

TELEFONICA S A  
Form 424B5  
June 22, 2009

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

**Filed pursuant to Rule 424(b)(5)  
Registration No. 333-159062**

**PRELIMINARY PROSPECTUS SUPPLEMENT DATED JUNE 22, 2009 (SUBJECT TO COMPLETION)  
(TO PROSPECTUS DATED MAY 8, 2009)**

**TELEFÓNICA EMISIONES, S.A.U.**  
(incorporated with limited liability in the Kingdom of Spain)  
\$ **FIXED RATE SENIOR NOTES DUE**  
\$ **FIXED RATE SENIOR NOTES DUE**  
*guaranteed by:*

**TELEFÓNICA, S.A.**  
(incorporated with limited liability in the Kingdom of Spain)

The \$ fixed rate senior notes due (the **Fixed Rate Notes**) will bear interest at % per year. The \$ fixed rate senior notes due (the **Fixed Rate Notes** and, together with the Fixed Rate Notes, the **Notes**) will bear interest at % per year. Interest on the Fixed Rate Notes will be payable on each and of each year, beginning on , 2010, until (the **Fixed Rate Note Maturity Date**), and on the Fixed Rate Note Maturity Date. Interest on the Fixed Rate Notes will be payable on each and of each year, beginning on , 2010, until (the **Fixed Rate Note Maturity Date**), and on the Fixed Rate Note Maturity Date. The Fixed Rate Notes will mature at 100% of their principal amount on , . The Fixed Rate Notes will mature at 100% of their principal amount on , . The Fixed Rate Notes and the Fixed Rate Notes constitute separate series of securities issued under the Indenture (as defined herein).

Subject to applicable law, the Notes of each series will be unsecured and will rank equally in right of payment with other unsecured unsubordinated indebtedness of Telefónica Emisiones, S.A.U. (the **Issuer**). The Guarantee (as defined herein) as to the payment of principal, interest and Additional Amounts (as defined herein) will be a direct, unconditional unsecured and unsubordinated obligation of our parent, Telefónica, S.A. (the **Guarantor**), and, subject to applicable law, will rank equally in right of payment with its other unsecured unsubordinated indebtedness.

For a more detailed description of the Notes of each series and the related Guarantee, see Description of the Notes and the Guarantee beginning on page S-18.

*Investing in the Notes involves risks. See Risk Factors beginning on page S-13.*

<b>Price to Public</b>	<b>Underwriting Discounts and Commissions<sup>1</sup></b>	<b>Proceeds, Before Expenses, to Telefónica Emisiones, S.A.U.</b>
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Per	Fixed Rate Note		100%
Total for	Fixed Rate Notes	\$	
Per	Fixed Rate Note		100%
Total for	Fixed Rate Notes	\$	
Total		\$	

<sup>1</sup> Before reimbursement of certain expenses in connection with this offering, which the underwriters have agreed to make to the Issuer. See Underwriting beginning on page S-45.

**Neither the U.S. Securities and Exchange Commission (the SEC ) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this Prospectus Supplement. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the Notes to purchasers in registered book entry form through the facilities of The Depository Trust Company ( DTC ) and Euroclear Bank S.A./N.V. (an indirect participant in DTC), as operator of the Euroclear System ( Euroclear ), on or about , 2009, which will be the 10th Business Day (as defined herein) following the date of pricing of the Notes. Beneficial interests in the Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Application will be made for the Notes described in this Prospectus Supplement to be listed on the New York Stock Exchange (the NYSE ). *The Notes will not be eligible to be held through Clearstream Banking, société anonyme.*

*Joint Bookrunning Lead Managers*

**CITI                      DEUTSCHE BANK SECURITIES                      GOLDMAN, SACHS & CO.                      MORGAN  
STANLEY**

, 2009.

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**IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT  
AND THE ACCOMPANYING PROSPECTUS**

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of this offering of the Notes and also adds to and updates information contained in the accompanying Prospectus and the documents incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The second part is the accompanying Prospectus which gives more general information, some of which does not apply to this offering.

If the description of this offering varies between this Prospectus Supplement and the accompanying Prospectus, you should rely on the information contained in or incorporated by reference in this Prospectus Supplement.

In this Prospectus Supplement and any other prospectus supplements, the **Issuer** refers to Telefónica Emisiones, S.A.U. and **Telefónica**, **Telefónica, S.A.** the **Group** or the **Guarantor** refer to Telefónica, S.A. and, where applicable, its consolidated subsidiaries, unless the context otherwise requires. We use the words **we**, **us** and **our** to refer to the Issuer or the Guarantor, as the context requires. We use the word **you** to refer to prospective investors in the securities.

**SPANISH WITHHOLDING TAX REQUIREMENTS**

**Potential investors should note the statements on page S-35 regarding the tax treatment in Spain of interest payments received in respect of the Notes and the disclosure requirements imposed by Law 13/1985 of May 25, as amended, on the Issuer and the Guarantor relating to the identity and country of tax residence of owners of a beneficial interest in the Notes (each, a **Beneficial Owner**). In particular, interest payments in respect of the Notes will be subject to Spanish withholding tax if certain information regarding Beneficial Owners is not received by the Issuer and the Guarantor in a timely manner.**

**Law 4/2008 of December 23, by its terms, reduced the categories of Beneficial Owners to whom the information collection obligations of Law 13/1985 of May 25 apply. According to Law 4/2008 of December 23, the information reporting requirements are to be limited to those natural or legal persons considered residents for tax purposes in Spain as well as those natural or legal persons not considered residents for tax purposes in Spain but who act through a permanent establishment in Spain. The revised information reporting requirements set forth in Law 4/2008 of December 23 will enter into force upon the approval by the Spanish government of regulations setting forth the procedures for complying with this law.**

**The Spanish General Tax Directorate has issued two binding rulings dated January 20, 2009 (num. V0077-09 and V0078-09), stating that until the relevant regulations setting forth the procedures for complying with Law 4/2008 are approved, Spanish issuers and guarantors must continue to adhere to the information reporting procedures established under pre-existing laws and regulations to provide the relevant information relating to Beneficial Owners to the Spanish tax authorities. The Issuer and the Guarantor, as the case may be, will withhold Spanish withholding tax from any interest payment in respect of any outstanding principal amount of the Notes as to which the required Beneficial Owner information has not been provided or the required information collection procedures have not been followed. See **Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments**.**

**Under Spanish law, interest payments in respect of the Notes will be subject to withholding tax in Spain, currently at the rate of 18%, in the case of individual Beneficial Owners who are resident for tax purposes in**

**Spain. Each of the Issuer and the Guarantor is required pursuant to Spanish law to submit to the Spanish tax authorities certain information relating to Beneficial Owners who receive interest payments on the Notes. Beneficial Owners in respect of whom such information is not provided to the Issuer or the Guarantor in accordance with the procedures described herein will receive payments net of Spanish withholding tax, currently at the rate of 18%. Neither the Issuer nor the Guarantor will pay**

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**Additional Amounts (as defined herein) in respect of any such withholding tax in any of the above cases. See Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments .**

We, the Guarantor, Acupay System LLC ( Acupay ) and The Bank of New York Mellon (in its capacity as Paying Agent and for other limited purposes, the Paying Agent ) have entered into a tax certification agency agreement dated June 20, 2006 (the Tax Certification Agency Agreement ) and we, the Guarantor and Acupay will enter into a letter of appointment to be dated as of the issue date of the Notes (the Letter of Appointment ) pursuant to and amending the Tax Certification Agency Agreement. Beneficial Owners may not be beneficiaries under the Tax Certification Agency Agreement. The Letter of Appointment will incorporate, among other things, certain procedures arranged by Acupay, DTC and Euroclear that will facilitate the collection of information regarding the identity and tax residence of Beneficial Owners who (i) are exempt from Spanish withholding tax requirements and therefore entitled to receive payments in respect of the Notes free and clear of Spanish withholding taxes and (ii) are (a) direct participants in DTC, (b) hold their interests through securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a direct or indirect custodial relationship with a direct participant in DTC, including Euroclear (each such entity an indirect DTC participant ), or (c) hold their interests through direct DTC participants. These procedures are set forth in Annexes A, B and C to this Prospectus Supplement. No arrangements or procedures have been made by the Issuer or the Guarantor with respect to any depository or clearing system other than the procedures arranged by Acupay, DTC and Euroclear mentioned above.

Neither DTC nor Euroclear is under any obligation to continue to perform such procedures and such procedures may be modified or discontinued at any time. In addition, DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to us.

The Issuer and the Guarantor have agreed in the Indenture, so long as any principal amount of the Notes remains outstanding, to, insofar as it is practicable, maintain, implement or arrange the implementation of procedures to facilitate the collection of information concerning the Notes or the Beneficial Owners thereof so long as such collection is required under Spanish law to allow payment of interest on the Notes free and clear of Spanish withholding tax. However, neither the Issuer nor the Guarantor can assure you that it will be practicable to do so.

The Tax Certification Agency Agreement, according to its terms, including the tax certification procedures annexed to the Letter of Appointment, may be modified, amended or supplemented only by an instrument in writing duly executed by the Issuer, the Guarantor, Acupay and the Paying Agent, the parties to such agreement (except if such modification, amendment or supplement does not affect the rights and obligations of the Paying Agent, in which case neither the consent of the Paying Agent nor its execution of such instrument shall be required); provided, however, that any modification, amendment or supplement to the tax certification procedures may be made only if it is (i) necessary to reflect a change in applicable Spanish law, regulation, ruling or interpretation thereof, provided that the parties to the Tax Certification Agency Agreement are provided with an opinion of independent Spanish counsel to the effect that such modification, amendment or supplement is necessary as a result of such change in applicable Spanish law, regulation, ruling or interpretation thereof, (ii) necessary to reflect a change in applicable clearing system rules or procedures or to add procedures for one or more new clearing systems, provided that the parties to the Tax Certification Agency Agreement are provided with written communication from the applicable clearing system or clearing systems to this effect (including, without limitation, written communications in the form of an e-mail or written posting) and an opinion of independent Spanish counsel to the effect that such modified or new procedures do not conflict with applicable Spanish tax legislation or (iii) not materially detrimental to Beneficial Owners, as evidenced, in the case of any modification, amendment or supplement that requires the prior written consent of



**the Paying Agent, an officer's certificate of the Issuer and the Guarantor to that effect, on which the Paying Agent shall be entitled to rely when consenting to such modification, amendment or supplement under this item (iii); and provided further that any modification, amendment or supplement of any of the**

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rights or duties of the Paying Agent thereunder, shall require the prior written consent of the Paying Agent.

The tax certification procedures described above will have to be modified, amended or supplemented, as the case may be, once the Spanish government approves new regulations setting forth procedures for complying with Law 4/2008. See **Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments** .

The tax certification procedures set forth in Annexes A and B to this Prospectus Supplement provide that payments of interest to any DTC participants that fail or for any reason are unable to comply with the procedures herein for the provision of the required Beneficial Owner information in respect of all Beneficial Owners who are entitled to an exemption from Spanish withholding tax and who own their beneficial interests in the Notes through such participants, will be paid net of Spanish withholding tax in respect of such DTC participant s entire beneficial interest in the Notes. In particular, should the required Beneficial Owner information submitted by a direct DTC participant to Acupay be inconsistent with its EDS Elections (as defined in Annex A hereto) and/or DTC holdings in the Notes on any Interest Payment Date, then such direct DTC participant will be paid net of Spanish withholding tax with respect to such direct DTC participant s entire holding in the Notes. If this were to occur, affected Beneficial Owners who hold their beneficial interests in the Notes directly or indirectly through such direct DTC participant (other than Beneficial Owners who hold their beneficial interests in the Notes through Euroclear or participants in Euroclear) would have to follow the quick refund procedures set forth in Article II of Annex A to this Prospectus Supplement. Affected Beneficial Owners who hold their beneficial interests in the Notes through Euroclear or participants in Euroclear would have to follow the quick refund procedures set forth in Article II of Annex B to this Prospectus Supplement. Beneficial Owners may also apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the procedures set forth in Article II of Annex C to this Prospectus Supplement. See **Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments** . We and the Guarantor will not pay any Additional Amounts with respect to any such withholding.

If DTC or the direct or indirect participants in DTC, including Euroclear, are unable to facilitate the collection of the required Beneficial Owner information, we may attempt to remove the Notes from DTC, and this may affect the liquidity of the Notes. Provision has been made for each series of the Notes to be represented by certificated Notes in the event that the Notes cease to be held through DTC. See **Description of the Notes and the Guarantee Form, Denomination, Transfer and Registration** .

See **Risk Factors Risks Relating to the Notes** .

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**SUMMARY**

*The following brief summary is not intended to be nor is it complete and is provided solely for your convenience. It is qualified in its entirety to the full text and more detailed information contained elsewhere in this Prospectus Supplement, the accompanying Prospectus, any amendments or supplements to this Prospectus Supplement and the accompanying Prospectus and the documents that are incorporated by reference into this Prospectus Supplement and the accompanying Prospectus. You are urged to read this Prospectus Supplement and the other documents mentioned above in their entirety.*

**The Group**

Telefónica, S.A., the Guarantor, is a corporation duly organized and existing under the laws of the Kingdom of Spain, incorporated on April 19, 1924. The Telefónica Group is:

a diversified telecommunications group which provides a comprehensive range of services through one of the world's largest and most modern telecommunications networks;

mainly focused on providing fixed and mobile telephony services; and

present principally in Spain, Europe and Latin America.

Telefónica S.A.'s principal executive offices are located at Distrito C, Ronda de la Comunicación, s/n, Las Tablas, 28050 Madrid, Spain, and its registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Its telephone number is +34 900 111 004.

**Telefónica Emisiones, S.A.U.**

We are a wholly-owned subsidiary of the Guarantor. We were incorporated on November 29, 2004, as a company with unlimited duration and with limited liability and a sole shareholder under the laws of Spain (*sociedad anónima unipersonal*). Our share capital is 62,000 divided into 62,000 ordinary shares of par value 1 each, all of them issued and fully paid and each of a single class. We are a financing vehicle for the Group. We have no material assets. Spanish reserve requirements must be met prior to the payment of dividends, and dividends may only be distributed out of income for the previous year or out of unrestricted reserves, and our net worth must not, as a result of the distribution, fall below our paid-in share capital (*capital social*). There are no other restrictions on Telefónica's ability to obtain funds from us through dividends, loans or otherwise. Spanish Law 13/1985 requires that the proceeds of the offering of the Notes be deposited with Telefónica or one of its consolidated subsidiaries.

At March 31, 2009, we had no outstanding secured indebtedness and approximately 18 billion of outstanding unsecured indebtedness. For additional information about our principal transactions since March 31, 2009, see Capitalization and Indebtedness .

Our principal executive offices are located at Distrito C, Ronda de la Comunicación, s/n, Las Tablas, 28050 Madrid, Spain, and our registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Our telephone number is +34 900 111 004.

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**THE OFFERING**

*For a more detailed description of the Notes and the Guarantee, see Description of the Notes and the Guarantee .*

Issuer	Telefónica Emisiones, S.A.U.
Guarantor	Telefónica, S.A.
Trustee and Paying Agent	The Bank of New York Mellon will be acting as the Trustee and Paying Agent, with respect to each series of Notes under, and as such terms are defined in, the Indenture.
Notes Offered	<p>\$ aggregate principal amount of fixed rate senior notes due .                      The Fixed Rate Notes will bear the following CUSIP: , the following ISIN: and the following Common Code: .</p> <p>\$ aggregate principal amount of fixed rate senior notes due .                      The Fixed Rate Notes will bear the following CUSIP: , the following ISIN: and the following Common Code: .</p> <p>The Fixed Rate Notes and the Fixed Rate Notes constitute separate series of securities issued under the Indenture (as defined herein).</p>
Issue Price	<p>100% ( Fixed Rate Notes).</p> <p>100% ( Fixed Rate Notes).</p>
Interest Payable on the Notes	<p>The Fixed Rate Notes will bear interest at % per year, payable on each and of each year, beginning on , 2010, until the Fixed Rate Note Maturity Date, and on the Fixed Rate Note Maturity Date.</p> <p>The Fixed Rate Notes will bear interest at % per year, payable on each and of each year, beginning on , 2010, until the Fixed Rate Note Maturity Date, and on the Fixed Rate Note Maturity Date.</p>
Early Redemption for Taxation or Listing Reasons	If, in relation to the Notes of a series (i) as a result of any change in the laws or regulations of the Kingdom of Spain or 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 or regulations which becomes effective on or after the date of issuance of the Notes of such series, (x) the Issuer or the Guarantor, as the case may be, is or would be required to pay any Additional Amounts (as defined herein) or (y) 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 of principal, premium, if any, or interest on the Notes of such series,

provided that such payment cannot with reasonable effort by the Guarantor be structured to avoid such deduction or withholding, and (ii) such circumstances are evidenced by the delivery by the Issuer or the Guarantor, as the case may be, to the Trustee of a certificate signed

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by an authorized officer or director of the Issuer or the Guarantor, as the case may be, stating that such circumstances prevail and describing the facts leading to such circumstances, together with an opinion of independent legal advisers of recognized standing to the effect that such circumstances prevail, the Issuer or the Guarantor, as the case may be, may, at its election and having given not less than 30 nor more than 60 days' notice (ending on a day upon which interest is payable) to the holders in accordance with the terms described under "Description of the Notes and the Guarantee Notices" (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at a redemption price equal to their principal amount, together with accrued and unpaid interest, if any, thereon to but excluding the redemption date. No such notice of redemption may be given earlier than 150 days prior to the date on which the Issuer or the Guarantor would be obligated to pay such Additional Amounts were a payment in respect of the Notes then due.

In addition, if any series of Notes is not listed on an organized market in an OECD country no later than 45 days prior to the initial Interest Payment Date (as defined herein) on such series of Notes, the Issuer or the Guarantor, as the case may be, may, at its option and having given not less than 15 days' notice (ending on a day which is no later than a Business Day (as defined herein) immediately preceding such Interest Payment Date) to the holders of such series of Notes in accordance with the terms described under "Description of the Notes and the Guarantee Notices" (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at their principal amount, together with accrued interest, if any, thereon to but not including the redemption date; provided that from and including the issue date of the Notes of such series to and including such Interest Payment Date, the Issuer will use its reasonable efforts to obtain or maintain such listing, as applicable.

In the event of an early redemption of the Notes for the reasons set forth above, the Issuer or the Guarantor, as the case may be, may be required to withhold tax and will pay interest in respect of the principal amount of the Notes redeemed net of the withholding tax applicable to such payments (currently 18%). If this were to occur, Beneficial Owners would have to either follow the Quick Refund Procedures set forth in Article II of Annex A to this Prospectus Supplement (other than Beneficial Owners holding their interests through Euroclear or participants in Euroclear, who would have to follow the Quick Refund Procedures set forth in Article II of Annex B to this Prospectus Supplement), or the Direct Refund from Spanish Tax Authorities Procedures set forth in Article II of Annex C of this Prospectus Supplement in order to apply directly to the Spanish tax authorities for any refund to which they may be entitled.

See "Taxation - Spanish Tax Considerations - Evidencing of Beneficial Owner Residency in Connection with Interest Payments" .



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For a description of the Spanish tax treatment applicable to the accrued interest, if any, on the Notes upon an early redemption of such Notes, see Taxation Spanish Tax Considerations .

Optional Redemption of the Notes

The Issuer may, at its election and having given not less than 30 nor more than 60 days notice to the holders in accordance with the terms described under Description of the Notes and the Guarantee Notices (which notice shall be irrevocable), redeem from time to time all or a portion of the outstanding Notes of any series at a make whole redemption price determined in the manner set forth in this Prospectus Supplement. See Description of the Notes and the Guarantee Optional Redemption of the Notes .

Status of the Notes

The Notes of each series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) the payment obligations of the Issuer under the Notes of such series will rank at least *pari passu* with all other unsecured and unsubordinated indebtedness, present and future, of the Issuer, except as the obligations of the Issuer may be limited by Spanish bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors rights generally in the Kingdom of Spain. See Description of the Notes and the Guarantee Status of the Notes .

Form of Notes

The Notes of each series will be initially represented by one or more global security certificates (each, a **Global Certificate** ) which will be deposited with a custodian for DTC and Notes represented thereby will be registered in the name of Cede & Co., as nominee for DTC. You will not receive Certificated Notes (as defined herein) unless one of the events described under the heading Description of the Notes and the Guarantee Form, Denomination, Transfer and Registration occurs.

You may hold beneficial interests in the Notes of a series represented by a Global Certificate directly through DTC if you are a participant in DTC or indirectly through organizations that are participants in DTC or that have accounts with DTC. In order to confirm any position that is held through an indirect participant of a clearing system, the direct participant holding the Notes directly through the relevant clearing system must confirm their indirect participant s downstream position.

See Description of the Notes and the Guarantee Form, Denomination, Transfer and Registration .

Status of the Guarantee

Pursuant to the Guarantee, Telefónica, as Guarantor, will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes of each series on an unsubordinated and unconditional basis. The obligations of the Guarantor under the



Guarantee in respect of the Notes of a series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor under the Guarantee and will rank *pari passu* without any preference among such obligations of the Guarantor under the Guarantee in respect of the Notes of such series and at least *pari passu* with all other unsubordinated

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and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future; provided that the obligations of the Guarantor under the Guarantee in respect of the Notes will be effectively subordinated to those obligations that are preferred under law 22/2003 (*Ley Concursal*) dated July 9, 2003 regulating insolvency proceedings in Spain (the **Insolvency Law**). See Description of the Notes and the Guarantee The Guarantee .

At March 31, 2009, the Guarantor had no outstanding secured indebtedness and approximately 54 billion of outstanding unsecured indebtedness. For additional information about the Guarantor's principal transactions since March 31, 2009, see Capitalization and Indebtedness .

**Beneficial Owner Identification Requirements under Spanish Tax Laws**

**Under Spanish Law 13/1985, as amended and Royal Decree 1065/2007, the Issuer and the Guarantor are required to provide to the Spanish tax authorities certain information relating to Beneficial Owners of the Notes who receive interest payments.**

**This information includes the identity and country of tax residence of Beneficial Owners and the amount of interest received by such Beneficial Owners, and must be obtained with respect to each Interest Payment Date by 8:00 p.m. (New York time) on the fourth New York Business Day (as defined herein), before such Interest Payment Date or, under certain circumstances, by 9:45 a.m. (New York time) on such Interest Payment Date and filed by the Issuer and the Guarantor with the Spanish tax authorities on an annual basis.**

**We, the Guarantor and Acupay will amend the Tax Certification Agency Agreement pursuant to its terms through the Letter of Appointment, which will incorporate certain procedures arranged by Acupay, DTC and Euroclear that will facilitate the collection of information concerning the identity and tax residence of Beneficial Owners. The Indenture provides that the Trustee and the Paying Agent will, to the extent applicable, comply with such procedures. The delivery of such information, while the Notes are in global form, shall generally be made through the relevant direct and indirect participants in DTC (including Euroclear). The Issuer or the Guarantor, as the case may be, will withhold at the then-applicable rate (currently 18%) from any interest payment in respect of any principal amount of the Notes as to which the required information has not been provided or the required procedures have not been followed and will not pay any Additional Amounts with respect to any such withholding.**

**Law 4/2008 of December 23, by its terms, reduced the categories of Beneficial Owners to whom the information collection obligations of Law 13/1985 of May 25 apply. According to Law 4/2008 of December 23, the information reporting requirements**



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**are to be limited to those natural or legal persons considered residents for tax purposes in Spain as well as those natural or legal persons not considered residents for tax purposes in Spain but who act through a permanent establishment in Spain. The revised information reporting requirements set forth in Law 4/2008 of December 23 will enter into force upon the approval by the Spanish government of regulations setting forth the procedures for complying with this law.**

**The Spanish General Tax Directorate has issued two binding rulings dated January 20, 2009 (num. V0077-09 and V0078-09), stating that until the relevant regulations setting forth the procedures for complying with Law 4/2008 are approved, Spanish issuers and guarantors must continue to adhere to the information reporting procedures established under pre-existing laws and regulations to provide the relevant information relating to Beneficial Owners to the Spanish tax authorities.**

**See Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments and Annexes A and B to this Prospectus Supplement.**

Listing

Application will be made to list the Notes of each series on the NYSE. Trading on the NYSE is expected to begin within 30 days after delivery of the Notes.

Governing Law

Pursuant to Section 5-1401 of the General Obligations Law of the State of New York, the Indenture, the Notes and the Guarantee shall be governed by, and shall be construed in accordance with, the laws of the State of New York.

The due authorization of the Notes and the ranking of the Notes and the Guarantee shall be governed by Spanish law.

Use of Proceeds

We expect that the net proceeds from this offering, after deducting the underwriters' discounts but before expenses, will be \$ . We intend to deposit the net proceeds on a permanent basis with the Guarantor. The Guarantor will use such net proceeds for general corporate purposes. See Use of Proceeds .

Denomination

The denomination of the Notes is \$1,000.

Settlement

The underwriters expect to deliver the Notes to purchasers in registered form through DTC on or about , 2009 which will be the 10th Business Day (as defined herein) following the date of pricing of the Notes.

Risk Factors

***Investing in the Notes involves risks.***

You should carefully consider the risk factors in the Risk Factors section in this Prospectus Supplement and in Item 3.D. in Telefónica's Form 20-F for the year ended December 31, 2008 (the **Form 20-F**) as filed with the SEC on April 30, 2009.

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**Table of Contents****SELECTED CONSOLIDATED FINANCIAL INFORMATION****Telefónica, S.A.**

The following tables present certain selected historical consolidated financial information of Telefónica, S.A. You should read these tables in conjunction with Operating and Financial Review and Prospects and the Guarantor's consolidated financial statements included in the Form 20-F including the notes thereto (the **Consolidated Financial Statements**). The consolidated income statement and cash flow statement data for the years ended December 31, 2006, 2007 and 2008 and the consolidated balance sheet data at December 31, 2007 and 2008 set forth below are derived from, and are qualified in their entirety by reference to the Consolidated Financial Statements included in the Form 20-F. As a result of modifications to IAS 1, as of January 1, 2009, Telefónica, S.A., changed the title of the financial statement that it previously referred to as its balance sheet to its statement of financial position and the title of the financial statement that it previously referred to as its cash flow statement to its statement of cash flows. The unaudited consolidated income statement and statement of cash flows data for the three-month periods ended March 31, 2008 and 2009 and the unaudited consolidated statement of financial position data at March 31, 2009 set forth below are derived from, and are qualified in their entirety by reference to the Guarantor's unaudited consolidated financial information included in the Form 6-K filed with the SEC on June 17, 2009 (the **First Quarter Results Form 6-K**), which, along with the Form 20-F, is incorporated herein by reference. The consolidated income statement and cash flow statement data for the years ended December 31, 2004 and 2005 and the consolidated balance sheet data at December 31, 2004, 2005 and 2006 set forth below are derived from the Guarantor's consolidated financial statements for such years. You should not rely solely on the summarized information in this section of this Prospectus Supplement.

The basis of presentation and principles of consolidation of the information below are described in detail in Notes 2 and 3.q., respectively, to the Consolidated Financial Statements. The Guarantor's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), which do not differ from IFRS as adopted by the European Union.

	<b>For the Year Ended December 31,</b>					<b>For the Three Months Ended March 31,</b>	
	<b>2004(1)</b>	<b>2005(1)</b>	<b>2006(1)</b>	<b>2007</b>	<b>2008</b>	<b>2008</b>	<b>2009</b>
	<b>(Unaudited)</b>						
	<b>(In millions of euros, except share data)</b>						
<b>Consolidated Income Statement Data of the Guarantor in accordance with IFRS</b>							
Revenues	29,809	37,383	52,901	56,441	57,946	13,896	13,703
Other income	1,134	1,416	1,571	4,264	1,865	311	250
Supplies	(7,577)	(9,999)	(16,629)	(17,907)	(17,818)	(4,312)	(4,013)
Personnel expenses	(4,976)	(5,532)	(7,622)	(7,893)	(6,762)	(1,683)	(1,694)
Other expenses	(6,373)	(8,212)	(11,095)	(12,081)	(12,312)	(2,836)	(2,892)
Depreciation and amortization	(5,642)	(6,693)	(9,704)	(9,436)	(9,046)	(2,277)	(2,164)

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<b>Operating income</b>	<b>6,375</b>	<b>8,363</b>	<b>9,422</b>	<b>13,388</b>	<b>13,873</b>	<b>3,099</b>	<b>3,190</b>
Share of profit (loss) of associates	(50)	(128)	76	140	(161)	(1)	5
Net financial expenses	(1,456)	(1,790)	(2,795)	(2,851)	(2,821)	(753)	(665)
Net exchange differences	(177)	162	61	7	24	(14)	(66)
<b>Net financial income (expense)</b>	<b>(1,633)</b>	<b>(1,628)</b>	<b>(2,734)</b>	<b>(2,844)</b>	<b>(2,797)</b>	<b>(767)</b>	<b>(731)</b>
<b>Profit before taxes from continuing operations</b>	<b>4,692</b>	<b>6,607</b>	<b>6,764</b>	<b>10,684</b>	<b>10,915</b>	<b>2,331</b>	<b>2,464</b>
Corporate income tax	(1,451)	(1,904)	(1,781)	(1,565)	(3,089)	(736)	(744)
<b>Profit for the year from continuing operations</b>	<b>3,241</b>	<b>4,703</b>	<b>4,983</b>	<b>9,119</b>	<b>7,826</b>	<b>1,595</b>	<b>1,720</b>
Profit from discontinued operations after taxes	245	124	1,596				
<b>Profit for the year</b>	<b>3,486</b>	<b>4,827</b>	<b>6,579</b>	<b>9,119</b>	<b>7,826</b>	<b>1,595</b>	<b>1,720</b>
Minority interests	(310)	(381)	(346)	(213)	(234)	(57)	(30)

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	For the Year Ended December 31,					For the Three Months Ended March 31,	
	2004(1)	2005(1)	2006(1)	2007	2008	2008	2009
	(In millions of euros, except share data)						
<b>Profit for the year attributable to equity holders of the parent</b>	<b>3,176</b>	<b>4,446</b>	<b>6,233</b>	<b>8,906</b>	<b>7,592</b>	<b>1,538</b>	<b>1,690</b>
Weighted average number of shares (thousands)	4,987,751	4,870,852	4,778,999	4,758,707	4,645,852	4,696,808	4,567,551
Basic and diluted earnings per share from continuing operations attributable to equity holders (euros)(2)	0.60	0.90	0.97	1.87	1.63	0.33	0.37
Basic and diluted earnings per share attributable to equity holders of the parent (euros)(2)	0.64	0.91	1.30	1.87	1.63	0.33	0.37
Earnings per ADS (euros)(2)(3)	1.91	2.74	3.91	5.62	4.90	0.98	1.11
Weighted average number of ADS (thousands)	1,662,584	1,623,617	1,592,999	1,586,236	1,548,617	1,565,603	1,522,517
Cash dividends per ordinary share (euros)	0.40	0.50	0.55	0.65	0.90		



	For the Year Ended December 31,					For the Three Months Ended March 31,	
	2004	2005	2006	2007	2008	2008	2009
	(In millions of euros)						
<b>Consolidated OIBDA data of the Guarantor(4)</b>							
OIBDA	12,017	15,056	19,126	22,824	22,919	5,376	5,354

	At December 31,					At March 31,	
	2004	2005	2006	2007	2008	2009	
	(In millions of euros)						
<b>Consolidated Data of the Guarantor in accordance with IFRS</b>							
Cash and cash equivalents	914	2,213	3,792	5,065	4,277	6,280	
Property, plant and equipment	23,193	27,993	33,887	32,460	30,545	30,407	
Total assets	60,079	73,174	108,982	105,873	99,896	101,498	
Non-current liabilities	27,743	35,126	62,645	58,044	55,202	56,074	
Equity (net)	12,342	16,158	20,001	22,855	19,562	20,999	

	For the Year Ended December 31,					For the Three Months Ended March 31,	
	2004(1)	2005(1)	2006(1)	2007	2008	2008	2009
<b>Financial Ratios of the Guarantor in accordance with IFRS</b>							
Operating income/revenues from operations (ROS)(%)	21.39%	22.37%	17.81%	23.72%	23.94%	22.30%	23.28%
IFRS ratio of earnings to fixed charges	2.8	3.8	2.7	4.0	4.1	3.6	4.1

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	For the Year Ended December 31,					For the Three Months Ended March 31,	
	2004	2005	2006	2007	2008	2008	2009
	(In millions of euros)						
<b>Consolidated Cash Flow Data of the Guarantor in accordance with IFRS</b>							
Net cash from operating activities	10,131	11,139	15,414	15,551	16,366	2,634	3,110
Net cash used in investing activities	(5,808)	(9,592)	(28,052)	(4,592)	(9,101)	(1,920)	(2,223)
Net cash (used in) from financing activities	(3,937)	(435)	14,572	(9,425)	(7,765)	(1,591)	944

	At December 31,		
	2006	2007(5)	2008(5)(6)
	(In thousands)		
<b>Statistical Data of the Guarantor(7)</b>			
Fixed telephony accesses(8)	42,340.7	43,433.6	42,930.8
Internet and data accesses	12,170.9	13,156.6	14,654.3
Narrowband accesses	3,997.7	2,678.7	1,997.2
Broadband accesses(9)	7,974.8	10,320.2	12,472.1
Other accesses(10)	198.4	157.7	185.0
Mobile accesses(11)	145,125.1	167,781.1	195,598.9
Pay TV accesses	1,064.0	1,748.1	2,267.5
<b>Final clients accesses</b>	<b>200,700.7</b>	<b>226,119.4</b>	<b>255,451.4</b>
Unbundled local loop accesses	962.2	1,396.5	1,748.1
Shared UL accesses	527.7	776.4	602.3
Full UL accesses	434.5	620.1	1,145.8
Wholesale ADSL accesses(12)	1,288.6	571.7	534.7
Other accesses(13)	228.6	656.0	1,150.1
<b>Wholesale accesses</b>	<b>2,479.4</b>	<b>2,624.2</b>	<b>3,433.0</b>
<b>Total accesses</b>	<b>203,180.2</b>	<b>228,743.6</b>	<b>258,884.4</b>

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	At December 31,			At
	2006	2007	2008	March 31,
	(In millions of euros)			
<b>Consolidated Net Financial Debt and Net Debt of the Guarantor(14)</b>				
Non-current interest-bearing debt	50,676	46,942	45,088	45,873
Current interest-bearing debt	8,381	6,986	8,100	8,190
<b>Gross financial debt</b>	<b>59,057</b>	<b>53,928</b>	<b>53,188</b>	<b>54,063</b>
Other payables	354	327	477	528
Non-current financial assets(15)	(1,794)	(2,284)	(4,439)	(3,990)
Current financial assets	(1,680)	(1,622)	(2,216)	(2,065)
Cash and cash equivalents	(3,792)	(5,065)	(4,277)	(6,280)
<b>Net financial debt</b>	<b>52,145</b>	<b>45,284</b>	<b>42,733</b>	<b>42,256</b>
Commitments related to financial guarantees	365	365	365	149
Net commitments related to workforce reduction	3,089	3,289	2,687	2,633
<b>Net debt</b>	<b>55,599</b>	<b>48,938</b>	<b>45,785</b>	<b>45,038</b>

- (1) Telefónica Publicidad e Información, S.A. (TPI) was sold in 2006 and its results of operations for 2006 and the gain we recorded on its sale are included under Profit from discontinued operations after taxes for 2006. Figures for 2005 and 2004 have been restated to present TPI's results under the same caption.
- (2) The per share and per ADS computations for all periods presented have been presented using the weighted average number of shares and ADSs, respectively, outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented.
- (3) Each ADS represents the right to receive three ordinary shares. Figures do not include any charges of the depositary.
- (4) Operating income before depreciation and amortization, or OIBDA, is calculated by excluding depreciation and amortization expenses from the Guarantor's operating income in order to eliminate the impact of generally long-term capital investments that cannot be significantly influenced by our management in the short term. The Guarantor's management believes that OIBDA is meaningful for investors because it provides an analysis of the Guarantor's operating results and its segment profitability using the same measure used by its management. OIBDA also allows the Guarantor to compare its results with those of other companies in the telecommunications sector without considering their asset structure. The Guarantor uses OIBDA to track its business evolution and establish operational and strategic targets. OIBDA is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. OIBDA is not an explicit measure of financial performance under IFRS and may not be comparable to other similarly titled measures for other companies. OIBDA should not be considered an alternative to operating income as an indicator of the Guarantor's operating performance, or an alternative to cash flows from operating activities as a measure of its

liquidity.

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The following table provides a reconciliation of OIBDA to operating income for the Guarantor for the periods indicated (in millions of euros).

	For the Year Ended December 31,					For the Three Months Ended	
	2004	2005	2006	2007	2008	2008	2009
	(In millions of euros)						
Operating income before depreciation and amortization	12,017	15,056	19,126	22,824	22,919	5,376	5,354
Depreciation and amortization	(5,642)	(6,693)	(9,704)	(9,436)	(9,046)	(2,277)	(2,164)
<b>Operating income</b>	<b>6,375</b>	<b>8,363</b>	<b>9,422</b>	<b>13,388</b>	<b>13,873</b>	<b>3,099</b>	<b>3,190</b>

- (5) At January 1, 2007, Iberbanda accesses are included. At January 1, 2007, Group accesses have been reclassified, to include fixed wireless accesses under the caption of fixed telephony. These accesses were previously classified, depending on the country, under mobile or fixed accesses.
- (6) At January 1, 2008, fixed wireless public use telephony accesses are included under the caption fixed telephony accesses .
- (7) Access refers to a connection to any of the telecommunications services offered by the Telefónica Group. We present the Telefónica Group's customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract or purchase our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. In addition, we fully count the accesses of all companies over which we exercise control or joint control. The following are the main categories of accesses:

Fixed telephony accesses: includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or ISDN, lines and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).

Internet and data accesses: includes broadband accesses (retail asymmetrical digital subscriber line, or ADSL, satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and other accesses, including the remaining non-broadband final client circuits.

Pay TV: includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

Mobile accesses: includes contract and pre-pay mobile telephony.

Unbundled local loop, or ULL: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, or shared UL).

Wholesale ADSL: means wholesale asymmetrical digital subscriber line.

Other: includes other circuits for other operators.

- (8) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 access x30. Includes the Group's accesses for internal use.
- (9) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits.
- (10) Includes remaining non-broadband final client circuits.
- (11) Includes accesses of Telemig from April 2008.
- (12) Includes unbundled lines by Telefónica O2 Germany.
- (13) Includes circuits for other operators.
- (14) This information provides a reconciliation of net financial debt and net debt to gross financial debt for the Guarantor as at the dates indicated. The Guarantor calculates net financial debt by deducting the positive mark-to-market value of derivatives with a maturity beyond one year from the relevant balance sheet date or statement of financial position date, as the case may be, and other interest-bearing assets (each of which are components of non-current financial assets in the Guarantor's consolidated balance sheet or statement of financial position, as the case may be), current financial assets and cash and cash equivalents

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from the sum of (i) current and non-current interest-bearing debt (which includes the negative mark-to-market value of derivatives with a maturity beyond one year) and (ii) other payables (a component of non-current trade and other payables in the Guarantor's consolidated balance sheet or statement of financial position, as the case may be). The Guarantor calculates net debt by adding to net financial debt those commitments related to financial guarantees, not considered as net financial debt, and those related to workforce reduction. The Guarantor believes that net financial debt and net debt are meaningful for investors because they provide an analysis of its solvency using the same measures used by its management. The Guarantor uses net financial debt and net debt to calculate internally certain solvency and leverage ratios used by management. Neither net debt nor net financial debt as calculated by the Guarantor should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of the Guarantor's liquidity.

- (15) Positive mark-to-market value of derivatives with a maturity beyond one year from the relevant balance sheet date or statement of financial position date, as the case may be, and other interest-bearing assets.

**Table of Contents****RISK FACTORS**

In addition to the other information contained in or incorporated into this Prospectus Supplement and the accompanying Prospectus, prospective investors should carefully consider the risks described below as well as those described in Item 3.D. in the Form 20-F before making any investment decisions. The risks described below are not the only ones that we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business and results of operations. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, and investors could lose all or part of their investment.

**Risks Relating to the Notes**

***We and the Guarantor are required to provide certain information relating to Beneficial Owners to the Spanish tax authorities. We will withhold Spanish withholding tax from any interest payment in respect of any principal amount of the Notes as to which the required Beneficial Owner information has not been provided or the required information collection procedures have not been followed.***

Under Spanish Law 13/1985, as amended, and Royal Decree 1065/2007, we and the Guarantor are required to provide certain information relating to Beneficial Owners to the Spanish tax authorities. This information includes the identity and country of tax residence of each Beneficial Owner that receives an interest payment on the Notes and the amount of interest received by such Beneficial Owner, and must be obtained with respect to each Interest Payment Date by 8:00 p.m. (New York time) on the fourth New York Business Day prior to such Interest Payment Date or, under certain circumstances, by 9:45 a.m. (New York time) on such Interest Payment Date and filed by us and the Guarantor with the Spanish tax authorities on an annual basis. In the event of an early redemption of the Notes for the reasons described under **Description of the Notes and the Guarantee** **Redemption and Purchase** **Early Redemption for Taxation Reasons** , or if DTC or Euroclear or any of their direct or indirect participants fail to provide us and the Guarantor (through Acupay) with the required information described under **Taxation** **Spanish Tax Considerations** **Evidencing of Beneficial Owner Residency in Connection with Interest Payments** in respect of the Beneficial Owner of any principal amount of Notes, we or the Guarantor, as the case may be, may be required to withhold tax and will pay interest in respect of such principal amount net of the withholding tax applicable to such payments (currently 18%). If this were to occur, affected Beneficial Owners (acting through the DTC participant through which they hold their Notes) would have to either follow the Quick Refund Procedures set forth in Article II of Annex A to this Prospectus Supplement (other than Beneficial Owners holding their interests through Euroclear or participants in Euroclear, who would have to follow the Quick Refund Procedures set forth in Article II of Annex B to this Prospectus Supplement) or apply directly to the Spanish tax authorities for any refund to which they may be entitled, as set forth in Article II of Annex C of this Prospectus Supplement. See **Taxation** **Spanish Tax Considerations** **Evidencing of Beneficial Owner Residency in Connection with Interest Payments** . We and the Guarantor will not pay any Additional Amounts with respect to any such withholding.

Law 4/2008 of December 23, by its terms, reduced the categories of Beneficial Owners to whom the information collection obligations of Law 13/1985 of May 25 apply. According to Law 4/2008 of December 23, the information reporting requirements are to be limited to those natural or legal persons considered residents for tax purposes in Spain as well as those natural or legal persons not considered residents for tax purposes in Spain but who act through a permanent establishment in Spain. The revised information reporting requirements set forth in Law 4/2008 of December 23 will enter into force upon the approval by the Spanish government of regulations setting forth the procedures for complying with this law.



The Spanish General Tax Directorate has issued two binding rulings dated January 20, 2009 (num. V0077-09 and V0078-09), stating that until the relevant regulations setting forth the procedures for complying with Law 4/2008 are approved, Spanish issuers and guarantors must continue to adhere to the information reporting procedures established under pre-existing laws and regulations to provide the relevant information relating to Beneficial Owners to the Spanish tax authorities.

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***We, the Guarantor and Acupay will amend the Tax Certification Agency Agreement pursuant to its terms through the Letter of Appointment, which will incorporate certain procedures arranged by Acupay, DTC and Euroclear to facilitate the collection of information concerning the identity and tax residence of Beneficial Owners. If the procedures prove ineffective or if the relevant participants in DTC or Euroclear fail to provide the required information as of each Interest Payment Date, we will withhold at the then-applicable rate (currently 18%) from any interest payment in respect of the outstanding principal amount of the Notes as to which the agreed procedures prove ineffective or have not been followed and neither we nor the Guarantor will pay any Additional Amounts with respect to any such withholding.***

The Indenture provides that the Trustee and Paying Agent will, to the extent applicable, comply with the procedures set forth in Annexes A and B to this Prospectus Supplement to facilitate the collection of information concerning the identity and country of tax residence of Beneficial Owners. In the event that these procedures prove ineffective, we will be required to withhold at the then-applicable rate (currently 18%) from any interest payment in respect of the outstanding principal amount of the Notes as to which the agreed procedures prove ineffective and neither we nor the Guarantor will pay any Additional Amounts with respect to any such withholding.

The delivery of the required Beneficial Owner identity and country of tax residence information, while the Notes are in global form, must be made through the relevant direct or indirect participants in DTC, including Euroclear, in accordance with the procedures summarized under Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments . No arrangements or procedures have been made by us or the Guarantor with respect to any depository or clearing system other than those procedures arranged by Acupay, DTC and Euroclear mentioned above. Each such DTC participant must provide the required information for each of the Beneficial Owners holding interests through such participant as of each Interest Payment Date, and neither we nor the Guarantor shall be responsible for any participant's failure to do so. Such failure may arise as a result of the failure of an indirect DTC participant (including Euroclear) holding through such direct DTC participant to provide the necessary information in a timely manner. In the event of any failure by a DTC participant to comply with these procedures, Acupay will seek to notify such DTC participant of any deficiencies in the information provided by such DTC participant, and in the event any DTC participant fails or is unable to correct such deficiencies in a timely manner, we will withhold at the then-applicable rate from any interest payment in respect of the entire outstanding principal amount of the Notes held through such DTC participant. Neither we nor the Guarantor will pay any Additional Amounts with respect to any such withholding.

Investors should be aware that the tax certification procedures set forth in Annex A and Annex B to this Prospectus Supplement provide that payments of interest to any DTC participants that do not for any reason provide the required Beneficial Owner information in respect of Beneficial Owners who are entitled to an exemption from Spanish withholding tax and who own their beneficial interests in the Notes through such DTC participants will be paid net of Spanish withholding tax in respect of such Beneficial Owners' entire beneficial interest in the Notes held through such DTC participant and neither we nor the Guarantor will pay any Additional Amounts with respect to any such withholding. If this were to occur, affected Beneficial Owners would have to either follow (acting through the DTC participant through which they hold their beneficial interest in the Notes) the Quick Refund Procedures set forth in Article II of Annex A to this Prospectus Supplement (other than Beneficial Owners holding their interests through Euroclear or participants in Euroclear, who would have to follow the Quick Refund Procedures set forth in Article II of Annex B to this Prospectus Supplement) or apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the procedures set forth in Article II of Annex C to this Prospectus Supplement. See Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments .

Holders of Notes must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes. The tax certification procedures mentioned above may be modified, amended or

supplemented to, among other reasons, reflect a change in applicable Spanish law, regulation, ruling or interpretation thereof or to reflect a change in applicable clearing system rules or procedures or to add procedures for one or more additional clearing systems. In particular, the tax certification procedures

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described above shall have to be modified, amended or supplemented, as the case may be, once the Spanish government approves new regulations setting forth procedures for complying with Law 4/2008. See Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments . None of the Issuer, the Guarantor, the Paying Agent, Acupay, DTC or Euroclear assume any responsibility therefore.

***If the Notes of a series are not listed on an organized market in an OECD country no later than 45 days prior to the initial Interest Payment Date for the Notes of such series, the Issuer or the Guarantor, as the case may be, may, at its option, redeem such series of Notes without penalty or premium.***

If any series of Notes is not listed on an organized market in an OECD country no later than 45 days prior to the initial Interest Payment Date on such series of Notes, the Issuer or the Guarantor, as the case may be, may, at its option and having given no less than 15 days notice (ending on a day which is no later than the Business Day immediately preceding the initial Interest Payment Date) to the holders of such series of Notes in accordance with the terms described herein, redeem all of the outstanding Notes of such series at their principal amount without any penalty or premium in respect thereof, together with accrued interest, if any, thereon to but not including the redemption date. We have committed to make our best efforts to make an application to list the Notes on the NYSE; however, no such listing can be assured. See Description of the Notes and Guarantee Redemption and Purchase Early Redemption for Taxation Reasons .

***There exist certain risks relating to the coordination of certain provisions of U.S. and Spanish Law.***

In Spain, issuers of debt securities such as the Notes are generally required to have a standing committee of securities holders (*sindicato de obligacionistas*) that is represented by a commissioner (*comisario*). The Indenture, however, is required to be qualified under the U.S. Trust Indenture Act of 1939 (the **Trust Indenture Act** ), and the Trust Indenture Act contains mandatory provisions related to the appointment of a trustee that are difficult to reconcile with such standing committee and commissioner requirements. Neither Spanish law nor Spanish case law specifically addresses a transaction, such as this offering of Notes, where a Spanish *sociedad anónima*, such as us, carries out an issuance of debt instruments in the United States registered under the Securities Act and pursuant to an indenture qualified under the Trust Indenture Act. However, based on the opinion of scholars that have addressed such issue, Spanish counsel has opined that no such committee and commissioner is required under the circumstances of this offering. Accordingly, no such committee and commissioner exists with respect to the Notes. We cannot assure you that a Spanish court would not find that the validity or other characteristics of the Notes are affected by the absence of such committee or commissioner. The lack of such committee and commissioner does not, however, affect the validity of the Guarantee granted by the Guarantor in respect of the Notes.

***If a public market for the Notes does not develop, your ability to resell the Notes and the market price of the Notes may be adversely affected.***

Each series of Notes is a new issue of securities for which an extensive public market may not develop. If the Notes of a series are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, general economic conditions, our performance and other factors. Although applications will be made for the Notes of each series to be admitted to listing on the NYSE, there is no assurance that such applications will be accepted or, that the Notes will be so admitted. We have been advised by the underwriters that they intend to make a market in the Notes after the completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes or that an active public market for the Notes will develop. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.



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***Your right to receive payments of interest and principal on the Notes and the Guarantee is effectively junior to certain other obligations of the Issuer and the Guarantor.***

The Notes of each series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) the payment obligations of the Issuer under the Notes of such series will rank at least *pari passu* with all other unsecured and unsubordinated indebtedness, present and future, of the Issuer, except as the obligations of the Issuer may be limited by Spanish bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally in the Kingdom of Spain. Pursuant to the Guarantee, the Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by us under the Notes of each series on an unsubordinated and unconditional basis. The obligations of the Guarantor under the Guarantee in respect of the Notes of a series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor under the Guarantee and will rank *pari passu* without any preference among such obligations of the Guarantor under the Guarantee in respect of the Notes of such series and at least *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future; provided that the obligations of the Guarantor under the Guarantee in respect of the Notes will be effectively subordinated to those obligations that are preferred under the Insolvency Law. However, the Notes and the Guarantee will be effectively subordinated to all of, respectively, our and the Guarantor's secured indebtedness, to the extent of the value of the assets securing such indebtedness, and other obligations that rank senior under Spanish law. At March 31, 2009, the Guarantor had no secured indebtedness outstanding and approximately \$4 billion of unsecured indebtedness outstanding. The Guarantee is also structurally subordinated to all indebtedness of subsidiaries of Telefónica insofar as any right of Telefónica to receive any assets of any of its subsidiaries or equity affiliates upon Telefónica's liquidation, dissolution, winding up, receivership, reorganization or any bankruptcy, insolvency or similar proceedings (and the consequent right of the holders of the Guarantee to participate in the distribution of, or to realize proceeds from, those assets) will be effectively subordinated to the claims of any such subsidiary's or equity affiliate's creditors (including trade creditors and holders of debt or guarantees issued by such subsidiary).

***You may be unable to enforce judgments obtained in U.S. courts against us or the Guarantor.***

All of our directors and substantially all the directors and executive officers of the Guarantor are not residents of the United States, and substantially all the assets of these companies are located outside of the United States. As a consequence, you may not be able to effect service of process on these non-U.S. resident directors and executive officers in the United States or to enforce judgments against them outside of the United States. We have been advised by our Spanish counsel, Uría Menéndez, that there is doubt as to whether a Spanish court would enforce a judgment of liability obtained in the United States against us or the Guarantor predicated solely upon the securities laws of the United States. See "Enforceability of Certain Civil Liabilities" in the accompanying Prospectus.

**USE OF PROCEEDS**

We expect that the net proceeds from this offering, after deducting the underwriters' discounts but before expenses, will be approximately \$ . We intend to deposit the net proceeds on a permanent basis with the Guarantor. The Guarantor will use such net proceeds for general corporate purposes.

Table of Contents**CAPITALIZATION AND INDEBTEDNESS**

The following table sets forth the capitalization of the Guarantor on an unaudited consolidated basis in accordance with IFRS at March 31, 2009 and as adjusted to reflect the issuance of \$ aggregate principal amount of Notes (converted to euros utilizing the European Central Bank buying rate for euro at March 31, 2009) and the application of the net proceeds thereof as described in Use of Proceeds .

	<b>At March 31, 2009</b>	
	<b>Actual</b>	<b>As Adjusted(1)</b>
	<b>(Euros in millions)</b>	
	<b>Unaudited</b>	
<b>Equity</b>	20,999	20,999
Equity attributable to equity holders of the parent	18,622	18,622
Minority interest	2,377	2,377
<b>Outstanding indebtedness</b>	54,063	
Long-term debt	45,873	
Short-term debt including current maturities	8,190	
<b>Total Capitalization and Indebtedness</b>	75,062	

(1) Reflects the issuance of \$ aggregate principal amount of Notes and the application of the net proceeds thereof.

The following are the principal transactions affecting the capitalization of the Guarantor after March 31, 2009:

On April 1, 2009, Telefónica Emisiones, S.A.U. issued seven-year fixed rate notes, guaranteed by Telefónica, S.A., in an aggregate principal amount of 1,000 million, with an annual interest rate of 5.496%. On June 3, 2009, the size of this initial tranche was increased by 500 million;

On April 14, 2009, Telefónica, S.A. redeemed debentures with an aggregate principal amount of 500 million. The debentures were initially registered with the Spanish National Securities Market Commission (*Comisión Nacional de Mercado de Valores*) on March 16, 1999; and

On June 2, 2009, Telefónica Emisiones, S.A.U. issued six-year floating rate notes, guaranteed by Telefónica, S.A., in an aggregate principal amount of 400 million, with an annual interest rate of three-month Euribor plus 1.875%.

On June 19, 2009, Telefónica Emisiones, S.A.U., redeemed an aggregate principal amount of \$1,000 million floating rate notes, guaranteed by Telefónica, S.A., issued on June 20, 2006.

**Table of Contents****DESCRIPTION OF THE NOTES AND THE GUARANTEE**

The following is a summary of the terms of the Fixed Rate Notes and the Fixed Rate Notes. Each series of Notes will be issued under an indenture (the **Base Indenture**), dated May 8, 2009 among the Issuer, Telefónica and The Bank of New York Mellon, a New York banking corporation, as Trustee (the **Trustee**), as supplemented, with respect to the Fixed Rate Notes, by the First Supplemental Indenture and with respect to the Fixed Rate Notes, by the Second Supplemental Indenture, each to be dated as of or around , 2009, among the Issuer, Telefónica and The Bank of New York Mellon, as Trustee and Paying Agent (the **Base Indenture**, as supplemented, the **Indenture**). Each series of Notes will be issued pursuant to the resolution adopted by the sole shareholder of the Issuer on May 4, 2009 and reflected in a public deed of issuance executed and registered with the Mercantile Registry of Madrid (the **Public Deed of Issuance**) on or prior to the date of settlement of the offering, which is currently expected to be on or around , 2009. The Fixed Rate Notes and the Fixed Rate Notes shall be designated Series H and Series I of the Issuer, respectively, in the Public Deed of Issuance.

The following summary of material provisions of each series of Notes, the Guarantee and the Indenture does not purport to be complete and is subject, and is qualified in its entirety by reference, to all of the provisions of the Notes, the Guarantee and the Indenture, including the definitions of the terms provided therein. Upon request, you may obtain a copy of the Public Deed of Issuance and the Indenture from the Trustee.

**General**

The Fixed Rate Notes will be issued in \$ aggregate principal amount and will mature at 100% of their principal amount on , (the **Fixed Rate Note Maturity Date**). The Fixed Rate Notes will be issued in \$ aggregate principal amount and will mature at 100% of their principal amount on , (the **Fixed Rate Note Maturity Date** and, together with the Fixed Rate Note Maturity Date, each a **Maturity Date**). The Notes may be offered and sold in multiple series with different maturities, interest rates and other terms. The Notes of each series will be issued only in registered form in denominations of \$1,000. No series of Notes will be entitled to the benefit of any sinking fund or similar custodial arrangement.

The Fixed Rate Notes and the Fixed Rate Notes constitute separate series of securities issued under the Indenture. The Indenture provides that, in addition to the Fixed Rate Notes and the Fixed Rate Notes, notes, bonds and other evidences of indebtedness of other series may in the future be issued thereunder without limitation as to aggregate principal amount. Unless otherwise provided pursuant to the Indenture for a series of Notes, the Issuer may from time to time, without the consent of the holders of Notes of such series, create and issue further Notes having the same terms and conditions as the previously issued Notes of such series in all respects (or in all respects except for the issue date, the first payment of interest thereon and/or issue price), so that such further issue shall be consolidated and form a single series with the outstanding Notes of such series; *provided, however*, that any such further issuance will only be made if either such additional Notes are issued with no more than *de minimis* original issue discount for U.S. federal income tax purposes or such further issuance is a qualified reopening as such term is defined under Treasury Regulations Section 1.1275-2(k)(3) promulgated under the Internal Revenue Code of 1986 (the **Code**).

Telefónica, as Guarantor, will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes of each series on an unsubordinated and unconditional basis.

**Payment of Interest**



The Notes of each series will bear interest from \_\_\_\_\_, 2009 or from the most recent date through which the Issuer has paid or provided for interest on the Notes of such series.

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The Fixed Rate Notes will bear interest from , 2009 at an annual rate of %. The Fixed Rate Notes will bear interest from , 2009 at an annual rate of %. Subject to and in accordance with the tax certification procedures set forth in Annex A and Annex B to this Prospectus Supplement, the Issuer or the Guarantor, as the case may be, will (i) pay interest on the Fixed Rate Notes semi-annually on each and of each year, beginning on , 2010, until the Fixed Rate Note Maturity Date, and on the Fixed Rate Note Maturity Date and (ii) pay interest on the Fixed Rate Notes semi-annually on each and of each year, beginning on , 2010, until the Fixed Rate Note Maturity Date, and on the Fixed Rate Note Maturity Date. Each of the dates on which interest on the Notes will be paid is referred to as an **Interest Payment Date**. Interest on each series of Notes will be computed on the basis of a 360-day year of twelve 30-day months. Except as described below for the first Interest Payment Date for the Notes, on each Interest Payment Date for such Notes, the Issuer or the Guarantor, as the case may be, will pay interest on the Notes for the period commencing on and including the immediately preceding Interest Payment Date for the Notes and ending on and including the day immediately preceding that Interest Payment Date. On the first Interest Payment Date for the Notes, the Issuer or the Guarantor, as the case may be, will pay interest for the period beginning on and including , 2009 and ending on and including , 2010.

If any Interest Payment Date for the Notes falls on a day that is not a Business Day for the Notes, the interest payment shall be postponed to the next day that is a Business Day for the Notes, and no interest on such payment shall accrue for the period from and after such Interest Payment Date. For the purposes of this Prospectus Supplement, a **Business Day** is a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York, London, England or the city of Madrid, Spain are authorized or required by law or executive order to close.

If the Maturity Date of any Note is not a Business Day, payment of principal and interest on the applicable series of Notes will be made on the next succeeding day that is a Business Day and no interest will accrue for the period from and after such Maturity Date. Interest on each Note will be paid only to the person in whose name such Note was registered at the close of business on the 10th New York Business Day prior to the applicable Interest Payment Date (each such date, a **Regular Record Date**). Notwithstanding the Regular Record Dates established in the terms of the Notes, the Issuer has been advised by DTC that through their accounting and payment procedures they will, in accordance with their customary procedures, credit interest payments received by DTC on any Interest Payment Date based on DTC participant holdings of the Notes of the applicable series on the close of business on the New York Business Day immediately preceding each such Interest Payment Date. A **New York Business Day** is a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York are authorized or required by law or executive order to close.

**Payments of Additional Amounts**

All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Notes of a series and the Guarantee by the Issuer or the Guarantor 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. Subject to the following paragraph, in the event that such withholding or deduction is required by law, the Issuer or the Guarantor shall pay such additional amounts (**Additional Amounts**) as will result in receipt by the holders of such series of Notes of such amounts as would have been received by them had no such withholding or deduction been required.

However, the Issuer and the Guarantor will not be required to pay any Additional Amounts in respect of any Note of a series:

(i) to a holder of such Note who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of it (or the Beneficial Owner for whose benefit it holds such

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Note) having some connection with the Kingdom of Spain other than the mere holding of such Note (or such beneficial interest);

(ii) to a holder of such Note 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 (or the identity and tax residence of the Beneficial Owner for whose benefit it holds such Note) as it may require in order to comply with Law 13/1985 of May 25, as amended, Royal Decree 1065/2007 of July 27 and any implementing legislation or regulation;

(iii) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to such Additional Amounts on presenting the same for payment on the expiry of such period of 30 days;

(iv) where the withholding or deduction is imposed on a payment to or for the benefit of an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such directives;

(v) presented for payment (where presentation is required) by or on behalf of a holder (or Beneficial Owner) who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent in a member state of the European Union;

(vi) to or for the benefit of individuals resident for tax purposes in the Kingdom of Spain; or

(vii) to or for the benefit of a Spanish-resident legal entity subject to Spanish Corporate Income Tax if (a) the Spanish-resident legal entity fails to identify itself as such to the Issuer and the Guarantor in accordance with article 59.q) or 59.s) of the Corporate Income Tax Regulations approved by Royal Decree 1777/2004 of July 30 or (b) the Spanish tax authorities determine that the Notes of such series do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated July 27, 2004 or otherwise and require a withholding to be made.

Additional Amounts in respect of the Notes of a series will also not be paid with respect to any payment to a holder of any Notes of such series who is a fiduciary, a partnership, a limited liability company or other than the sole Beneficial Owner of that payment, to the extent that payment would be required by the laws of the Kingdom of Spain (or any political subdivision thereof or any authority or agency therein or thereof having power to tax) to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a Beneficial Owner who would not have been entitled to the Additional Amounts had it been the holder.

For the purposes of (iii) above, 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 Paying Agent on or prior to such due date, it means the first date on which the full amount of such moneys having been so received and being available for payment to holders, notice to that effect shall have been duly given to the holders in accordance with the Indenture.

For a description of the formalities which holders (or the Beneficial Owner for whose benefit it holds such Note) of each series of Notes must follow in order to claim an exemption from withholding tax and certain disclosure requirements imposed on the Issuer and the Guarantor relating to the identity and tax residence of Beneficial Owners, see **Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments and Risk Factors Risks Relating to the Notes** .

**Form, Transfer and Registration**

The Notes of each series will be initially represented by one or more Global Certificates which will be deposited with a custodian for DTC, and Notes represented thereby will be registered in the name of Cede & Co., as nominee of DTC, for the accounts of participants in DTC. Except as provided below with respect to exchanges of beneficial interests in Notes represented by a Global Certificate for Certificated Notes (as defined

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below), Notes of a series represented by a Global Certificate may not be transferred except as a whole by DTC as the depository for such Global Certificate to a nominee of DTC, by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of DTC or a nominee of such successor.

Ownership of beneficial interests in a Note represented by a Global Certificate will be limited to persons, called participants, that have accounts with DTC or persons that may hold interests through participants in DTC.

Upon the issuance of the Notes of a series represented by a Global Certificate, DTC will credit, on its book-entry registration and transfer system, the applicable participants' accounts with the respective principal or face amounts of such Notes beneficially owned by the participants. Any dealers, underwriters or agents participating in the distribution of such Notes will designate the accounts to be credited. Ownership of beneficial interests in a Note represented by a Global Certificate will be shown on, and the transfer of ownership interests will be effected only through, records maintained by DTC, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants.

So long as the Notes of a series are represented by a Global Certificate, DTC or its nominee, as the case may be, will be considered the sole holder of the Notes represented by such Global Certificate for all purposes under the Indenture. Except as described below, owners of beneficial interests in a Note represented by a Global Certificate will not be entitled to have the Notes represented by such Global Certificate registered in their names, will not receive or be entitled to receive physical delivery of Certificated Notes (as defined below) and will not be considered the holders of such Notes under the Indenture. Accordingly, each person owning a beneficial interest in a Note represented by a Global Certificate must rely on the procedures of DTC and, if that person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of a Beneficial Owner under the Indenture.

To facilitate subsequent transfers, all Notes of a series represented by a Global Certificate will be registered in the name of DTC's nominee, Cede & Co. The deposit of the Notes of each series with a custodian for DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of such Notes. DTC's records reflect only the identity of the direct participants to whose accounts beneficial interests in such Notes are credited, which may or may not be the Beneficial Owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

The Issuer or the Guarantor, as the case may be, will make payments due on the Notes of each series represented by a Global Certificate to Cede & Co., as nominee of DTC, in immediately available funds. DTC's practice upon timely receipt of any payment of principal, interest or other distribution in respect of the Notes represented by a Global Certificate is to credit participants' accounts in amounts proportionate to their respective beneficial interests in such Notes represented by a Global Certificate as shown on the records of DTC. Payments by participants to owners of beneficial interests in any Notes of a series represented by a Global Certificate held through participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in street name, and will be the responsibility of those participants. Payment to Cede & Co. is the responsibility of the Issuer or the Guarantor, as the case may be. Disbursement of such payments to direct participants is the responsibility of Cede & Co. Disbursement of such payments to Beneficial Owners of Notes of the applicable series is the responsibility of direct and indirect participants. None of the Issuer, the Guarantor, the Trustee or any other agent of the Issuer or the Guarantor or any agent of the Trustee will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial interests in any Notes represented by a Global Certificate or for maintaining, supervising or reviewing any records relating to those beneficial interests.

Transfers between participants in DTC will be reflected in accordance with DTC's procedures.



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Cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear participants, on the other, will be effected by DTC in accordance with DTC rules on behalf of Euroclear by its depository; however, such cross-market transactions will require delivery of instructions to Euroclear by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving interests in the global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants may not deliver instructions directly to the depositories for Euroclear.

Because of the time zone differences, the securities account of a Euroclear participant purchasing an interest in any Notes represented by a Global Certificate from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Euroclear) immediately following the DTC settlement date, and such credit of any transaction's interests in any Notes represented by a Global Certificate settled during such processing day will be reported to the relevant Euroclear participant on such day. Cash received in Euroclear as a result of sales of interests in any Notes represented by a Global Certificate by or through a Euroclear participant to a DTC participant will be received with value on the DTC settlement date, but will be available in the relevant Euroclear cash account only as of the applicable business day following settlement in DTC.

The Issuer and the Guarantor expect that DTC will take any action permitted to be taken by a holder only at the direction of one or more participants to whose account the DTC interests in any Notes represented by the applicable Global Certificate are credited and only in respect of such portion of the aggregate principal amount of the Notes of the applicable series as to which such participant or participants has or have given such direction.

Beneficial interests in Notes of any series represented by a Global Certificate will be exchangeable for Notes of such series represented by individual security certificates ( **Definitive Certificates** ) and registered in the name or names of owners of such beneficial interests as specified in instructions provided by DTC to the Trustee ( **Certificated Notes** ) only if: (i) DTC notifies the Issuer that it is unwilling or unable to continue to act as depository or that it is no longer a clearing agency registered under the Securities Exchange Act of 1934, as amended (the **Exchange Act** ) and, in either case, a successor depository is not appointed by the Issuer within 120 days after the date of such notice from DTC, (ii) the Issuer notifies the Trustee in writing that it has reasonably elected to cause the issuance of Certificated Notes of such series or (iii) there shall have occurred and be continuing an Event of Default (as defined below) with respect to the Notes of such series and the Notes of such series will be accelerated in accordance with their terms and the terms of the Indenture.

In any such instance, an owner of a beneficial interest in the Notes of a series represented by a Global Certificate would be entitled to delivery of Certificated Notes of such series equal in principal amount to that beneficial interest and to have those Certificated Notes registered in its name. Certificated Notes of such series so issued would be issued as registered notes in authorized denominations. Certificated Notes of a series, if issued, could be transferred by presentation of Definitive Certificates representing such Certificated Notes for registration to the Trustee at its New York offices and such Definitive Certificates would need to be duly endorsed by the applicable holder or his attorney duly authorized in writing, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee duly executed by the holder or his attorney duly authorized in writing.

Although the Issuer and the Guarantor expect that DTC will continue to perform the foregoing procedures in order to facilitate transfers of interests in each Note of a series represented by a Global Certificate among participants of DTC, DTC is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantor, the underwriters or the Trustee will have any responsibility for the performance by DTC or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.



DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a banking organization within the meaning of the New York Banking Law, a

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member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions, such as transfers and pledges, among participants in deposited securities through electronic book-entry charges to accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Certain of those participants (or other representatives), together with other entities, own DTC. The rules applicable to DTC and its participants are on file with the SEC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer and the Guarantor believe to be reliable, but none of the Issuer, the Guarantor or the underwriters takes any responsibility for its accuracy or completeness. The Issuer and the Guarantor assume no responsibility for the performance by DTC or its direct or indirect participants of their respective obligations, including obligations that DTC or its direct or indirect participants have under the rules and procedures that govern DTC's operations.

**Status of the Notes**

The Notes of each series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) the payment obligations of the Issuer under the Notes of such series will rank at least *pari passu* with all other unsecured and unsubordinated indebtedness, present and future, of the Issuer, except as the obligations of the Issuer may be limited by Spanish bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally in the Kingdom of Spain.

**The Guarantee**

Telefónica, as Guarantor, will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes of each series on an unsubordinated and unconditional basis, pursuant to a guarantee to be dated as of or around \_\_\_\_\_, 2009 (the **Guarantee**). Amounts to be paid by the Guarantor under the Guarantee shall be paid without deduction or withholding for any present or future taxes or duties imposed by the Kingdom of Spain or any political subdivision thereof, unless the withholding or deduction of such taxes or duties is required by law or regulation or by the official interpretation thereof. In that event, the Guarantor will pay such Additional Amounts as may be necessary in order that each net payment on the Notes of the applicable series after such deduction or withholding will not be less than the amount provided for in each security certificate representing such Notes to be then due and payable, subject to the exceptions described under \_\_\_\_\_ Payments of Additional Amounts above. The obligations of the Guarantor under the Guarantee are unaffected by any invalidity, irregularity or unenforceability of the Notes of the applicable series or the Indenture, any failure to enforce the provisions of such Notes or the Indenture, or any waivers, modification or indulgence granted to the Issuer in respect thereof by the holders of such series of Notes or the Trustee, or any other circumstance which may otherwise constitute a legal or equitable discharge of a surety or guarantor.

Under the Guarantee, the Guarantor will waive diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of the Issuer, the benefits of *orden, división* and *excusión* under Spanish law, any right to require a proceeding first against the Issuer, protest or notice with respect to the Notes of the applicable series, or the indebtedness evidenced thereby and all demands whatsoever, and will covenant that the Guarantee will not be discharged except by payment in full of the principal of, interest on and Additional Amounts, if any, on such Notes of the applicable series and the Guarantor shall have fully performed all its obligations in accordance with the provisions of the Notes of such series, the Guarantee and the Indenture.

The Guarantor shall be subrogated to all rights of the holders of the applicable series of Notes and the Trustee against the Issuer in respect of any amounts paid to such holders by the Guarantor.

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The obligations of the Guarantor under the Guarantee in respect of the Notes of a series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor under the Guarantee and will rank *pari passu* without any preference among such obligations of the Guarantor under the Guarantee in respect of the Notes of such series and at least *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future; provided that the obligations of the Guarantor under the Guarantee in respect of the Notes of each series will be effectively subordinated to those obligations that are preferred under the Insolvency Law.

**Consolidation, Merger, Etc.; Assumption**

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 all or substantially all of its assets 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, convey, transfer or lease all or substantially all of its assets 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 all or substantially all of its assets 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, all or substantially all of the assets of the Issuer or the Guarantor shall be a corporation, partnership or trust, shall be organized and validly existing, under the laws of the Kingdom of Spain or a member of the European Union or an OECD country and shall expressly assume, by a supplemental indenture that complies with the Trust Indenture Act executed and delivered to the Trustee in form and substance reasonably satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest (including all Additional Amounts and any additional sums payable pursuant to paragraph (ii) below) (a) in the case of the Issuer, on all the Notes of each series and (b) in the case of the Guarantor, under the Guarantee, and the performance or observance of every covenant of the Indenture relating thereto 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 of and any premium and interest (including all Additional Amounts and any additional sums payable pursuant to paragraph (ii) below) on all the Notes of each series and the performance or observance of every covenant of the Indenture and the Guarantee relating thereto 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 organized and validly existing under the laws of a jurisdiction other than the Kingdom of Spain such person agrees to indemnify the holder of each Note of each series 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 with respect to a series of Notes, shall have occurred;

(iv) the consummation of such transaction must not cause an Event of Default under the Notes of any series or the Guarantee which the Issuer or the Guarantor, as the case may be, does not reasonably believe can be cured within 90 days from the date of such transaction; and

(v) the Issuer or the Guarantor has delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in

connection with such transaction, such supplemental indenture, complies with the applicable provisions of the Indenture and that all conditions precedent herein provided for relating to such transaction have been complied with.

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No vote by the holders for any such consolidation, merger, conveyance, transfer or lease is required, unless as part of the transaction the Issuer or the Guarantor, as applicable, make changes to the Indenture requiring holder approval, as described later under **Modification and Waiver** . The Issuer and the Guarantor may take these actions as part of a transaction involving outside third parties or as part of an internal corporate reorganization. The Issuer and the Guarantor may take these actions even if they result in:

a lower credit rating being assigned to the Notes; or

Additional Amounts becoming payable in respect of withholding tax and, as a result, the Notes being subject to redemption at the option of the Issuer or the Guarantor, as the case may be, as described later under **Redemption and Purchase** **Early Redemption for Taxation Reasons** .

The Issuer and the Guarantor have no obligation under the Indenture to seek to avoid these results, or any other legal or financial effects that are disadvantageous to holders of the Notes of any series, in connection with a merger, consolidation, sale conveyance or lease of assets that is permitted under the Indenture.

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 all or substantially all of the assets of the Issuer or the Guarantor in accordance with the provisions described above, 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 the Indenture with the same effect as if such successor person had been named as the Issuer or the Guarantor therein, 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 the Indenture and the Notes of each series or Guarantee, as the case may be.

In the case of any such consolidation, merger, conveyance, transfer or lease, if the acquiring or resulting entity's jurisdiction of incorporation or residence for tax purposes (the **Taxing Jurisdiction** ) is not the Kingdom of Spain, Additional Amounts will be payable under the Notes or the Guarantee, as applicable, for taxes imposed by the acquiring or resulting entity's Taxing Jurisdiction (subject to exceptions equivalent to those that apply to the obligation to pay Additional Amounts for taxes imposed by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax described above under the section entitled **Payments of Additional Amounts** ) on payments of interest or principal made on or after the date of the consolidation, merger, conveyance, transfer or lease rather than taxes imposed on those payments by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax.

Additional Amounts will be payable on interest or principal due prior to the date of the consolidation, merger, conveyance, transfer or lease only for taxes imposed by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, subject to the exceptions discussed under **Payments of Additional Amounts** above. The acquiring or resulting entity will also be entitled to redeem the Notes in the circumstances described below under the section entitled **Redemption and Purchase** **Early Redemption for Taxation Reasons** for any change or amendment to, or change in the application or official interpretation of, the laws or regulations of such entity's Taxing Jurisdiction (which change, amendment or change in the application or official interpretation becomes effective on or after the date of the merger, consolidation, sale, conveyance or lease).

The Guarantor or any subsidiary of the Guarantor may assume the obligations of the Issuer under the Notes without the consent of the holders. Any Notes so assumed, unless assumed directly by the Guarantor, will have the benefit of the Guarantee in respect of such Notes. In the event of an assumption by an entity within a Taxing Jurisdiction other than Spain, Additional Amounts under the Notes will be payable for taxes imposed by the assuming entity's Taxing Jurisdiction (subject to exceptions equivalent to those that apply to the obligation to pay Additional Amounts for taxes

imposed by Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax described above under the section entitled Payments of Additional Amounts ) on payments of interest or principal made on or subsequent to the date of such assumption rather than taxes imposed on these payments by Spain or any political subdivision thereof

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or any authority or agency therein or thereof having power to tax. In the event of such assumption, the Guarantor or the applicable subsidiary of the Guarantor will be entitled to redeem the Notes in the circumstances described in the preceding paragraph.

Additional Amounts for payments of interest or principal made on or prior to the date of the assumption will be payable only for taxes imposed by Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, subject to the exceptions discussed under **Payments of Additional Amounts** above.

An assumption of the obligations of the Issuer under the Notes of a series may be considered for U.S. federal income tax purposes to be an exchange of Notes of such series for new Notes by the Beneficial Owners, resulting in recognition of taxable gain or loss for U.S. federal income tax purposes and other possible adverse tax consequences. Beneficial Owners should consult their own tax advisers regarding the U.S. federal, state and local income tax consequences of any assumption.

**Negative Pledge**

So long as any of the Notes of a series remains outstanding (as defined in the Indenture), neither the Issuer nor the Guarantor will create or will have outstanding any mortgage, pledge, security interest or lien ( **Encumbrance** ) upon the whole or any part of its present or future assets, in order to secure any Relevant Indebtedness (as defined below) issued or guaranteed by the Issuer, the Guarantor or by any other Person unless such Notes of a series are equally and ratably secured therewith, for as long as such Relevant Indebtedness shall be so secured.

The Issuer and the Guarantor are, however, allowed to secure Relevant Indebtedness in the following circumstances:

- (i) the Relevant Indebtedness was originally offered, distributed or sold primarily to the residents of the Kingdom of Spain; or
- (ii) if the Relevant Indebtedness matures within one year of its date of issue; or
- (iii) if such Encumbrance affects assets of an entity which, when such Encumbrance was created, was unrelated to the Guarantor or the Issuer and which was subsequently acquired by the Guarantor or the Issuer;

*provided*, that nothing in this section 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% of the Consolidated Net Tangible Assets (as defined below) of the Guarantor, as reflected in the most recent balance sheet prior to the time such Relevant Indebtedness was issued or guaranteed.

**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 recognized securities market. For the avoidance of doubt, any obligation for the payment of borrowed money as used in the definition of Relevant Indebtedness does not include obligations of the Issuer or the Guarantor which, pursuant to the requirements of law and accounting principles generally accepted in the Kingdom of Spain need not, and are not, reflected in the balance sheet of the Issuer or the Guarantor, as the case may be.



**Consolidated Net Tangible Assets of the Guarantor** means, in accordance with generally accepted accounting principles, the total amount of assets of the Guarantor and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deduction of (i) goodwill, (ii) intangible assets, and (iii) amounts due from stockholders for uncalled capital. Solely for purposes of this definition, **Subsidiary** means any company in respect of which the Guarantor owns, directly or indirectly, more than half of the voting rights of the shares of such company, or when the Guarantor owns half or less of the voting power but

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controls such company, i.e., has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities. The term generally accepted accounting principles means (i) in the case of the Issuer's and the Guarantor's unconsolidated financial statements, the accounting principles generally accepted in the Kingdom of Spain and (ii) in the case of the Guarantor's consolidated financial statements, IFRS as issued by the IASB, which do not differ from IFRS as adopted by the European Union, in each case as in effect at the date of such computation and as applied by the Issuer or the Guarantor, as the case may be.

**Redemption and Purchase*****Early Redemption for Taxation Reasons***

If, in relation to the Notes of a series, (i) as a result of any change in the laws or regulations of the Kingdom of Spain or 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 or regulations which becomes effective on or after the date of issuance of the Notes of such series, (x) the Issuer or the Guarantor, as the case may be, is or would be required to pay any Additional Amounts as provided in the Indenture or (y) 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 of principal, premium, if any, or interest on the Notes of such series, provided that such payment cannot with reasonable effort by the Guarantor be structured to avoid such deduction or withholding and (ii) such circumstances are evidenced by the delivery by the Issuer or the Guarantor, as the case may be, to the Trustee of a certificate signed by an authorized officer or director of the Issuer or the Guarantor, as the case may be, stating that such circumstances prevail and describing the facts leading to such circumstances, together with an opinion of independent legal advisers of recognized standing to the effect that such circumstances prevail, the Issuer or the Guarantor, as the case may be, may, at its option and having given no less than 30 nor more than 60 days' notice (ending on a day upon which interest is payable) to the holders in accordance with the terms described under Notices below (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at a redemption price equal to their principal amount, together with accrued and unpaid interest, if any, thereon to but excluding the redemption date. No such notice of redemption may be given earlier than 150 days prior to the date on which the Issuer or the Guarantor would be obligated to pay such Additional Amounts were a payment in respect of the Notes then due.

In addition, if any series of Notes is not listed on an organized market in an OECD country no later than 45 days prior to the initial Interest Payment Date on such series of Notes, the Issuer or the Guarantor, as the case may be, may, at its option and having given no less than 15 days' notice (ending on a day which is no later than a Business Day immediately preceding such Interest Payment Date) to the holders of such series of Notes in accordance with the terms described under Notices below (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at their principal amount, together with accrued interest, if any, thereon to but not including the redemption date; *provided* that from and including the issue date of the Notes of such series to and including such Interest Payment Date, the Issuer will use its reasonable efforts to obtain or maintain such listing, as applicable.

In the event of an early redemption of the Notes for the reasons set forth above, the Issuer or the Guarantor, as the case may be, may be required to withhold tax and will pay interest in respect of the principal amount of the Notes redeemed net of the withholding tax applicable to such payments (currently 18%). If this were to occur, Beneficial Owners would have to either follow the Quick Refund Procedures set forth in Article II of Annex A to this Prospectus Supplement (other than Beneficial Owners holding their interests through Euroclear or participants in Euroclear, who would have to follow the Quick Refund Procedures set forth in Article II of Annex B to this Prospectus Supplement) or apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the procedures set forth in Article II of Annex C to this Prospectus Supplement. See Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments .

For a description of the Spanish tax treatment applicable to the accrued interest, if any, on the Notes upon an early redemption of such Notes, see Taxation-Spanish Tax Considerations .

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***Optional Redemption***

The Issuer may redeem all or a portion of the Notes at its election at any time or from time to time as set forth below. Notice of redemption shall be given by first-class mail postage prepaid, mailed not less than 30 nor more than 60 days prior to the redemption date to each holder of such Notes to be redeemed at his or her address appearing in the Register. The Issuer may redeem such Notes at a redemption price equal to the greater of:

100% of the principal amount of such Notes to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date of such Notes; and

as determined by an Independent Investment Banker, the sum of the present values of the remaining scheduled payments of principal thereof and interest thereon (exclusive of interest accrued thereon to the redemption date) discounted to the redemption date of such Notes being redeemed on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus (i) basis points in the case of any Fixed Rate Notes being redeemed; and (ii) basis points in the case of any Fixed Rate Notes being redeemed, in each case, plus accrued and unpaid interest on the principal amount of such Notes (or any portion thereof) being redeemed to, but excluding, the redemption date of such Notes (or any portion thereof) being redeemed.

**Comparable Treasury Issue** means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term ( **Remaining Life** ) of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes being redeemed.

**Comparable Treasury Price** means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such quotations or, if only one such quotation is obtained, such quotation.

**Independent Investment Banker** means an independent investment banking institution of national standing appointed by the Issuer and the Guarantor.

**Reference Treasury Dealer** means each of (1) and its successors, provided that if the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a **Primary Treasury Dealer** ), the Issuer and the Guarantor will substitute therefor another Primary Treasury Dealer and (2) any other Primary Treasury Dealer selected by the Issuer and the Guarantor.

**Reference Treasury Dealer Quotations** means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by the Reference Treasury Dealer at 5:00 p.m. on the third New York Business Day preceding such redemption date.

**Treasury Rate** means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Remaining Life, yields for the two published maturities most

closely corresponding to the Comparable Treasury Issue shall be determined and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month), (2) if the period from the redemption date to the maturity date of such Notes to be redeemed is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one

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year will be used, or (3) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate shall be calculated by the Independent Investment Banker on the third New York Business Day preceding the redemption date.

***Purchase of Notes***

The Issuer, the Guarantor or any of the Guarantor's other subsidiaries may at any time purchase Notes in the open market or otherwise at any price. The Issuer is not required to cancel any such Notes purchased by it, the Guarantor or any of the Guarantor's other subsidiaries, as the case may be.

**Events of Default, Waiver and Notice**

*Event of Default*, with respect to Notes of any series of the Issuer, means any one of the following events which occurs and is continuing:

- (i) the Issuer fails to pay, and the Guarantor fails to honor the Guarantee with respect to payments of, principal of, interest due on or any Additional Amounts in respect of the Notes of that series for a period of 21 days from the stated maturity of such principal or interest payment;
- (ii) the Issuer fails to perform any other obligation arising from the Notes of that series or the Guarantor fails to perform any other obligation arising under the Guarantee of the Notes of such series and in each case, 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 pursuant to a transaction described under Consolidation, Merger, Etc.; Assumption ) after there has been given, by the Trustee or holders of not less than 25% in principal amount of the outstanding Notes of such series, a written notice to the Issuer specifying such failure and requiring it to be remedied, and stating that such notice is a Notice of Default under the Indenture;
- (iii) the Issuer or the Guarantor fails (taking into account any applicable grace periods) to fulfill any payment obligation in excess of 100,000,000 or its equivalent in any other currency under any Relevant Indebtedness or under any guarantees or suretyships provided for under any Relevant Indebtedness of others, and this failure remains uncured for 30 days;
- (iv) the holders of any other Relevant Indebtedness of the Issuer or the Guarantor accelerate any payment obligation in excess of 100,000,000 or its equivalent in any other currency as a result of the Issuer or the Guarantor entering into a transaction described and in accordance with the conditions set forth under Consolidation, Merger, Etc.; Assumption , which transaction constitutes an event of default in respect of such other Relevant Indebtedness;
- (v) the Issuer or the Guarantor announces its inability to meet its financial obligations;
- (vi) a court, at the request of any creditor, commences insolvency proceedings (*concurso*) against the Issuer or the Guarantor and any such proceeding is not discharged or dismissed within 60 days;
- (vii) the Issuer or the Guarantor goes into liquidation unless it is done as a result of the Issuer or the Guarantor entering into a transaction described and in accordance with the conditions set forth under Consolidation, Merger, Etc.; Assumption ;

(viii) the Issuer or the Guarantor makes a filing seeking relief under any applicable bankruptcy or insolvency (*concurso*) laws; or

(ix) the Guarantee ceases to be valid or legally binding for any reason.

If any Event of Default shall occur in relation to the Notes of a series (taking into account any applicable grace period), the Trustee or the holders of not less than 25% in principal amount of the outstanding Notes of such series may, by written notice to the Issuer, at the Corporate Trust Office (and to the Trustee if given by

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the holders), declare that the Notes of such series, including principal and all interest then accrued and unpaid on the Notes of such series, as the case may be, shall be immediately due and payable, whereupon the same shall, to the extent permitted by applicable law, become immediately due and payable at its principal amount, together with all interest, if any, accrued and unpaid thereon and Additional Amounts, if any, payable in respect thereof without presentment, demand, protest or other notice of any kind, all of which the Issuer or the Guarantor, as the case may be, will expressly waive, unless, prior thereto, all Events of Default in respect of the Notes of such series shall have been cured. Such declarations of acceleration may be rescinded and past defaults may be waived, except defaults in payment of principal of, interest on or Additional Amounts, if any, by holders of a majority of the outstanding principal amount on the Notes of such series pursuant to the procedures and under the conditions described under Modification and Waiver below; *provided, however*, that the amounts due to the Trustee under the Indenture have been paid. Holders of Notes represented by one or more Global Certificate should consult with their banks or brokers for information on how to give notice or direction to, or make a request of, the Trustee and to make or cancel a declaration of acceleration. The Indenture provides that none of the terms of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to the Trustee.

**Defeasance; Covenant Defeasance**

Each series of Notes will be subject to the defeasance and covenant defeasance provisions in the Indenture.

With respect to any series of Notes, the Issuer and the Guarantor shall be deemed to have paid and discharged the entire indebtedness on all the outstanding Notes of such series and the provisions of the Indenture as it relates to such outstanding Notes shall no longer be in effect, and the Trustee, at the expense of the Issuer, shall, upon the order of the Issuer or the Guarantor, execute proper instruments acknowledging the same, when:

(i) the Issuer or the Guarantor has deposited or caused to be deposited with the Trustee (or another trustee satisfying the requirements of the Indenture), irrevocably (irrespective of whether the conditions in subparagraphs (ii), (iii), (iv), (v), (vi) and (vii) below have been satisfied, but subject to certain provisions in the Indenture relating to the application of trust money), as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Notes of such series, U.S. Dollars or U.S. government obligations in an amount which will provide not later than the opening of business on the due date of any payment referred to in subsection (A), (B) or (C) of this subparagraph (i) U.S. Dollars or U.S. government obligations in an amount sufficient in the opinion of an internationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge (A) the principal of (and premium, if any), (B) interest on, and (C) Additional Amounts, if any, on the outstanding Notes of such series on the day on which such payments are due and payable in accordance with the terms of the Indenture and of the Notes;

(ii) no Event of Default with respect to the Notes of such series has occurred and is continuing on the date of such deposit and no Event of Default under subparagraphs (v), (vi) or (viii) under the section entitled Events of Default, Waiver and Notice is in occurrence and continues on a date which is six months after the date of such deposit;

(iii) the Issuer or the Guarantor has delivered to the Trustee an opinion of counsel of recognized standing with respect to U.S. federal income tax matters to the effect that holders of the Notes of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to United States federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred;





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(iv) such defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Notes of such series are in default within the meaning of the Trust Indenture Act);

(v) such defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act of 1940 (the **Investment Company Act** );

(vi) if the Notes of such series are then listed on any securities exchange, the Issuer or the Guarantor has delivered to the Trustee an opinion of counsel to the effect that such deposit, defeasance and discharge will not cause the Notes of such series to be delisted from such exchange; and