

## Note 21. Other information

### f) Directors' and Senior Executives' compensation

The compensation of the members of Telefónica's Board of Directors is governed by article 35 of the Company's By-Laws, which provides that the annual amount of the compensation to be paid thereby to all of the Directors in their capacity as such, i.e., as members of the Board of Directors and for the performance of the duty of supervision and collective decision-making inherent in such body, shall be fixed by the shareholders at the General Shareholders' Meeting. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors, taking into account the duties and responsibilities assigned to each Director, their membership on Committees within the Board of Directors and other objective circumstances that it deems relevant. Furthermore, Executive Directors shall receive such compensation as the Board determines for the performance of executive duties delegated or entrusted to them by the Board of Directors. Such compensation shall conform to the Director compensation policy approved by the shareholders at the General Shareholders' Meeting.

In accordance with the foregoing, the shareholders acting at the Ordinary General Shareholders' Meeting held on April 11, 2003 set at 6 million euros the maximum amount of annual gross compensation to be received by the Board of Directors as a fixed allotment and as attendance fees for attending the meetings of the Advisory or Control Committees of the Board of Directors. Thus, as regards fiscal year 2016, the total amount of compensation received by the Directors of Telefónica, in their capacity as such, was 3,752,754 euros for the fixed allocation and for attendance fees.

The compensation of the Directors of Telefónica in their capacity as members of the Board of Directors, of the Executive Commission and/or of the Advisory or Control Committees consists of a fixed amount payable monthly and of attendance fees for attending the meetings of the Advisory or Control Committees.

Set forth below are the amounts established in fiscal year 2016 as fixed amounts for belonging to the Board of Directors, the Executive Commission and the Advisory or Control Committees of Telefónica and the attendance fees for attending meetings of the Advisory or Control Committees of the Board of Directors.

#### Compensation of the Board of Directors and of the Committees thereof

##### Amounts in euros

Position	Board of Directors	Executive Commission	Advisory or Control Committees (*)
Chairman	240,000	80,000	22,400
Vice chairman	200,000	80,000	-
Executive Member	-	-	-
Proprietary Member	120,000	80,000	11,200
Independent Member	120,000	80,000	11,200
Other external	120,000	80,000	11,200

(\*) In addition, the amount of the attendance fee for each of the meetings of the Advisory or Control Committees is 1,000 euros.

Based on Mr. Alierta Izuel's special commitment as Director of Telefónica to the development of the Group's institutional relations, Mr. Alierta Izuel has a special annual fixed amount (in addition to what he is entitled as a Member of the Board of Directors and as a member of any of its Committees) of 500,000 euros.

In this regard, it is noted that the current Executive Chairman, Mr. José María Álvarez-Pallete López, has waived the receipt of the above amounts (i.e., 240,000 euros as Chairman of the Board of Directors and 80,000 euros as Chairman of the Executive Commission).

Likewise, the fixed remuneration of 1,923,100 euros that the Executive Chairman, Mr. José María Álvarez-Pallete López, has established for the 2017 financial year is equal to the one received in the year 2016, which was set in his capacity as Chief Executive Officer, remaining invariably after his appointment as Chairman. This compensation is a 13.8% lower to the compensation established for the position of Executive Chairman for the 2016 fiscal year.

**Individualized description**

Annex II provides an individual breakdown by item of the compensation and benefits that the members of the Board of Directors and of the Senior Management of the Company have received from Telefónica, S.A. and from other companies of the Telefónica Group during fiscal year 2016.

## Appendix II: Board and Senior Management Compensation

## TELEFÓNICA, S.A.

(Amounts in euros)

Directors	Salary <sup>1</sup>	Fixed compensation <sup>2</sup>	Attendance fees <sup>3</sup>	Short-term variable compensation <sup>4</sup>	Compensation for belonging to Committees of the Board <sup>5</sup>	Other items <sup>6</sup>	Total
Mr. José María Álvarez-Pallete López	1,923,100	-	-	3,461,580	-	5,803	5,390,483
Mr. Isidro Fainé Casas	-	200,000	-	-	80,000	6,000	286,000
Mr. José María Abril Pérez	-	200,000	3,000	-	91,200	-	294,200
Mr. Julio Linares López	-	200,000	20,000	-	37,333	-	257,333
Mr. César Alierta Izuel	607,273	538,554	-	4,015,440	20,000	1,338	5,182,605
Ms. Eva Castillo Sanz	-	120,000	20,000	-	33,600	-	173,600
Mr. Juan Ignacio Cirac Sasurain <sup>7</sup>	-	30,000	-	-	-	-	30,000
Mr. José Javier Echenique Landiribar <sup>7</sup>	-	90,000	7,000	-	76,800	-	173,800
Mr. Peter Erskine	-	120,000	24,000	-	117,333	-	261,333
Ms. Sabina Fluxà Thienemann <sup>7</sup>	-	90,000	4,000	-	7,467	-	101,467
Mr. Luiz Fernando Furlán	-	120,000	-	-	-	-	120,000
Mr. Gonzalo Hinojosa Fernández de Angulo	-	120,000	28,000	-	143,467	6,000	297,467
Mr. Pablo Isla Álvarez de Tejera	-	120,000	5,000	-	11,200	-	136,200
Mr. Peter Löscher <sup>7</sup>	-	90,000	6,000	-	7,467	-	103,467
Mr. Antonio Massanell Lavilla	-	120,000	18,000	-	56,000	7,000	201,000
Mr. Ignacio Moreno Martínez	-	120,000	22,000	-	33,600	-	175,600
Mr. Francisco Javier de Paz Mancho	-	120,000	25,000	-	122,933	6,000	273,933
Mr. Wang Xiaochu	-	120,000	-	-	-	-	120,000

1 Salary: The amount for Mr. José María Álvarez-Pallete López includes compensation amounts that are not variable in nature and that the Director received for his executive work. Mr. César Alierta Izuel held the position of Executive Chairman of the Company through April 8, 2016, including through such date the amount of compensation that is not variable in nature and that the Director received for his for his executive work.

2 Fixed compensation: Amount of compensation in cash, with a pre-established payment frequency, whether or not vesting over time, and received by the Director for belonging to the Board, regardless of the actual attendance by the Director at meetings of the Board.

3 Attendance fees: Total amount of attendance fees for attending the meetings of the Advisory or Control Committees.

4 Short-term variable compensation (bonus): Variable amount linked to the performance or achievement of a number of individual or group goals (quantitative or qualitative) over a period equal to or less than one year, for fiscal year 2015 and paid in fiscal year 2016. As regards the bonus for 2016 and which will be paid in 2017, the Executive Director Mr. José María Álvarez-Pallete López will receive 3,430,430 euros.

5 Compensation for belonging to Committees of the Board: Amount of compensation in cash, with a pre-established payment frequency, whether or not vesting over time, and received by the Director for belonging to the Executive Commission and the Advisory or Control Committees, regardless of the actual attendance by the Director at meetings of the Advisory or Control Committees.

6 Other items: Includes, among other things, the amounts received for belonging to the Territorial Advisory Boards in Spain (Valencia, Andalusia and Catalonia) and other in-kind compensation (general medical insurance and dental coverage) paid by Telefónica, S.A. It is noted that, from January

2017, and in order to reach the highest level of efficiency possible and to optimize the management of Telefónica, S.A., the aforementioned Territorial Advisory Boards in Spain were eliminated.

7. Mr. Juan Ignacio Cirac Sasurain, Mr. José Javier Echenique Landiribar, Ms. Sabina Fluxà Thienemann, and Mr. Peter Löscher were appointed as Directors of the Company on April 8, 2016, thus reflecting the compensation received as from such date.

Furthermore, Mr. José Fernando de Almansa Moreno-Barreda, Mr. Carlos Colomer Casellas, Mr. Alfonso Ferrari Herrero and Mr. Santiago Fernández Valbuena ceased to hold office as Directors on April 8, 2016, with the compensation received by them through such date being reflected below.

Directors	Salary <sup>1</sup>	Fixed compensation <sup>2</sup>	Attendance fees <sup>3</sup>	Short-term variable compensation <sup>4</sup>	Compensation for belonging to Committees of the Board <sup>5</sup>	Other items <sup>6</sup>	Total
Mr. José Fernando de Almansa Moreno-Barreda	-	30,000	8,000	-	8,400	3,333	49,733
Mr. Carlos Colomer Casellas	-	30,000	14,000	-	36,800	4,333	85,133
Mr. Alfonso Ferrari Herrero	-	30,000	17,000	-	39,600	3,333	89,933
Mr. Santiago Fernández Valbuena	-	-	-	-	-	-	-

1 Salary: Includes compensation amounts that are not variable in nature and that the Director received for his executive work.

2 Fixed compensation: Amount of compensation in cash, with a pre-established payment frequency, whether or not vesting over time, and received by the Director for belonging to the Board, regardless of the actual attendance by the Director at meetings of the Board.

3 Attendance fees: Total amount of attendance fees for attending the meetings of the Advisory or Control Committees.

4 Short-term variable compensation (bonus): Variable amount linked to the performance or achievement of a number of individual or group goals (quantitative or qualitative) over a period equal to or less than one year, for fiscal year 2015 and paid in fiscal year 2016.

5 Compensation for belonging to Committees of the Board: Amount of compensation in cash, with a pre-established payment frequency, whether or not vesting over time, and received by the Director for belonging to the Executive Commission and the Advisory or Control Committees, regardless of the actual attendance by the Director at meetings of the Advisory or Control Committees.

6 Other items: Includes, among other things, the amounts received for belonging to the Territorial Advisory Boards in Spain (Valencia, Andalusia and Catalonia) and other in-kind compensation (general medical insurance and dental coverage) paid by Telefónica, S.A. It is noted that, from January 2017, and in order to reach the highest level of efficiency possible and to optimize the management of Telefónica, S.A., the aforementioned Territorial Advisory Boards in Spain were eliminated.

To break down the amounts included in the table above, set forth below is the specific compensation received by Telefónica's Directors for belonging to the various Advisory or Control Committees during fiscal year 2016, including both the fixed amount and the attendance fees.

In this regard, it is noted that the Board of Directors, at its meeting held on April 27, 2016, after a favorable report from the Nominating, Compensation and Corporate Governance Committee, approved a new configuration for the organization, structure and composition of the Advisory and Control Committees of the Company in order to reach the highest level of efficiency possible and to optimize the management of Telefónica, S.A.'s corporate governance structure.

Within this context, the Board of Directors unanimously adopted the following resolutions: i) To reorganize the then-existing Regulation and Institutional Affairs Committees, which became a single Committee called the Regulation and Institutional Affairs Committee, the powers, duties and responsibilities of which are those that until such time corresponded to each of such Committees; and ii) To reorganize the then-existing Strategy and Innovation Committees, which became a single Committee called the Strategy and Innovation Committee, the powers, duties and responsibilities of which are those that until such time corresponded to each of such Committees.

**ADVISORY OR CONTROL COMMITTEES OF TELEFÓNICA, S.A.**

(Amounts in euros)

Directors	Audit and Control	Nominating, Compensation and Corporate Governance	Service Quality and Customer Service	Strategy and Innovation	Regulation and Institutional Affairs	TOTAL 2016
Mr. José María Álvarez-Pallete López	-	-	-	-	-	-
Mr. Isidro Fainé Casas	-	-	-	-	-	-
Mr. José María Abril Pérez	-	-	-	14,200	-	14,200
Mr. Julio Linares López <sup>1</sup>	-	-	9,467	15,466	32,400	57,333
Mr. César Alierta Izuel	-	-	-	-	-	-
Ms. Eva Castillo Sanz	-	-	15,200	21,200	17,200	53,600
Mr. Juan Ignacio Cirac Sasturain	-	-	-	-	-	-
Mr. José Javier Echenique Landiribar	23,800	-	-	-	-	23,800
Mr. Peter Erskine	-	21,200	-	40,133	-	61,333
Ms. Sabina Fluxà Thienemann	-	11,467	-	-	-	11,467
Mr. Luiz Fernando Furlán	-	-	-	-	-	-
Mr. Gonzalo Hinojosa Fernández de Angulo	18,200	19,200	13,200	16,200	24,667	91,467
Mr. Pablo Isla Álvarez de Tejera	-	16,200	-	-	-	16,200
Mr. Peter Löscher	-	-	-	13,467	-	13,467
Mr. Antonio Massanell Lavilla	22,200	-	26,400	11,200	14,200	74,000
Mr. Ignacio Moreno Martínez	23,200	-	15,200	-	17,200	55,600
Mr. Francisco Javier de Paz Mancho <sup>1</sup>	13,467	23,800	5,733	-	24,933	67,933
Mr. Wang Xiaochu	-	-	-	-	-	-

<sup>1</sup> In the case of Mr. Linares, includes the amount received for belonging to the former Strategy Committee until April 27, 2016, and in the case of Mr. de Paz includes the amount received for belonging to the Service Quality and Customer Service Committee until April 27, 2016.

Mr. José Fernando de Almansa Moreno-Barreda, Mr. Carlos Colomer Casellas and Mr. Alfonso Ferrari Herrero ceased to hold office as Directors on April 8, 2016, with the compensation received by them through such date being reflected below.

Directors	Audit and Control	Nominating, Compensation and Corporate Governance	Regulation	Service Quality and Customer Service	Innovation	Strategy	Institutional Affairs	TOTAL 2016
Mr. José Fernando de Almansa Moreno-Barreda	-	-	3,800	-	-	6,800	5,800	16,400
Mr. Carlos Colomer Casellas	11,600	5,800	-	4,800	8,600	-	-	30,800
Mr. Alfonso Ferrari Herrero	7,800	8,600	3,800	3,800	-	6,800	5,800	36,600

The following table also breaks down on an individualized basis the amounts received by the Company's Directors from companies of the Telefónica Group other than Telefónica, S.A. for the performance of executive duties or for belonging to the Boards of Directors and/or Advisory Committees of such companies:

**OTHER COMPANIES OF THE TELEFÓNICA GROUP**

(Amounts in euros)

Directors	Salary <sup>1</sup>	Fixed compensation <sup>2</sup>	Attendance fees <sup>3</sup>	Short-term variable compensation <sup>4</sup>	Compensation for belonging to Committees of the Board <sup>5</sup>	Other items <sup>6</sup>	Total
Mr. José María Álvarez-Pallete López	-	-	-	-	-	-	-
Mr. Isidro Fainé Casas	-	-	-	-	-	-	-
Mr. José María Abril Pérez	-	-	-	-	-	-	-
Mr. Julio Linares López	-	-	-	-	-	30,000	30,000
Mr. César Alierta Izuel	-	-	-	-	-	-	-
Ms. Eva Castillo Sanz	-	60,000	-	-	-	-	60,000
Mr. Juan Ignacio Cirac Sasurain	-	-	-	-	-	-	-
Mr. José Javier Echenique Landiribar	-	-	-	-	-	-	-
Mr. Peter Erskine	-	-	-	-	-	53,066	53,066
Ms. Sabina Fluxà Thienemann	-	-	-	-	-	-	-
Mr. Luiz Fernando Furlán	-	86,656	-	-	-	30,000	116,656
Mr. Gonzalo Hinojosa Fernández de Angulo	-	19,254	-	-	-	30,000	49,254
Mr. Pablo Isla Álvarez de Tejera	-	-	-	-	-	-	-
Mr. Peter Löscher	-	-	-	-	-	-	-
Mr. Antonio Massanell Lavilla	-	-	-	-	-	-	-
Mr. Ignacio Moreno Martínez	-	-	-	-	-	-	-
Mr. Francisco Javier de Paz Mancho	-	181,394	-	-	-	30,000	211,394
Mr. Wang Xiaochu	-	-	-	-	-	-	-

1 Salary: Compensation amounts that are not variable in nature and that the Director received from other companies of the Telefónica Group for his/her executive work.

2 Fixed compensation: Amount of compensation in cash, with a pre-established payment frequency, whether or not vesting over time, and received by the Director for belonging to the boards of directors of other Companies of the Telefónica Group.

It is noted that Ms. Eva Castillo accrued an amount of 60,000 euros during fiscal year 2016 for belonging to the Supervisory Board of Telefónica Deutschland Holding, A.G. Such amount had not been paid as of the date of preparation of this document. Mr. Peter Erskine also accrued an amount of 12,403 euros during fiscal year 2016 for belonging to the Supervisory Board of Telefónica Deutschland Holding, A.G. Such amount had not been paid as of the date of preparation of this document.

3 Attendance fees: Total amount of attendance fees for attending the meetings of the boards of directors of other Companies of the Telefónica Group.

4 Short-term variable compensation (bonus): Variable amount linked to the performance or achievement of a number of individual or group goals (quantitative or qualitative) over a period equal to or less than one year, for fiscal year 2015 and paid in fiscal year 2016, by other companies of the Telefónica Group.

5 Compensation for belonging to Committees of the Board of other companies of the Telefónica Group: Amount of compensation in cash, with a pre-established payment frequency, whether or not vesting over time and accrued by the Director for belonging to the Committees of boards of directors of other Companies of the Telefónica Group.

6 Other items: Includes, among other things, the amounts received for belonging to other Regional and Business Advisory Boards (Spain, UK and Latam) and other in-kind compensation (general medical insurance and dental coverage) paid by other companies of the Telefónica Group. It is noted that, from January 2017, and in order to reach the highest level of efficiency possible and to optimize the management of Telefónica, S.A., the aforementioned Regional and Business Boards were eliminated.

Furthermore, Mr. José Fernando de Almansa Moreno-Barreda, Mr. Carlos Colomer Casellas, Mr. Alfonso Ferrari Herrero and Mr. Santiago Fernández Valbuena ceased to hold office as Directors on April 8, 2016, with the compensation received by them through such date being reflected below.

Directors	Salary <sup>1</sup>	Fixed compensation <sup>2</sup>	Attendance fees <sup>3</sup>	Short-term variable compensation <sup>4</sup>	Compensation for belonging to Committees of the Board <sup>5</sup>	Other items <sup>6</sup>	Total
Mr. José Fernando de Almansa Moreno-Barreda	-	95,944	-	-	-	30,000	125,944
Mr. Calos Colomer Casellas	-	-	-	-	-	-	-
Mr. Alfonso Ferrari Herrero	-	84,865	-	-	-	30,000	114,865
Mr. Santiago Fernández Valbuena <sup>7</sup>	319,223	-	-	1,149,205	-	9,218	1,477,646

1 Salary: Compensation amounts that are not variable in nature and that the Director received from other companies of the Telefónica Group for his/her executive work.

2 Fixed compensation: Amount of compensation in cash, with a pre-established payment frequency, whether or not vesting over time, and received by the Director for belonging to the boards of directors of other Companies of the Telefónica Group.

3 Attendance fees: Total amount of attendance fees for attending the meetings of the boards of directors of other Companies of the Telefónica Group.

4 Short-term variable compensation (bonus): Variable amount linked to the performance or achievement of a number of individual or group goals (quantitative or qualitative) over a period equal to or less than one year, for fiscal year 2015 and paid in fiscal year 2016, by other companies of the Telefónica Group.

5 Compensation for belonging to Committees of the Board of other companies of the Telefónica Group: Amount of compensation in cash, with a pre-established payment frequency, whether or not vesting over time and accrued by the Director for belonging to the Committees of boards of directors of other Companies of the Telefónica Group.

6 Other items: Includes, among other things, the amounts received for belonging to other Regional and Business Advisory Boards (Spain, UK and Latam) and other in-kind compensation (general medical insurance and dental coverage) paid by other companies of the Telefónica Group. It is noted that, from January 2017, and in order to reach the highest level of efficiency possible and to optimize the management of Telefónica, S.A., the aforementioned Regional and Business Boards were eliminated.

7 It is noted that Executive Director Mr. Santiago Fernández Valbuena collected his remuneration in Brazilian reais and, accordingly, the stated amounts of his compensation in euros may vary depending on the exchange rate applicable at any particular time.

Also as stated in the section on Compensation Policy, the Executive Directors have a number of Benefits. Set forth below is a breakdown of the contributions made by the Company to the long-term savings plans (Pension Plans and Benefits Plan) during fiscal year 2016:

## LONG-TERM SAVINGS SYSTEMS

(Amounts in euros)

Directors	Contributions for fiscal year 2016
Mr. José María Álvarez-Pallete López	673,085
Mr. César Alierta Izuel	44,912

The breakdown of the long-term saving systems includes contributions to Pension Plans, to the Benefit Plan and to the Unit link-type Insurance, as set out below:

(Amounts in euros)

Directors	Contributions to Pension Plans	Contributions to Benefits Plan <sup>1</sup>	Contributions to Unit link-type Insurance/Pension Plan Surplus
Mr. José María Álvarez-Pallete López	6,060	540,968	126,057
Mr. César Alierta Izuel	5,377	-	39,535

1 Contributions to the Executive Benefits Plan in 2006, funded solely by the Company, to supplement the Pension Plan in effect, which entails defined contributions equal to a particular percentage of the Officer's fixed compensation based on professional levels within the Telefónica Group's organization.

It is noted that in 2015 applicable law reduced the financial and tax limits of the contributions to Pension Plans; for this reason, in order to compensate for the difference in favor of the Beneficiaries, a Unit-link type group insurance policy was arranged to channel such differences that occur during each fiscal year.

This Unit-link type insurance is arranged with the entity Seguros de Vida y Pensiones Antares, S.A., and covers the same contingencies as those of the "Pension Plan" and the same exceptional liquidity events in case of serious illness or long-term unemployment.

The 2016 amounts for life insurance premiums were as follows:

### LIFE INSURANCE PREMIUMS

(Amounts in euros)

Directors	Life insurance premiums
Mr. José María Álvarez-Pallete López	17,111
Mr. César Alierta Izuel	62,959

As regards share-based compensation plans (in which only the Executive Directors participate), there were three long-term variable compensation plans in effect during fiscal year 2016:

1.- The first "Performance & Investment Plan" ("PIP") made up of three cycles (2011-2014; 2012-2015; 2013-2016), was approved at the Ordinary General Shareholders' Meeting held on May 18, 2011. Pursuant to the general terms and conditions thereof, there was no delivery of shares from the third cycle of the Plan (2013-2016), for which reason no shares were delivered to the Executive Directors who participated in this cycle.

2.- The second Plan, also called "Performance & Investment Plan" ("PIP"), was approved at the Ordinary General Shareholders' Meeting held on May 30, 2014. The first cycle of this Plan began in 2014 and will end in October 2017. The second cycle of this Plan began in 2015 and will end in October 2018. As regards the third cycle of this Plan (2016-2019), the Board of Directors of the Company, after a favorable report from the Nominating, Compensation and Corporate Governance Committee, resolved not to execute or implement this cycle after finding that it was not sufficiently aligned with the strategic planning of the Telefónica Group, taking into account the circumstances and the macroeconomic environment.

Set out below is the maximum number of theoretical shares allocated (without co-investment), as well as the maximum number of theoretical shares allocated upon compliance with the "co-investment" requirement established in such second Plan and maximum completion of the TSR target set for the first and second cycle of the Plan.

### SECOND PIP - First Cycle / 2014-2017

Directors	Theoretical shares allocated (without co-investment)	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	192,000	300,000
Mr. César Alierta Izuel	324,000	506,250

(\*) Maximum possible number of shares to be received in case of meeting the co-investment requirement and maximum completion of TSR target.



**SECOND PIP - Second Cycle / 2015-2018**

Directors	Theoretical shares allocated (without co-investment)	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	192,000	300,000
Mr. César Alierta Izuel	324,000	506,250

(\*) Maximum possible number of shares to be received in case of meeting the co-investment requirement and maximum completion of TSR target.

In any event, it is noted that no shares have been delivered to the Executive Directors under either the first or the second cycle of the second PIP and that the table above only reflects the number of shares potentially deliverable under various scenarios, without in any way meaning that all or part thereof will actually be delivered.

In fact, the number of shares of Telefónica, S.A. that always, within the maximum limit and that could be delivered, where appropriate, to the Participants is subject to and determined by the Total Shareholder Return ("TSR") of the Telefónica, S.A. shares during the cycle (3 years), as compared to TSRs experienced by certain companies within the telecommunications sector, weighted according to their relevance to Telefónica, S.A. which shall constitute the comparison group (hereinafter, the "Comparison Group") for purposes of the Plan. The companies included in the Comparison Group are the following: America Movil, BT Group, Deutsche Telekom, Orange, Telecom Italia, Vodafone Group, Proximus, Royal KPN, Millicom, Oi, Swisscom, Telenor, TeliaSonera, and Tim Participações.

The achievement scale approved by the Board is the following: if the TSR performance of Telefónica, S.A. shares is within at least the median of the Comparison Group, the number of shares to be delivered will be 30% of the maximum. If performance falls in the third quartile of the Comparison Group, the number of shares to be delivered shall be 100% of the maximum. Those cases falling between the median and the third quartile shall be calculated by linear interpolation. If the TSR of Telefónica, S.A. falls within the ninth decile or higher, the delivery rate will be higher than 100%, up to a maximum of 125%, calculated by linear interpolation between said third quartile and the ninth decile.

3.- The Telefónica, S.A. Incentive Share Purchase Plan (2015-2017) directed towards all employees of the Group at the international level (including executive personnel as well as the Executive Chairmen), called the "Global Employee Incentive Share Purchase Plan" ("GESP"), the third edition of which was approved by the shareholders at the Ordinary General Shareholders' Meeting of the Company held on May 30, 2014.

This Plan is intended to strengthen Telefónica's nature as a global employer, creating a common remuneration culture throughout the Company, incentivize participation in capital by all employees of the Group, and encourage their motivation and loyalty.

Through this Plan, employees are offered the possibility of acquiring shares of Telefónica, S.A. for a maximum period of twelve months (purchase period), with the Company's commitment to deliver to the participants therein a certain number of shares free of charge, provided that certain requirements are met. Each employee can allocate a maximum amount of 1,800 euros, and a minimum amount of 300 euros. If the employee remains with the Telefónica Group and maintains the shares for an additional year after the purchase period (vesting period), they will have the right to receive one free share for each share that they have acquired and maintained through the end of the vesting period.

Mr. Álvarez-Pallete and Mr. Alierta Izuel participated in this Plan with the maximum contribution, i.e., 150 euros monthly, for twelve months. At December 31, 2016, they had acquired a total of 178 shares under this Plan, having the right to receive an equivalent number of shares free of charge, provided that the

shares acquired have been kept for the vesting period (twelve months from the end of the purchase period), among other conditions.

It should also be noted that the external Directors of the Company have not received and will not receive during 2016 any compensation as pensions or life insurance, and will also not participate in compensation plans linked to the listing price of the shares (except as described for Mr. Alierta and Mr. Linares in the tables above).

The Company does not grant, and has not granted during 2016, any advance, loan or credit to any of the Directors or to its Senior Management, in compliance with the requirements of the Sarbanes-Oxly Act in the United States, which applies to Telefónica as a company listed on such market.

### **Compensation of the Senior Management of the Company.**

For their part, the Officers who in 2016 were members of the Company's Senior Management,<sup>1</sup> excluding those forming part of the Board of Directors, received the total amount of 9,838,615 euros during fiscal year 2016.

It is noted that Mr. Santiago Fernández Valbuena received an amount of 10,560,000 euros in compensation as a result of his cessation as an Officer of Telefónica, S.A. in May 2016.

In addition, as to the long-term savings plans, the contributions made by the Telefónica Group during 2016 to the Benefits Plan described in the note on "Income and expenses" as regards these Officers was 1,414,777 euros; the contributions for the Pension Plan was 137,650 euros; and the contributions to the Unit-Link Insurance-Pension Plan Surplus were 133,351 euros.

Furthermore, amounts relating to in-kind compensation (including life insurance and other insurance premiums as well as general medical insurance, dental coverage, and vehicle) were 131,665 euros.

And as regards share-based compensation plans, there were three long-term variable compensation plans in effect during fiscal year 2016:

1.- First "Performance & Investment Plan" ("PIP") made up of three cycles (2011-2014; 2012-2015; 2013-2016), approved at the Ordinary General Shareholders' Meeting held on May 18, 2011. Pursuant to the general terms and conditions thereof, there was no delivery of shares from the third cycle of the Plan (2013-2016), for which reason no shares were delivered to the Officers.

2.- Second "Performance & Investment Plan" ("PIP") made up of three cycles (2014-2017; 2015-2018; 2016-2019), approved at the Ordinary General Shareholders' Meeting held on May 30, 2014. The number of theoretical shares assigned (without co-investment) to the beginning of the cycle to all Officers within the company's Senior Management and the maximum number of shares assigned<sup>2</sup> is 453,580 and 706,975, respectively, in the first cycle (2014-2017), and 349,650 and 544,563, respectively, in the second cycle (2015-2018).

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<sup>1</sup> With Senior Management being understood for these purposes as those persons who, *de facto* or *de jure*, perform senior management duties while reporting to the Board of Directors or the Executive Commissions or Chief Operating Officers of the Company, including in all cases the head of Internal Audit.

<sup>2</sup> Maximum possible number of shares to be received in case of meeting the co-investment requirement and maximum completion of TSR target. In any event, it is noted that no shares have been delivered to the Executive Directors under either the first or the second cycle of the second PIP and that the table above only reflects the number of shares potentially deliverable under various scenarios, without in any way meaning that all or part thereof will actually be delivered.

As regards the third cycle of this Plan (2016-2019), the Board of Directors of the Company, after a favorable report from the Nominating, Compensation and Corporate Governance Committee, resolved not to execute or implement this cycle after finding that it was not sufficiently aligned with the strategic planning of the Telefónica Group, taking into account the circumstances and the macroeconomic environment.

3.- "Global Employee Incentive Share Purchase Plan" ("GESP") (2015-2017), the third edition of which was approved by the shareholders at the Ordinary General Shareholders' Meeting of the Company held on May 30, 2014. All Officers within the Company's Senior Management have decided to participate therein with the maximum contribution (i.e., 150 euros monthly, for twelve months). At December 31, 2016, the Officers within the Senior Management had acquired a total of 1,033 shares under this Plan, having the right to receive an equivalent number of shares free of charge, provided that the shares acquired are kept for the vesting period (twelve months from the end of the purchase period), among other conditions.