

TELEFÓNICA, S.A.

SHARE CAPITAL REDUCTION

The Board of Directors of Telefónica, S.A., at its meeting of September 28, 2016, resolved to execute the resolution adopted by the Annual General Shareholders' Meeting of the Company held on May 12, 2016, regarding a capital reduction by the cancellation of 74,627,988 own shares recorded as treasury stock.

The Board of Directors has therefore declared 74,627,988 of the own shares of Telefónica, S.A. to be cancelled, reducing the Company's share capital by the sum of 74,627,988 Euros. This also means rewording Article 6 of the By-laws, relative to share capital, which now stands at 4,900,571,209 Euros, made up of an equal number of common shares of a single series and with a par value of one (1) euro each, fully paid in.

This share capital reduction is being charged to unrestricted reserves, and does not entail a return of contributions to the shareholders, since the Company itself is the owner of the cancelled shares.

To this end, pursuant to the provisions of Section 335 c) of the Companies Act (Ley de Sociedades de Capital), the funding of a reserve for cancelled share capital has been established in an amount equal to the par value of the cancelled shares (74,627,988 euros), which may only be used in compliance with the same requirements as those established for the reduction of share capital.

Accordingly, as laid down in such section, the creditors of the Company will not have the right to oppose the reduction mentioned in

Section 334 of the Companies Act in connection with the approved reduction in share capital.

Madrid, October 3, 2016

General Secretary and Secretary to the Board of Directors

D. Ramiro Sánchez de Lerín García-Ovies