

TELEFONICA S A
Form 424B5
February 08, 2011

Table of Contents

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Amount to be Registered	Amount of Registration Fee
2016 Fixed Rate Notes	\$ 1,250,000,000	\$ 145,125
2021 Fixed Rate Notes	\$ 1,500,000,000	\$ 174,150

**PROSPECTUS SUPPLEMENT
(TO PROSPECTUS DATED MAY 8, 2009)**

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

TELEFÓNICA EMISIONES, S.A.U.
(incorporated with limited liability in the Kingdom of Spain)
\$1,250,000,000 FIXED RATE SENIOR NOTES DUE 2016
\$1,500,000,000 FIXED RATE SENIOR NOTES DUE 2021
guaranteed by:

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

The \$1,250,000,000 fixed rate senior notes due 2016 (the **2016 Fixed Rate Notes**) will bear interest at 3.992% per year. The \$1,500,000,000 fixed rate senior notes due 2021 (the **2021 Fixed Rate Notes** and, together with the 2016 Fixed Rate Notes, the **Notes**) will bear interest at 5.462% per year. Interest on the 2016 Fixed Rate Notes will be payable on February 16 and August 16 of each year, beginning on August 16, 2011, until February 16, 2016 (the **2016 Fixed Rate Note Maturity Date**) and on the 2016 Fixed Rate Note Maturity Date. Interest on the 2021 Fixed Rate Notes will be payable on February 16 and August 16 of each year, beginning on August 16, 2011, until February 16, 2021 (the **2021 Fixed Rate Note Maturity Date** and the 2016 Fixed Rate Note Maturity Date, each a **Maturity Date**), and on the 2021 Fixed Rate Note Maturity Date. The 2016 Fixed Rate Notes will mature at 100% of their principal amount on the 2016 Fixed Rate Note Maturity Date. The 2021 Fixed Rate Notes will mature at 100% of their principal amount on the 2021 Fixed Rate Note Maturity Date. The 2016 Fixed Rate Notes and the 2021 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 S-20.

Investing in the Notes involves risks. See Risk Factors beginning on S-14.

	Price to Public	Underwriting Discounts and Commissions ¹	Proceeds, Before Expenses, to the Issuer
Per 2016 Fixed Rate Note	100%	0.350%	99.650%
Total for 2016 Fixed Rate Notes	\$ 1,250,000,000	\$ 4,375,000	\$ 1,245,625,000
Per 2021 Fixed Rate Note	100%	0.450%	99.550%
Total for 2021 Fixed Rate Notes	\$ 1,500,000,000	\$ 6,750,000	\$ 1,493,250,000
Total	\$ 2,750,000,000	\$ 11,125,000	\$ 2,738,875,000

¹ 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-46.

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 and of the accompanying Prospectus. 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 February 16, 2011, which will be the seventh 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 **Goldman, Sachs & Co.** **HSBC**

Co-Managers

BofA Merrill Lynch **Mitsubishi UFJ Securities** **RBS** **Santander** **SOCIETE GENERALE** **UBS Investment B**

The date of this Prospectus Supplement is February 7, 2011

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

	<u>Page</u>
<u>IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS</u>	S-ii
<u>SPANISH WITHHOLDING TAX REQUIREMENTS</u>	S-ii
<u>SUMMARY</u>	S-1
<u>THE OFFERING</u>	S-4
<u>SELECTED CONSOLIDATED FINANCIAL INFORMATION</u>	S-9
<u>RISK FACTORS</u>	S-14
<u>USE OF PROCEEDS</u>	S-18
<u>CAPITALIZATION AND INDEBTEDNESS</u>	S-19
<u>DESCRIPTION OF THE NOTES AND THE GUARANTEE</u>	S-20
<u>TAXATION</u>	S-37
<u>UNDERWRITING</u>	S-46
<u>VALIDITY OF THE NOTES</u>	S-50
<u>EXPERTS</u>	S-50
<u>INCORPORATION BY REFERENCE</u>	S-50
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	S-51
<u>CURRENCY OF PRESENTATION</u>	S-52
<u>EXCHANGE RATE INFORMATION</u>	S-53
<u>ANNEX A</u>	A-1
<u>SPANISH WITHHOLDING TAX DOCUMENTATION PROCEDURES FOR NOTES HELD THROUGH AN ACCOUNT AT DTC</u>	A-1
<u>ANNEX B</u>	B-1
<u>SPANISH WITHHOLDING TAX DOCUMENTATION PROCEDURES FOR NOTES HELD THROUGH AN ACCOUNT AT EUROCLEAR</u>	B-1
<u>ANNEX C</u>	C-1
<u>FORMS OF REQUIRED SPANISH WITHHOLDING TAX DOCUMENTATION AND PROCEDURES FOR DIRECT REFUNDS FROM SPANISH TAX AUTHORITIES</u>	C-1

PROSPECTUS

	<u>Page</u>
<u>About This Prospectus</u>	1
<u>Incorporation by Reference</u>	1
<u>Where You Can Find More Information</u>	2
<u>Enforceability of Certain Civil Liabilities</u>	2
<u>Risk Factors</u>	3
<u>Ratio of Earnings to Fixed Charges</u>	3

Legal Matters

4

Experts

4

S-i

Table of Contents

**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** and **we**, **us** and **our** refer to Telefónica Emisiones, S.A.U., **Telefónica** or the **Guarantor** refer to Telefónica, S.A. and the **Telefónica Group** refers to Telefónica and its consolidated subsidiaries, in each case unless the context otherwise requires. We use the word **you** to refer to prospective investors in the securities.

SPANISH WITHHOLDING TAX REQUIREMENTS

Potential investors should note the statements beginning on page S-37 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 us 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 us and the Guarantor in a timely manner.

Under Spanish law, interest payments in respect of the Notes will be subject to withholding tax in Spain, currently at the rate of 19%, in the case of individual Beneficial Owners who are resident for tax purposes in Spain. Each of us and the Guarantor is required pursuant to Spanish law and certain binding rulings interpreting that 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 us or the Guarantor in accordance with the procedures described herein will receive payments net of Spanish withholding tax, currently at the rate of 19%. Neither we nor the Guarantor will pay 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 country of tax residence of Beneficial Owners who (i) are exempt from Spanish withholding tax and therefore entitled to receive payments in respect of the Notes free and clear of Spanish withholding taxes and (ii) are (a) direct DTC participants, (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 DTC participant, 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 us or the Guarantor with respect to any depository or clearing system other than the procedures arranged by Acupay, DTC and Euroclear mentioned above.

S-ii

Table of Contents

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.

We 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 we 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 us, 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 administrative 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 administrative 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 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 applicable Spanish law. See **Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments** .

The tax certification procedures set forth in Annexes A, B and C 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 DTC 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/Tax Relief Elections (as defined in paragraph A.2 of Article I of Annex A hereto) and/or DTC holdings in the Notes on any date on which interest will be paid, 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

S-iii

Table of Contents

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 direct refund procedure 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 DTC participants, 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, Transfer and Registration](#) .

See [Risk Factors](#) [Risks Relating to the Notes](#) .

S-iv

Table of Contents

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 by 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 Telefónica 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 the Kingdom 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 Telefónica 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 of May 25, as amended, requires that the proceeds of the offering of the Notes be deposited with Telefónica or one of its consolidated subsidiaries.

At September 30, 2010, we had no outstanding secured indebtedness and approximately 28 billion of outstanding unsecured indebtedness and the Guarantor had no outstanding secured indebtedness and approximately 61 billion of outstanding unsecured indebtedness. For additional information about our principal transactions since September 30, 2010, 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.

Recent Developments

Vivo Participações, S.A. (Vivo)

On September 27, 2010, the Guarantor acquired the 50% interest that it did not already own in Brasilcel, N.V., a Dutch company that owns shares representing approximately 60% of the capital stock of the Brazilian company Vivo from Portugal Telecom SG SGPS, S.A. for a total consideration of 7.5 billion. The Guarantor paid an initial amount of 4.5 billion for this acquisition at closing and 1.0 billion on December 31, 2010, and the Guarantor is obliged to pay the balance of the purchase price of 2.0 billion on October 31, 2011. Portugal Telecom SG SGPS, S.A. is, however, entitled to require the Guarantor to satisfy the final payment

S-1

Table of Contents

installment by July 29, 2011 with a reduced payment of 1,975 million. With this acquisition, the Guarantor has acquired a controlling interest in Vivo.

On December 27, 2010, the Board of Directors of Telecomunicações de São Paulo, S.A. (Telesp) and Vivo approved a proposal of corporate restructuring regarding the merger of shares of Vivo into Telesp, resulting in the unification of the shareholding positions of both companies. This corporate restructuring is estimated to be completed during the first half of 2011.

Trends

During the fourth quarter of 2010, the underlying trends of the Telefónica Group's (as defined herein) consolidated and segment business and financial performance were generally in line with the trends recorded during the first nine months of 2010, particularly in terms of equity attributable to equity holders of the parent, interest-bearing debt, revenues, operating income and profit for the period attributable to equity holders of the parent, in each case excluding the impact of the revaluation of our pre-existing stake in Vivo, which had a significant non-recurring positive impact on our profit for the period attributable to equity holders of the parent in the third quarter of 2010, and the full consolidation of Vivo for the entire fourth quarter of 2010 and subsequent periods, while in the fourth quarter our operations in Spain were affected by challenging economic conditions, lower consumption and increased price competition, which negatively affected our performance.

The Guarantor is currently finalizing its financial statement closing process for the last quarter of the year, and during this process year-end assessments of several areas, including fixed assets, financial investments, commitments, and obligations, among others, will be performed. Therefore, neither we nor the Guarantor are able to provide any assurance that, upon completion of these assessments, the trends that will be recorded in the Telefónica Group's results for the fourth quarter of 2010 or for the full fiscal year 2010 will be consistent with the trends recorded in the Telefónica Group's results for the first nine months of 2010 or any other period. The Guarantor plans to release its results for the full fiscal year 2010 on or around February 25, 2011.

Other Events

The following events regarding the Guarantor took place after September 30, 2010, the date of the statement of financial position:

On October 26, 2010, following the completion of the acquisition of Portugal Telecom's 50% stake in Brasilcel N.V., the Guarantor filed with the Brazilian Securities and Exchange Commission a prospectus in relation to a tender offer over the voting shares of Vivo that are not held by Brasilcel, N.V. and which represent approximately 3.8% of Vivo's outstanding equity capital. The transaction is expected to be completed in February 2011.

On November 8, 2010, the Guarantor paid a gross dividend of 0.65 for each of its ordinary shares outstanding, amounting to approximately 2,934 million. This dividend was charged to unrestricted reserves.

On December 28, 2010, the Guarantor, through its subsidiary Telefónica de Contenidos, S.A.U., completed the acquisition of a 22% stake of DTS Distribuidora de Televisión Digital, S.A. (the company that provides the pay-TV service offered by the PRISA Group). The Guarantor's total investment in this acquisition was approximately 488 million, of which 228 million were attributable to the cancellation of the outstanding amount of the subordinated loan existing between Telefónica de Contenidos, S.A.U. and Sogecable (known as Prisa Televisión, S.A.U.).

On January 23, 2011, the Guarantor and China Unicom, in furtherance of their existing strategic alliance, entered into the Enhanced Strategic Alliance Agreement under which both companies agreed to strengthen and deepen their strategic cooperation in certain business areas and through which each party agreed to invest the equivalent of \$500 million in the ordinary shares of the other party. Following completion of the transaction, the Guarantor is expected to own approximately 9.7% of China Unicom's voting share capital, depending on the prices of the shares at the time the transaction is completed, and

S-2

Table of Contents

China Unicom, subsequent to the January 27, 2011 acquisition, owns approximately 1.37% of the Guarantor's voting share capital. Furthermore, in view of China Unicom's interest in the Guarantor's share capital, the Guarantor undertook to propose at its next General Shareholders' Meeting the appointment of a director nominated by China Unicom.

See also "Capitalization and Indebtedness" in this Prospectus Supplement for a discussion of the principal transactions affecting the capitalization of the Guarantor after September 30, 2010.

S-3

Table of Contents

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 the Notes under, and as such terms are defined in, the Indenture.
Notes Offered	<p>\$1,250,000,000 aggregate principal amount of fixed rate senior notes due 2016. The 2016 Fixed Rate Notes will bear the following CUSIP: 87938W AN3 and the following ISIN: US87938WAN39.</p> <p>\$1,500,000,000 aggregate principal amount of fixed rate senior notes due 2021. The 2021 Fixed Rate Notes will bear the following CUSIP: 87938W AP8 and the following ISIN: US87938WAP86. The 2016 Fixed Rate Notes and the 2021 Fixed Rate Notes constitute separate series of securities issued under the Indenture (as defined herein).</p>
Issue Price	<p>100% (2016 Fixed Rate Notes).</p> <p>100% (2021 Fixed Rate Notes).</p>
Interest Payable on the Notes	The 2016 Fixed Rate Notes will bear interest at 3.992% per year, payable on February 16 and August 16 of each year, beginning on August 16, 2011, until the 2016 Fixed Rate Note Maturity Date, and on the 2016 Fixed Rate Note Maturity Date. The 2021 Fixed Rate Notes will bear interest at 5.462% per year, payable on February 16 and August 16 of each year, beginning on August 16, 2011, until the 2021 Fixed Rate Note Maturity Date, and on the 2021 Fixed Rate Note Maturity Date.
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) we or the Guarantor, as the case may be, are 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 us to enable us 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 us 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

S-4

Table of Contents

independent legal advisers of recognized standing to the effect that such circumstances prevail, we or the Guarantor, as the case may be, may, at our respective 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 we 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, we or the Guarantor, as the case may be, may, at our respective option and having given not less than 15 days' notice (ending on a day which is no later than the Business Day (as defined herein) immediately preceding the relevant initial 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, we will use our reasonable best efforts to obtain or maintain such listing, as applicable.

In the event of an early redemption of the Notes for the reasons set forth in the preceding paragraph, we 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 19%). 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" .

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 as a result of such Notes not being listed on an organized market in an OECD

country, see Taxation Spanish Tax

S-5

Table of Contents

Considerations Tax Rules for Notes not Listed on an Organized Market in an OECD Country .

Optional Redemption of Notes

We may, at our election and having given not less than 30 nor more than 60 days notice to the holders of any series of the Notes 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 such series at a make whole redemption price. See Description of the Notes and the Guarantee Redemption and Purchase Optional Redemption of Notes .

Status of the Notes

The Notes of each series will constitute our direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) our payment obligations under the Notes of such series will rank at least *pari passu* with all our other unsecured and unsubordinated indebtedness, present and future, except as our obligations 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, 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 of 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, 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 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

S-6

Table of Contents

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 September 30, 2010, the Guarantor had no outstanding secured indebtedness and approximately 61 billion of outstanding unsecured indebtedness. For additional information about the Guarantor's principal transactions since September 30, 2010, see Capitalization and Indebtedness .

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

Under Spanish Law 13/1985 of May 25, as amended, Royal Decree 1065/2007 of July 27 and certain binding rulings interpreting that law and regulations, we 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 date on which interest will be paid by 8:00 p.m. (New York time) on the fourth New York Business Day (as defined herein), before such date on which interest will be paid or, under certain circumstances, by 9:45 a.m. (New York time) on such date on which interest will be paid and filed by us 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 country of 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 DTC participants (including Euroclear). We or the Guarantor, as the case may be, will withhold at the then-applicable rate (currently 19%) 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.

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

Table of Contents

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	<p>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.</p> <p>The due authorization of the Notes and the ranking of the Notes and the Guarantee shall be governed by Spanish law.</p>
Use of Proceeds	We expect that the net proceeds from this offering, after deducting the underwriters' discounts but before expenses, will be approximately \$2,738,875,000. 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 Notes will be issued in denominations of \$1,000.
Settlement	The underwriters expect to deliver the Notes to purchasers in registered form through DTC on or about February 16, 2011, which will be the seventh Business Day (as defined herein) following the date of pricing of the Notes.
Risk Factors	<p><i>Investing in the Notes involves risks.</i></p> <p>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, 2009 (the Form 20-F) filed with the SEC on March 26, 2010.</p>

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

The following tables present certain selected historical consolidated financial information of Telefónica, S.A. and its subsidiaries and investees (the **Telefónica Group**). You should read these tables in conjunction with Operating and Financial Review and Prospects and the Guarantor's consolidated financial statements (including the notes thereto) included in the Form 20-F (the **Consolidated Financial Statements**) and the Guarantor's unaudited condensed consolidated interim financial statements as of September 30, 2010 and for the nine-month periods ended September 30, 2010 and 2009 and the interim consolidated management report included in the Form 6-K filed by the Guarantor with the SEC on February 7, 2011 (the **Nine-Month Results Form 6-K**). The unaudited interim consolidated statements of income and cash flow data for the nine months ended September 30, 2009 and 2010 and the unaudited consolidated statement of financial position at September 30, 2010 set forth below are derived from, and are qualified in their entirety by reference to, the Guarantor's unaudited condensed consolidated interim financial statements included in the Nine-Month Results Form 6-K as of and for such periods. The consolidated statements of income and cash flow data for the years ended December 31, 2007, 2008 and 2009 and the consolidated statement of financial position at December 31, 2008 and 2009 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. The consolidated statements of income and cash flow data for the years ended December 31, 2005 and 2006, and the consolidated statement of financial position at December 31, 2005, 2006 and 2007 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 for the purposes of the Telefónica Group from IFRS as adopted by the European Union.

	2005(1)	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2006(1)	2007	2008	2009	2009	2010	
	(In millions of euros, except share and per share data)						
Consolidated Income Statement Data of the Guarantor							
Revenues	37,383	52,901	56,441	57,946	56,731	41,755	44,280
Other income	1,416	1,571	4,264	1,865	1,645	875	5,051
Supplies	(9,999)	(16,629)	(17,907)	(17,818)	(16,717)	(12,157)	(12,696)
Personnel expenses	(5,532)	(7,622)	(7,893)	(6,762)	(6,775)	(5,005)	(5,965)
Other expenses	(8,212)	(11,095)	(12,081)	(12,312)	(12,281)	(8,843)	(10,302)
Depreciation and amortization	(6,693)	(9,704)	(9,436)	(9,046)	(8,956)	(6,663)	(6,744)
Operating income	8,363	9,422	13,388	13,873	13,647	9,962	13,624

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Share of (loss) profit of associates	(128)	76	140	(161)	47	47	68
Net financial cost	(1,790)	(2,795)	(2,851)	(2,821)	(2,767)	(1,887)	(1,935)
Net exchange differences	162	61	7	24	(540)	(386)	(39)
Net financial expenses	(1,628)	(2,734)	(2,844)	(2,797)	(3,307)	(2,273)	(1,974)
Profit before taxes from continuing operations	6,607	6,764	10,684	10,915	10,387	7,736	11,718
Corporate income tax	(1,904)	(1,781)	(1,565)	(3,089)	(2,450)	(2,289)	(2,730)
Profit for the year/period from continuing operations	4,703	4,983	9,119	7,826	7,937	5,447	8,988
Profit from discontinued operations after taxes	124	1,596					
Profit for the year/period	4,827	6,579	9,119	7,826	7,937	5,447	8,988
Non-controlling interests	(381)	(346)	(213)	(234)	(161)	(112)	(153)
Profit for the year/period attributable to equityholders of the parent	4,446	6,233	8,906	7,592	7,776	5,335	8,835
Weighted average number of shares (thousands)	4,870,852	4,778,999	4,758,707	4,645,852	4,552,656	4,552,157	4,525,747
Basic and diluted earnings per share from continuing operations attributable to equityholders of the parent (euros)(2)	0.90	0.97	1.87	1.63	1.71	1.17	1.95
Basic and diluted earnings per share attributable to equityholders of the parent (euros)(2)	0.91	1.30	1.87	1.63	1.71	1.17	1.95
Earnings per ADS (euros)(2)(3)	2.74	3.91	5.62	4.90	5.12	3.52	5.86
Weighted average number of ADS (thousands)	1,623,617	1,592,999	1,586,236	1,548,617	1,517,552	1,517,386	1,508,582
Cash dividends per ordinary share (euros)	0.50	0.55	0.65	0.90	1.00	1.00	1.30

S-9

Table of Contents

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(In millions of euros)						
Consolidated OIBDA data of the Guarantor							
OIBDA(4)	15,056	19,126	22,824	22,919	22,603	16,625	20,368

	At December 31,					At September 30,	
	2005	2006	2007	2008	2009	2010	
	(In millions of euros)						
Consolidated Statement of Financial Position Data of the Guarantor							
Cash and cash equivalents	2,213	3,792	5,065	4,277	9,113	4,359	
Property, plant and equipment	27,993	33,887	32,460	30,545	31,999	34,255	
Total assets	73,174	108,982	105,873	99,896	108,141	129,611	
Non-current liabilities	35,126	62,645	58,044	55,202	56,931	62,378	
Equity	16,158	20,001	22,855	19,562	24,274	31,736	
Capital stock	4,921	4,921	4,773	4,705	4,564	4,564	

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	2005(1)	2006(1)	2007	2008	2009	2009	2010
Financial Ratios of the Guarantor							
Operating income/revenues from operations (ROS)(%)	22.37%	17.81%	23.72%	23.94%	24.06%	23.86%	30.77%
Ratio of earnings to fixed charges(5)	3.8	2.7	4.0	4.1	3.9	4.2	5.8

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(In millions of euros)						

Consolidated Cash Flow Data of the Guarantor

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Net cash from operating activities	11,139	15,414	15,551	16,366	16,148	11,990	11,634
Net cash used in investing activities	(9,592)	(28,052)	(4,592)	(9,101)	(9,300)	(7,411)	(12,503)
Net cash (used in) from financing activities	(435)	14,572	(9,425)	(7,765)	(2,281)	(786)	(3,279)

S-10

Table of Contents

	2007	At December 31, 2008	2009	At September 30, 2009	2010
	(In thousands)				
Statistical Data of the Guarantor(6)					
Fixed telephony accesses(7)(8)	43,433.6	42,930.8	40,606.0	41,446.9	41,475.0
Internet and data accesses	13,156.6	14,654.3	15,082.5	14,941.0	18,361.6
Narrowband accesses	2,678.7	1,997.2	1,427.5	1,566.5	1,491.7
Broadband accesses(9)	10,320.2	12,472.1	13,492.6	13,211.3	16,707.9
Other accesses(10)	157.7	185.0	162.4	163.2	161.9
Mobile accesses(11)(12)	167,781.1	195,818.6	202,332.5	205,883.1	214,852.2
Pay TV accesses	1,748.1	2,267.5	2,489.2	2,483.0	2,725.3
Final clients accesses	226,119.4	255,671.1	260,510.2	264,754.0	277,414.0
Unbundled local loop accesses	1,396.5	1,748.1	2,206.0	2,074.1	2,422.7
Shared UL accesses	776.4	602.3	447.7	500.0	296.7
Full UL accesses	620.1	1,145.8	1,758.3	1,574.1	2,126.0
Wholesale ADSL accesses(13)	571.7	534.7	463.4	441.5	621.4
Other accesses(14)	656.0	1,150.1	1,426.0	1,362.8	1,360.7
Wholesale accesses	2,624.2	3,433.0	4,095.3	3,878.4	4,404.8
Total accesses	228,743.6	259,104.1	264,605.5	268,632.4	281,818.8

	2007	At December 31, 2008	2009	At September 30, 2010
	(In millions of euros)			
Consolidated Net Financial Debt and Net Debt of the Guarantor(15)				
Non-current interest-bearing debt	46,942	45,088	47,607	51,292
Current interest-bearing debt	6,986	8,100	9,184	9,586
Gross financial debt	53,928	53,188	56,791	60,878
Other payables(16)	327	477	515	4,226
Non-current financial assets(17)	(2,284)	(4,439)	(2,736)	(4,224)
Current financial assets	(1,622)	(2,216)	(1,906)	(2,017)
Cash and cash equivalents	(5,065)	(4,277)	(9,113)	(4,359)
Net financial debt	45,284	42,733	43,551	54,504
Commitments related to financial guarantees	365	365	71	71
Net commitments related to workforce reduction	3,289	2,687	2,261	1,898

Net debt	48,938	45,785	45,883	56,473
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- (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 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 dividend payments which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented.

S-11

Table of Contents

- (3) Until January 20, 2011, each ADS represented the right to receive three ordinary shares. Since January 21, 2011, each ADS represents the right to receive one ordinary share. 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 the Guarantor's 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.

The following table provides a reconciliation of OIBDA to operating income for the Guarantor for the periods indicated.

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(In millions of euros)						
Operating income before depreciation and amortization	15,056	19,126	22,824	22,919	22,603	16,625	20,368
Depreciation and amortization	(6,693)	(9,704)	(9,436)	(9,046)	(8,956)	(6,663)	(6,744)
Operating income	8,363	9,422	13,388	13,873	13,647	9,962	13,624

- (5) For the purpose of calculating ratios of earnings to fixed charges, earnings consist of profit before taxes from continuing operations plus share of profit or loss of associates, dividends from joint ventures and associates, fixed charges and capitalized interest net of amortization. Fixed charges consist of finance costs, including amortization of debt expense and similar charges and capitalized interest.
- (6) Access refers to a connection to any of the telecommunications services offered by the Telefónica Group. The Guarantor presents 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 for the Telefónica Group's services. Because a single customer may contract for multiple services, the Guarantor believes 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 the Telefónica Group's customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. In addition, the Guarantor fully counts the accesses of all companies over which it exercises 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 the Telefónica Group's number of fixed line accesses, the Guarantor multiplies the Telefónica Group's lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); and 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. Naked ADSL allows customers to subscribe for a broadband connection without a monthly fixed line fee.

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

Mobile accesses: includes contract and pre-pay mobile telephony. In 2009, in order to align the criteria for the key performance indicators of the Telefónica Group's mobile operations, the number of mobile

Table of Contents

accesses (and, therefore, of total accesses) has been revised to include machine-to-machine accesses. In addition, the Guarantor revised the accounting criteria for pre-pay mobile accesses at Telefónica O2 Czech Republic and Telefónica O2 Slovakia to conform to the accounting criteria for pre-pay mobile accesses throughout the Group. In order to count a pre-pay mobile access, such access must have been active in the most recent three months prior to counting. As a result of both revisions, the Guarantor restated the 2008 mobile accesses. The 2007 information is presented based on the Guarantor's prior classifications.

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.

- (7) From January 1, 2008, fixed wireless public use telephony accesses are included under the caption fixed telephony accesses.
- (8) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 access x30. Includes the Telefónica Group's accesses for internal use. It also includes VOIP and naked ADSL accesses.
- (9) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits and Naked ADSL accesses.
- (10) Includes remaining non-broadband final client circuits.
- (11) Includes accesses of Telemig at December 31, 2008 and going forward. Medi Telecom accesses are excluded at December 31, 2009 and September 30, 2010. At September 30, 2009, Medi Telecom accesses were included and amounted to 9,056.4 thousand.
- (12) In 2009, in order to align the criteria for the key performance indicators of the Telefónica Group's mobile operations, the number of mobile accesses (and, therefore, of total accesses) has been revised to include machine-to-machine accesses. In addition, the Guarantor revised the accounting criteria for pre-pay mobile accesses at Telefónica O2 Czech Republic and Telefónica O2 Slovakia to conform to the accounting criteria for pre-pay mobile accesses throughout the Telefónica Group. In order to count a pre-pay mobile access, such access must have been active in the most recent three months prior to counting. As a result of both revisions, the Guarantor restated the 2008 mobile accesses, adding 0.2 million accesses in the aggregate. The 2007 information is presented based on the Guarantor's prior classifications.
- (13) Includes unbundled lines by Telefónica O2 Germany.
- (14) Includes circuits for other operators.
- (15) 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 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.

- (16) At September 30, 2010, Other payables included Short-term financial debt and 2,968 million of Short-term provisions and other liabilities for the outstanding payment obligations to Portugal Telecom SG SGPS, S.A. for the acquisition of a controlling interest in Vivo Participações, S.A. See Recent Developments .
- (17) 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 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 of May 25, as amended, Royal Decree 1065/2007 of July 27 and certain binding rulings interpreting that law and regulations, 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 date on which interest will be paid by 8:00 p.m. (New York time) on the fourth New York Business Day prior to such date on which interest will be paid or, under certain circumstances, by 9:45 a.m. (New York time) on such date on which interest will be paid and filed by us and the Guarantor with the Spanish tax authorities on an annual basis. In the event that DTC or any of its direct or indirect participants, including Euroclear, 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 19%). 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.

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 country of tax residence of Beneficial Owners. If the procedures prove ineffective or if the relevant participants of DTC or Euroclear fail to provide the required information as of each date on which interest will be paid, we will withhold at the then-applicable rate (currently 19%) 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, B and C 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 19%) from any interest payment in respect of the outstanding principal amount of the Notes as to which the agreed

S-14

Table of Contents

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 information, while the Notes are in global form, must be made through the relevant direct or indirect DTC participants, 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 DTC participant as of each date on which interest will be paid, and neither we nor the Guarantor shall be responsible for any DTC 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 a 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, B and C 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 direct refund procedure 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 withholding 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 administrative 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 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 applicable Spanish law. See Taxation Spanish Tax Considerations Evidencing of Beneficial Owner Residency in Connection with Interest Payments . None of us, 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, we or the Guarantor, as the case may be, may, at our respective 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, we or the Guarantor, as the case may be, may, at our respective 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 relevant initial Interest Payment Date) to the holders of such

S-15

Table of Contents

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 use reasonable 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 or Listing Reasons . 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 as a result of such Notes not being listed on an organized market in an OECD country, see Taxation Spanish Tax Considerations Tax Rules for Notes not Listed on an Organized Market in an OECD Country .

There are 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, as amended (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 U.S. Securities Act of 1933, as amended (the **Securities Act**), and pursuant to an indenture qualified under the Trust Indenture Act. However, based on certain considerations, including the opinion of scholars that have addressed such issue, Spanish counsel has opined that none of the sale of the Notes by us pursuant to the offering, the execution by us and the Guarantor of the Indenture or the consummation by us or the Guarantor of any transactions contemplated thereby will conflict with, result in a breach of, or constitute a default under the by-laws of the Issuer or the Guarantor, any Spanish law or any regulation known by such Spanish counsel to be applicable to us or the Guarantor. 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 a 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.

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 our direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) our payment obligations under the Notes of such series will rank at least *pari passu* with all our other unsecured and

unsubordinated indebtedness, present and future, except as our obligations 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

S-16

Table of Contents

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 September 30, 2010, the Guarantor had no secured indebtedness outstanding and approximately 61 billion of unsecured indebtedness outstanding. The Guarantor is a holding company and conducts substantially all of its operations through its subsidiaries. As a result, 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 Abogados, S.L.P., 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.

Table of Contents

USE OF PROCEEDS

We expect that the net proceeds from this offering, after deducting the underwriters' discounts but before expenses, will be approximately \$2,738,875,000. 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.

S-18

Table of Contents**CAPITALIZATION AND INDEBTEDNESS**

The following table sets forth the capitalization of the Guarantor on an audited consolidated basis in accordance with IFRS at September 30, 2010 and as adjusted to reflect the issuance of \$2,750.0 million aggregate principal amount of Notes (converted to euros utilizing the European Central Bank reference rate for euros at September 30, 2010 of \$1.3648 per 1.00) and the application of the net proceeds thereof as described in Use of Proceeds. The European Central Bank buying rate for euros at February 4, 2011 was \$1.3631 per 1.00.

	At September 30, 2010	
	Actual	As adjusted(1)
	(in millions of euros)	
Cash and cash equivalents	4,359	6,368
Equity	31,736	31,736
Equity attributable to equityholders of the parent	22,323	22,323
Non-controlling interests	9,413	9,413
Outstanding indebtedness	60,878	62,895
Long-term debt	51,292	53,309
Short-term debt including current maturities	9,586	9,586
Total capitalization and indebtedness	92,614	94,631

(1) Reflects the issuance of \$2,750.0 million aggregate principal amount of Notes (converted into euros at the European Central Bank buying rate for euros at February 4, 2011 of \$1.3631 per 1.00) and the application of the net proceeds thereof (after deducting the underwriters' discounts but before expenses).

The following reflects the issuances of securities by the Telefónica Group and the other principal transactions affecting the capitalization of the Guarantor after September 30, 2010:

On October 7, 2010, the Guarantor made early voluntary repayments under its 6,000 million credit facility dated June 28, 2005 in an aggregate amount of 500 million and the amount of credit available under the facility was reduced to 650 million. There is currently 300 million outstanding under this facility.

On October 8, 2010, we issued 19-year notes, guaranteed by the Guarantor, in an aggregate principal amount of GBP 400 million (equivalent to approximately 465 million) under our Guaranteed Euro Medium Term Note (EMTN) Program approved by the Financial Services Authority (FSA) in London on June 23, 2010.

On October 14, 2010, Telefónica Móviles, S.A. (Peru) issued six-year securities in an aggregate principal amount of 50 million Peruvian nuevo sol (equivalent to approximately 13 million).

On November 9, 2010, Telefónica Móviles Chile, S.A. issued five-year bonds in an aggregate principal amount of USD 300 million (equivalent to approximately 225 million).

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On November 19, 2010, Otecel, S.A. issued one-year securities in an aggregate principal amount of \$20 million (equivalent to approximately 14 million).

On December 30, 2010, the Guarantor drew down 1,000 million under the five-year revolving credit facility tranche of its 8,000 million syndicated facility agreement dated July 28, 2010. There is currently 6,000 million outstanding under this facility.

On February 7, 2011, we issued six-year notes, guaranteed by the Guarantor, in an aggregate principal amount of 1,200 million under our EMTN Program approved by the FSA on June 23, 2010.

S-19

Table of Contents

DESCRIPTION OF THE NOTES AND THE GUARANTEE

The following is a summary of the terms of the Notes. Each series of Notes will be issued under an indenture (the **Base Indenture**), dated May 8, 2009 among us, Telefónica and The Bank of New York Mellon, a New York banking corporation, as Trustee (the **Trustee**), as supplemented, with respect to the 2016 Fixed Rate Notes, by the Sixth Supplemental Indenture, and, with respect to the 2021 Fixed Rate Notes, by the Seventh Supplemental Indenture, each to be dated as of or around February 16, 2011, among us, 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 our sole shareholder 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 February 16, 2011. The 2016 Fixed Rate Notes and the 2021 Fixed Rate Notes shall be designated as our Series M and Series N debt securities, 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 2016 Fixed Rate Notes will be issued in \$1,250,000,000 aggregate principal amount and will mature at 100% of their principal amount on February 16, 2016 (the **2016 Fixed Rate Note Maturity Date**). The 2021 Fixed Rate Notes will be issued in \$1,500,000,000 aggregate principal amount and will mature at 100% of their principal amount on February 16, 2021 (the **2021 Fixed Rate Note Maturity Date** and the 2016 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 2016 Fixed Rate Notes and the 2021 Fixed Rate Notes constitute separate series of securities issued under the Indenture. The Indenture provides that, in addition to the 2016 Fixed Rate Notes and the 2021 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, we 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 the 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 U.S. Treasury Regulations Section 1.1275-2(k)(3) promulgated under the U.S. Internal Revenue Code of 1986, as amended (the **Code**).

Telefónica, as 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.

Payment of Interest

The Notes of each series will bear interest from February 16, 2011 or from the most recent date through which we have paid or provided for interest on the Notes of such series.

S-20

Table of Contents

The 2016 Fixed Rate Notes will bear interest from February 16, 2011 at an annual rate of 3.992%. The 2021 Fixed Rate Notes will bear interest from February 16, 2011 at an annual rate of 5.462%. Subject to and in accordance with the tax certification procedures set forth in Annex A and Annex B to this Prospectus Supplement, we or the Guarantor, as the case may be, will pay interest (i) on the 2016 Fixed Rate Notes semi-annually on February 16 and August 16 of each year, beginning on August 16, 2011, until the 2016 Fixed Rate Note Maturity Date, and on the 2016 Fixed Rate Note Maturity Date and (ii) on the 2021 Fixed Rate Notes semi-annually on February 16 and August 16 of each year, beginning on August 16, 2011, until the 2021 Fixed Rate Note Maturity Date, and on the 2021 Fixed Rate Note Maturity Date. Each such date is referred to as an **Interest Payment Date**. Interest on the Notes of each series 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 of each series, on each Interest Payment Date for such Notes, we or the Guarantor, as the case may be, will pay interest on the Notes of each series for the period commencing on and including the immediately preceding Interest Payment Date for such Notes and ending on and including the day immediately preceding that Interest Payment Date. On the first Interest Payment Date for the Notes of each series, we or the Guarantor, as the case may be, will pay interest for the period beginning on and including the issuance date thereof and ending on and including August 15, 2011.

If any Interest Payment Date for the Notes of each series falls on a day that is not a Fixed Rate Business Day, the interest payment shall be postponed to the next day that is a Fixed Rate Business Day, 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 **Fixed Rate 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 series of Notes is not a Fixed Rate Business Day, payment of principal and interest on the applicable series of Notes will be made on the next succeeding day that is a Fixed Rate 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 tenth 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, we have 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 date on which interest is paid 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 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. A **Business Day** means any day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York or the city of Madrid, Spain 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 us or the Guarantor, as the case may be, 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, we 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.

Table of Contents

However, we 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 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 we or the Guarantor do 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;

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

(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 us 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; or

(viii) in the event that the Notes are redeemed, in the circumstances described in the second paragraph in Redemption and Purchase - Early Redemption for Taxation or Listing Reasons .

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 made available for payment to holders, notice to that effect is duly given to the holders in accordance with the Indenture.

For a description of the formalities which holders (or the Beneficial Owners for whose benefit they hold such Note) of each series of Notes must follow in order to claim an exemption from Spanish withholding tax and certain disclosure requirements imposed on us and the Guarantor relating to the identity and country of

S-22

Table of Contents

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 of DTC. Except as provided below with respect to exchanges of beneficial interests in Notes represented by a Global Certificate for Certificated Notes (as defined 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 of 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.

We 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

S-23

Table of Contents

responsibility of direct and indirect participants. None of us, the Guarantor, the Trustee or any of our respective agents 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 of DTC will be reflected in accordance with DTC's procedures.

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 depositary; 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 depositary 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 depositaries 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.

We 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 us that it is unwilling or unable to continue to act as depositary or that it is no longer a clearing agency registered under the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**) and, in either case, a successor depositary is not appointed by us within 120 days after the date of such notice from DTC, (ii) we notify 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 offices in the Borough of Manhattan, the City of New York 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 we 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

S-24

Table of Contents

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 us, 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 us 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 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 we and the Guarantor believe to be reliable, but none of us, the Guarantor or the underwriters takes any responsibility for its accuracy or completeness. We, the Guarantor and the Trustee 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 our 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) our payment obligations under the Notes of such series will rank at least *pari passu* with all our other unsecured and unsubordinated indebtedness, present and future, except as our obligations 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 us under the Notes of each series on an unsubordinated and unconditional basis, pursuant to a guarantee to be dated as of or around February 16, 2011 (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 us 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 guarantee.

Under the Guarantee, the Guarantor will waive diligence, presentment, demand of payment, filing of claims with a court in the event of our merger or bankruptcy, the benefits of *orden*, *división* and *excusión* under Spanish law, any right to require a proceeding first against us, protest or notice with respect to the Notes of the applicable series, or the indebtedness evidenced thereby and all demands whatsoever, and will covenant

S-25

Table of Contents

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 us in respect of any amounts paid to such holders by the Guarantor.

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.

At September 30, 2010, the Guarantor had no outstanding secured indebtedness and approximately 61 billion of outstanding unsecured indebtedness. For additional information about the Guarantor's principal transactions since September 30, 2010, see Capitalization and Indebtedness .

Consolidation, Merger, Etc.; Assumption

Neither we 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 our respective assets to any person, and neither we nor the Guarantor shall permit any person to consolidate with or merge into us or the Guarantor, convey, transfer or lease all or substantially all of its assets to us or the Guarantor, unless:

(i) in the case that we 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 we or the Guarantor are 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 our case, 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 our part 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 we or the Guarantor are merged or to whom we or the Guarantor have conveyed, transferred or leased our respective 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;

S-26

Table of Contents

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

(v) we or the Guarantor have 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.

No vote by the holders for any such consolidation, merger, conveyance, transfer or lease is required, unless as part of the transaction we or the Guarantor, as applicable, make changes to the Indenture requiring holder approval, as described later under **Modification and Waiver**. We and the Guarantor may take these actions as part of a transaction involving outside third parties or as part of an internal corporate reorganization. We 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 our option or at the option of the Guarantor, as the case may be, as described later under **Description of the Notes and the Guarantee** **Redemption and Purchase** **Early Redemption for Taxation or Listing Reasons**.

We 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 of 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 Description of the Notes and the Guarantee Redemption and Purchase Early Redemption for Taxation or Listing 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

S-27

Table of Contents

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 our obligations 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 the Kingdom of 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 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 subsequent to the date of such assumption rather than taxes imposed on these payments by the Kingdom of Spain or any political subdivision thereof 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 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.

An assumption of our obligations 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 of such Notes, resulting in recognition of taxable gain or loss for U.S. federal income tax purposes and other possible adverse tax consequences. U.S. 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 we nor the Guarantor will create or will have outstanding any mortgage, pledge, security interest or lien (**Encumbrance**) upon the whole or any part of our respective present or future assets, in order to secure any Relevant Indebtedness (as defined below) issued or guaranteed by us, the Guarantor or by any other person unless the Notes of such series are equally and ratably secured therewith, for as long as such Relevant Indebtedness shall be so secured.

We 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) the Relevant Indebtedness matures within one year of its date of issue; or
- (iii) such Encumbrance affects assets of an entity which, when such Encumbrance was created, was unrelated to us or the Guarantor and which was subsequently acquired by us or the Guarantor;

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 of the Guarantor (as defined below), as reflected in the most recent balance sheet or statement of financial position prior to the time such Relevant Indebtedness was issued or guaranteed.

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

S-28

Table of Contents

(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 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 our 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 for the purposes of the Telefónica Group, from IFRS as adopted by the European Union, in each case as in effect at the date of such computation and as applied by us or the Guarantor, as the case may be.

Person means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

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 or statement of financial position of the Issuer or the Guarantor, as the case may be.

Redemption and Purchase

Early Redemption for Taxation or Listing Reasons

If, in relation to the Notes of any 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) we or the Guarantor, as the case may be, are 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 us to enable us 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 us 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, we or the Guarantor, as the case may be, may, at our respective 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 we 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, we or the Guarantor, as the case may be, may, at our respective 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 relevant initial 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

S-29

Table of Contents

issue date of the Notes of such series to and including such Interest Payment Date, we will use our reasonable best efforts to obtain or maintain such listing, as applicable.

In the event of an early redemption of the Notes for the reasons set forth in the preceding paragraph, we 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 Spanish withholding tax applicable to such payments (currently 19%). 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 direct refund procedure 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 as a result of such Notes not being listed on an organized market in an OECD country, see *Taxation Spanish Tax Considerations Tax Rules for Notes not Listed on an Organized Market in an OECD Country* .

Optional Redemption of Notes

We may redeem all or a portion of any series of the Notes at our 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 any series of Notes to be redeemed at his or her address appearing in the register kept by the Trustee. We may redeem any series of Notes at a redemption price equal to the greater of:

100% of the principal amount of such series of 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 series of Notes being redeemed on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (i) plus 25 basis points in the case of any 2016 Notes being redeemed and (ii) plus 30 basis points in the case of any 2021 Notes being redeemed, in each case, plus accrued and unpaid interest on the principal amount of such Fixed Rate Notes (or any portion thereof) being redeemed to, but excluding, the redemption date of such Fixed Rate 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 us and the Guarantor.

Reference Treasury Dealer means (1) each of Citigroup Global Markets Inc., Goldman, Sachs & Co. and HSBC Securities (USA) Inc. and their affiliates or their respective successors, provided that if any of the

S-30

Table of Contents

foregoing shall cease to be a primary U.S. government securities dealer in New York City (a **Primary Treasury Dealer**), we and the Guarantor will substitute therefor another Primary Treasury Dealer and (2) any other Primary Treasury Dealer selected by us 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 such 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 year, 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 semi-annual 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

We, 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. We are 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 any series of the Notes, means any one of the following events which occurs and is continuing:

(i) we fail 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) we fail 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 us specifying such failure and requiring it to be remedied, and stating that such notice is a Notice of Default under the Indenture;

(iii) we or the Guarantor fail (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;

S-31

Table of Contents

(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 us 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) we or the Guarantor announce our inability to meet our respective financial obligations;

(vi) a court, at the request of any creditor, commences insolvency proceedings (*concurso*) against us or the Guarantor and any such proceeding is not discharged or dismissed within 60 days;

(vii) we or the Guarantor go into liquidation unless it is done as a result of us or the Guarantor entering into a transaction described and in accordance with the conditions set forth under Consolidation, Merger, Etc.; Assumption ;

(viii) we or the Guarantor make 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 us, at the Corporate Trust Office (and to the Trustee if given by 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 we 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, we 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 our expense, shall, upon our order or the order of the Guarantor, execute proper instruments acknowledging the same, when:

(i) we or the Guarantor have 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

S-32

Table of Contents

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) we or the Guarantor have delivered to the Trustee an opinion of counsel of recognized standing with respect to U.S. federal income tax matters (which opinion must state that it is based on a change in law or a ruling received from the Internal Revenue Service) 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;

(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 U.S. Investment Company Act of 1940, as amended (the **Investment Company Act**);

(vi) if the Notes of such series are then listed on any securities exchange, we or the Guarantor have 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

(vii) we or the Guarantor have delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the defeasance and discharge of the entire indebtedness on all outstanding Notes of such series have been complied with;

provided, however, that a defeasance described above shall not impair or affect (a) the rights of holders of Notes of such series to receive, from the trust funds described in subparagraph (i) above, payment of the principal of (and premium, if any) and any installment of principal of (and premium, if any), interest on, or Additional Amounts, if any, on the Notes of such series on the stated maturity of such principal or installment of principal of (and premium, if any) or interest, or any mandatory sinking fund payments or analogous payments applicable to the 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 of such series, (b) our and the Guarantor's obligations with respect to the Notes of such series and Guarantee, respectively, under certain provisions of the Indenture, (c) the rights, powers, trusts, duties and immunities of the Trustee under the Indenture and (d) the provisions of the Indenture relating to the application of trust money.

With respect to any series of Notes, we and the Guarantor by board resolution may elect to be released from our respective obligations under any specified provisions of the Indenture applicable to the Notes of such series outstanding, and the provisions so specified in such resolution, as they relate to outstanding Notes of such series, shall no longer be in effect, and the Trustee, at our expense, shall, upon our order or the order of the Guarantor, execute proper instruments acknowledging the same, when:

(i) we or the Guarantor have 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), (vii) and (viii) 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

S-33

Table of Contents

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 of such series;

(ii) such deposit does not result in a breach or violation of, or constitute a default under, the Indenture or any other agreement or instrument to which we or the Guarantor are a party or by which either of us is bound;

(iii) 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) and (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;

(iv) we or the Guarantor have delivered to the Trustee an opinion of counsel of recognized standing with respect to U.S. federal income tax matters to the effect that the 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 and covenant defeasance 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, and covenant defeasance had not occurred;

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

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

(vii) if the Notes of such series are then listed on any securities exchange, we or the Guarantor have delivered to the Trustee an opinion of counsel of recognized standing to the effect that such deposit and covenant defeasance will not cause the Notes of such series to be delisted from such exchange; and

(viii) we or the Guarantor have delivered to the Trustee an officer's certificate and an opinion of counsel of recognized standing, each stating that all conditions precedent provided for relating to the covenant defeasance of the specified provisions of the Indenture as they relate to the outstanding Notes of such series have been complied with.

From and after the date when the foregoing conditions have been met, we or the Guarantor, as the case may be, may omit to comply with, and shall have no liability in respect of, any term, covenant, condition or limitation set forth in any of the specified provisions of the Indenture with respect to which the covenant defeasance has taken place as contemplated under the Indenture, but the remainder of the Indenture and the Notes of any other series will be unaffected thereby.

The Trustee and Paying Agent

The Bank of New York Mellon will be acting as the Trustee and Paying Agent for each series of Notes under, and as such terms are defined in, the Indenture.

In addition to acting as Trustee, The Bank of New York Mellon also acts as depository, trustee and/or paying agent in connection with various other transactions carried out by us, the Guarantor and certain of our respective affiliates.

Table of Contents

Replacement of Notes

If any Certificated Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the office of the Trustee subject to applicable laws, on payment by the claimant of the expenses incurred in connection with such replacement and on the terms as to evidence, security, indemnity and otherwise as we, the Guarantor and the Trustee may reasonably require.

Modification and Waiver

Modification Without Consent of Holders

We, the Guarantor and the Trustee may enter into one or more supplemental indentures without the consent of the holders of a series of Notes under the Indenture to:

secure the Notes of such series;

evidence the succession of another person to the Issuer or the Guarantor and the assumption by any such successor of the covenants and agreements of the Issuer or the Guarantor in the Indenture and in the Notes of such series;

evidence or provide for the acceptance of appointment under the Indenture by a successor trustee with respect to the Notes of such series;

change the terms of the Notes of such series to correct a manifest error (for the avoidance of doubt, no other modification may be made to the terms of the Notes of such series); or

change the Indenture in any manner which does not affect the terms of the Notes of such series or interests of the holders thereof.

Modification with Consent of Holders

With the consent of the holders of not less than a majority in principal amount of a series of Notes outstanding, we, the Guarantor and the Trustee may add any provisions to, or change in any manner or eliminate any of the provisions of, or waive any past defaults with respect to, the Indenture or modify in any manner the rights of the holders of such series of Notes. However, we, the Guarantor and the Trustee may not make any of the following changes to the Notes of such series without the consent of each holder of such series of Notes outstanding that would be affected by such change:

change the stated maturity of the principal of or any installment of the principal of or interest on any Note of such series;

reduce the principal amount of any Note of such series;

reduce the rate or extend the time of payment of interest on, any Note of such series;

reduce any amount payable on redemption of any Note of such series;

change our obligations or the obligations of the Guarantor to pay Additional Amounts on any Note of such series;

waive a default in the payment of principal of, or interest on any Note of such series;

change the currency in which the principal, premium, or interest on, any Note of such series is payable;

impair the right of any holder to take legal action to enforce the payment on the Notes of such series or the Guarantee when due; or

reduce the quorum requirements or the percentage of Notes of such series the consent of whose holders is required for modification of the Indenture.

S-35

Table of Contents

Maintenance of Tax Certification Procedures

We 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 for the implementation of tax certification procedures as specified in the Letter of Appointment, as such procedures may be amended, supplemented, modified or replaced from time to time in accordance with the terms of the Tax Certification Agency Agreement, that will 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.

Notices

Notices to holders will be deemed to be validly given if mailed to them at their respective addresses as recorded in the register kept by the Trustee, and will be deemed to have been validly given on the seventh day after the date of such mailing.

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 Guarantee shall be governed by Spanish law.

Consent to Jurisdiction

We and the Guarantor have irrevocably submitted to the exclusive jurisdiction of any federal or state court in the Borough of Manhattan, the City of New York, and any appellate court from any such court thereof, with respect to any legal suit, action or proceeding based on or arising under the Notes or the Indenture and have agreed that all claims in respect of such suit or proceeding shall be determined in any such court.

Table of Contents

TAXATION

Spanish Tax Considerations

The information provided below does not purport to be a complete analysis of the tax law and practice currently applicable in Spain and does not purport to address the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of Notes.

This tax section is based on Spanish law as in effect on the date of this Prospectus Supplement as well as on administrative interpretation thereof, and is subject to any change in such law that may take effect after such date.

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

(i) of general application, Additional Provision Two of Law 13/1985 of May 25 on investment ratios, own funds and information obligations of financial intermediaries, as amended by Law 19/2003 of July 4 on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, Law 23/2005 of November 18 on certain tax measures to promote the productivity, and Law 4/2008 of December 23 that abolishes the Net Wealth Tax, generalizes the VAT monthly refund system and introduces other tax measures (**Law 13/1985**), as well as Royal Decree 1065/2007 of July 27, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes;

(ii) for individuals resident for tax purposes in Spain which are subject to the Individual Income Tax (**IIT**), Law 35/2006 of November 28 on the IIT Law and on the partial amendment of the Corporate Income Tax Law, the Non-Resident Income Tax Law and the Net Wealth Tax Law, and Royal Decree 439/2007 of March 30, promulgating the IIT Regulations, along with Law 29/1987 of December 18 on Inheritance and Gift Tax;

(iii) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (**CIT**), Royal Legislative Decree 4/2004 of March 5 promulgating the Consolidated Text of the CIT Law and Royal Decree 1777/2004 of July 30 promulgating the CIT Regulations; and

(iv) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (**NRIT**), Royal Legislative Decree 5/2004 of March 5 promulgating the Consolidated Text of the NRIT Law and Royal Decree 1776/2004 of July 30 promulgating the NRIT Regulations, along with Law 29/1987 of December 18 on Inheritance and Gift Tax.

Whatever the nature and residence of the noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, *i.e.*, exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993 of September 24 and exempt from Value Added Tax, in accordance with Law 37/1992 of December 28 regulating such tax.

Individuals with Tax Residency in Spain

Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25.2 of the IIT law, and must be included in the investor's IIT savings taxable base and taxed at a flat rate of 19% on the first 6,000 and 21% for any amount in excess of 6,000.

S-37

Table of Contents

Both types of income are subject to a withholding on account of IIT at the rate of 19%. The individual holder may credit the withholding against his or her final IIT liability for the relevant tax year.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who are resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules. The applicable tax rates range between 7.65% and 81.6% for 2011, depending on relevant factors.

Legal Entities with Tax Residency in Spain

Corporate Income Tax (Impuesto sobre Sociedades)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes are subject to CIT (at the current general flat tax rate of 30% for 2011) in accordance with the rules for this tax.

In accordance with Section 59.s of the CIT regulations, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which, for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organized markets in OECD countries. We will make an application for the Notes to be traded on the NYSE and, upon admission to trading on the NYSE, the Notes will fulfill the requirements set forth in the legislation for exemption from withholding. If the Notes are not listed on an organized market in an OECD country no later than 45 days prior to the initial Interest Payment Date, we or the Guarantor, as the case may be, shall be entitled to redeem the Notes upon at least 15 days notice to the noteholders. See Description of the Notes and Guarantee Redemption and Purchase Early Redemption for Taxation or Listing Reasons .

The Directorate General for Taxation (*Dirección General de Tributos* DGT), on July 27, 2004, issued a ruling indicating that in the case of issues made by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that, in addition to being traded on an organized market in an OECD country, the Notes be placed outside Spain in another OECD country. We believe that the issue of the Notes will fall within this exemption as the Notes are to be sold outside Spain and in the international capital markets. Consequently, we will not withhold on interest payments to Spanish CIT taxpayers that provide relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter, however, we will be bound by that opinion and, with immediate effect, will make the appropriate withholding and we and the Guarantor will not, as a result, pay Additional Amounts.

In order to implement the exemption from withholding, the procedures laid down in the Order of December 22, 1999 will be followed. See Evidencing of Beneficial Owner Residency in Connection with Interest Payments .

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

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

Individuals and Legal Entities that are not Tax Resident in Spain

Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes)

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

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those set out above for Spanish CIT taxpayers. See Legal Entities with Tax Residency in Spain Corporate Income Tax (*Impuesto sobre Sociedades*) . Ownership of the Notes by investors who are

S-38

Table of Contents

not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

(ii) Non-Spanish tax resident investors not acting through a permanent establishment in Spain

Both interest payments periodically received and income derived from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who are not resident in Spain for tax purposes and do not act, with respect to the Notes, through a permanent establishment in Spain, are exempt from NRIT.

In order to be eligible for the exemption from NRIT, it is necessary to comply with certain information obligations relating to the identity and country of tax residence of the Beneficial Owners entitled to receive an interest payment on the Notes, in the manner detailed under *Evidencing of Beneficial Owner Residency in Connection with Interest Payments*, as laid down in Section 44 of Royal Decree 1065/2007 of July 27. If these information obligations are not complied with in the manner indicated, we will withhold 19% and we will not pay Additional Amounts.

Beneficial Owners not resident in Spain for tax purposes and entitled to exemption from NRIT but on whose behalf we or the Guarantor do not receive, in a timely manner, proper evidence of their tax residency in accordance with the procedure described in detail below, may obtain a refund of the amount withheld by following the Quick Refund Procedures described in Article II of Annex A or Article II of Annex B hereto, as the case may be, or, otherwise, directly from the Spanish tax authorities by following the Direct Refund Procedures described in Article II of Annex C to this Prospectus Supplement.

Beneficial owners who have been subject to Spanish withholding tax on income derived from the repayment of principal at the Maturity Date or any earlier date of redemption of Notes issued below par with an original issue discount may obtain a refund of the amount withheld directly from the Spanish tax authorities. Beneficial owners are advised to consult their own tax advisers regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over the Notes by inheritance, gift or legacy, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules, unless they reside in a country for tax purposes with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax. In such case, the provisions of the relevant double tax treaty will apply. Spain and the United States have not entered into such a treaty.

Non-Spanish tax resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), without prejudice to the provisions of any applicable double tax treaty entered into by Spain. In general, double tax treaties provide for the taxation of this type of income in the country of tax residence of the beneficiary.

Tax Rules for Notes not Listed on an Organized Market in an OECD Country

Withholding on Account of IIT, NRIT and CIT

If the Notes are not listed on an organized market in an OECD country on any date on which interest will be paid, interest payments to Beneficial Owners in respect of the Notes will be subject to Spanish withholding tax at the then-applicable rate (currently 19%) except in the case of Beneficial Owners which are: (A) residents of a European Union member state other than Spain and obtain the interest income either directly or through a permanent establishment located in another European Union member state, provided that such Beneficial Owners (i) do not

obtain the interest income on the Notes through a permanent establishment in Spain and (ii) are not resident of, are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991 of July 5 as amended); or (B) residents for tax purposes in a country which has entered into a convention for the avoidance of double taxation with Spain which provides for an exemption from Spanish tax or a reduced withholding tax rate with respect to interest payable to any Beneficial Owner.

S-39

Table of Contents

Individuals and entities that may benefit from such exemptions or reduced tax rates would have to follow either the quick refund procedures set forth in Article II of Annex A and Article II of Annex B to this Prospectus Supplement or the Direct Refund from Spanish Tax Authorities Procedure set forth in Article II of Annex C to this Prospectus Supplement in order to obtain a refund of any amounts to which they may be entitled.

Tax Havens

Pursuant to Royal Decree 1080/1991 of July 5 as amended, the following are each considered to be a tax haven at the date of this Prospectus Supplement:

Anguilla

Antigua and Barbuda, Islands of

The Bahamas

Barbados, The Island

Bermuda

British Virgin Islands

Cayman Islands

Channel Islands (Jersey and Guernsey)

Falkland Islands

Fiji Islands

Gibraltar

Grenada

Hashemite Kingdom of Jordan

Hong Kong

Isle of Man

Kingdom of Bahrain

Macau

Marianas Islands

Mauritius

Montserrat

Table of Contents

Principality of Andorra

Principality of Liechtenstein

Principality of Monaco

Republic of Cyprus

Republic of Dominica

Republic of Lebanon

Republic of Liberia

Republic of Nauru

Republic of Panama

Republic of San Marino

Republic of Seychelles

Republic of Singapore

Republic of Vanuatu

Saint Lucia

Saint Vincent & the Grenadines

Solomon Islands

Sultanate of Brunei

Sultanate of Oman

The Cook Islands

Turks and Caicos Islands, and

United States Virgin Islands

The Principality of Andorra is expected to cease being a tax haven beginning February 10, 2011.

Tax Rules for Payments Made by the Guarantor

Payments made by the Guarantor to Beneficial Owners will be subject to the same tax rules previously set out for payments made by us.

Evidencing of Beneficial Owner Residency in Connection with Interest Payments

As described under Individual and Legal Entities with no Tax Residency in Spain and provided, among other conditions set forth in Law 13/1985 of May 25, that the Notes are listed on an organized market in an OECD country, interest and other financial income paid with respect to the Notes for the benefit of non-

S-40

Table of Contents

Spanish tax resident investors not acting, with respect to the Notes, through a permanent establishment in Spain will not be subject to Spanish withholding tax unless such non-Spanish tax resident investor (including any custodial intermediaries or agents acting on its behalf) fails to comply with the relevant tax information procedures, as described in detail in Annex A and B to this Prospectus Supplement.

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, with respect to the relevant securities, 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 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 of December 23 are approved, Spanish issuers and guarantors must continue to adhere to the tax information reporting procedures established under pre-existing laws and regulations to provide the relevant information relating to Beneficial Owners to the Spanish tax authorities. We 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.

Under pre-existing laws and regulations, the tax information reporting obligations to be complied with in order to apply the exemption are set forth in Section 44 of Royal Decree 1065/2007 (**Section 44**), which states that an annual return must be filed with the Spanish tax authorities, by the Guarantor, specifying the following information with respect to the Notes:

- (i) the identity and country of tax residence of the recipient of the income on the Notes (when the income is received on behalf of a third party (i.e., a Beneficial Owner), the identity and country of tax residence of that third party);
- (ii) the amount of income received; and
- (iii) details identifying the Notes.

In accordance with sub-section 2 of Section 44, for the purpose of preparing the annual return referred to in sub-section 1 of Section 44, certain documentation regarding the identity and country of tax residence of the Beneficial Owners receiving each interest payment must be submitted to us and the Guarantor at the time of each such interest payment.

In particular, Beneficial Owners who are not resident in Spain for tax purposes and act for their own account and are a central bank, other public institution or international organization, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country (including the United States) or in a country with which Spain has entered into a treaty for the avoidance of double taxation subject to a specific administrative registration or supervision scheme (each a **Qualified Institution**), must certify their name and tax residency by means of a certificate substantially in the form of the certificates provided by Annex 1 to the Spanish Order of December 16, 1991, setting out the procedure for the payment of interest deriving from Spanish Public Debt to non-Spanish investors (the **Order**), the form of which is attached as Exhibit I to Annex C to this Prospectus Supplement.

In the case of transactions in which a Qualified Institution which is a holder of Notes acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each Beneficial Owner not resident in Spain for tax purposes as of each date on which interest is paid by means of a certificate substantially in the form of the certificates provided by Annex 2 to the Order, the form of which is attached as Exhibit II to Annex C to this Prospectus Supplement.

S-41

Table of Contents

In the case of transactions which are channeled through a securities clearing and deposit entity recognized for these purposes by Spanish law or by the law of another OECD member country, the entity in question (i.e., the clearing system participant) must, in accordance with the information contained in its own records, certify the name and tax residency of each Beneficial Owner not resident in Spain for tax purposes as of each date on which interest is paid by means of a certificate substantially in the form of the certificates provided by Annex 2 to the Order, the form of which is attached as Exhibit II to Annex C to this Prospectus Supplement.

In any other case, the Beneficial Owner must submit proof of beneficial ownership and a certificate of residency issued by the tax authorities of the country of tax residency of such Beneficial Owner (a **Government Tax Residency Certificate**).

In addition to the above, as described under Legal Entities with Tax Residency in Spain Corporate Income Tax (*Impuesto sobre Sociedades*) , Spanish CIT taxpayers will not be subject to Spanish withholding tax on income derived from the Notes, provided that such CIT taxpayers provide relevant information to qualify as such at the time of each such interest payment.

For these purposes, the relevant Qualified Institution, with respect to each Beneficial Owner who is a legal entity subject to Spanish CIT, must submit a certification (substantially in the form set forth in Exhibit III to Annex C to this Prospectus Supplement) specifying such Beneficial Owner's name, address and Tax Identification Number, the ISIN code of the Notes, the Beneficial Owner's beneficial interest in the principal amount of Notes held at each date on which interest is paid, the amount of gross income and amount withheld.

In light of the above, 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 country of tax residence of Beneficial Owners holding through a Qualified Institution through and including the close of business on the New York Business Day prior to each relevant date on which interest will be paid. The delivery of such information, while the Notes are in global form, will be made through the relevant direct or indirect DTC participants. We will withhold at the then-applicable rate (currently 19%) from any interest payment on any principal amount of Notes as to which the required information has not been provided or the required procedures have not been followed.

The procedures set forth in Article I of Annex A and Article I of Annex B to this Prospectus Supplement are intended to identify Beneficial Owners who are (i) corporations resident in Spain for tax purposes, or (ii) individuals or entities not resident in Spain for tax purposes that do not act with respect to the Notes through a permanent establishment in Spain.

These procedures are designed to facilitate the collection of certain information concerning the identity and country of tax residence of the Beneficial Owners who are entitled to receive payments in respect of the Notes free and clear of Spanish withholding taxes and are participants of DTC or hold their interests through participants of DTC or Euroclear, provided in each case, that the relevant DTC or Euroclear participant is a Qualified Institution.

Beneficial Owners who are entitled to receive interest payments in respect of the Notes free of any Spanish withholding taxes but who do not hold their Notes through a Qualified Institution and noteholders (other than Cede & Co. as nominee of DTC) who hold certificated Notes will have Spanish withholding tax withheld from interest payments and other financial income paid with respect to their Notes at the then-applicable rate (currently 19%). Beneficial Owners who do not hold their Notes through a Qualified Institution can 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) and noteholders holding certificated Notes can follow the Direct

Refund from Spanish Tax Authorities Procedure set forth in Article II of Annex C of this Prospectus Supplement in order to have such withheld amounts refunded.

S-42

Table of Contents

A detailed description of the procedures to be followed by participants of DTC is set forth in Annex A to this Prospectus Supplement. A detailed description of the procedures to be followed by participants in Euroclear is set forth in Annex B to this Prospectus Supplement.

Investors are cautioned that no arrangements have been made by us or the Guarantor with respect to any direct DTC participants or indirect DTC participants, other than Euroclear. The Notes will not be eligible to be held through Clearstream Banking, société anonyme.

Investors should note that neither we nor the Guarantor accept any responsibility relating to the procedures established for the collection of information concerning the identity and country of tax residence of Beneficial Owners. Accordingly, neither we nor the Guarantor shall be liable for any damage or loss suffered by any Beneficial Owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose interest payments are nonetheless paid net of Spanish withholding tax either because these procedures prove ineffective or because the relevant direct DTC participants or indirect DTC participants fail to correctly follow such procedures. Moreover, neither we nor the Guarantor will pay any Additional Amounts with respect to any such withholding. See Risk Factors .

Participants of DTC who are Qualified Institutions and have been paid net of Spanish withholding tax because of a failure to comply with the Immediate Refund Procedure set forth in Article I of Annex A to this Prospectus Supplement will be entitled to a refund of the amount withheld pursuant to the Quick Refund Procedures set forth in Article II of Annex A to this Prospectus Supplement.

Participants in Euroclear who are Qualified Institutions and have been paid net of Spanish withholding tax because of a failure to comply with the Immediate Refund Procedure set forth in Article I of Annex B to this Prospectus Supplement will be entitled to a refund of the amount withheld pursuant to the Quick Refund Procedures set forth in Article II of Annex B to this Prospectus Supplement.

Beneficial Owners entitled to receive interest payments in respect of the Notes free of any Spanish withholding taxes but in respect of whom relevant documentation is not timely received by us or Acupay under the Immediate Refund Procedure or the Quick Refund Procedures may seek a full refund of withholding tax directly from the Spanish tax authorities following the direct refund procedure established by Spanish tax law and described in Article II of Annex C to this Prospectus Supplement.

Beneficial Owners, their custodians or DTC participants with questions about these Spanish tax information reporting and withholding procedures, including the submission of tax certification information, may contact Acupay at one of the following locations. Holders should mention the CUSIP or the ISIN for the Notes when contacting Acupay. There is no cost for this assistance.

Via email: info@acupay.com

By post, telephone or fax:

IN LONDON:

Acupay System LLC
Attention: Carmen Tejada
28 Throgmorton Street
London 2N 2AN
United Kingdom

IN NEW YORK:

Acupay System LLC
Attention: Marian Guerrero
30 Broad Street, 46th Floor
New York, NY 10004
USA

Tel. +44(0) 20 7382 0340
Fax. +44(0) 20 7256 7571

Tel. +1 (212) 422-1222
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EU Savings Directive

Under the European Union Council Directive 2003/48/EU on the taxation of savings income, member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information

S-43

Table of Contents

exchange with certain other countries). A number of non-European Union countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland).

Certain U.S. Federal Income Tax Considerations

The following is a discussion of material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes. This summary does not purport to be a complete analysis of all tax considerations that may be applicable to a decision to acquire the Notes. This summary applies only to the U.S. holders discussed below who purchase the Notes in the initial offering at their issue price, which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money, and hold such Notes as capital assets within the meaning of Section 1221 of the Code.

This discussion is for general information purposes only. This summary does not address the tax consequences applicable to all categories of investors, some of which may be subject to special rules (for example, (i) certain financial institutions, regulated investment companies, insurance companies, broker-dealers in securities or currencies, tax-exempt organizations or traders in securities who elect to mark-to-market, (ii) investors holding the Notes as part of a straddle, hedge, conversion transaction or other integrated investment, or (iii) investors whose functional currency is not the U.S. Dollar). This summary does not address the effects of any state, local or non-U.S. tax laws or any U.S. federal estate, gift or alternative minimum tax considerations.

Furthermore, the discussion below is based upon the provisions of the Code and regulations, rulings and judicial decisions under the Code as of the date of this offering, and those authorities may be repealed, revoked or modified (possibly with retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below. There can be no assurances that the Internal Revenue Service (the **IRS**) will not challenge one or more of the tax consequences discussed herein. The tax treatment applicable to you may vary depending on your particular tax situation or status.

In this discussion, a U.S. holder refers to a beneficial owner of the Notes that is for U.S. federal income tax purposes:

- (i) a citizen or resident of the United States;
- (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or of any state thereof, or the District of Columbia; or
- (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or partner of a partnership holding the Notes, you should consult your tax advisor.

Prospective investors should consult their tax advisors with respect to the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes in light of their own particular circumstances, as well as the effect and applicability of any state, local or non-U.S. tax laws.

Interest Payments

Interest paid to a U.S. holder of Notes (including any Spanish tax withheld and payments of Additional Amounts, if any) will generally be includible in such U.S. holder's gross income as ordinary interest income in accordance with

such U.S. holder's regular method of tax accounting. Interest earned by a U.S. holder on the Notes generally will be treated as foreign source income for U.S. federal income tax purposes which may be relevant in calculating a U.S. holder's foreign tax credit limitation. Under the foreign tax credit rules, interest will generally be passive category or general category income, which, in either case, is treated

S-44

Table of Contents

separately for purposes of computing the foreign tax credit limitation. The U.S. federal income tax rules relating to foreign tax credits and limitations thereof are complex and may vary depending on the facts and circumstances of each U.S. holder. Accordingly, U.S. holders should consult their own tax advisers regarding the availability of a foreign tax credit under their particular situation.

Sale, Exchange, Redemption and Other Disposition of Notes

Upon the sale, exchange, redemption or other disposition of the Notes, a U.S. holder will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, redemption or other disposition (other than amounts attributable to accrued but unpaid interest not previously included in income, which will be taxable as described above under Interest Payments) and the U.S. holder's adjusted tax basis in such Notes. A U.S. holder's adjusted tax basis in the Notes generally will equal the cost of such Notes. Any such gain or loss generally will be capital gain or loss and will be long term capital gain or loss if the U.S. holder's holding period for the Note exceeds one year at the time of disposition of such Note. The deductibility of capital losses is subject to certain limitations. Any gain or loss realized by a U.S. holder on the sale, exchange, redemption or other disposition of the Notes generally will be treated as U.S. source gain or loss, as the case may be.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments of interest on the Notes and the proceeds from a sale or other disposition of the Notes unless the holder of such Notes establishes an exemption from the information reporting rules. A U.S. holder of Notes that does not establish such an exemption may be subject to U.S. backup withholding on these payments if the holder fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is furnished to the IRS.

The U.S. federal income tax discussion provided above is included for general information only and may or may not apply to you depending upon your particular situation. You should consult your own tax advisor with respect to the tax consequences to you of purchasing, owning and disposing of the Notes, including the tax consequences under state, local, non-U.S. and other tax laws and the possible effects of changes in U.S.