreements and interest rate swap agreements. These risk management strategies may not be successful, however, which could adversely affect Telefónica's financial condition and results of operations.

In particular, in order to limit its exposure to Latin American currency exchange rate fluctuations, Telefónica uses financial derivatives and other instruments. If the financial derivatives market is not sufficiently liquid for its risk management purposes, or if Telefónica cannot enter into arrangements of the type and for the amounts necessary to limit Telefónica exposure to Latin American currency exchange rate fluctuations, such failure could adversely affect the financial condition and results of operations.

Telefónica Móviles' acquisitions of BellSouth's wireless operations in Latin America and Telefónica Móvil Chile as well as Telefónica's purchase of the Czech telecommunication operator Cesky Telecom may require Telefónica to increase its capital resource requirements.

On 5 March 2004, Telefónica Móviles entered into a stock purchase agreement with BellSouth Corporation, or BellSouth, to acquire 100% of BellSouth's interests in its wireless operations in Argentina, Chile, Perú, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama. On 11 January 2005, Telefónica Móviles, after the approval of the relevant regulatory authorities, completed the acquisition of all of BellSouth's operators. Furthermore, on 18 May 2004 the Board of Telefónica CTC Chile, S.A. accepted a binding offer from Telefónica Móviles S.A. for the acquisition of 100% of the shares of Telefónica Móvil Chile, S.A., a subsidiary of CTC. This transaction was completed on 23 July 2004.

On 16 June 2005, after having obtained the authorisation of the European Commission on 10 June 2005, Telefónica, S.A. and the National Property Fund, the Czech Republic's privatisation entity, closed the sale of 51.1% of the telecommunications operator Cesky Telecom. The price for the acquisition of 51.1% of the operator's capital stands at EUR 2,746 million, as expected. In accordance with Czech legislation on mandatory offers, on 30 June 2005, Telefónica submitted to the Czech Securities Commission for its approval a mandatory tender offer in respect of 48.9% of the shares of Cesky Telecom. The price proposed by Telefónica, as set forth in the draft bid documents, is CZK 456.00 per share in Cesky Telecom, to be paid in cash. The terms of the tender offer will be published after approval by the Czech authorities.

In addition to the financing required for these acquisitions, Telefónica's capital resource requirements might increase in order to enhance these operations' growth profile.

The costs and difficulties of acquiring and integrating businesses could impede Telefónica's future growth and adversely affect its competitiveness.

Telefónica may enter into acquisition transactions in order to, among other things, provide services in countries in which Telefónica does not currently have operations or enhance its product portfolio, as it has done in recent years. In this sense, Telefónica has completed one important acquisition on the year 2004, which is that of BellSouth's wireless operations in Latin America and has just completed the acquisition of Cesky Telecom, a.s.. These acquisitions may expose Telefónica to certain risks, including the following:

- The difficulty of assimilating the operations and personnel of the acquired entities;
- The difficulty of entering new countries in which Telefónica has no previous experience;
- The potential disruption to ongoing business caused by senior management's focus on the acquisition transaction;
- The failure to incorporate successfully licensed or acquired technology into Telefónica's network and product offerings;
- The failure to maintain uniform standards, controls, procedures and policies; and
- The impairment of relationships with employees as a result of changes in management and ownership.

Risks Relating to Telefónica Industry

Telefónica faces intense competition in most of its markets, which could result in decreases in current and potential customers, revenues and profitability.

Telefónica faces significant competition in all of the markets in which it operates. Governmental authorities in many of the countries in which it operates continue to grant new licenses and concessions to new market entrants, which will result in increased competition in those countries and markets. In addition, technological developments are increasing cross-competition in certain markets, such as between wireless providers and fixed line telephony operators.

Regulatory policies of many of the countries in which Telefónica operates generally favour increased competition in most of the segments of its markets, especially in the fixed line and wireless services industries, including by granting new licenses in existing licensed territories in order to permit the entry of new competitors. These regulatory policies are likely to have the effect, over time, of reducing Telefónica's market share in the markets in which it operates.

In addition, because Telefónica holds leading market shares in many of the countries in which it operates, Telefónica could face regulatory actions by national or, in Europe, European Union antitrust or competition authorities if it is determined that it has prevented, restricted or distorted competition. These authorities could prohibit Telefónica from making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on it, which if significant, could harm its financial performance and future growth.

Telefónica operates in a highly regulated industry and could become subject to more burdensome regulation, which could adversely affect its businesses.

As a multinational telecommunications company, Telefónica is subject to different laws and regulations in each of the jurisdictions in which it provides services. Furthermore, the licensing, construction, operation and interconnection arrangements of its communications systems are regulated to varying degrees by national, state, regional, local and supranational authorities, such as the European Union. These authorities could adopt regulations or take other actions that could adversely affect Telefónica and its companies, including revocation of any of Telefónica's licenses or concessions to offer services in a particular market, failure to renew a license or concession, modification of the terms of a license or concession or the granting of new licenses or concessions to competitors. Increased or significant changes in the regulation of the activities of Telefónica's operating companies, including the regulation of rates that may be charged to customers for services, could have a material adverse effect on Telefónica. New regulations could also increase the costs of regulatory compliance.

Telefónica's business could be negatively impacted by the consequences of any of these factors and its financial condition and results of operations could be adversely affected as a result.

Telefónica operates under license and concession contracts

Most of Telefónica's operating companies require licenses or concessions from the governmental authorities of the countries in which they operate. These licenses and concessions specify the types of services permitted to be offered by Telefónica's operating companies. The continued existence and terms of its licenses and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. The terms of these licenses granted to Telefónica's operating companies and conditions of the license renewal vary from country to country. Although license renewal is not usually guaranteed, most licenses do address the renewal process and terms, which Telefónica Group believes it will be able to satisfy. As licenses approach the end of their terms it is Telefónica's intention to pursue their renewal as provided by each of the license agreements.

The industry in which Telefónica conducts its business is subject to rapid technological changes and such changes could have a material adverse effect on its ability to provide competitive services.

The telecommunications industry is in a period of rapid technological change. Telefónica's future success depends, in part, on its ability to anticipate and adapt in a timely manner to technological changes. Telefónica expects that new products and technologies will emerge and that existing products and technologies will further develop. These new products and technologies may reduce the prices for Telefónica's services or they may be superior to, and render obsolete, the products and services it offers and the technologies it uses, and may consequently reduce the revenues generated by such products and services and require investment in new technology. Telefónica's

most significant competitors in the future may be new entrants to its markets who are not burdened by an installed base of older equipment. As a result, it may be very expensive for Telefónica to upgrade its products and technology or it may affect Telefónica's operating performance, in order to continue to compete effectively with new or existing competitors.

Risks Relating to Withholding

Under Spanish law, income in respect of Instruments issued by the Issuer will be subject to withholding tax in Spain, currently at the rate of 15 per cent., in relation to payments to (a) individual Holders (as defined herein) who are resident in Spain; (b) Holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5 July, as amended from time to time); and (c) Holders in respect of whom the Issuer or the Guarantor does not receive such information (which may include a tax residence certificate) concerning such Holder's identity and tax residence as it may require in order to comply with Law 13/1985 and any implementing legislation. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax in any of the above cases (See "Terms and Conditions of the Instruments – Taxation" and "Taxation and Disclosure of Information in Connection with Payments").

Despite the Issuer's and the Guarantor's opinion that the Instruments are not placed in Spain (on the basis that there will be no offer into Spain, as contemplated in "Subscription and Sale – The Kingdom of Spain") for the purposes of the exemption from withholding tax on payments to Spanish corporate Holders (as described in "Taxation and Disclosure of Information in Connection with Payments – 2. Legal Entities with Tax Residency in Spain"), the Spanish tax authorities may determine that a Tranche of Instruments has been placed in Spain and that the exemption referred to above does not apply to such Instruments. If such determination were made, under "Terms and Conditions of the Instruments – Taxation" paragraph (iii), the Issuer would be required to make a withholding at the applicable rate, currently 15 per cent., on payments of interest under the Instruments and no additional amounts will be payable by the Issuer or the Guarantor in such circumstances.

Risks Relating to Procedures for Collection of Holders' Details

It is expected that the Issuer, the Guarantor, the Issue and Paying Agent, the common depositary for the Instruments and the Clearing Systems will follow certain procedures to facilitate the collection from Holders of the information referred to in paragraph (c) of "Risks Relating to Withholding" above. A summary of those procedures is set out in schedule 9 to the Issue and Paying Agency Agreement and should be read together with "Taxation and Disclosure of Information in Connection with Payments". Such procedures may be revised from time to time in accordance with applicable Spanish laws and regulations, further clarification from the Spanish tax authorities regarding such laws and regulations and the operational procedures of the Clearing Systems. Holders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Instruments. None of the Issuer, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrars and the Clearing Systems assume any responsibility therefor.

If any Clearing System is, in the future, unable or unwilling to assist with the collection of such information it may decline to clear the Instruments through such Clearing System and this may affect the liquidity of the Instruments. In such circumstances, Instruments which are represented by global Instruments will be exchanged for definitive Instruments (See "Terms and Conditions of the Instruments – Form and Denomination").

Risks Relating to the Comisario

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

Risks Relating to the Insolvency Law

Certain provisions of the Insolvency Law could affect the ranking of the Instruments on an insolvency of the Issuer or the Guarantor. In particular, there is uncertainty surrounding the

interpretation of article 87.6 of the Insolvency Law, which may result in claims against the Issuer under the Senior Instruments or the Subordinated Instruments being re-classified as claims of creditors related to the Issuer as defined in article 92 of the Insolvency Law. However, if such claims were re-classified as described above the payment obligations of the Guarantor under the Guarantee in relation to Senior Instruments would continue to be classified as ordinary debts and the payment obligations of the Guarantor under the Guarantee in relation to Subordinated Instruments would continue to be classified as contractually subordinated debt under article 92 of the Insolvency Law.

Risk Relating To The Instruments

There is no active trading market for the Instruments.

Instruments issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Instruments which is already issued). If the Instruments are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although applications have been made for the Instruments issued under the Programme to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Gilt-Edged and Fixed Interest 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.

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.

Risks related to denominations

Instruments admitted to trading on a regulated market or publicly offered may be issued in a minimum denomination of €50,000 or more (or, if the Instruments are denominated in a currency other than Euro, the equivalent amount in such currency or such higher amount) (the “**Minimum Denomination**”). The applicable Final Terms may provide that, for so long as the Instruments are represented by a global Instrument and Euroclear and Clearstream, Luxembourg so permit, the Instruments may be tradeable in minimum nominal amounts of the Minimum Denomination and integral multiples of an amount lower than the Minimum Denomination (the “**Integral Multiple**”) thereafter. However, if definitive Instruments are required to be issued in accordance with the terms of the Temporary Global Instrument or Permanent Global Instrument (as defined in “Terms and Conditions of the Instruments – Form and Denomination”), they will only be printed and issued in the Minimum Denomination. In these circumstances, a holder of Instruments holding Instruments having a nominal amount which cannot be represented by a definitive Instrument in the Minimum Denomination will not be able to receive a definitive Instrument in respect of such Instruments and will not be able to receive interest or principal or be entitled to vote in respect of such Instruments.

Risks Relating to Adoption of New Accounting Standards in 2005

We must adopt new accounting standards in 2005 that will impact our financial reporting.

In 2004 we prepared our financial statements in accordance with Spanish GAAP. Under current European Union law, listed EU companies had to apply from 1 January 2005 the International Financial Reporting Standards (IFRS) adopted by the EU in preparing their consolidated financial statements.

Applying these standards to our Consolidated Financial Statements will imply a change in the presentation of our financial information, since the financial statements will include more components and additional disclosure will be required. Additionally, there will be a change in the valuation of certain items. Regarding the former, at this moment it is not possible to determine the exact impact that this new regulation will entail compared to Spanish GAAP, since new pronouncements from the International Accounting Standards Board (IASB), or pronouncements that are not endorsed by the European Union (EU) prior to the preparation of our 31 December 2005 Consolidated Financial Statements, may have an impact on our financial statements.

Terms and Conditions of the Instruments

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

The Instruments of each Tranche are constituted by a public deed of issuance (the “**Public Deed of Issuance**”) to be executed before a Spanish notary public and to be registered with the Mercantile Registry of Madrid on or prior to the issue date, and which shall contain, among other information, the terms and conditions of the Instruments. The Instruments are issued pursuant to and in accordance with an amended and restated issue and paying agency agreement (as amended, supplemented, restated or replaced from time to time, the “**Issue and Paying Agency Agreement**”) dated 8 July 2005 and made between Telefónica Emisiones S.A.U. (the “**Issuer**”), Telefónica, S.A. (the “**Guarantor**”), JPMorgan Chase Bank, N.A. in its capacities as Issue and Paying Agent (the “**Issue and Paying Agent**”, which expression shall include any successor to JPMorgan Chase Bank, N.A. in its capacity as such) and as principal registrar (the “**Principal Registrar**”, which expression shall include any successor to JPMorgan Chase Bank, N.A. in its capacity as such), J.P. Morgan Bank Luxembourg S.A. in its capacity as alternative registrar (the “**Alternative registrar**”, which expression shall include any successor to J.P. Morgan Bank 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 8 July 2005 and executed by the Issuer in relation to the Instruments and a deed of guarantee (the “**Guarantee**”) dated 8 July 2005, executed by the Guarantor in favour of, *inter alia*, the Holders (as defined below). Copies of the Issue and Paying Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection during normal business hours at the specified office of each of the Paying Agents, the Principal Registrar and the Alternative registrar. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, all of the provisions of the Issue and Paying Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Instruments.

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

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

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

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

1. Form and Denomination

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

Bearer Instruments

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

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

Interests in the Temporary Global Instrument may be exchanged for:

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

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

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

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

1.05 Interests in a Permanent Global Instrument will be exchanged by the Issuer in whole but not in part only for Definitive Instruments and/or (in the case of a Series comprising both Bearer and Registered Instruments and if so specified in the Final Terms) Registered Instruments, (a) if an Event of Default (as defined in Condition 7.01) occurs in respect of any Instrument of the relevant

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

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

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

Denomination

Denomination of Bearer Instruments

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

However, for so long as the Instruments are represented by a global Instrument and Euroclear and Clearstream, Luxembourg so permit, the Instruments shall be tradeable in minimum principal amounts of €50,000 and integral multiples of €1,000 thereafter.

Denomination of Registered Instruments

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

However, for so long as the Instruments are represented by a global Instrument and Euroclear and Clearstream, Luxembourg so permit, the Instruments shall be tradeable in minimum principal amounts of €50,000 and integral multiples of €1,000 thereafter.

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.

Not less than 14 days nor more than 30 days prior to the due date for payment of any Partly Paid Instalment (other than the first such instalment) the Issuer shall publish a notice in accordance with Condition 14 stating the due date for payment thereof and stating that failure to pay any such Partly Paid Instalment on or prior to such date will entitle the Issuer to forfeit the Instruments with effect from such date (“**Forfeiture Date**”) as may be specified in such notice (not being less than 14 days after the due date for payment of such Partly Paid Instalment), unless payment of the relevant Partly Paid Instalment together with any interest accrued thereon is paid prior to the Forfeiture Date. The Issuer shall procure that any Partly Paid Instalments paid in respect of any Instruments subsequent to the Forfeiture Date in respect thereof shall be returned promptly to the persons entitled thereto. The Issuer shall not be liable for any interest on any Partly Paid Instalment so returned.

Interest shall accrue on any Partly Paid Instalment which is not paid on or prior to the due date for payment thereof at the Interest Rate (referred to in Condition 5.02) (in the case of non-interest bearing Instruments, at the rate applicable to overdue payments) and shall be calculated in the same manner and on the same basis as if it were interest accruing on the Instruments for the period from and including the due date for payment of the relevant Partly Paid Instalment up to but excluding the Forfeiture Date. For the purpose of the accrual of interest, any payment of any Partly Paid Instalment made after the due date for payment shall be treated as having been made on the day preceding the Forfeiture Date (whether or not a Business Day as defined in Condition 5.09).

Unless an Event of Default (or an event which with the giving of notice, the lapse of time or the making or giving of any determination or certification would constitute an Event of Default) shall have occurred and be continuing, the Issuer shall on the Forfeiture Date forfeit all of the Instruments in respect of which any Partly Paid Instalment shall not have been duly paid, whereupon the Issuer shall be entitled to retain all Partly Paid Instalments previously paid in respect of such Instruments and shall be discharged from any obligation to repay such amount or to pay interest thereon, or (where such Instruments are represented by a Temporary Global Instrument or a Permanent Global Instrument) to exchange any interests in such Instrument for interests in a Permanent Global Instrument or to deliver Definitive Instruments or Registered Instruments in respect thereof, but shall have no other rights against any person entitled to the Instruments which have been so forfeited.

Without prejudice to the right of the Issuer to forfeit any Instruments, for so long as any Partly Paid Instalment (together with any accrued interest) remains due but unpaid, and except in the case where an Event of Default shall have occurred and be continuing (a) no interests in a Temporary Global Instrument may be exchanged for interests in a Permanent Global Instrument and (b) no transfers of Registered Instruments or exchanges of Bearer Instruments for Registered Instruments may be requested or effected.

Until such time as all the subscription moneys (together with any accrued interest) in respect of Partly Paid Instruments shall have been paid in full and except in the case where an Event of Default shall have occurred and be continuing or if any of Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays) or 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, no interests in a Temporary Global Instrument or a Permanent Global Instrument may be exchanged for Definitive Instruments or Registered Instruments.

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

3B Status – Subordinated Instruments

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

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

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

3C Status – Unsubordinated Guarantee

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

3C.01 Pursuant to the Guarantee, the Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Instruments. The obligations of the Guarantor under the Guarantee (which expression includes any covenant which

may be given pursuant to Condition 18.01(a)(iii)) constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid) (unless they qualify by law as subordinated credits under article 92 of the Insolvency Law in the event of the insolvency (*concurso*) of the Guarantor will at all times rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, except for such payment obligations that are preferred by law under Articles 84, 90 and 91 under Law 22/2003.

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

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

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

3D Status – Subordinated Guarantee

Subordinated Instruments will be guaranteed on a subordinated basis.

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

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

4. Negative Pledge

This Condition 4 applies to Unsubordinated Instruments only.

So long as any of the Instruments of a Series remains outstanding (as defined in the Issue and Paying Agency Agreement) each of the Issuer and the Guarantor undertakes that it will not create or have outstanding any Encumbrance (as defined below) upon the whole or any part of its assets, present or future, in order to secure any Relevant Indebtedness (as defined below) issued or guaranteed by the Issuer, the Guarantor or by any other Person (as defined below) unless (a) such Instruments are equally and rateably secured therewith, or (b) such other security is provided as the Syndicate (as defined on page 35) of the relevant Series shall approve, in each case for as long as such Relevant Indebtedness shall be so secured; provided, however, that the foregoing restriction shall not apply to any Encumbrance securing Relevant Indebtedness issued or guaranteed by the Guarantor, the Issuer or any other Person if the Relevant Indebtedness so secured (i) was originally offered, distributed or sold primarily to residents of The Kingdom of Spain, (ii) by its terms matures within one year of its date of issue, or (iii) the Encumbrance affects the assets of an entity which, when the Encumbrance was created, was unrelated to the Issuer or the Guarantor, and which was subsequently acquired by the Issuer or the Guarantor; and provided, further, that nothing in this Condition 4 shall limit the ability of the Issuer or the Guarantor, as the case may be, to grant or permit to subsist Encumbrances over any or all of their respective present or future

assets to secure Relevant Indebtedness issued or guaranteed by the Issuer, the Guarantor or any other Person, to the extent that the aggregate principal amounts so secured do not exceed 5 per cent. of the consolidated net tangible assets (as defined below) of the Guarantor, as reflected in the most recent balance sheet (prepared in accordance with such accounting principles as are generally accepted in the Kingdom of Spain 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 expressions “assets” and “obligations for the payment of borrowed money” as used in the definition of Relevant Indebtedness do not include obligations of the Issuer or the Guarantor which, pursuant to the requirements of law and accounting principles generally accepted in the Kingdom of Spain need not, and are not, reflected in the balance sheet of the Issuer or the Guarantor, as the case may be.

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

5. Interest

Interest

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

Interest-bearing Instruments

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

Floating Rate Instruments

5.03 If the Final Terms specifies the Interest Rate applicable to the Instruments as being Floating Rate it shall also specify which page (the “**Relevant Screen Page**”) on the Reuters Screen or Telerate 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 offered rate for deposits (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 rates for deposits) 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 rate for deposits so appears (or, as the case may be, if fewer than two such rates for deposits so appear) or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean (rounded as aforesaid) of the rates 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 relevant margin (the “**Relevant Margin**”) specified in the Final Terms 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 Relevant 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 Rate Instruments

5.04 If the Final Terms specifies the Interest Rate applicable to the Instruments as being ISDA Rate, each Instrument shall bear interest as from such date, and at such rate or in such amounts, and such interest will be payable on such dates, as would have applied (regardless of any event of default or termination event or tax event thereunder) if the Issuer had entered into an interest rate swap transaction with the Holder of such Instrument under the terms of an agreement to which the ISDA Definitions applied and under which:

- the Fixed Rate Payer, Fixed Amount Payer, Fixed Price Payer, Floating Rate Payer, Floating Amount Payer or, as the case may be, the Floating Price Payer is the Issuer (as specified in the Final Terms);
- the Effective Date is the Interest Commencement Date;
- the Termination Date is the Maturity Date;
- the Calculation Agent is the Calculation Agent as defined in Condition 5.09;
- the Calculation Periods are the Interest Accrual Periods;
- the Period End Dates are the Interest Period End Dates;
- the Payment Dates are the Interest Payment Dates;
- the Reset Dates are the Interest Period End Dates;
- the Calculation Amount is the principal amount of such Instrument;
- the Day Count Fraction applicable to the calculation of any amount is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions;
- the Applicable Business Day Convention applicable to any date is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions; and
- the other terms are as specified in the Final Terms.

Maximum or Minimum Interest Rate

5.05 If any Maximum or Minimum Interest Rate 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 or, as the case may be, the Registrar 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 or, as the case may be, the Registrar 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 any Instrument for any period shall be calculated by multiplying the product of the Interest Rate and the Outstanding Principal Amount by the Day Count Fraction (as defined in Condition 5.09), save that if the Final Terms specifies a specific amount in respect of such period, the amount of interest payable in respect of such Instrument for such period will be equal to such specified 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:

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

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

“**Business Day**” means a day:

- (i) in relation to Instruments denominated or payable in Euro, on which the TARGET System is operating;
- (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
- (iii) in either case, on which commercial banks are open for business and foreign exchange markets settle payments in any place specified in the relevant Final Terms.

“**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 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.

“**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 (ISMA)**” 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 (ISMA)**” 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/365**” or “**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**”, “**360/360**” or “**Bonds Basis**” is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes the last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vii) If “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

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

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

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

“**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 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 Interest 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 2000 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. (formerly the International Swap Dealers Association, Inc.)).

“**Law 13/1985**” means Law 13/1985 of 25 May on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversion, recursos propios y obligaciones de información de los intermediarios financieros*) as amended by Law 19/2003 of 4 July on foreign capital movements and financial transactions and on certain measures to prevent money laundering (*Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas del blanqueo de capitales*).

“**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*.

“**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).

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) system.

“**Telerate**” means, when used in connection with any designated page and any designated information, the display page so designated on the Telerate Services of Bridge Information Systems (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying such information).

Non-Interest Bearing Instruments

5.10 If any Maturity Redemption Amount (as defined in Condition 6.01) in respect of any Instrument which is non-interest bearing is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Amortisation Yield defined in, or determined in accordance with the provisions of, the Final Terms or at 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 or, as the case may be, the Registrar 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 or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder). The amount of any such interest shall be calculated in accordance with the provisions of Condition 5.08 as if the Interest Rate was the Amortisation Yield, the Outstanding Principal Amount was the overdue sum and the Day Count Fraction was as specified for this purpose in the Final Terms or, if not so specified, 30E/360 (as defined in Condition 5.09).

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 maturity redemption amount (the “**Maturity 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 on page 35) 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, in the case of Instruments which are non-interest bearing, their Amortised Face Amount (as defined in Condition 6.11) 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 (if any) 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 “**Early Redemption Amount (Call)**”) (which shall be their Outstanding Principal Amount or, in the case of Instruments which are non-interest bearing, their Amortised Face Amount (as described in Condition 6.11) 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 (if any) 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 (“**Call Option Date(s)**”) 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 Early Redemption Amount (Call) at which such Instruments are to be redeemed.

Partial Redemption

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

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

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

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

Optional Early Redemption (Put)

6.06 If this Condition 6.06 is specified in the Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the date specified in the relevant Put Notice (as defined below) at its put early redemption amount (the “**Early Redemption Amount (Put)**”) (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as described in Condition 6.11) 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 (if any) 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 (“**Put Date(s)**”) 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 Maturity Redemption Amount, the final Instalment Amount, Early Redemption Amount (Tax), Early Redemption Amount (Call), Early 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.

6.11 In the case of any Instrument which is non-interest bearing, the “**Amortised Face Amount**” shall be an amount equal to the sum of:

- (i) the Issue Price specified in the Final Terms; and
- (ii) the product of the Amortisation Yield (compounded annually) being applied to the Issue Price from (and including) the Issue Date specified in the Final Terms to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Instrument becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of the Day Count Fraction (as defined in Condition 5.09) specified in the Final Terms for the purposes of this Condition 6.11.

6.12 If any Redemption Amount (other than the Maturity Redemption Amount) is improperly withheld or refused or default is otherwise made in the payment thereof, the Amortised Face Amount shall be calculated as provided in Condition 6.11 but as if references in subparagraph (ii)

to the date fixed for redemption or the date upon which such Instrument becomes due and repayable were replaced by references to the earlier of:

- (i) the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made; and
- (ii) (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 or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 of that circumstance (except to the extent that there is a failure in the subsequent payment thereof to the relevant Holder).

7. Events of Default

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

- (i) the Issuer fails to pay, and the Guarantor fails to honour the Guarantee with respect to payments of, any principal, premium (if any) or interest due in respect of the Instruments of the relevant Series or any of them and such default continues for a period of 21 days; or
- (ii) the Issuer fails to perform any other obligation arising from the Instruments of that Series or the Guarantor fails to perform any other obligation arising under the Guarantee of such Instruments and such failure continues for more than 60 days (90 days if the failure to perform relates to an obligation of the Issuer or the Guarantor arising under Condition 18) following the service by the Commissioner or failing which any Holder on the Issuer and the Guarantor of a written notice specifying such failure and requiring it to be remedied, and stating that such notice is a “Notice of Default” hereunder; or
- (iii) the Issuer or the Guarantor fails to fulfill (taking into account any applicable grace periods) any payment obligation in excess of Euro 50,000,000 or its equivalent in any other currency under any Relevant Indebtedness or under any guarantee or suretyship provided for under any Relevant Indebtedness of others, and this failure remains uncured for 30 days; or
- (iv) the holders of any Relevant Indebtedness of the Issuer or the Guarantor accelerate any payment obligation in excess of Euro 50,000,000 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, if such Instruments or Instrument (as the case may be) is or are non-interest bearing, its Amortised Face Amount (as defined in Condition 6.11) 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 (if any) accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Instruments to the

contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Instruments of the relevant Series shall have been cured.

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

8. Taxation

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

- (i) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with The Kingdom of Spain other than (a) the mere holding of such Instrument or Coupon or (b) the receipt of principal, interest or other amount in respect of such Instrument or Coupon; or
- (ii) to, or to a third party on behalf of, a resident for tax purposes in The Kingdom of Spain or any resident of a Tax Haven (as defined in Royal Decree 1080/1991 of 5 July and as amended from time to time); or
- (iii) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish corporation tax if the Spanish tax authorities determine that the Instruments do not comply with exemption requirements specified in the Reply to a Non-Binding Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27th July 2004 and require a withholding to be made; or
- (iv) to, or to a third party on behalf of, a Holder in respect of whom the Issuer or the Guarantor does not receive such information (which may include a tax residence certificate) concerning such Holder's identity and tax residence as may be required in order to comply with Law 13/1985 and any implementing legislation; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) 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
- (vii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on or before the expiry of such period of thirty days; or
- (viii) presented for payment by or on behalf of any Holder who has failed to comply with any applicable certification, documentation, request for information or other reporting requirements concerning the Holder's nationality, residence, identity or connection with The Kingdom of Spain if such compliance is required as a pre-condition to relief or exemption from such taxes or other governmental charges (including, without limitation, a certification that the Holder is not an individual resident of a member state of the European Union).

A list of the Tax Havens referred to in paragraph (ii) of this Condition 8.01 as at 8 July 2005 is set out under "Taxation and disclosure of information in connection with payments Tax havens" of the Base Prospectus.

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

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

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

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

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

9. Payments

9A Payments – Bearer Instruments

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

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

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

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

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

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

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

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

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

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

- (iv) in the case of Definitive Instruments initially delivered with Receipts attached thereto, all Receipts relating to such Instruments in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

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

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

9B Payments – Registered Instruments

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

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

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

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

Holder thereof (or, in the case of joint Holders, the first- named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, as appropriate, Condition 5.10.

9C Payments – General Provisions

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

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

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

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

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

9D Redenomination

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

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

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

of the days elapsed fall in a leap year, the sum of (i) the number of those days falling in a leap year divided by 366 and (ii) the number of those days falling in a non-leap year divided by 365);

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

9E Exchangeability

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

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

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

10. Prescription

10.01 Claims against the Issuer for payment, whether of principal and interest or otherwise, in respect of Instruments will be prescribed and become void unless made, in the case of principal,

within ten years or, in the case of interest, five years after the Relevant Date (as defined in Condition 8.02) for payment thereof.

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

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

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

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

12. Replacement of Instruments

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

any such lost, stolen, mutilated, defaced or destroyed Instrument, Receipt or Coupon has become or is about to become due and payable, the Issuer in its discretion may, instead of delivering replacements therefor, pay such Instrument, Receipt or Coupon.

13. Syndicate of Holders of the Instruments and Modification

The Holders of the Instruments of a relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Holders (the “**Regulations**”). The Regulations contain rules governing the functioning of each Syndicate and the rules governing its relationship with the Issuer and shall be attached to the Public Deed of Issuance. A set of pro forma Regulations is included in the Issue and Paying Agency Agreement.

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

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

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

For the purposes of these Terms and Conditions,

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

14. Notices

To Holders of Bearer Instruments

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

To Holders of Registered Instruments

14.02 Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been

validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day.

To the Issuer and the Guarantor

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

To the Commissioner

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

15. Further Issues

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

16. Currency Indemnity

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

17. Waiver and Remedies

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

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

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

- (a) **Deed poll:** the execution of a deed poll (the “**Deed Poll**”) by the Substitute Debtor and (if the Substitute Debtor is not the Guarantor) the Guarantor in a form which gives full effect to such assumption and which includes (without limitation):
 - (i) a covenant by the Substitute Debtor in favour of the Holders of the relevant Instruments to be bound by these Terms and Conditions as if it had been named herein and therein as the Issuer;
 - (ii) if the Substitute Debtor is incorporated, domiciled or resident for tax purposes in a territory other than The Kingdom of Spain, a covenant by the Substitute Debtor corresponding to the provisions of Condition 8 with the addition of such territory to the references to The Kingdom of Spain;
 - (iii) if the Substitute Debtor is not the Guarantor, a covenant by the Guarantor in favour of the Holders of the relevant Instruments guaranteeing the obligations of the Substitute Debtor under and by virtue of the Deed Poll; and
 - (iv) an acknowledgment of the right of the Commissioner and all Holders of the relevant Instruments to the production of the Deed Poll; and
- (b) **Legal opinion:** the delivery by the Issuer to the Issue and Paying Agent and the Commissioner of an opinion of independent legal advisers of recognised standing to the effect that:
 - (i) the Deed Poll constitutes legal, valid, binding and enforceable obligations of the Substitute Debtor and, if the Substitute Debtor is not the Guarantor, the Guarantor;
 - (ii) the relevant Instruments constitute legal, valid, binding and enforceable obligations of the Substitute Debtor; and
 - (iii) if the Substitute Debtor is not the Guarantor, the Guarantee constitutes legal, valid, binding and enforceable obligations of the Guarantor in respect of all sums from time to time payable by the Substitute Debtor in respect of the relevant Instruments.

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

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

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

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

- (i) in the case the Issuer or the Guarantor shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Issuer or the Guarantor substantially as an entirety shall be a corporation, partnership or trust, shall be organised and validly existing, under the laws of the jurisdiction of its organisation and shall expressly assume the due and punctual payment of the principal, premium (if any) and interest due in respect of the Instruments and the performance or observance of every covenant under these Terms and Conditions on the part of the Issuer to be performed or observed and, in the case of the Guarantor, the due and punctual payment

of the principal, premium (if any) and interest due in respect of the Instruments and the performance or observance of every covenant under these Terms and Conditions on the part of the Guarantor to be performed or observed;

- (ii) if the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets is a Person organised and validly existing under the laws of a jurisdiction other than The Kingdom of Spain, such Person agrees to indemnify the Holders of the Instruments against (a) any tax, assessment or governmental charge imposed on any such Holder or required to be withheld or deducted from any payment to such Holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and (b) any costs or expenses of the act of such consolidation, merger, conveyance, transfer or lease;
- (iii) immediately prior to the consummation of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred;
- (iv) the consummation of such transaction must not cause an Event of Default under these Terms and Conditions or the Guarantee which the Issuer or the Guarantor, as the case may be, does not reasonably believe that can be cured within 90 days from the date of such transaction; and
- (v) the Issuer of the Guarantor has delivered to the Issue and Paying Agent a certificate signed by one director of the Issuer or one director of the Guarantor and an opinion of counsel (as defined below), each stating that such consolidation, merger, conveyance, transfer or lease comply with this Condition and that all conditions precedent herein provided for relating to such transaction have been complied with.

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

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

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

19. Law and Jurisdiction

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

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

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

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

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

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

20. Rights of Third Parties

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

Form of Guarantee

The text of the Deed of Guarantee is as follows:

THIS GUARANTEE is issued on the 8th day of July 2005

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**” as amended, supplemented or restated) dated 8 July 2005 and made between the Issuer, the Guarantor, JPMorgan Chase Bank, N.A. 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 8 July 2005.
- (B) Instruments may be issued on a listed or unlisted basis. The Base Prospectus relating to the Programme has been approved by the United Kingdom Financial Services Authority (the “**FSA**”), which is the competent authority for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”) and relevant implementing measures in the United Kingdom, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the Instruments. Applications have been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**FSMA**”) for Instruments issued within 12 months from the date hereof to be admitted to the official list of the FSA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Instruments to be admitted to trading on the London Stock Exchange’s Gilt-Edged and Fixed Interest Market.
- (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: Gran Vía, 28
28013 Madrid
Fax: + 34 91 584 8934
Attention: Eduardo Álvarez Gómez

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

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

13. LAW AND JURISDICTION

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

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

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

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

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

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

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

Form of Final Terms

Series No.: []

Tranche No.: []

(If fungible with an existing Series, details of that Series, including the date on which the Instruments became fungible)

TELEFÓNICA EMISIONES S.A.U.,

(incorporated with limited liability in the Kingdom of Spain)

Programme for the Issuance of Debt Instruments

unconditionally and irrevocably guaranteed

by

TELEFÓNICA, S.A.

Issue of

[Aggregate Principal Amount of Tranche]

[Title of Instruments]

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 8 July 2005 and the supplemental Base Prospectus dated [●]¹ which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing on the website 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 J.P. Morgan Chase Bank N.A., London Branch at Trinity Tower, 9 Thomas More Street, London E1W 1YT and at the offices of J.P. Morgan Bank Luxembourg S.A. at 6, route de Trèves, L-2633, Senningerberg, Grand Duchy of Luxembourg and [specify addresses of dealers]].²

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.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated 8 July 2005 [and the supplemental Prospectus dated [●]]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated 8 July 2005 [and the supplemental Prospectus dated [●]¹, which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated 8 July 2005 [and the supplemental Base Prospectus dated [●] and are attached hereto. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 8 July 2005 and [current date] [and the supplemental Prospectuses dated [●] and [●]]. [The Base Prospectuses [and the supplemental Prospectuses] are available for viewing on the web site 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 J.P. Morgan Chase Bank N.A., London Branch at Trinity Tower, 9 Thomas

More Street, London E1W 1YT and at the offices of J.P. Morgan Bank Luxembourg S.A. at 6, route de Trèves, L-2633, Senningerberg, Grand Duchy of Luxembourg and [specify addresses of managers].].]²

[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 final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

1. Issuer: Telefónica Emisiones S.A.U.
2. Guarantor Telefónica, S.A.

DISTRIBUTION

3. Relevant Dealer/Lead Manager: [Name]
4. If Syndicated, names of Managers: [N/A/give names]
5. Other Dealers/Managers (if any): [Name]

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

6. Status of Instruments: [Unsubordinated/Subordinated]
[If nothing is specified, Instruments will be unsubordinated]³
7. Specified Currency or Currencies:
(Condition 1.10)
8. Aggregate Principal Amount of Instrument admitted to trading: [Specify]
 - (i) Series [Specify]
 - (ii) Tranche [Specify]
9. If interchangeable with existing Series, Series No: [Specify]
10. Issue Date: [Specify]
11. Issue Price: []
12. Redemption/Payment Basis:⁴ [Redemption at par]
[Index Linked Redemption]
[Dual Currency]
[Partly Paid]
[Instalment]
[Other (*specify*)]
13. Specified Denominations: []
Instruments [(including Instruments denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of S 19 FSMA and] which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).
14. [Commission Payable: [] per cent. flat]
15. [Selling Concession: [] per cent.]

16. [Expenses: [If Definitive Instruments specify that the Issuer must bear the cost for producing Definitive Instruments]]
17. (a) Form of Instruments: [Bearer/Registered]
 Bearer Instruments exchangeable for Registered Instruments: [Yes/No]
18. If issued in Bearer form:
- (a) Initially represented by a Temporary Global Instrument or Permanent Global Instrument: [Specify. If nothing is specified and these Final Terms do not specify that the TEFRA C Rules apply, Instruments will be represented initially by a Temporary Global Instrument. If nothing is specified and these Final Terms specify that the TEFRA C Rules apply, the Instruments will be represented by a Permanent Global Instrument.]
 (Condition 1.02)
- (b) Temporary Global Instrument exchangeable for Definitive Instruments and/or [(if the relevant Series comprises both Bearer and Registered Instruments)] Registered Instruments: [Yes/No. If “no” or nothing is specified, Temporary Global Instrument will be exchangeable for Permanent Global Instrument].
- Specify date from which exchanges for Registered Instruments will be made: [If nothing is specified, exchanges will be made at any time. (Exchanges for a Permanent Global Instrument or Definitive Instruments will be made on or after the Exchange Date).]
 (Condition 1.02)
- (c) Permanent Global Instrument exchangeable at the option of the Holder for Definitive Instruments and/or [(if the relevant Series comprises both Bearer Instruments and Registered Instruments)] Registered Instruments: [Yes/No]
 (Condition 1.05)
- (d) Issuer to bear cost and expense of exchange of Permanent Global Instrument for Definitive Instruments: [Yes/No]
- (e) Coupons to be attached to Definitive Instruments: [Yes/No]
 (Condition 1.06)
- (f) Talons for future Coupons to be attached to Definitive Instruments: [Yes/No]
 (Condition 1.6)
- (g) Receipts to be attached to Instalment Instruments which are Definitive Instruments: [Yes/No]
 (Condition 1.7)
- (h) (i) Definitive Instruments to be security printed: [Yes/No]
 (ii) if the answer to (i) is yes, whether steel engraved plates will be used: [Yes/No]
 (i) Definitive Instruments to be in IPMA or successors format: [Yes/No. If nothing is specified Definitive Instruments will be in ISMA or successors format]
19. Denomination(s): [Specify]
 (Condition 1.08 or 1.09) [*Instruments (including Instruments denominated*

in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of S 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies)]

20. Partly Paid Instruments: [Yes/No]
(Condition 1.11)

If yes, specify number, amounts and dates for, and method of, payment of instalments of subscription moneys and any further additional provisions (including Forfeiture Dates in respect of late payment of Partly Paid Instalments) [Give details]

21. If issued in Registered Form: [Name and specified office]
- Registrar:
(Condition 2.02)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

22. Interest: [Interest bearing/Non-interest bearing]
(Condition 5)

(a) If Interest bearing: [] per cent. Per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]

(i) Interest Rate:

(ii) Interest Payment Dates (or if the Applicable Business Day Convention is the FRN Convention specify number of calendar months): [] 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) Interest Period End Dates (or if the Applicable Business Day Convention is the FRN Convention specify number of calendar months): [Specify. If nothing is specified Interest Period End Dates will correspond with Interest Payment Dates]

(iv) Applicable Business Day Convention: [Specify. (Unless "No Adjustment" is stated or the ISDA Rate applies) if nothing is specified in relation to Interest Payment Dates or Interest Period End Dates, the Modified Following Business Day Convention will apply. Care should be taken to match the maturity date (as well as other key dates) of the Instruments with any underlying swap transaction. Since maturity dates do not automatically move with business day conventions under ISDA, it may be necessary to specify "No Adjustment" in relation to the maturity date of the Instruments to disapply the Applicable Business Day Convention.]

- for Interest Payment Dates: []

- for Interest Period End Dates: []

- any other date: []

(v) Definition of Business Day: [Specify any additional places or days]

- (vi) Day Count Fraction: [30/360 / Actual/Actual (ISMA)⁷/ Actual/Actual – ISDA / other]
- (vii) interest Commencement Date (if different from the Issue Date): [Specify]
- (viii) Relevant Time: [Specify]
- (ix) Minimum Interest Rate: [Specify]
- (x) Maximum Interest Rate: [Specify]
- (xi) Default Interest Rate: [Specify if different from the Interest Rate]
(Condition 5.02)
- (xii) (Determination Dates: [] in each year (*insert regular interest payment dates ignoring issue date or maturity date in the case of a long or a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ISMA)⁵*)
- (b) If non-interest bearing:
- Amortisation Yield:
 - rate of interest on overdue amounts: [Specify, if not the Amortisation Yield]
(Condition 5.03)
23. Calculation Agent: [Name and specified office]
(Condition 5.04)
24. Reference Banks: [Specify]
(Condition 5.04)
25. Maturity Date: [Specify date or (for Floating Rate Instruments) Interest Payment Date falling in the relevant month and year]
(Condition 6.01)
[If the Maturity Date is earlier 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.]
26. Dates for payment of Instalment Amounts (Instalment Instruments): (Condition 6.01) [Specify dates (or Interest Payment Dates occurring in months and years if FRN Convention applies)]
27. Maturity Redemption Amount: [Specify, if not the Outstanding Principal Amount]
(Condition 6.01)
28. Instalment Amounts: [Specify]
(Condition 6.01)

PROVISIONS RELATING TO REDEMPTION

29. Early Redemption for Taxation Reasons: (Condition 6.02)
- (a) Early Redemption Amount (Tax): [Specify, if not the Outstanding Principal Amount or, in the case of any Instruments which are non-interest bearing, the Amortised Face Amount]

- (b) Date after which changes in law, etc. entitle Issuer to redeem: [Specify, if not the Issue Date]
30. Optional Early Redemption (Call) (Condition 6.03): [Yes/No]
- (a) Early Redemption Amount (Call): [Specify, if not the Outstanding Principal Amount or, in the case of any Instruments which are non-interest bearing, the Amortised Face Amount]
- (b) Series redeemable in part: [Specify, otherwise redemption will only be permitted of entire Series]
- (c) Call Option Date(s)/Call Option Period: [Specify]⁶
31. Optional Early Redemption (Put) (Condition 6.06) [Yes/No]
- (a) Early Redemption Amount (Put): [Specify, if not the Outstanding Principal Amount or, in the case of any Instruments which are non-interest bearing, the Amortised Face Amount]
- (b) Put Date(s)/Put Period: [Specify]
32. Final Redemption Amount of each Instrument⁴ [[] per Instrument of [] specified denomination /other/see Appendix]
- 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) Determination Date(s): []
- (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: []
- (viii) Maximum Final Redemption Amount: []
33. Events of Default (Condition 7.01): []
- (a) Early Termination Amount: [Specify, if not the Outstanding Principal Amount or, in the case of any Instruments which are non-interest bearing, the Amortised Face Amount]
- (b) Any additional (or modifications to) Events of Default: [Specify]

34. Payments:
(Condition 9)
- (a) Unmatured Coupons missing upon Early Redemption: [Specify whether paragraph (i) of Condition 9A.06 or paragraph (ii) of Condition 9A.06 applies. If nothing is specified paragraph (i) will apply to fixed rate or fixed coupon amount Instruments and paragraph (ii) will apply to floating rate or variable coupon amount Instruments]
- (b) Relevant Financial Centre Day: (Condition 9C.03) [Specify any additional places]
35. Replacement of Instruments: (Condition 12): [In the case of Bearer Instruments specify Replacement Agent, if other than (or in addition to) the Issue and Paying Agent]
36. Notices: (Condition 14) [Specify any other means of effective communication]
37. Post Issuance Information [Specify whether Issuer intends to issue post issuance information and in the affirmative specify what information and where it can be obtained].
38. Selling Restrictions:
- United States of America: [Category 2 restrictions apply to the Instruments.]
[Specify whether the Instruments are subject to TEFRA C or TEFRA D Rules. In the absence of specification TEFRA D Rules will apply]
[Specify Exchange Date]
- Other: [Specify any modifications of or additions to selling restrictions contained in Dealership Agreement]
39. Stabilising Manager(s): [name(s)]
40. Commissioner []
- OPERATIONAL INFORMATION**
41. ISIN: []
42. Common Code: []
43. Common Depository: []
44. Any Clearing System other than Euroclear and Clearstream, Luxembourg: [Specify whether customary medium term note/eurobond/other settlement and payment procedures apply]
45. Settlement Procedures: []
46. Other Relevant Terms and Conditions:
47. Names and addresses of additional Paying Agents(s) (if any): []

LISTING APPLICATION

These Final Terms comprise the details required to list the issue of Instruments described herein pursuant to the listing of the €15,000,000,000 Programme for the Issuance of Debt Instruments of Telefónica Emisiones S.A.U. guaranteed by Telefónica, S.A.

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [●] has been extracted from [●]. [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 [●], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: [London/Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on [] with effect from [].] [Not Applicable.]
- (iii) Securities already admitted to trading: [please provide details of the regulated markets or equivalent markets on which, to the knowledge of the Issuer, securities of the same class to be offered or admitted to trading are already admitted to trading.]
- (iv) Estimate of total expenses related to admission to trading: [●].

2. RATINGS

- Ratings: The Instruments to be issued have been rated:
- [S & P: []]
[Moody's: []]
[[Other]: []]
(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. [NOTIFICATION]

The [*include name of competent authority in EEA home Member State*] [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [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.”]

5. 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: [Include breakdown of expenses.]
*(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]**

6. [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.]

7. [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 as well as any information relating to market disruption or settlement disruption events affecting the underlying and any applicable adjustment rules.]

8. [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.]

- 1 Only include details of a supplemental Base Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.
- 2 Article 14.2 of the Base Prospectus Directive provides that a Base Prospectus is deemed available to the public when, *inter alia*, made available (i) in printed form free of charge at the offices of the market on which securities are being admitted to trading; OR (ii) at the registered office of the Issuer and at the offices of the Paying Agents; OR (iii) in an electronic form on the Issuer's website. Article 16 of the Base Prospectus Directive requires that the same arrangements are applied to supplemental Base Prospectuses.
- 3 Add the following language if Board (or similar authorisation) is required for the particular tranche of Instruments or related guarantee):
Date [Board] approval for issuance of Instruments [and Guarantee] obtained: [] [and []], respectively] (Annex XIII, 4.1)
- 4 If the Final Redemption Amount is less than 100% of the nominal value the Instruments will be derivative securities for the purposes of the Base Prospectus Directive and the requirements of Annex XII to the Base Prospectus Directive Regulation will apply. This *pro forma* has been annotated to indicate where the key additional requirements of Annex XII are dealt with.
- 5 As announced on 3 February 2005 ISMA and IPMA have agreed the terms of a proposed merger. The merger is expected to be completed by July 2005 and the merged association will be called ICMA (the International Capital Market Association).
- 6 If setting notice periods which are different to those provided in the terms and conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the issuer and its Issue and Paying Agent or any trustee.

Use of Proceeds

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

Telefónica Emisiones S.A.U.

Introduction

Telefónica Emisiones, S.A.U. was incorporated for an indefinite period under the *Ley de Sociedades Anónimas* (Spanish Companies law) on 29th November, 2004 as a *Sociedad Anónima Unipersonal* (limited liability company with a sole shareholder) registered in the Commercial Registry of Madrid at Tome 20,733, Book 0, Sheet 77, Section 8, Page M-367261, Registration 1. The registered office of the Issuer is at Gran Vía 28, 28013 Madrid, Spain, the Shareholder's office free telephone helpline number (Spain) is +34 900 111 004 and the Investor Relations telephone number is +34 91 584 4700. The authorised share capital of the Issuer is €62,000 represented by 62,000 registered shares having a nominal value of €1 each, numbered 1 to 62,000. The share capital of the Issuer is fully subscribed and paid up by Telefónica, S.A. as the sole shareholder.

Business

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

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

Directors

The Directors of the Issuer are as follows:

<i>Name</i>	<i>Principal occupation</i>	<i>Principal External Activities</i>
Miguel Escrig Meliá	Director	Joint General Manager of Telefónica, S.A. Managing Director of Telefónica Europe B.V. Director of Telefónica Investigación y Desarrollo, S.A. Director of Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, S.A.
Juan José Gómez Migueláñez	Director	Deputy General Manager of Telefónica, S.A. Executive Vice-President of Telefónica Finanzas, S.A. Director of Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, S.A.

The business address of each of the directors of the Issuer is Gran Vía 28, 28013 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, Deloitte, S.L. are registered auditors in Spain in the *Registro Oficial de Auditores de Cuentas*, with registration number S0692.

TELEFÓNICA, S.A.

Introduction

Telefónica, S.A. was incorporated in Spain on 19 April 1924 as a company with limited liability (*sociedad anónima*) under the *Ley de Sociedades Anónimas* (Spanish Companies law) and is registered with the Commercial Registry in Madrid under registration 1(a) on page 5,083, folio 122 of the Register of Companies, Volume 152. Telefónica's registered office and head office is located at Gran Vía, 28, 28013 Madrid, Spain.

Telefónica, S.A. is a *sociedad anonima* (limited liability company) subject to the *Ley de Sociedades Anónimas* (Spanish Companies law) and is duly organised and existing under the laws of the Kingdom of Spain.

We are a multi-domestic telecommunications operator with operations in 18 countries and presence in over 40 countries in three continents. Telefónica is one of the leading companies in the world in the telecommunications sector, and the main operator in the Spanish and Portuguese speaking markets.

Main Lines of Business

Our principal lines of business are:

- Spanish fixed line business conducted through Telefónica de España;
- Worldwide wireless communications services business conducted through Telefónica Móviles;
- Latin American fixed line business conducted through Telefónica Latinoamérica;
- Directories business conducted through Telefónica Publicidad e Información (TPI);
- Worldwide Internet related business conducted through Terra Networks;
- Content and media business conducted through Telefónica de Contenidos; and
- Call center business conducted through Atento.

Telefónica is the parent company of the Telefónica Group, operating as a holding company with the following objectives:

- Coordinate the Group activities;
- Allocate resources efficiently;
- Provide to the Group a sole line of management;
- Manage the portfolio of businesses;
- Provide cohesion; and
- Provide synergies among the Group's subsidiaries.

During 2004, we implemented certain measures to simplify our business lines by integrating the former Telefónica Empresas business line's operations into the Spanish and Latin American fixed line businesses. Pursuant to this reorganisation, the operations of Telefónica Data España and Telefónica Soluciones are now conducted by Telefónica de España and the operations of Telefónica Data Latinoamérica and Telefónica International Wholesale Services (TIWS) are now conducted by Telefónica Latinoamérica.

On 23 February 2005 our Board of Directors approved a merger plan for the acquisition of Terra Networks by Telefónica. The Board of Directors of Terra Networks also approved the merger plan. Both Telefónica and Terra Network's General Meeting of Shareholders, in their meetings held on 31 May 2005 and 2 June 2005, respectively, approved the merger plan for the acquisition of Terra Networks by Telefónica. Upon completion of the merger, we intend to integrate the Internet portal business currently conducted through Terra Networks into our other existing business lines.

Our principal executive offices are located at Gran Vía, 28, 28013 Madrid, Spain and our telephone number is (34) 91-584-03-06.

Spanish Fixed Line Business-Telefónica de España

Our Spanish fixed line business is managed by Telefónica de España. The principal services offered by Telefónica de España are:

Traditional fixed line telecommunication services, including:

- PSTN (public switched telephone network) lines;
- ISDN (integrated services digital network) access, which provides high-speed transmission of voice and data through existing fixed line infrastructure;
- Public telephone services including street phone booths and other facilities in locations such as airports, train stations, hotels and shops;
- Local service, domestic long distance, international long distance and fixed-to-mobile communications services;
- Supplementary services and value added services, such as (i) call waiting, (ii) call forwarding, (iii) three-party service, (iv) voice and text messaging, (v) advanced voicemail services, (vi) information services and (vii) conference-call facilities;
- Intelligent network services, such as (i) free-phone service, (ii) televoting, (iii) premium rate services, (iv) universal number and (v) virtual private networks;
- Ibercom: a wide range of advanced corporate communications services, based on the customer's premises-located switches and network facilities; and
- Leasing and sale of terminal equipments, ranging from basic telephones to PABXs (private automatic branch exchanges).

Internet and broadband multimedia services, including:

- Narrowband switched access to the Internet, including a range of pay per use and flat rate choices;
- Telefónica.net: ISP (Internet Service Provider) services;
- Retail and whole sale broadband access, through ADSL (asymmetrical digital subscriber line) and satellite technologies;
- Residential-oriented value added services, such as (i) instant messaging, (ii) concerts and videoclips by streaming, (iii) e-learning, (iv) parental control, (v) firewall and (vi) anti-virus;
- Terminal equipment related to Internet and broadband and multimedia services, including USB modems, wireless routers and personal computers;
- Business-oriented value added services, such as (i) intranet, (ii) web, (iii) e-commerce, (iv) e-business and e-administration developing, (v) managing services and (vi) sector oriented solutions (e.g. for lawyers or other professionals);
- Wireless access to broadband services, such as Wi-Fi hotspots for business customers or for public access such as hotels and convention centers; and
- Multimedia, under the trade name Imagenio, providing TV, video on demand, Internet access and a wide range of leisure services.

Data and business-solutions services, including:

- Leased lines;
- VPN (virtual private network) services, including X-25, Frame Relay, ATM (Asynchronous transfer mode) and IP;
- Hosting and ASP (Application service provider) services, including Web Hosting, Managed Hosting, Content Delivery and application and security services;
- Outsourcing services including network management (CGPs) and desktop services; and
- System integration and professional services.

Wholesale services for telecommunication operators, including:

- Domestic interconnection services;
- International wholesale services;
- Leased lines for other operators' network deployment;
- Co-location of operators infrastructures; and
- Local loop leasing, under the unbundled local loop regulation framework.

Mobile Business-Telefónica Móviles

We conduct our worldwide mobile business through Telefónica Móviles, which is a leading provider of wireless communications services in Spain and Latin America in terms of managed customers. Telefónica Móviles estimates, based on information made public by its competitors, local regulatory authorities and data collected from interconnection fees charged and paid, that it is one of the five largest global providers of wireless communication services based upon managed customers at 31 December 2004. Telefónica Móviles offers a broad range of wireless services, including voice services, enhanced calling features, international roaming, wireless internet and data services, wireless intranets and other corporate services.

At 31 December 2004, Telefónica Móviles provided wireless services through its operating companies and joint ventures, to approximately 74.4 million managed customers in territories with a population of approximately 509 million. Managed customers include all customers from companies which we directly control but excludes the customers of companies in which we have a financial interest but do not control. Telefónica Móviles has operations in Spain, Mexico, Peru, El Salvador, Guatemala, Venezuela, Colombia, Panama, Nicaragua, Ecuador, Uruguay, Argentina and Chile and, through its joint ventures with Portugal Telecom, it also provides wireless communication services in Brazil and Morocco. Telefónica Móviles' strategy is to focus on consolidating its market leadership position in Spain and Latin America and on increasing its profitability and cash flow in the medium term by optimizing its investments and operating efficiencies while assessing the potential for growth in new markets reinforcing its market leadership position in Spain and Latin America.

In March 2004, Telefónica Móviles signed an agreement with BellSouth Corporation to acquire its Latin American operations. During October 2004, Telefónica Móviles closed on the acquisition of 8 of the 10 operators (Venezuela, Colombia, Ecuador, Peru, Guatemala, Nicaragua, Uruguay and Panama). The acquisition of the remaining two operators (Argentina and Chile) closed in January 2005. Telefónica Móviles will continue to analyze the possibility of selective acquisitions and strategic agreements that complement its business. Telefónica Móviles believes that growth in its markets will be driven by (i) increased customer usage of its wireless services, including both voice and data services, (ii) the introduction of new wireless data and Internet services, and (iii) increased penetration rates in its Latin American markets.

Telefónica Móviles also has licenses to provide UMTS services (Universal Mobile Telephone System, which allows wireless multimedia voice and data transmission speeds of up to 384 kbits/s, in Switzerland through its wholly owned subsidiary 3G Mobile AG, in Germany through its 57.2% interest in the Group 3G UMTS Holding GmbH consortium, or Group 3G, and in Italy through its 45.59% interest in the IPSE 2000 consortium. Telefónica Móviles has, however, restructured its operations in these countries.

Services and Products

Telefónica Móviles' operating companies offer a wide variety of wireless and related services and products to consumer and business customers. Although the services and products available vary from country to country, the following are Telefónica Móviles' principal services and products:

- *Wireless Voice Services.* Telefónica Móviles' principal service in all of its markets is wireless voice telephony, which has gained increased usage as a result of Telefónica Móviles' increased customer base and increased market penetration rates.
- *Value Added Services.* Customers in most of Telefónica Móviles' markets have access to a range of enhanced calling features including voice mail, call hold, call waiting, call forwarding and three-way calling.
- *Wireless Internet.* As part of Telefónica Móviles' strategy to become a leader in the wireless Internet sector, it offers Internet access in an increasing number of areas, mainly through the e-moción brand, which allows its clients to access a wide range of mobile Internet services through voice, WAP or GPRS CDMA 1XRTT or code division multiple access (a broadband transmission system for wireless networks allowing for speeds of up to 144 kbits/s), or UMTS. GPRS, or general packet radio service, is an evolution of GSM or global standard for mobile, towards 2.5G, allowing wireless voice and higher-speed data transmission. WAP, or wireless application protocol, is a standard protocol allowing for wireless Internet access. Telefónica Móviles' operators in Brazil, Mexico, Argentina, Peru, El Salvador, Guatemala and Morocco have launched Movistar-emoción or services similar in content under other brands, such as

“Vivo ao Vivo” in Brazil. Through wireless Internet access, Telefónica Móviles’ customers are able to send and receive e-mail, browse web pages, download games, purchase goods and services in m-commerce transactions and use our other data services. Current data services offered include short messaging services, or SMS, and Multimedia Messaging Services, or MMS, which allows customers to send messages with images, photographs, sounds and videoclips. Customers may also receive selected information, such as news, sports scores and stock quotes. Telefónica Móviles also provides wireless connectivity for devices such as laptops and personal digital assistants. Technological advances, which include the development of GPRS and UMTS, facilitate the development of these services by increasing the speed at which data is transmitted and making it possible to expand the offer of services and reduce their cost. Telefónica Móviles España launched its “Oficin@ Movistar UMTS “GPRS/UMTS data card, the first third generation service offered in Spain by a mobile operator offering high-speed data transmission of up to 384 kbits/s, to its corporate customers in February 2004 and in May 2004 extended the service to all residential and prepaid customers in conjunction with launching the first UMTS videophone services in the Spanish market.

- *Corporate Services.* Telefónica Móviles provides business solutions, including wireless infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing. Telefónica Móviles España offers corporate services through Movistar Corporativo 2000, and other advanced solutions for data, developed for specific sectors.
- *Roaming.* Telefónica Móviles has roaming agreements that allow its customers to use their handsets when they are outside of their service territories, including on an international basis. In 2002, Telefónica Móviles extended international roaming services to pre-paid customers. It has also implemented intelligent network technology using the CAMEL standard for its customers in Spain. This allows Telefónica Móviles’ customers to use their mobile telephones in European countries where a roaming agreement has been reached as if they were in their home country, for example, by not having to dial customary roaming prefixes. Through the FreeMove alliance with T-Mobile International, Telecom Italia Mobile and Orange, Telefónica Móviles España delivers an enhanced, seamless roaming service for customers of the four companies when traveling abroad through its “Virtual Home Environment” and new service propositions to international customers. In Brazil, Mexico and Argentina, Telefónica Móviles’ roaming agreements allow its customers to make and receive calls throughout the national territories of these countries.
- *Trunking and Paging.* In Spain and Guatemala, Telefónica Móviles provides digital wireless services for closed-user groups of clients and paging services.
- *M-payment.* Through its subsidiary Telefónica Móviles España, Telefónica Móviles has an interest of 13.36% in MobiPay España, whose other shareholders include Vodafone España, Amena and several financial institutions and processing companies. MobiPay España is a company incorporated to develop micro-payments. Telefónica Móviles also has a 50.0% interest in MobiPay International, aimed at expediting payments through mobile phones in an international setting. In addition, on 26 February 2003 Telefónica Móviles announced its participation in the new MPSA (Mobile Payment Services Association). The association, which is comprised of Vodafone, Orange, T-Mobile and Telefónica Móviles, will operate under the brand name Simpay. For further information see “-Wireless Internet and Data Initiatives-M-Payment”.
- *Other Services.* Telefónica Móviles also has the technology available to provide other value added wireless services such as location-based services and telematics. Location-based services permit the precise location of the handset to be determined by the wireless network, which will permit users to receive and access information specific to such location. Telefónica Móviles believes that this technology will be widely used in fleet management, logistics and security monitoring. Telematics applications permit the delivery of data to machines, such as automobiles and vending machines.

Telefónica Móviles’ Operations

Telefónica Móviles’ operations currently are conducted in three distinct geographic areas:

- Spain;
- Morocco; and
- Latin America.

Latin American Fixed Line Business – Telefónica Latinoamérica

Our Latin American fixed line business is conducted through Telefónica Latinoamérica. The following table sets forth information with respect to the fixed line telecommunications services and products provided by the principal telecommunications operators that are members of the Telefónica Latinoamérica group.

<i>Company</i>	<i>Country</i>	<i>Principal Fixed-Line Services Provided</i>
Telecomunicações de São Paulo-Telesp	Brazil	Basic telephony, domestic and international long distance, public telephony, Internet access, value added services
Compañía de Telecomunicaciones de Chile	Chile	Basic telephony, domestic and international long distance, public telephony, Internet access, value added services
Telefónica de Argentina	Argentina	Basic telephony, domestic and international long distance public telephony, Internet access, value added services
Telefónica del Peru	Peru	Basic telephony, domestic and international long distance public telephony, Internet access, value added services, Cable TV
Telefónica Larga Distancia de Puerto Rico	Puerto Rico	Long-distance services

Internet Portal Business – Terra Networks

Our worldwide Internet portal business is led by the Terra Networks Group. The Terra Networks Group provides a leading Internet portal to Spanish and Portuguese-speaking markets throughout the world.

Terra Networks offers a suite of Internet services in a variety of languages that provides its users throughout its core markets in Europe, Latin America and North America with:

- access to the Internet (in Spain and certain countries in Latin America);
- portal and network services that incorporate a wide variety of individually tailored content for each market featuring enhanced functionality;
- a range of online advertising, marketing and e-commerce opportunities;
- multiple solutions for customers' Internet needs, such as web design hosting and communication; and
- consulting services such as web audit, web rationalization and web maintenance.

Content and Media Business – Telefónica de Contenidos (Formerly Admira)

Telefónica de Contenidos (formerly Admira) conducts our worldwide audiovisual content and media business. Telefónica de Contenidos develops and distributes audiovisual content through traditional media and new technology platforms.

Directories Business – Telefónica Publicidad e Información (TPI)

Telefónica Publicidad e Información publishes, develops and sells advertising in telephone directories. In addition to printed directories, it offers directories online and in telephone-based format. Telefónica Publicidad e Información has operations in Spain, Brazil, Chile and Peru. In addition, Telinver is the Group's telephone directory subsidiary in Argentina. The following is a list of TPI's directories businesses:

- Páginas Amarillas ("Yellow Pages"), an annual advertising directory contains certain information on companies, businesses and professionals in a particular geographical area, classified by sector, location and alphabetical order.

- In 2001, Telefónica Publicidad e Información introduced a new product known as Páginas Amarillas de Bolsillo (“Pocket Yellow Pages”), which has become TPI’s most modern and manageable annual advertising directory. This product is designed for use outside the home and permits the user to conveniently carry the directory.
- Páginas Blancas (“White Pages”), which includes residential, professional and business telephone numbers in particular geographic areas, classified by location and alphabetical order. The directory has been redesigned and new content and information has been added, offering information of general interest to users.
- Páginas Amarillas Online (PAOL) (“Yellow Pages Online”) is one of the largest and most complete online databases of Spanish businesses in terms of number of listings. Páginas Amarillas Online also offers supplementary information, including job listings, international directory listings (with access to yellow page listings in other countries) and street guides to more than 400 Spanish cities.
- Servicio de información telefónica 11888 (operator-assisted directory assistance) is a directory assistance service launched in February 2003 that offers 24-hour operator-assisted information over the telephone for all companies, businesses, professionals, products and services located in the Yellow Pages. 11888 also includes value added services, such as call completion and the ability to send information by fax or e-mail.
- *Business-to-Business Directories*: In September 2004 a new vertical directory called Guía de la Hostelería, was published specializing in listing Hotels & Catering businesses. In addition, the second edition of Guía de la Construcción, specializing in listing construction businesses, was published in December 2004.
- Europages, available in paper, CD-Rom and over the Internet, is the most comprehensive trans-European directory containing information on major European export companies, classified by activity and grouped by country of origin. The Europages are edited annually by Euredit. Telefónica Publicidad e Información is responsible for managing the advertising business and the distribution of the directory in Spain.

Call Centers – Atento

Atento offers integrated telephone assistance services as well as sophisticated “customer relationship management” services such as the development and implementation of customer loyalty programs, telemarketing services and market research. In addition, Atento rents contact centers, and provides staff for such centers to third parties.

Legal and Arbitration Proceedings

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

Based on the reports of counsel engaged to act in the lawsuits of Telefónica it is reasonable to consider that the adverse outcome of any of these as yet unresolved lawsuits will not materially affect the Telefónica Group's economic and financial position or solvency. The following is a summary of the principal proceedings affecting the Group as at the date hereof. Where amounts of damages cannot be assessed or provided, no such amounts are included below.

A proceeding contesting the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on 4 February 2000

The stockholder Javier Sotos García, who owns 300 shares of Telefónica, S.A., filed a complaint contesting the resolutions adopted by the Special Stockholders' Meeting on 4 February 2000 (the "Meeting"), based on the purported breach of the rules regulating the holding of the Meeting and on the purported breach of the rules for disapplication of preemptive rights of subscription for capital increases.

On 8 May 2003, Court of First Instance no. 33 issued a judgment wholly dismissing the complaint filed by the plaintiff stockholder, holding that it was inappropriate to rule on the voidness or voidability of the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on 4 February 2000, and awarding the costs of the proceeding against the plaintiff. On 26 July 2003, an appeal was filed by the latter at the Madrid Provincial Appellate Court. On 11 December 2003, Telefónica, S.A. filed a reply brief contesting the appeal. On 18 January 2005, the appeal hearing was held. On 9 February 2005 notice was given of the judgment by the Provincial Appellate Court dismissing the appeal filed by Javier Sotos García and awarding costs against the appellant. On 18 February 2005 notice was given of the filing of a pleading by Javier Sotos García preparing an extraordinary appeal against procedural infringements and a cassation appeal against the judgment of the Madrid Provincial Appellate Court. On 3 March 2005, the Provincial Appellate Court decided to dismiss this announcement to file an appeal in the High Court (Tribunal Supremo). Javier Sotos García has filed an appeal against the resolution in which the Provincial Appellate Court dismissed his announcement to file an appeal in the High Court (Tribunal Supremo) and Telefónica, S.A. has filed its allegations against the appeal. The Provincial Appellate Court confirmed its decision and decided to dismiss announcement. Javier Sotos García has appealed against this decision in the High Court (Tribunal Supremo).

A proceeding contesting certain resolutions adopted by the Annual Stockholders' Meeting of Telefónica, S.A. on 15 June 2001

The aforementioned stockholder, Javier Sotos García, also filed a complaint contesting some of the resolutions adopted at the Telefónica, S.A.'s Annual Stockholders' Meeting on 15 June 2001.

The aforementioned complaint is based on the purported infringement of the contesting stockholder's right to information and on the purported contravention of the legal rules for disapplication of preemptive rights of subscription in capital increases.

On 23 January 2004, Telefónica, S.A. was notified that the proceeding had been stayed until such time as either the parties apply for its resumption or the instance lapses.

Based on the opinion of legal counsel, Telefónica, S.A. believes that the outcome of the aforementioned court proceeding will be wholly satisfactory for Telefónica, S.A.

Complaint filed by IDT against Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc. International Discount Telecommunications Corporation (IDT) in the U.S. District Court for the District of New Jersey

This complaint is based on the purported breach of the joint venture agreement entered into between IDT and Terra Networks, S.A. in October 1999, on the purported non-performance of the obligations under the agreement to terminate the joint venture agreement, on purported fraud and contravention of the legislation governing the purchase and sale of securities (Federal Securities Exchange Act) and, lastly, on purported fraudulent concealment of information.

The lawsuit is currently for an unspecified amount, without prejudice to the possibility of the claim by the plaintiff for damages being specified and quantified in the course of the proceeding.

In October 2002 the New Jersey District Court decided to dismiss the part of the complaint relating to certain purported breaches of the joint venture agreement, which also resulted in the exclusion of Terra Networks, U.S.A., Inc. from the proceeding.

Subsequently, IDT added a new claim to the complaint alleging that Telefónica was liable, as a controlling party, for the fraud alleged against Terra Networks in its negotiations with IDT that led to the termination agreement. Telefónica has filed objections against this claim.

The defendants have filed an answer and, in turn, Terra Networks, S.A. has filed a counterclaim.

On 2 July 2003, in light of the evidence taken, Terra Networks, S.A., Lycos, Inc. and Telefónica, S.A. filed pleadings seeking summary trial to determine the claims and have others dismissed. In turn, IDT has petitioned to have the counterclaim filed by Terra Networks, S.A. dismissed.

On 1 September 2004, the Court confirmed the decision in September 2002 granting IDT leave to file a third complaint against Telefónica, S.A.

Terra Networks, S.A. and Telefónica, S.A. have filed answers refuting the allegations of IDT in the third complaint.

On 27 September 2004, Telefónica, S.A. filed a motion to have the third complaint declared inadmissible for want of personal jurisdiction. The Court has not yet ruled on the motion.

On 30 September 2004, the Court ruled on two of the motions filed by the defendants in July 2003. In particular, the Court accepted the motion to have the complaint against Lycos declared inadmissible, but refused the request by Terra for summary trial.

On 3 March 2005 we were notified that the District Court granted our motion to dismiss for lack of personal jurisdiction. On 11 March 2005, we were notified that the District Court denied Terra Networks' summary judgment motion and denied partially Terra Networks' counterclaims.

Based on the opinion of its legal counsel, Telefónica considers that it has a sound defense against the claims filed against it and, accordingly, Telefónica is confident that the outcome for Telefónica of the litigation arising from IDT's complaint should not be adverse but, if it were, considers that the economic and financial impact on the Telefónica Group should not be material.

Sistemas e Instalaciones de Telecomunicación, S.A.U. (Sintel)

As a result of the voluntary bankruptcy proceeding being conducted at Madrid Court of First Instance no. 42, case number 417/2001, which is the continuation of the petition for Chapter 11-type insolvency filed by the director of Sintel on 8 June 2000, two criminal proceedings have commenced which affect Telefónica, S.A.

Under the bankruptcy order, *inter alia*, the effects of the bankruptcy were backdated to 8 June 1998. As a result of the backdated effects of the bankruptcy pursuant to the order, the bodies in the bankruptcy sent Telefónica a payment demand for €22.87 million, which represented the total amount paid by Sintel, since they considered null and void as a matter of law the participation of Sintel in the contract dated 30 December 1998, in which a debt of €21.35 million was recognised by reason of the sale of the shares of Sintel to Mastec Internacional, S.A. (Mastec) and the amounts paid by Sintel, which in the aforementioned contract appeared as a joint and several guarantor for the fulfillment of these payment obligations.

Telefónica filed an ancillary complaint in which it proposes that the effects of the bankruptcy be backdated to a date closer to that of the bankruptcy order, so that the contract dated 30 December 1998, is not affected. The representatives of the employees filed another complaint to the contrary, proposing that the effects of the bankruptcy be backdated to the date of the sale of the shares of Sintel (April 1996).

The arrangement proposed by the bankrupt company and approved by the Court was the subject of an appeal to a superior court.

On 14 June 2004, an order was made dismissing all of the appeals filed and confirming the order approving the bankruptcy arrangement. An appeal was filed against this order and has been dismissed by the Supreme Court, thus making the bankruptcy arrangement final.

The two criminal proceedings are as follows:

“Abbreviated” proceeding no. 273/2001, in relation to which, on 24 September 2002, Telefónica, S.A. and Telefónica de España, S.A. appeared before Central Examining Court no. 1 filing a criminal

suit as parties suffering loss against the directors of Sintel and of Mastec Internacional, S.A. Leave was given for them to appear as parties to the proceeding.

Preliminary proceeding no. 362/2002, which was commenced on 23 October 2002, by Central Examining Court no. 1 for a possible offense of extortion. This proceeding arises from the preceding one, concerns the possible commission of an offense of extortion in the assumption by Sintel of joint and several liability with Mastec for the obligation to pay the related sale price. This preliminary proceeding has been joined to proceeding no. 273/2001. In April 2004, the motion filed by counsel for Telefónica, S.A. to have the case dismissed on the ground that the investigation should have continued was rejected. However, it must be stressed that no charges have been pressed to date, and the claim in the expanded criminal complaint that led to this proceeding has been expressly dismissed.

On 29 June 2004, notice was given of a pleading filed by counsel for the former employees of Sintel seeking to further expand the criminal complaint to include, this time, the existence of an offense of criminal insolvency purportedly committed in the sale of Sintel to Mastec Internacional, Inc. in April 1996. On 4 July and 5 August 2004, Telefónica, S.A. filed submissions seeking to have the aforementioned pleading declared inadmissible, although the judge has not yet granted leave to expand the criminal complaint.

Collective lawsuits filed by stockholders of Terra in the U.S., in connection with the tender offer by Telefónica, S.A. for Terra Networks, S.A.

On 29 May 2003, two class actions were filed at the Supreme Court of New York State by stockholders of Terra Networks, S.A. against Telefónica, S.A., Terra Networks, S.A. and certain former and current directors of Terra Networks, S.A.

These actions are founded mainly on the claim that the price offered to the stockholders of Terra Networks, S.A. was not in keeping with the intrinsic value of the shares of that company, and seek to not have the tender offer approved or, alternatively, to have damages awarded to them.

It should be noted that since the filing of the complaints, the related proceedings have remained inactive.

Based on the opinion of its legal counsel, Telefónica considers that it has a sound defense against both the form and the substance of the claims filed against it and, accordingly, is confident that the outcome of the litigation should not be adverse for Telefónica.

Appeal for judicial review no. 6/461/03 filed at the National Appellate Court by the World Association of Stockholders of Terra Networks, S.A. (ACCTER) against the administrative decision made by the Spanish National Securities Market Commission (CNMV) to authorise the tender offer by Telefónica, S.A. for Terra Networks, S.A.

ACCTER filed an appeal for judicial review against the decision of the CNMV to authorise the tender offer made to Terra Networks, S.A. stockholders on 19 June 2003.

Telefónica, S.A. has filed an application, admitted for consideration, to appear in the proceeding as an intervening nonparty to defend the lawfulness of the decision by the CNMV.

In turn, the National Appellate Court has rejected the appellant's request for an ex parte or inter partes injunctive stay of the aforementioned decision.

ACCTER filed a complaint for judicial review, and Telefónica, S.A. and the Government Legal Service filed their answers.

At present, the proceeding is pending to set a date to pass sentence.

Based on the opinion of its legal counsel, Telefónica is convinced that the outcome of the aforementioned proceeding will be satisfactory for Telefónica.

Claim at the ICSID

As a result of the enactment by the Argentine Government of Public Emergency and Exchange Rules Reform Law 25561, of 6 January 2002, Telefónica considered that the terms of the Share Transfer Agreement approved by Decree 2332/90 and the Pricing Agreement ratified by Decree 2585/91, both of which were executed by Telefónica with the Argentine Government, were affected appreciably, since the Law renders ineffective any dollar or other foreign currency adjustment clauses, or indexation clauses based on price indexes of other countries, or any other indexation mechanism in contracts with the public authorities. The Law also provides that prices

and rates resulting from such clauses are denominated in pesos at an exchange rate of one peso (AR\$ 1) to one U.S. dollar (US\$ 1).

Accordingly, since negotiations with the Argentine Government were unsuccessful, on 14 May 2003, Telefónica filed a request for arbitration with the International Center for Settlement of Investment Disputes (ICSID) pursuant to the Agreement for the Promotion and Reciprocal Protection of Investments between the Argentine Republic and the Kingdom of Spain. On 6 July 2004, the first hearing at the ICSID took place in Washington and a 90-day stay was ordered in an attempt to reach a settlement. Following the expiration of the stay without any such settlement having been achieved, on 6 December 2004, Telefónica filed the “memorial” or claim with the ICSID together with the initial supporting testimonies.

Lawsuit filed by the Bank, Savings Bank and Insurance Consumer Association (ADICAE)

On 21 July 2003, the Bank, Savings Bank and Insurance Consumer Association (ADICAE) filed a lawsuit against Terra Networks, S.A., and against certain of Telefónica’s directors and directors of Terra Networks, S.A. On 13 April 2004, the Central Instruction Court issued a writ rejecting this lawsuit and directed the complainants to provide a Euro 100,000 deposit (bond) as a prerequisite to filing an appeal. On 16 April 2004, ADICAE opposed the decision that provided for such deposit and on 28 April 2004, Terra Networks, S.A. filed a counterclaim requesting the confirmation of such decision. On 20 May 2004, the Central Instruction Court rejected the opposition filed by ADICAE. This resolution was appealed by ADICAE and Terra Network, S.A. opposed the appeal.

On 24 April 2005 Telefónica was notified that the Spanish court “Audiencia Nacional” resolved the appeal made by ADICAE regarding the provision of deposit, fixing the deposit in €10,000 to be considered as a party in the proceeding.

Regulatory Sanctions

In 2001 and 2002, the Telecommunications Market Commission and the Spanish Competition Court initiated sanctioning proceedings against Telefonica de España for its actions as dominant operator.

The following resolutions have been imposed by the Telecommunications Market Commission and the Spanish Competition Court, which have been appealed before the competent authorities:

Spanish Competition Court’s resolution dated March 8, 2000

On 8 March 2000, the Spanish Competition Court imposed on Telefonica de España a fine amounting to €8,414,169.46 for violating Article 6 of the Spanish competition Law 16/89 (Ley 16/89 de Defensa de la Competencia) and of Article 82 of the EC Treaty, finding to have been practices in abuse of dominant position by Telefonica de España in the launching of the advertising campaign “Planes Claros”.

On 22 September 2003, Telefonica de España filed a contentious-administrative appeal before the Spanish Court “Audiencia Nacional” against such resolution. This appeal was partially admitted on the grounds that the Spanish Competition Court’s resolution was contrary to the law regarding the proportionality of the sanction imposed, and reduced it to €901,518.16.

Telefonica de España, the State lawyer, and the co-plaintiff, Retevision, filed a final appeal before the Spanish Supreme Court (“Recurso de Casacion”) against this judgment. Retevision later withdrew its appeal.

Telecommunications Market Commission’s resolution dated 23 July 2002

On 23 July 2002, the Telecommunication Market Commission imposed a fine amounting to €18 million on Telefonica de España for infringement of the “Closed User Group” regulation as interpreted by the Telecommunications Market Commission.

On 31 July 2002, Telefonica de España filed a contentious-administrative appeal to the Spanish Court “Audiencia Nacional” against this sanction.

On 8 July 2004, the Appeals Court notified Telefonica de España that it had dismissed its appeal. On 18 October 2004 Telefonica de España filed a final appeal (Recurso de Casacion) against the Court’s decision before the Spanish Supreme Court.

Telecommunications Market Commission's resolution dated 24 October 2002

On 24 October 2002, the Telecommunication Market Commission imposed a fine amounting to €13.5 million on Telefonica de España for breach of its obligations relating to voice capacity and data interconnection.

On 10 February 2003, Telefonica de España filed a contentious-administrative appeal with the Spanish Court "Audiencia Nacional" against this sanction. The administrative appeal is pending a court resolution.

Telecommunications Market Commission's resolution dated 10 July 2003

On 10 July 2003 the Telecommunication Market Commission imposed a fine amounting to €8 million on Telefonica de España for infringement of Telecommunications Market Commission's resolution relating to the prices applied by Telefonica de España to Vic Telehome, S.A.

On 10 September 2003, Telefonica de España lodged a contentious-administrative appeal to the Spanish Court "Audiencia Nacional" against this sanction.

Spanish Competition Court's resolution dated 1 April 2004

On 1 April 2004, the Spanish Competition Court imposed a fine amounting to €57 million on Telefonica de España for infringement of Article 6 of the Spanish competition Law 16/89 (Ley 16/89 de Defensa de la Competencia) and of Article 82 of the EC Treaty, finding that we had abused our dominant position by making conditional the provision of certain supplementary services to customers to the inexistence of carrier pre-selection and by launching unfair advertising campaigns that misled customers and denigrated competitors.

On 16 April 2004, Telefonica de España filed a contentious-administrative appeal to the Spanish Court "Audiencia Nacional" against this sanction. The Appeals Court has resolved to partially accept the suspension of the decision rendered by the Spanish Competition Court on 1 April 2004, the Appeals Court has specifically resolved to suspend our payment of the fine imposed on us by the Spanish Competition Court, amounting to €57 million until a final judgment is rendered.

Major Shareholders

At 16 June 2005, according to information publicly available to Telefónica, S.A., beneficial owners of 5% or more of our voting stock were as follows:

<i>Name of Beneficial Owner</i>	<i>Number of Shares</i>	<i>Percent</i>
Banco Bilbao Vizcaya Argentaria, S.A. ⁽¹⁾	278,553,728	5.62%
Caja de Ahorros y Pensiones de Barcelona, "La Caixa" ⁽²⁾	266,476,222	5.38%
Chase Nominees LTD. ⁽³⁾	501,800,898	10.197%
State Street Bank & Trust Co ⁽⁴⁾	377,436,725	7.61%

(1) Based on information obtained from a communication made to the CNMV on 29 April 2005.

(2) According to information provided to us by la Caixa for our 2004 Corporate Governance Report filed with the CNMV on 30 March 2005.

(3) Held by Chase Nominees LTD. on behalf of beneficial owners. Based on information obtained from a communication made to the CNMV on 30 June 2005.

(4) Held by State Street Bank & Trust Co. on behalf of beneficial owners. Based on information obtained from a communication made to the CNMV on 2 February 2005.

Since the Telefónica, S.A.'s shares are all in bearer form, all the owners of Telefónica, S.A.'s shares cannot be disclosed.

Recent Developments

The principal events since the close of our financial year are set forth below.

On 30 June 2005, Telefónica, S.A. acquired 2.99% of the equity of the Chinese telecommunications company, China Netcom Group Corporation (Hong Kong) Limited (CNC), at a price of 11.45 Hong Kong Dollars per share, which was the quoted share price at 27 June 2005, and which, at current exchange rates, represents a total amount of €240 million.

On 28 June 2005 Telefónica, S.A. signed a €6 billion 6-year multicurrency revolving credit facility (the “Facility”) with a syndicate of banks, with ABN AMRO Bank N.V., Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander Central Hispano, S.A., Caixa d’Estalvis i Pensions de Barcelona “la Caixa”, JP Morgan Plc and The Royal Bank of Scotland plc as bookrunners. The financing is for general corporate purposes, including the refinancing of short term debt. As of 8 July 2005 the outstanding loans under the Facility have not increased the financial debt of the Group.

On 16 June 2005, after having obtained the authorisation of the European Commission on 10 June 2005, Telefónica, S.A. and the National Property Fund, the Czech Republic’s privatisation entity, closed the sale of 51.1% of the telecommunications operator Cesky Telecom. The price for the acquisition of 51.1% of the operator’s capital stands at EUR 2,746 million, as expected. In accordance with Czech legislation on mandatory offers, on 30 June 2005, Telefónica submitted to the Czech Securities Commission for its approval a mandatory tender offer in respect of 48.9% of the shares of Cesky Telecom. The price proposed by Telefónica, as set forth in the draft bid documents, is CZK 456.00 per share in Cesky Telecom, to be paid in cash. The terms of the tender offer will be published after approval by the Czech authorities.

The Annual General Shareholders’ Meeting of Telefónica, held on 31 May 2005 resolved the extraordinary non-cash distribution of the additional paid-in capital by means of the delivery of own shares held as treasury stock in the proportion of one (1) share to every twenty-five shares (25) entitled to participate in the distribution.

The Board of Directors of Telefónica, S.A., at its meeting of 31 May 2005, resolved to execute the resolution adopted by the company’s shareholders in their Annual General Meeting held on 31 May 2005 regarding a capital reduction by the cancellation of the company’s own shares corresponding to the “TIES Program”. Therefore, 34,760,964 of the own shares of the company’s Telefónica, S.A. have been cancelled, reducing its share capital by €34,760,964.

On 4 May 2005, Telefónica declared that pursuant to the resolution adopted by the Board of Directors of Telefónica, S.A. at its meeting held on 23 February 2005, Telefónica would pay an interim dividend from 2004 net income of a fixed gross amount of €0.23 for each Telefónica share in circulation and carrying entitlement to the dividend (amounted to €1,083 million). The Annual Telefónica’s General Shareholders Meeting approved on 31 May 2005 the payment of the second dividend of €0.27 for each Telefónica share in circulation and carrying entitlement to the dividend, payable on 11 November 2005 (maximum distributable amount of €1,319 million).

On 20 April 2005, Telefónica S.A. declared that, with the due diligence process having been concluded and prior to the specification of the terms of a possible bid, Telefónica deems that the appropriate conditions do not exist for Telefónica to participate in the privatisation of Türk Telekom.

On 23 February 2005 the Boards of Directors of Telefónica and Terra Networks approved a merger plan which provides for the merger of the two companies.

Merger between Telefónica and Terra Networks – both Telefónica and Terra Network’s General Shareholders’ Meeting, held on 31 May 2005 and 2 June 2005, respectively, approved the merger plan for the acquisition of Terra Networks by Telefónica. The exchange ratio for the shares of the entities participating in the merger will be (with no supplemental cash compensation): two (2) shares of Telefónica, each having a par value of one euro (€1), for every nine (9) Terra shares, each having a par value of two euros (€2).

On 26 January 2005, Telefónica’s Board of Directors approved the payment of a dividend to its shareholders of €0.5 per share corresponding to fiscal year 2004 charged against both earnings and reserves. The Board of Directors also announced that it is their intention to maintain the same minimum dividend for fiscal year 2005.

In January 2005, Telefónica Móviles, S.A. acquired 100% of Comunicaciones Móviles de Chile, S.A., a wireless communications provider in Chile, for U.S.\$532 million and 100% of Compañía de

Radiocomunicaciones Móviles S.A., a wireless communications provider in Argentina, for U.S.\$988 million, which completed the acquisition of BellSouth's Latin American operations.

In January 2005, a capital increase carried out by TCP was fully subscribed for an amount of approximately R\$2.1 billion. The proceeds raised were used in part to finance TCP's increased stake in Tele Centro Oeste (TCO) and the remainder was used to partially repay short-term debt and improve the company's capital structure. As a result of the capital increase, Brasilcel's stake in TCP's share capital increased to 65.7%.

Management of Telefónica

Board of Directors

The Directors of Telefónica, S.A., their respective positions on the Board of Directors and the year they were appointed to such positions are as follows:

<i>Name</i>	<i>Position</i>	<i>First Appointed</i>	<i>Current Term Ends</i>
César Alierta Izuel ⁽¹⁾	Chairman and Chief Executive Officer	1997	2007
Isidro Fainé Casas ⁽¹⁾⁽²⁾	Vice-Chairman	1994	2006
José Antonio Fernández Rivero ⁽³⁾⁽⁴⁾⁽⁸⁾	Vice-Chairman	2002	2007
Jesús María Cadenato Matía ⁽¹⁾⁽³⁾	Director	2003	2008
Maximino Carpio García ⁽¹⁾⁽⁴⁾⁽⁵⁾	Director	1997	2007
Carlos Colomer Casellas ⁽¹⁾⁽⁷⁾	Director	2001	2006
Alfonso Ferrari Herrero ⁽⁶⁾⁽⁵⁾⁽⁹⁾	Director	2001	2006
José Fernando de Almansa Moreno-Barreda ⁽⁶⁾	Director	2003	2008
Gonzalo Hinojosa Fernández de Angulo ⁽⁴⁾⁽⁷⁾	Director	2002	2007
Miguel Horta e Costa	Director	1998	2008
Pablo Isla Álvarez de Tejera ⁽⁵⁾⁽⁹⁾	Director	2002	2007
Luis Lada Díaz ⁽⁶⁾⁽⁷⁾	Director	2000	2006
Antonio Massanell Lavilla ⁽²⁾⁽⁴⁾⁽⁷⁾⁽⁹⁾	Director	1995	2006
Enrique Used Aznar ⁽⁶⁾⁽⁸⁾⁽⁹⁾	Director	2002	2007
Mario Eduardo Vázquez ⁽¹⁰⁾	Director	2000	2006
Antonio Viana-Baptista ⁽¹⁾	Director	2000	2010
Gregorio Villalabeitia Galarraga ⁽¹⁾⁽³⁾⁽⁵⁾⁽⁶⁾⁽⁸⁾	Director	2002	2007
Antonio Jesús Alonso Ureba ⁽¹⁾⁽⁸⁾	Director and Secretary	2001	2006
Ramiro Sánchez de Lerín García-Ovies ⁽¹¹⁾	Vice-Secretary	2003	—

(1) Member of the Standing Committee of the Board of Directors.

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

(3) Nominated by Banco Bilbao Vizcaya Argentaria, S.A.

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

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

(6) Member of the International Affairs Committee.

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

(8) Member of the Regulation Committee.

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

(10) Mr. Vazquez became a Director when he was appointed Chairman of Telefónica de Argentina on 6 June 2003.

(11) Mr. Sánchez de Lerín was appointed vice-secretary of the Board of Directors on 29 October 2003 and is not a director.

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

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

<i>Name</i>	<i>Principal activities inside the Group</i>	<i>Principal activities outside the Group</i>
D. César Alierta Izuel	—	—
D. Isidro Fainé Casas	—	General Manager of “La Caixa”
D. José Antonio Fernández Rivero	Chairman of Adquira España, S.A.	Director of BBVA, S.A.
D. Fernando de Almansa Moreno-Barreda	Director of Telefónica Internacional, S.A. Director of Telefónica Móviles, S.A. Director of Telefónica del Perú, S.A.A. Director of Telecomunicações de Sao Paulo, S.A. (Telesp) Director of Telefónica de Argentina, S.A.	Director of Bancomer, S.A.
D. Jesús María Cadenato Matía	Director of Uno-e Bank, S.A.	Manager of BBVA, S.A.
D. Maximino Carpio García	Director of Telefónica Móviles, S.A.	Member of the Economic and Social Council of the Kingdom of Spain.
D. Carlos Colomer Casellas	—	—
D. Alfonso Ferrari Herrero	Director of Telefónica Internacional, S.A. Director of Compañía de Telecomunicaciones de Chile (CTC), S.A. Director of Telefónica del Perú, S.A.A.	—
D. Gonzalo Hinojosa Fernández de Angulo	—	—
D. Miguel Horta e Costa	—	President of Portugal Telecom. SGPS, S.A. President of PT Comunicações, S.A. President of PT Multimedia-Serviços de Telecomunicações e Multimedia, SGPS, S.A.
D. Pablo Isla Álvarez de Tejera	—	—
D. Luis Lada Díaz	Director of Telefónica Móviles, S.A. Director of Telefónica Internacional, S.A.	Director of Sogecable, S.A.
D. Antonio Massanell Lavilla	Director of Telefónica Móviles, S.A.	General Manager of “La Caixa”
D. Mario E. Vázquez	Chairman of Telefónica de Argentina, S.A. Chairman of Telefónica Móviles Argentina, S.A.	—
D. Enrique Used Aznar	Director of Telefónica Internacional, S.A. Director of Telecomunicações de Sao Paulo, S.A. (Telesp) Director of Telefónica del Perú, S.A.A Director of Terra Networks, S.A.	Chairman of Amper, S.A.
D. Antonio Viana-Baptista	Chairman of Telefónica Móviles, S.A. Director of Telefónica Internacional, S.A. Director of Telefónica Móviles España, S.A. Director of Brasilcel, N.V. Director of Telefónica de España, S.A. Director of Telefónica de Argentina, S.A.	Director of Portugal Telecom. SGPS, S.A.
D. Gregorio Villalabeitia Galarraga	Director of Telefónica	—

<i>Name</i>	<i>Principal activities inside the Group</i>	<i>Principal activities outside the Group</i>
	Internacional, S.A.	
D. Antonio J. Alonso Ureba	—	—
D. Ramiro Sánchez de Lerín García Ovies	—	—

Conflicts of Interest

As of the date of this Base Prospectus, the Nominating, Compensation and Corporate Governance Committee reported that there were no conflicts of interest in relation to members of the Board of Directors.

Taxation and Disclosure of Information in connection with payments

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

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 promulgated by Law 19/2003, of 4 July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, as well as Royal Decree 1778/2004, of 30th July establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules;
- (b) for individuals with tax residency in Spain which are Individual income tax (IRPF) taxpayers, Royal Legislative Decree 3/2004, of 5 March promulgating the Consolidated Text of the Individual income tax Law, and Royal Decree 1775/2004, of 30 July promulgating the Individual income tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are Corporate Income Tax taxpayers, Royal Legislative Decree 4/2004, of 5th 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; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are non-resident income tax taxpayers, Royal Legislative Decree 5/2004, of 5 March promulgating the Consolidated Text of the Non-Resident Income Tax Law, 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 Instruments, the acquisition and transfer of the Instruments will be exempt from indirect taxes in Spain, i.e. exempt from Capital 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 Individual income tax (*Impuesto sobre la Renta de las Personas Físicas*)

Both payments of interest periodically received and income deriving from the transfer, redemption or repayment of the Instruments constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 23.2 of the Individual income tax Law, and must be included in the general portion of the investor's taxable income.

Both types of income are subject to a withholding on account at the rate of 15 per cent..

If the period during which such income is generated exceeds two years a reduction of 40 per cent. will be applied, for the effect of both withholdings and inclusion in taxable income.

1.2 Wealth tax (*Impuesto sobre el Patrimonio*)

Individuals with tax residency in Spain under an obligation to pay Wealth Tax must take into account the amount of the Instruments which they hold as at 31 December in each year when calculating their wealth tax liabilities.

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 regional or State rules.

2. Legal Entities with Tax Residency in Spain

2.1 Corporate Income Tax (*Impuesto sobre Sociedades*)

Both Payments of interest periodically received and income deriving from the transfer, redemption or repayment of the Instruments constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in profit and taxable income of legal entities with tax residency in Spain for Corporate Income Tax purposes in accordance with the rules for this tax.

In accordance with Section 59.s) of the Corporate Income Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporate Income Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. In relation to Instruments which are listed on the Official List of the FSMA, this requirement will be satisfied. On 27 July 2004, the Directorate General for Taxation (*Dirección General de Tributos – “DGT”*) issued a reply to a non-binding consultation indicating that in the case of issues made by entities resident in Spain, as with the Issuer, the exemption requires that the Instruments be placed outside Spanish territory, in another OECD country. The Issuer and the Guarantor consider that the Instruments will fall within this exemption as the Instruments are to be placed outside Spain and in the international capital markets. Consequently, the Issuer will not make any withholding on payments to Spanish Corporate Income Tax taxpayers that provide the relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter, however, the Issuer will be bound by that opinion and with immediate effect, shall make the appropriate withholding and the Issuer will not, as a result, be under any obligation to pay additional amounts.

In order to implement the exemption from withholding, the procedures set out in the Order of 22 December 1999 will be followed. No reduction percentage will be applied.

(Please see “Disclosure of Holder Information in Connection with Payments” below).

2.2 Wealth tax (*Impuesto sobre el Patrimonio*)

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) With permanent establishment in Spain

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

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

(b) With no permanent establishment in Spain

Both Payments of interest periodically received and income deriving from the transfer, redemption or repayment of the Instruments, obtained by individuals or entities who have no tax residency in Spain, and which are Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from Public Debt.

This exemption is not applicable if the income is obtained through countries or territories classified as Tax Havens (as listed in Royal Decree 1080/1991, of 5 July), in which case such income will be subject to Non-Resident Income Tax in Spain at the rate of 15 per cent. which the Issuer will withhold.

For these purposes it is necessary to comply with certain information obligations relating to the identity of the holders of Instruments, in the manner detailed under "Disclosure of holder information in connection with Payments" pursuant to section 12 of Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004. If these information obligations are not complied with the Issuer will apply a withholding of 15 per cent. and the Issuer will not be under any obligation to pay additional amounts (pursuant to Condition 8).

3.2 Wealth tax (*Impuesto sobre el Patrimonio*)

To the extent that income deriving from the Instruments is exempt from Non-Resident Income Tax, individuals who do not have tax residency in Spain who hold such Instruments will be exempt from Wealth Tax.

Furthermore, individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax will generally not be subject to Wealth Tax. If the provisions of the foregoing two paragraphs do not apply, individuals who are not tax residents in Spain will be subject to Wealth Tax to the extent that rights deriving from the Instruments can be exercised in Spanish territory.

Non-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 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 regional and State legislation.

Non-resident 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 entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, 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 payments 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 Spanish tax rules apply to payments made by the Guarantor relating to interest on the Instruments. If such determination were made, payments by the Guarantor would be subject to the same tax rules as described above in relation to payments by the Issuer.

5. Tax Havens

Pursuant to Royal Decree 1080/1991, of 5th July the following are each considered to be a Tax Haven:

Principality of Andorra,
Netherlands Antilles,
Aruba,
Kingdom of Bahrain,
Sultanate of Brunei,
Republic of Cyprus,
United Arab Emirates,

Channel Islands (Jersey and
Guernsey),
Jamaica,
Republic of Malta,
Falkland Islands,
Isle of Man,
Marianas Islands,

Turks and Caicos Islands,
Republic of Vanuatu,
British Virgin Islands,
Virgin Islands (of the United
States),
Hashemite Kingdom of Jordan,
Republic of Lebanon,

Gibraltar,
Hong-Kong,
The Island of Anguila,
Islands of Antigua and Barbuda,
The Bahamas,
The Island of Barbados,
The Bermuda Islands,
Cayman Islands,
The Cook Islands,
The Republic of Dominica,
Grenada,
Fiji Islands,

Mauritius,
Montserrat,
Republic of Nauru,
Solomon Islands,
Saint Vincent & the Grenadines,
Saint Lucia,
Sultanate of Oman,
Republic of Panama,
Republic of San Marino,
Republic of Seychelles,
Republic of Singapore.
Republic of Trinidad and
Tobago,

Republic of Liberia,
Principality of Liechtenstein,
Grand Duchy of Luxembourg
Area (as regards the income
received by the Companies
referred to in paragraph 1 of
Protocol annexed Avoidance of
Double Taxation Treaty, dated 3
June 1986),
Macao,
Principality of Monaco.

6. EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, 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 in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also with effect from 1 July 2005, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt 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 in a Member State. In addition, the Member States have entered into reciprocal 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 in one of those territories.

7. Disclosure of holder information in connection with Payments

The Clearing Systems are currently in discussions to harmonise procedures relating to the reporting obligations required by Spanish laws and regulations. The following is a summary only and is subject to the Clearing Systems' final procedures and clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Instruments must seek their own advice to ensure that they comply with all procedures to ensure the correct tax treatment of their Instruments. None of the Issuer, the Guarantor, the Arranger, the Dealers, the Paying Agents or the Clearing Systems assume any responsibility therefor.

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

In accordance with procedures established in the Issue and Paying Agency Agreement, the Issue and Paying Agent must receive a list of Holders that are Spanish Corporate Tax taxpayers specifying their name, address, Tax Identification Number, the ISIN code of the Instruments, the number of Instruments held on each Interest Payment Date, the gross income and the amount withheld, substantially in the form set out below (see Annex III below).

7.2 Individuals and Legal Entities with no tax residency in Spain

The following is a summary of the reporting obligations set out in Section 12 of Royal Decree 2281/1998 ("Section 12"), as promulgated by Royal Decree 1778 2004:

Under sub-section 1 of Section 12, a return must be made to the Spanish tax authorities reporting the following information in relation to the Instruments:

- (a) the identity and country of residence of the recipient of the income. When the income is received on behalf of a third party, the identity and country of residence of that third party;
- (b) the amount of income received; and

(c) details of the Instruments.

Under sub-section 3 of Section 12, for the purpose of preparing the return referred to in sub-section 1 of Section 12, the following documentation must be obtained upon each payment of income evidencing the identity and residency of each holder of Instruments:

(a) if the non-resident holder of Instruments acts on its own account and is a central bank, other public institution or international organisation, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country or in a country with which Spain has entered into a double tax treaty subject to a specific administrative registration or supervision scheme, the entity in question must certify its name and tax residency accordance with Annex I of the Order of 16 September 1991, promulgated pursuant to Royal Decree 1285/1991 of 2nd August (see Annex I below), establishing the procedure for the payment of interest on Book Entry State Debt (as defined therein) to non-residents who invest in Spain without the intervention of a permanent establishment;

(b) in the case of transactions in which any of the entities indicated in the foregoing paragraph (a) acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of Instruments in accordance with Annex II of the Order of 16 September 1991 (see Annex II below);

(c) in the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by that of another OECD member country, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of Instruments in the manner laid down in Annex II of the Order of 16 September 1991 (see Annex II below);

(d) in other cases, residency must be evidenced by submission of the residency certificate issued by the tax authorities of the State of residency of the holder of Instruments. These certificates will be valid for one year as from the date of issue.

In accordance with sub-section 4 of Section 12, for the purpose of implementing the exemption provided for, the following procedure must be followed: on each Interest Payment Date the Issuer must transfer the net Interest Amount to the entities referred to in paragraphs (a), (b) and (c) resulting from applying the general withholding rate (currently 15 per cent.) to the whole of the Interest Amount. If the above certificates are received prior to expiry of the Interest Period, the Issuer will pay the amounts withheld to the extent that they correspond with the information provided.

In the case of both paragraph 7.1 and paragraph 7.2 above, in order for a beneficial owner to benefit from an applicable exemption from withholding, the above documentation must be received by the Issue and Paying Agent in accordance with the procedures established in the Issue and Paying Agency Agreement which may be inspected during normal business hours at the specified office of each Paying Agent).

If the Issue and Paying Agent does not receive the above certificates in respect of an eligible Holder by the Interest Payment Date, such holder may obtain a quick refund of the amount withheld by ensuring that the Issue and Paying Agent receives the relevant certificates no later than 10:00 am (CET) on the 10th calendar day of the month following the relevant Interest Payment Date (or if such date is not a Local Banking Day (as defined in the Issue and Paying Agency Agreement), the Local Banking Day immediately preceding such date) (the "Quick Refund Deadline").

Holders of Instruments entitled to a refund but in respect of whom the Issue and Paying Agent does not receive relevant documentation on or before a Quick Refund Deadline may seek a full refund of withholding tax directly from the Spanish tax authorities.

Annex I

The translation into English of this certificate is for information only and, in the case of discrepancy with the Spanish language version, such Spanish version will prevail

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

(Nombre)

(Name) _____

(Domicilio)

(Address) _____

(NIF)

(Fiscal ID number) _____

(en calidad de)

,en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.a) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004,

(function) _____

,in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.a) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

Certifico:

I certify:

1. **Que el nombre o razón social de la Entidad que represento es:**
that the name of the Entity I represent is: _____
2. **Que su residencia fiscal es la siguiente:**
that its residence for tax purposes is: _____
3. **Que la Entidad que represento está inscrita en el Registro _____ de**
that the institution I represent is recorded in the _____ Register of _____
(país estado, ciudad), con el número
(country, state, city), under number _____.
4. **Que la Entidad que represento está sometida a la supervisión de _____ (Órgano supervisor)**
that the institution I represent is supervised by _____ (Supervisory body)
en virtud de _____ (normativa que lo regula).
under _____ (governing rules).

Todo ello en relación con:

All the above in relation to:

Identificación de los valores poseídos por cuenta propia

Identification of securities held for own account _____

Importe de los rendimientos

Amount of income _____

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

Annex II

The translation into English of this certificate is for information only and, in the case of discrepancy with the Spanish language version, such Spanish version will prevail

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

(Nombre)
(Name) _____

(Domicilio)
(Address) _____

(NIF)
(Fiscal ID number) _____

(en calidad de)
,en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.b) y c) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004,

(function) _____
,in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.b) and c) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

Certifico:

I certify:

1. **Que el nombre o razón social de la Entidad que represento es:**
that the name of the Entity I represent is: _____
2. **Que su residencia fiscal es la siguiente:**
that its residence for tax purposes is: _____
3. **Que la Entidad que represento está inscrita en el Registro _____ de**
that the institution I represent is recorded in the _____ Register of _____
(país estado, ciudad), con el número
(country, state, city), under number _____.
4. **Que la Entidad que represento está sometida a la supervisión de _____ (Órgano supervisor)**
that the institution I represent is supervised by _____ (Supervisory body)
en virtud de _____ (normativa que lo regula).
under _____ (governing rules).
5. **Que, de acuerdo con los Registros de la Entidad que represento, la relación de titulares adjunta a la presente certificación, comprensiva del nombre de cada uno de los titulares no residentes, su país de residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o Entidades residentes en España o en los países o territorios que tienen en España la consideración de paraísos fiscal de acuerdo con las normas reglamentarias en vigor.**

That, according to the records of the Entity I represent, the list of beneficial owners hereby attached, including the names of all the non-resident holders, their country of residence and the amount of the relevant income is accurate, and does not include person(s) or institution(s) resident either in Spain or, in tax haven countries or territories as defined under Spanish applicable regulations.

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

RELACIÓN ADJUNTA A CUMPLIMENTAR:
TO BE ATTACHED:

Identificación de los valores:
Identification of the securities

Listado de titulares:
List of beneficial owners:

Nombre / País de residencia / Importe de los rendimientos
Name / Country of residence / Amount of income

Annex III

The translation into English of this certificate is for information only and, in the case of discrepancy with the Spanish language version, such Spanish version will prevail

Modelo de certificación para hacer efectiva la exclusión de retención a los sujetos pasivos del impuesto sobre sociedades y a los establecimientos permanentes sujetos pasivos del impuesto sobre la renta de no residentes (a emitir por las entidades citadas en el art. 12.3.a residentes en España o en otros países de la OCDE) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004)

Certificate for application of the exemption on withholding to Spanish corporation tax taxpayers and to permanent establishments of non-resident income tax taxpayers (to be issued by entities mentioned under article 12.3.a, being residents of Spain or of another OECD country) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004)

(Nombre)
(Name) _____

(Domicilio)
(Address) _____

(NIF)

(Fiscal ID number) _____

(en calidad de)

, en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 59(s) del Real Decreto 1777/2004,

(function) _____

, in the name and on behalf of the Entity indicated below, for the purposes of article 59(s) of Royal Decree 1777/2004,

Certifico:

I certify:

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

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

RELACIÓN ADJUNTA
TO BE ATTACHED

Identificación de los valores:
Identification of the securities

Razón social / Domicilio / Número de identificación fiscal / Número de valores / Rendimientos brutos / Retención al 15%

Name / Domicile / Fiscal Identification Number / Number of securities / Gross income / Amount withheld at 15%.

Subscription and Sale

Instruments may be sold from time to time by the Issuer to any one or more of ABN AMRO Bank N.V., Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander Central Hispano, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse First Boston (Europe) Limited, Daiwa Securities SMBC Europe Limited, Deutsche Bank AG, London Branch, Dresdner Bank Aktiengesellschaft, JPMorgan Securities, Ltd., Goldman Sachs International, Lehman Brothers International (Europe), Merrill Lynch International, Morgan Stanley & Co. International Limited, Société Générale and UBS Limited (the “Dealers”). Instruments may also be sold by the Issuer direct to institutions who are not Dealers. The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealership agreement dated 8 July 2005 (as amended, supplemented, restated or replaced from time to time, the “Dealership Agreement”) and made between the Issuer, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.

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

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

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

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

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

United Kingdom

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

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

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

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

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

Japan

The Instruments have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, each Dealer has undertaken that it will not offer or sell any Instruments directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for reoffering or resale, directly or indirectly in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, “**Japanese Person**” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

The Kingdom of Spain

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

General

Other than with respect to the listing of, the admission to listing, trading and/or quotation of the Instruments by such one or more listing authorities, stock exchanges and/or quotation systems as may be applicable, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Instruments, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. 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 have in their possession or distribute such 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 document.

General Information

1. The admission of the Instruments to the Official List and to trading on the Gilt-Edged and Fixed Interest 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 Gilt-Edged and Fixed Interest Market of the London Stock Exchange will be so admitted upon submission to the FSA and the London Stock Exchange, of the relevant Final Terms and any other information required by the FSA and the London Stock Exchange, subject to the issue of the relevant Instruments. Prior to official listing, dealings will be permitted by the FSA and the London Stock Exchange, in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Instruments may be issued pursuant to the Programme which will not be admitted to the Official List or any stock exchange or which will be listed with such listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.

2. The establishment of the Programme was authorised by a resolution of the sole shareholder of the Issuer passed on 30 December 2004 and the giving of the Guarantee by the Guarantor was authorised by a resolution of the Board of Directors of the Guarantor passed on 22 December 2004. 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 Gilt-Edged and Fixed Interest Market of the London Stock Exchange is expected to take effect on or about 13 July 2005.
7. There are no, nor have there been any governmental, legal or arbitration proceedings involving the Issuer, the Guarantor or any of the Guarantor’s subsidiaries (and no such proceedings are pending or threatened) which have or may have or have had during the twelve months prior to the date of this document, individually or in the aggregate, a significant effect on the financial position or profitability of the Issuer or of the Guarantor and its subsidiaries taken as a whole.
8. Save as disclosed in the section entitled “Recent Developments” on pages 76 and 77, since 31 March 2005 there has been no significant change in the financial or trading position and, since 31 December 2004 there has been no material adverse change in the financial position or prospects of the Guarantor and its subsidiaries taken as a whole. Since 31 December 2004, there has been no significant change in the financial or trading position nor any material adverse change in the financial position or prospects of the Issuer.

9. The financial statements of the Guarantor have been audited for the financial years ended 31 December 2003 and 31 December 2004 by Deloitte, S.L. of Torre Picasso, Plaza Pablo Ruiz Picasso nº 1, 28020 Madrid registered in ROAC under number S0692 and unqualified opinions were reported thereon.
10. Deloitte, S.L. have audited the financial statements of the Issuer relating to the period from incorporation of the Issuer (being 29 November 2004) to 31 December 2004 and an unqualified opinion was reported thereon.
11. For so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the following documents (and, where applicable, translation into English) may be inspected during normal business hours at the specified office of the Issue and Paying Agent and Principal Registrar (or other, the specified office(s) of the Paying Agent(s) in the United Kingdom) and at the registered/head office of the Issuer and the Guarantor, namely:
 - (a) the constitutional documents of the Issuer and the Guarantor together with translations into English;
 - (b) this Base Prospectus, together with any supplements thereto;
 - (c) the Issue and Paying Agency Agreement;
 - (d) the Deed of Covenant;
 - (e) the Deed of Guarantee;
 - (f) the Dealership Agreement;
 - (g) the audited consolidated financial statements of the Guarantor, and the reports referred to therein for the years ended 31 December 2003 and 31 December 2004 and the unaudited financial statements of the Guarantor for the 3 months ended 31 March 2005;
 - (h) the financial statements of the Issuer, and the reports referred to therein, for the year ended 31 December 2004; and
 - (i) any Final Terms relating to Instruments which are listed on any stock exchange. (In the case of any Instruments which are not listed on any stock exchange, copies of the relevant Final Terms will only be available for inspection by a Holder of, or, as the case may be, a Relevant Account Holder (as defined in the Deed of Covenant) in respect of, such Instruments).

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

REGISTERED AND HEAD OFFICE OF THE ISSUER

Gran Vía, 28
28013 Madrid

REGISTERED AND HEAD OFFICE OF THE GUARANTOR

Gran Vía, 28
28013 Madrid

DEALERS

ABN AMRO Bank N.V.
250 Bishopsgate
London EC2M 4AA

Banco Bilbao Vizcaya Argentaria, S.A.
Alcalá 16, 4ª Planta
28014 Madrid

Banco Santander Central Hispano, S.A.
Ciudad Grupo Santander
Edificio Encinar
Avenida de Cantabria s/n
28660 Boadilla del Monte
Madrid

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

BNP Paribas
10 Harewood Avenue
London NW1 6AA

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

Commerzbank Aktiengesellschaft
60 Gracechurch Street
London EC3V 0HR

Credit Suisse First Boston (Europe) Limited
One Cabot Square
London E14 4QJ

Daiwa Securities SMBC Europe Limited
5 King William Street
London EC4N 7AX

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

Dresdner Bank Aktiengesellschaft
Jürgen-Ponto-Platz 1
60301 Frankfurt

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ

Lehman Brothers International (Europe)
25 Bank Street
Canary Wharf
London E14 5LE

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA

Société Générale
17, Cours Valmy,
92987 Paris La Défense Cedex

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

AUDITORS OF THE ISSUER

Deloitte, S.L.
Torre Picasso, Plaza Pablo Ruiz
Picasso nº 1, 28020 Madrid

AUDITORS OF THE GUARANTOR

Deloitte, S.L.
Torre Picasso, Plaza Pablo Ruiz
Picasso nº 1, 28020 Madrid

ISSUE AND PAYING AGENT AND PRINCIPAL REGISTRAR

JPMorgan Chase Bank N.A., London Branch
Trinity Tower
9 Thomas More Street
London E1W 1YT

ALTERNATIVE REGISTRAR

J.P. Morgan Bank Luxembourg S.A.
5 Rue Plaetis
L-2338 Luxembourg

PAYING AGENT

J.P. Morgan Bank Luxembourg S.A.
European Bank & Business Centre
6, route de Trèves
L-2633 Senningerberg
Grand Duchy of 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