

**COMPREHENSIVE REPORT OF THE NOMINATING, COMPENSATION AND
CORPORATE GOVERNANCE COMMITTEE OF TELEFÓNICA, S.A.**

REGARDING

**PROPOSALS FOR RATIFICATION, RE-ELECTION AND APPOINTMENT OF
DIRECTORS TO BE SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL
SHAREHOLDERS' MEETING**

April 7, 2016

Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*) provides that proposals for the appointment and re-election of members of the Board of Directors must be accompanied by a substantiating report of the Board assessing the competence, experience and merits of the proposed candidate; and in the case of proposed appointments or re-elections of any non-independent Director shall also be preceded by a report of the Nominating and Compensation Committee.

Article 10.2 of the Regulations of the Board of Directors of Telefónica, S.A. (the "**Company**") provides that proposals for the appointment, re-election and ratification of Directors that the Board of Directors submits for consideration at the General Shareholders' Meeting, and the resolutions appointing Directors adopted by the Board of Directors itself pursuant to the powers attributed by law thereto, must be preceded by a corresponding report of the Nominating, Compensation and Corporate Governance Committee and, in the case of independent Directors, by a corresponding proposal.

According to this article, in the case of re-election or ratification, such report or proposal of the Nominating, Compensation and Corporate Governance Committee shall contain an evaluation of the work and actual dedication to the position for the latest period of time during which the proposed Director held such position.

Finally, article 10.4 of the Regulations of the Board of Directors provides that the results of the prior analysis of the needs of the Board of Directors shall be reflected in the report of the Nominating, Compensation and Corporate Governance Committee to be published upon occasion of the call to the General Shareholders' Meeting to which the ratification, appointment or re-election of each Director shall be submitted.

In compliance with the foregoing requirements, the Nominating, Compensation and Corporate Governance Committee has approved this comprehensive report relating to the proposals for ratification, re-election and appointment of Directors, after the report or proposal, as applicable, of the Nominating, Compensation and Corporate Governance Committee, that will be submitted at the upcoming 2016 General Shareholders' Meeting of the Company, for purposes of generally explaining the context of such proposals and to reflect the prior analysis of the needs of the Board of Directors.

This report supplements the individual reports issued by the Nominating, Compensation and Corporate Governance Committee with respect to each of the proposals for re-election or ratification and appointment of non-independent Directors.

1. APPLICATION OF THE DIRECTOR SELECTION POLICY

At its meeting of November 25, 2015, the Company's Board of Directors approved a Director Selection Policy that is intended to ensure that proposals for appointment or re-election of Directors are based on a prior analysis of the needs of the Board of Directors, favor a diversity of knowledge, experience and gender, and are free from any implicit bias entailing any kind of discrimination.

In this regard, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen to be proposed for the position of Director are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

In this regard, candidates for Director shall be persons of recognized prestige, caliber, experience and training, especially in the telecommunications, economic/financial, accounting, auditing, risk management and/or business management fields, with the ability to lead teams made up of persons belonging to various fields of activity, and extensive knowledge in large companies.

The Director Selection Policy sets out the process for selecting the Company's Directors and contemplates that the Board of Directors must undertake an annual evaluation of its operations and that of its Committees, particularly evaluating diversity in composition and powers of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, of the Company's Chief Executive Officer, and of the various Directors, paying special attention to the heads of the various Committees of the Board, and shall adopt appropriate measures for the improvement thereof.

The Nominating, Compensation and Corporate Governance Committee has verified that the process of preparing and approving the proposals for ratification, re-election and appointment of Directors to be submitted at the General Shareholders' Meeting has complied with the provisions of the Director Selection Policy and has followed an appropriate and rigorous procedure to ensure that the proposals made by both the Board of Directors and by the Nominating, Compensation and Corporate Governance Committee (relating to the independent Directors) are in the best interest of the Company.

2. PROPOSALS REGARDING THE COMPOSITION OF THE BOARD OF DIRECTORS

The proposals for ratification, re-election and appointment of Directors that will be submitted at the upcoming General Shareholders' Meeting, for which reports have been prepared by the Nominating, Compensation and Corporate Governance Committee (regarding the non-independent Directors) or by the made by the

Nominating, Compensation and Corporate Governance Committee (regarding the independent Directors) are as follows:

- Re-election of the Directors Mr. Isidro Fainé Casas and Mr. Antonio Massanell Lavilla as proprietary Directors for a new four-year period.
- Re-election of the Director Mr. Julio Linares López as other external Director for a new four-year period.
- Re-election of the Director Mr. Peter Erskine as independent Director for a new four-year period.
- Ratification of the interim appointment as Director approved by the Board of Directors at its meeting held on September 30, 2015 and appointment as Director by the shareholders at the General Shareholders' Meeting of Mr. Wang Xiaochu as proprietary Director for the bylaw-mandated four-year period.
- Ratification of the interim appointment as Directors to be approved by the Board of Directors at its meeting held on April 8, 2016 and appointment as Directors by the shareholders at the General Shareholders' Meeting of Ms. Sabina Fluxà, Mr. José Javier Echenique Landiribar, Mr. Peter Löscher and Mr. Juan Ignacio Cirac Sasturain, as independent Directors for the bylaw-mandated four-year period.

3. ANALYSIS OF THE COMPOSITION AND NEEDS OF THE BOARD OF DIRECTORS

3.1 Board of Directors

As provided by law and the By-Laws, the Board of Directors is the highest management and representative body of the Company; it is therefore authorized to carry out, within the scope of the corporate purpose established in the By-Laws, any acts or legal transactions of administration and disposition of property, upon any legal title, except for those acts or transactions which are reserved by law or the By-Laws exclusively to the shareholders acting at a General Shareholders' Meeting.

Notwithstanding the foregoing, the Board of Directors is basically configured as a supervising and controlling body, with the day-to-day management of the Company's affairs being entrusted to the executive decision-making bodies and the management team.

The Board of Directors is currently made up of eighteen Directors, three of which are executive and the rest non-executive. Among the non-executive Directors, five are proprietary (*dominical*), seven are independent, and the remaining three are other external directors.

Of the five proprietary Directors, two are such in representation of Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", an institution holding 5.01% of the share capital of the Company; two are such in representation of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), the holder of 6.07% of such capital; and one in

representation of China Unicom (Hong Kong) Limited (China Unicom), holder of 1.29% of the share capital.

On April 8, 2016, the current Executive Chairman, Mr. César Alierta Izuel, will tender his resignation from such position, remaining as a Member of the Board of Directors but becoming an other external director, and four Directors, Messrs. Mr. Carlos Colomer Casellas (Independent Director), Alfonso Ferrari Herrero (Independent Director), Mr. José Fernando de Almansa Moreno-Barreda (Other External Director), Santiago Fernández Valbuena (Executive Director), will tender their resignation in order to renew the body, with this Nominating, Compensation and Corporate Governance Committee proposing to fill such vacancies through the interim appointment of four independent Directors.

3.2 Evaluation of the Board of Directors, its Committees and its Members

On an annual basis, all Directors evaluate the operation of the Board of Directors and of its advisory Committees, the performance of senior management and that of the General Shareholders' Meeting.

The Nominating, Compensation and Corporate Governance Committee then reviews and analyzes the results of the evaluation by the Directors, identifying those areas susceptible to improvement measures. After a detailed examination and analysis of the results achieved, the Nominating, Compensation and Corporate Governance Committee proposes to the Board of Directors the implementation of the suggestions and recommendations it deems appropriate.

As regards fiscal year 2015, at the meeting of the Board of Directors held on December 16, 2015, a questionnaire was delivered to all of the Directors in order to perform the evaluation for that year. This questionnaire contained very diverse questions grouped into the following five sections:

- Composition (quantitative and qualitative), operation and powers of the Board, expressly including the suitability of the performance and contribution of the Directors on the Board of Directors.
- Composition and operation of the Committees, expressly including the performance and contribution of the Chairs of the Committees of the Board of Directors.
- Performance of senior management, expressly including the suitability of the performance of the Executive Chairman and of the Chief Operating Officer (*Consejero Delegado*);
- Rights and Duties of the Directors; and
- General Shareholders' Meeting.

Upon receipt of the questionnaires filled out with the opinions and suggestions of all of the Directors, it was concluded that there was a high level of satisfaction with the organization and activities of the governance bodies of the Company,

and action plans were established regarding those issues identified as being susceptible to improvement.

Pursuant to the Director Selection Policy, every three years the Board of Directors will be assisted in performing the evaluation by an external consultant, the independence of which shall be verified by the Nominating, Compensation and Corporate Governance Committee.

3.3 Comprehensive Rationale

In the review or preparation, as applicable, of the proposals for ratification, re-election and appointment of Directors, the Nominating, Compensation and Corporate Governance Committee has taken into account all of the foregoing aspects, as well as the suitability of the professional profiles of the Directors to the Company's area of activity and its international nature and the needs of the body to be able to efficiently comply with its supervision and control duties.

In this regard, the experience, training and professional profile of the Directors whose ratification, re-election and/or appointment is being submitted for approval at the General Shareholders' Meeting shows their merits and competence to hold the position of Director and their experience and knowledge in the diverse industries and issues that are relevant for the Company, which ensures the quality of debate within the Board of Directors.

Likewise, and as mentioned, among the four Independent Directors whose appointment is submitted for ratification to the General Shareholders Meeting, there is a woman, Ms. Sabina Fluxà Thienemann, with the corresponding increase in the number of women on the Board of Directors and expression of the Company's commitment to the promotion of diversity.

The Nominating, Compensation and Corporate Governance Committee has especially valued (i) the contribution of the Directors whose re-election is proposed to the proper operation of the Board of Directors and to effective compliance with its supervision and control duties, (ii) the renewal of the Board of Directors deriving from the proposed ratifications and appointments of Directors, which results in the increase of the number of the Independent Directors, and (iii) compliance by all Directors with the requirements of respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to their duties for holding the position, with none of them incurring any grounds for disqualification, prohibition or permanent conflict of interest.

In any event, the Nominating, Compensation and Corporate Governance Committee has verified that the proposals for ratification, re-election and appointment of Directors are of persons of recognized caliber, qualifications and experience, who are willing to devote the required time and effort to the performance of their duties, having taken extreme care regarding the selection of the persons called to hold the position of independent Director.

By virtue thereof, after the detailed analysis of the needs of the Board of Directors, considering the shareholder structure of the Company, the diversity of

experience and knowledge, and the resulting composition of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee believes that the proposals for ratification, re-election and appointment of Directors to be submitted to the shareholders at the General Shareholders' Meeting are appropriate and in the best interest of the Company.

4. PROPOSALS OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE FOR RE-ELECTION, RATIFICATION AND APPOINTMENT OF INDEPENDENT DIRECTORS

Pursuant to the provisions of Section 529 *decies.4* of the Companies Act, article 10.2 of the Regulations of the Board of Directors, and the Director Selection Policy, the proposals for ratification, re-election and appointment of independent Directors must be prepared in advance by the Nominating, Compensation and Corporate Governance Committee.

In this regard, it is stated for the record that the Nominating, Compensation and Corporate Governance Committee of the Company makes the following proposals for ratification, re-election and appointment of independent Directors:

a) Re-election of independent Directors

The Nominating, Compensation and Corporate Governance Committee proposes the re-election of the Director Mr. Peter Erskine as independent Director for a new four-year period.

Mr. Peter Erskine was appointed as a Director of the Company for the first time on January 25, 2006, having been last re-elected for a five-year period by resolution of the shareholders at the General Shareholders' Meeting of May 18, 2011.

The Nominating, Compensation and Corporate Governance Committee has verified that Mr. Peter Erskine continues to comply with the requirements to hold the position of independent Director.

In addition, pursuant to the provisions of article 10.2 of the Regulations of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee has very positively assessed the quality of work and dedication to office of the director of Mr. Erskine during the preceding term of office, as well as his respectability, capability, expertise, competence, experience, qualifications, availability, and commitment to the duties entrusted thereto.

b) Ratification and appointment of independent Directors

In view of the four vacancies that will occur on the Board of Directors as a result of the tendered resignation by the Directors Mr. Carlos Colomer Casellas (Independent Director), Mr. Alfonso Ferrari Herrero (Independent Director) Mr. José Fernando de Almansa Moreno-Barreda (Other External Director) and Mr. Santiago Fernández Valbuena (Executive Director), to take effect on April 8, 2016, the Nominating, Compensation and Corporate Governance Committee proposes:

- To fill such vacancies through the interim appointment by the Board of Directors at its meeting of April 8, 2016 of Ms. Sabina Fluxà Thienemann, Mr. José Javier Echenique Landiribar, Mr. Peter Löscher and Mr. Juan Ignacio Cirac Saturain as independent Directors; and
- The ratification of such interim appointments and the appointment as Directors of Ms. Sabina Fluxà Thienemann, Mr. José Javier Echenique Landiribar, Mr. Peter Löscher and Mr. Juan Ignacio Cirac Saturain as independent Directors for the bylaw-mandated four-year period by the shareholders at the General Shareholders' Meeting.

With respect to these proposals, the Nominating, Compensation and Corporate Governance Committee has made a detailed evaluation of the professional and personal profiles of the candidates, compliance with the requirements for business and professional respectability, that their knowledge, skills and experience are suitable to perform duties as a Director of the Company and their ability to properly dedicate themselves to the holding of the position and to effectively contribute to the governance bodies of the Company being able to perform their duties with the highest standards of quality and efficiency.

The Nominating, Compensation and Corporate Governance Committee also states for the record its approval of releasing such candidates from the requirement set forth in article 30 of the Bylaws regarding the holding for more than three years in advance of a number of shares of the Company representing a nominal value of at least 3,000 euros in order to be appointed as a Director of the Company.

5. REPORTS OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE REGARDING THE PROPOSALS FOR RE-ELECTION, RATIFICATION AND APPOINTMENT OF NON-INDEPENDENT DIRECTORS

Pursuant to the provisions of Section 529 *decies*.6 of the Companies Act, article 10.2 of the Regulations of the Board of Directors, and the Director Selection Policy, the proposals for ratification, re-election and appointment of non-independent Directors must be preceded by a corresponding report of the Nominating, Compensation and Corporate Governance Committee.

For these purposes, the Nominating, Compensation and Corporate Governance Committee simultaneously issues the corresponding individual reports regarding the proposals for re-election of the Directors Mr. Isidro Fainé Casas and Mr. Antonio Massanell Lavilla as proprietary Directors, and of the Director Mr. Julio Linares López as other external Director, for a new four-year period, and for ratification of the interim appointment as Director approved by the Board of Directors at its meeting held on September 30, 2015 and appointment as Director by the shareholders at the General Shareholders' Meeting of Mr. Wang Xiaochu as proprietary Director for the bylaw-mandated four-year period.

6. CONCLUSION

As a result of all of the foregoing, in view of the shareholding structure of the Company, the current needs of the corporate decision-making bodies of the Company, the current and expected structure, size and composition of the Board of Directors and the personal and professional conditions of the candidates, the Nominating, Compensation and Corporate Governance Committee believes that the proposals for ratification, re-election and appointment of Directors to be submitted to the shareholders at the upcoming General Shareholders' Meeting are appropriate and in the best interest of the Company.

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Madrid, April 7, 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RE-ELECTION OF MR. ISIDRO FAINÉ CASAS AS
PROPRIETARY DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE
GENERAL SHAREHOLDERS' MEETING****April 8, 2016**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed re-election of the proprietary Director Mr. Isidro Fainé Casas being submitted for approval of the shareholders at the General Shareholders’ Meeting pursuant to the provisions of Section 529 decies of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 decies of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders’ meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee."

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Mr. Isidro Fainé Casas proposed to be re-elected as a Director of the Company, with the classification of proprietary Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MR. ISIDRO FAINÉ CASAS

Mr. Isidro Fainé Casas holds a Doctorate in Economics, an International Senior Managers Program certificate in Business Administration from Harvard University, and a Diploma in Senior Management from the IESE Business School. He is a member of the Royal Academy of Economics and Finance and of the Royal Academy of Doctorate Holders.

Mr. Fainé began his professional banking career as Investment Manager for Banco Atlántico in 1964, and was appointed General Manager of Banco de Asunción in Paraguay in 1969. On his return to Barcelona, he held various management posts in financial entities: Head of Personnel at Banca Riva y García (1973), Director and General Manager of Banca Jover (1974) and General Manager of Banco Unión (1978). In 1982, he joined "la Caixa" as Executive General Manager, subsequently taking on various positions of responsibility. In April 1991, he was appointed Deputy Executive Managing Director and in 1999 rose to General Manager of the bank, before becoming Chairman from June 2007 to June 2014.

Isidro Fainé is Chairman of CaixaBank, S.A. He is also Chairman of the Board of Trustees of Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa" and of CriteriaCaixa, S.A.U., First Vice-Chairman of Repsol, S.A., and a

member of the Boards of Directors of Gas Natural SDG, S.A., Banco BPI, S.A., "The Bank of East Asia", and Suez Environnement Company.

He is currently the Chairman of the Spanish Confederation of Savings Banks (CECA), Chairman of the European Savings Banks Group (ESBG) and Deputy Chairman of the World Savings Banks Institute (WSBI).

He is also Chairman of the Spanish Confederation of Executives (CEDE), the Spanish Chapter of the Club of Rome, and the Círculo Financiero. Mr. Fainé is also a member of the Business Council for Competition (CEC).

The Company's Board of Directors finds that the training and experience of Mr. Isidro Fainé Casas gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.]

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Isidro Fainé Casas to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Mr. Isidro Fainé Casas is nominated at the request of the shareholder Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", the direct and indirect holder of 5.01% of the share capital of the Company, for which reason he is classified as a proprietary Director.

6. REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Annexed to this report is the favorable report of the Nominating, Compensation and Corporate Governance Committee regarding the proposal for re-election of Mr. Fainé Casas, dated April 7, 2016.

7. PROPOSAL FOR RE-ELECTION

For all of the foregoing reasons, the Board of Directors finds that Mr. Isidro Fainé Casas has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a prior favorable proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for re-election of Mr. Isidro Fainé Casas as proprietary Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

“To re-elect Mr. Isidro Fainé Casas as a Director of the Company for the bylaw-mandated four-year period, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, with the classification of proprietary Director.”

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Madrid, April 8, 2016

**REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE
GOVERNANCE COMMITTEE OF TELEFÓNICA, S.A.**

REGARDING

**THE PROPOSAL FOR RE-ELECTION OF MR. ISIDRO FAINÉ CASAS AS
PROPRIETARY DIRECTOR TO BE SUBMITTED TO THE SHAREHOLDERS AT THE
GENERAL SHAREHOLDERS' MEETING**

April 7, 2016

Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*) provides that proposals for the appointment and re-election of members of the Board of Directors must be accompanied by a substantiating report of the Board assessing the competence, experience and merits of the proposed candidate; and in the case of proposed appointments or re-elections of any non-independent Director shall also be preceded by a report of the Nominating and Compensation Committee.

Article 10.2 of the Regulations of the Board of Directors of Telefónica, S.A. (the “**Company**”) provides that proposals for the appointment, re-election and ratification of Directors that the Board of Directors submits for consideration at the General Shareholders' Meeting, and the resolutions appointing Directors adopted by the Board of Directors itself pursuant to the powers attributed by law thereto, must be preceded by a corresponding report of the Nominating, Compensation and Corporate Governance Committee and, in the case of independent Directors, by a corresponding proposal.

According to this article, in the case of re-election or ratification, such report or proposal of the Nominating, Compensation and Corporate Governance Committee shall contain an evaluation of the work and actual dedication to the position for the latest period of time during which the proposed Director held such position.

In compliance with the foregoing requirements, the Nominating, Compensation and Corporate Governance Committee has approved this report regarding the proposal for re-election of Mr. Isidro Fainé Casas as proprietary Director.

1. ASSESSMENT OF THE PERFORMANCE OF MR. ISIDRO FAINÉ CASAS

The Nominating, Compensation and Corporate Governance Committee has analyzed the quality of work as Director and the contribution of Mr. Isidro Fainé Casas to the Board of Directors since his first appointment in 1994, and particularly during his latest mandate (re-election by the shareholders at the General Shareholders' Meeting held on May 18, 2011).

It has also taken into account the dedication of Mr. Isidro Fainé Casas to holding the position of Director of the Company as well as his knowledge, skills and experience,

which in the opinion of this Nominating, Compensation and Corporate Governance Committee allow him to properly perform his duties.

As a result of all of the foregoing, the Nominating, Compensation and Corporate Governance Committee has concluded that Mr. Fainé Casas has quite satisfactorily performed his work within the Company's corporate decision-making bodies, contributes to such bodies having a balanced composition that is suitable to its needs, and provides significant cooperation for them to be able to perform their duties with the quality, professionalism and dedication required for the full effectiveness thereof.

2. ASSESSMENT OF THE CONDITIONS NECESSARY FOR HOLDING THE POSITION

The Nominating, Compensation and Corporate Governance Committee has also assessed the conditions necessary for holding the position of Director of the Company by Mr. Isidro Fainé Casas, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

2.1 Appointments and Classification

Mr. Isidro Fainé Casas was appointed as a Director of the Company for the first time on January 26, 1994, having been last re-elected for a five-year period by resolution of the shareholders at the General Shareholders' Meeting held on May 18, 2011. Therefore, his current appointment as Director expires on May 18, 2016.

Mr. Isidro Fainé Casas is nominated upon a proposal of Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", the direct and indirect holder of 5.01% of the share capital of the Company, for which reason he is classified as a proprietary Director.

2.2 Professional Training and Experience

Mr. Isidro Fainé Casas holds a Doctorate in Economics, an International Senior Managers Program certificate in Business Administration from Harvard University, and a Diploma in Senior Management from the IESE Business School. He is a member of the Royal Academy of Economics and Finance and of the Royal Academy of Doctorate Holders.

Mr. Fainé began his professional banking career as Investment Manager for Banco Atlántico in 1964, and was appointed General Manager of Banco de Asunción in Paraguay in 1969. On his return to Barcelona, he held various management posts in financial entities: Head of Personnel at Banca Riva y García (1973), Director and General Manager of Banca Jover (1974) and General Manager of Banco Unión (1978). In 1982, he joined "la Caixa" as Executive General Manager, subsequently taking on various positions of responsibility. In April 1991, he was appointed Deputy Executive Managing Director and in 1999 rose to General Manager of the bank, before becoming Chairman from June 2007 to June 2014.

Isidro Fainé is Chairman of CaixaBank, S.A. He is also Chairman of the Board of Trustees of Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa" and of CriteriaCaixa, S.A.U., First Vice-Chairman of Repsol, S.A., and a member of the Boards of Directors of Gas Natural SDG, S.A., Banco BPI, S.A., "The Bank of East Asia", and Suez Environnement Company.

He is currently the Chairman of the Spanish Confederation of Savings Banks (CECA). He is also Chairman of the European Savings Banks Group (ESBG) and Deputy Chairman of the World Savings Banks Institute (WSBI).

He is also Chairman of the Spanish Confederation of Executives (CEDE), the Spanish Chapter of the Club of Rome, and the Círculo Financiero. Mr. Fainé is also a member of the Business Council for Competition (CEC).

2.3 Suitability

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. Isidro Fainé Casas to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. CONCLUSION

As a result of all of the foregoing, based on the performance of the candidate and the personal and professional qualifications thereof, the Nominating, Compensation and Corporate Governance Committee finds that Mr. Isidro Fainé Casas has sufficient knowledge and experience to hold the position of Director and meets the suitability requirements applicable thereto, for which reason it has been resolved to submit a favorable report thereon to the Board of Directors to propose to the shareholders at the Company's General Shareholders' Meeting the re-election thereof as Director for the bylaw-mandated four-year period with the classification of proprietary Director.

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Madrid, April 7, 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RE-ELECTION OF MR. JULIO LINARES LÓPEZ AS OTHER
EXTERNAL DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL
SHAREHOLDERS' MEETING****April 8, 2016**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed re-election of the Mr. Julio Linares López as other external Director being submitted for approval of the shareholders at the General Shareholders' Meeting pursuant to the provisions of Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 *decies* of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders' meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee.”

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Mr. Julio Linares López proposed to be re-elected as a Director of the Company, with the classification of other external Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MR. JULIO LINARES LÓPEZ

Mr. Julio Linares is a Telecommunications Engineer and he joined Telefónica in May 1970, at the Research and Development Center, where he held various positions until his appointment as Director of Telefónica's Technology and Technical Regulations Department in 1984.

In April 1990, he was appointed General Manager of Telefónica Investigación y Desarrollo (Telefónica R&D).

In December 1994, he became Deputy General Manager of Telefónica's Marketing and Services Development, in the Commercial Area, subsequently moving to the position of Deputy General Manager of Corporate Marketing.

In July 1997, he was appointed Chief Executive Officer of Telefónica Multimedia and President of Telefónica Cable and of Producciones Multitemáticas.

In May 1998, he was appointed General Manager of Strategy and Technology at Telefónica, S.A.'s Corporate Centre.

In January 2000, he was appointed Executive Chairman of Telefónica de España, and also Chairman of subsidiaries such as TELYCO and Telefónica Cable.

In June 2005, he was appointed Chairman of the Supervisory Board of Cesky Telecom.

In December 2005, he assumed control of the General Coordination, Business Development and Synergies Division of Telefónica S.A. and is a member of its Board of Directors and Secretary of the Executive Committee.

He was Chief Executive Officer of Telefónica, S.A. from December 2007 to September 2012.

He is Deputy Chairman of the Board of Directors of Telefónica, S.A, and a member of the Advisory Boards of Telefónica Hispanoamérica and Telefónica España. He is a Trustee of Fundación Telefónica.

He is a member of the Board and of the Executive Committee of GSM Association and chairs its Strategy Committee.

He is a member of the Board of GSMA Ltd. and a Trustee of Fundación Mobile World Capital Barcelona.

He is a member of the Executive Committee and of the Managing Board of CEOE.

He is a member of the AMETIC Advisory Board.

He is a Trustee of Fundación CEDE-Confederación Española de Directivos y Ejecutivos.

He is a member of the Governing Council of the Association for the Advancement of Management and Social Council of the Complutense University of Madrid.

Member of COIT (Official College of Telecommunications Engineering) and AEIT (Spanish Association of Telecommunications Engineers). He is a member of the Advisory Council of the Higher Technical School of Engineers Telecommunications.

The Company's Board of Directors finds that the training and experience of Mr. Julio Linares López gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Julio Linares López to hold the position, meeting the

requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Mr. Julio Linares López held the position of executive Director of the Company. On September 17, 2012, Mr. Julio Linares López, until then the Chief Operating Officer (*Consejero Delegado*) of the Company, ceased to perform executive duties within the Telefónica Group, changing his nature from executive Director to other external Director.

Pursuant to the provisions of Section 529 *duodecies*.4.a) of the Companies Act, Directors who have been executive Directors cannot in any case be considered independent Directors until the passage of five years from ceasing to hold that relationship.

Therefore, Mr. Linares López will continue to be classified as other external Director, given that the above-referenced five-year period will not end until September 17, 2017.

6. REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Annexed to this report is the favorable report of the Nominating, Compensation and Corporate Governance Committee regarding the proposal for re-election of Mr. Linares López, dated April 7, 2016.

7. PROPOSAL FOR RE-ELECTION

For all of the foregoing reasons, the Board of Directors finds that Mr. Julio Linares López has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a prior favorable proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for re-election of Mr.

Julio Linares López as other external Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

"To re-elect Mr. Julio Linares López as a Director of the Company for the bylaw-mandated four-year period, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, with the classification of other external Director."

* * *

Madrid, April 8, 2016

**REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE
GOVERNANCE COMMITTEE OF TELEFÓNICA, S.A.**

REGARDING

**THE PROPOSAL FOR RE-ELECTION OF MR. JULIO LINARES LÓPEZ AS OTHER
EXTERNAL DIRECTOR TO BE SUBMITTED TO THE SHAREHOLDERS AT THE
GENERAL SHAREHOLDERS' MEETING**

April 7, 2016

Section 529 decies of the Companies Act (*Ley de Sociedades de Capital*) provides that proposals for the appointment and re-election of members of the Board of Directors must be accompanied by a substantiating report of the Board assessing the competence, experience and merits of the proposed candidate; and in the case of proposed appointments or re-elections of any non-independent Director shall also be preceded by a report of the Nominating and Compensation Committee.

Article 10.2 of the Regulations of the Board of Directors of Telefónica, S.A. (the “**Company**”) provides that proposals for the appointment, re-election and ratification of Directors that the Board of Directors submits for consideration at the General Shareholders' Meeting, and the resolutions appointing Directors adopted by the Board of Directors itself pursuant to the powers attributed by law thereto, must be preceded by a corresponding report of the Nominating, Compensation and Corporate Governance Committee and, in the case of independent Directors, by a corresponding proposal.

According to this article, in the case of re-election or ratification, such report or proposal of the Nominating, Compensation and Corporate Governance Committee shall contain an evaluation of the work and actual dedication to the position for the latest period of time during which the proposed Director held such position.

In compliance with the foregoing requirements, the Nominating, Compensation and Corporate Governance Committee has approved this report regarding the proposal for re-election of Mr. Julio Linares López as other external Director.

1. ASSESSMENT OF THE PERFORMANCE OF MR. JULIO LINARES LÓPEZ

The Nominating, Compensation and Corporate Governance Committee has analyzed the quality of work as Director and the contribution of Mr. Julio Linares López to the Board of Directors since his first appointment in 2005, and particularly during his latest mandate (re-election by the shareholders at the General Shareholders' Meeting held on May 18, 2011).

It has also taken into account the dedication of Mr. Julio Linares López to holding the position of Director of the Company, as well as his knowledge, skills and experience,

which in the opinion of this Nominating, Compensation and Corporate Governance Committee allow him to properly perform his duties.

As a result of all of the foregoing, the Nominating, Compensation and Corporate Governance Committee has concluded that Mr. Linares López has quite satisfactorily performed his work within the Company's corporate decision-making bodies, contributes to such bodies having a balanced composition that is suitable to its needs, and provides significant cooperation for them to be able to perform their duties with the quality, professionalism and dedication required for the full effectiveness thereof.

2. ASSESSMENT OF THE CONDITIONS NECESSARY FOR HOLDING THE POSITION

The Nominating, Compensation and Corporate Governance Committee has also assessed the conditions necessary for holding the position of Director of the Company by Mr. Julio Linares López, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

2.1 Appointments and Classification

Mr. Julio Linares López was appointed as a Director of the Company for the first time on December 21, 2005, having been last re-elected for a five-year period by resolution of the shareholders at the General Shareholders' Meeting held on May 18, 2011. Therefore, his current appointment as Director expires on May 18, 2016.

Mr. Julio Linares López held the position of executive Director of the Company. On September 17, 2012, Mr. Julio Linares López, until then the Chief Operating Officer (*Consejero Delegado*) of the Company, ceased to perform executive duties within the Telefónica Group, changing his nature from executive Director to other external Director.

Pursuant to the provisions of Section 529 *duodecies*.4.a) of the Companies Act, Directors who have been executive Directors cannot in any case be considered independent Directors until the passage of five years from ceasing to hold that relationship.

Therefore, Mr. Linares López will continue to be classified as other external Director, given that the above-referenced five-year period will not end until September 17, 2017.

2.2 Professional Training and Experience

Mr. Julio Linares is a Telecommunications Engineer and he joined Telefónica in May 1970, at the Research and Development Center, where he held various positions until his appointment as Director of Telefónica's Technology and Technical Regulations Department in 1984.

In April 1990, he was appointed General Manager of Telefónica Investigación y Desarrollo (Telefónica R&D).

In December 1994, he became Deputy General Manager of Telefónica's Marketing and Services Development, in the Commercial Area, subsequently moving to the position of Deputy General Manager of Corporate Marketing.

In July 1997, he was appointed Chief Executive Officer of Telefónica Multimedia and President of Telefónica Cable and of Producciones Multitemáticas.

In May 1998, he was appointed General Manager of Strategy and Technology at Telefónica, S.A.'s Corporate Centre.

In January 2000, he was appointed Executive Chairman of Telefónica de España, and also Chairman of subsidiaries such as TELYCO and Telefónica Cable.

In June 2005, he was appointed Chairman of the Supervisory Board of Cesky Telecom.

In December 2005, he assumed control of the General Coordination, Business Development and Synergies Division of Telefónica S.A. and is a member of its Board of Directors and Secretary of the Executive Committee.

He was Chief Executive Officer of Telefónica, S.A. from December 2007 to September 2012.

He is Deputy Chairman of the Board of Directors of Telefónica, S.A, and a member of the Advisory Boards of Telefónica Hispanoamérica and Telefónica España. He is a Trustee of Fundación Telefónica.

He is a member of the Board and of the Executive Committee of GSM Association and chairs its Strategy Committee.

He is a member of the Board of GSMA Ltd. and a Trustee of Fundación Mobile World Capital Barcelona.

He is a member of the Executive Committee and of the Managing Board of CEOE.

He is a member of the AMETIC Advisory Board.

He is a Trustee of Fundación CEDE-Confederación Española de Directivos y Ejecutivos. He is a member of the Governing Council of the Association for the Advancement of Management and Social Council of the Complutense University of Madrid.

Member of COIT (Official College of Telecommunications Engineering) and AEIT (Spanish Association of Telecommunications Engineers). He is a member of the Advisory Council of the Higher Technical School of Engineers Telecommunications.

2.3 Suitability

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. Julio Linares López to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. CONCLUSION

As a result of all of the foregoing, based on the performance of the candidate and the personal and professional qualifications thereof, the Nominating, Compensation and Corporate Governance Committee finds that Mr. Julio Linares López has sufficient knowledge and experience to hold the position of Director and meets the suitability requirements applicable thereto, for which reason it has been resolved to submit a favorable report thereon to the Board of Directors to propose to the shareholders at the Company's General Shareholders' Meeting the re-election thereof as Director for the bylaw-mandated four-year period with the classification of other external Director.

* * *

Madrid, April 7, 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RE-ELECTION OF MR. PETER ERSKINE AS OTHER
EXTERNAL DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL
SHAREHOLDERS' MEETING****April 8, 2016**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed re-election of the Mr. Peter Erskine as other external Director being submitted for approval of the shareholders at the General Shareholders' Meeting pursuant to the provisions of Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 *decies* of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders' meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee.”

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Mr. Peter Erskine proposed to be re-elected as a Director of the Company, with the classification of other external Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MR. PETER ERSKINE

Mr. Peter Erskine holds a Degree in Psychology from Liverpool University and an Honorary Doctorate from University of Reading.

He is currently Chairman of the Henley Business School Strategy Board, is a Member of the Council of the University of Reading, and also serves as a Member of the University's Strategy and Finance Committee.

Mr. Erskine began his career in the field of Marketing in Polycell and in Colgate Palmolive. He worked for several years at the Mars Group, subsequently being appointed European Vice Chairman of Mars Electronics.

In 1990, he was appointed Vice-Chairman of Marketing and Sales of Unilever.

He joined BT in 1993-1998, where he held a number of senior positions, including: Director of BT Mobile and President and Chief Executive Officer of Concert. In 1998 he became Managing Director of BT Cellnet. Subsequently in 2001 he became Chief Executive Officer and a member of the Board of Directors of O2 plc (now Telefónica Europe plc) and was appointed Chairman in 2006, in which capacity he served until 31 December 2007, then becoming a non-Executive Director.

In January 2009, he joined the Board of Ladbrokes PLC as a Non-Executive Director, becoming Chairman in May 2009. He stood down from the Board in December 2015, having taken a lead role in the merger of Ladbrokes PLC with Gala Coral Group.

The Company's Board of Directors finds that the training and experience of Mr. Peter Erskine gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Peter Erskine to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Mr. Peter Erskine has been nominated based on the personal and professional characteristics thereof, with the Committee and the Board of Directors itself having verified that the candidate is not involved in any of the circumstances provided for in Section 529 *duodecies*.4 of the Companies Act and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Mr. Erskine will remain with the Independent Director classification.

REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Annexed to this report is the favorable report of the Nominating, Compensation and Corporate Governance Committee regarding the proposal for re-election of Mr. Peter Erskine, dated April 7, 2016.

6. PROPOSAL FOR RE-ELECTION

For all of the foregoing reasons, the Board of Directors finds that Mr. Peter Erskine has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a prior favorable proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for re-election of Mr. Peter Erskine as other external Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

“To re-elect Mr. Peter Erskine as a Director of the Company for the bylaw-mandated four-year period, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, with the classification of Independent Director.”

* * *

Madrid, April 8, 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.
REGARDING
THE PROPOSAL FOR RE-ELECTION OF MR. ANTONIO MASSANELL LAVILLA AS
PROPRIETARY DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE
GENERAL SHAREHOLDERS' MEETING

April 8, 2016

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed re-election of the proprietary Director Mr. Antonio Massanell Lavilla being submitted for approval of the shareholders at the General Shareholders' Meeting pursuant to the provisions of Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 *decies* of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders' meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee.”

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Mr. Antonio Massanell Lavilla proposed to be re-elected as a Director of the Company, with the category of proprietary Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MR. ANTONIO MASSANELL LAVILLA

Mr. Antonio Masanell Lavilla holds a degree in Business and Economics from the University of Barcelona.

He has been Deputy Chairman of CaixaBank, S.A. since June 2014.

He is also a member of the following Boards of Directors: Cecabank (non-executive Chairman), Mediterranea Beach & Golf Community, S.A., (Deputy Chairman), Director of SAREB (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria), and member of the Supervisory Board of ERSTE Group Bank.

He is also Vice-President of the Board of Trustees of COTEC (Fundación para la Innovación Tecnológica), Chairman of Asociación Barcelona Centre Financer Europeuu, a member of the Plenary Board of the Chamber of Commerce of Barcelona (since 2010), and a member of the ERPB (Euro Retail Payments Board), representing the European Savings and Retail Banking Group (since April 2014).

In 1971, he joined the Caja de Ahorros y Pensiones de Barcelona (“la Caixa”), where he has held several positions. In 1990 he was appointed Assistant Manager and Secretary of the Steering Committee. From 1999 to June 2011 he

served as Senior Executive Vice President, until his appointment as General Manager (June 2011 to June 2014).

He has held the following positions, among others, during his professional career: Director of Sociedad Española de Medios de Pago (1990-1992), Chairman of the Governing Board of Sistema 6000 of the Confederación Española de Cajas de Ahorros (1992-1994), Director of Visa España (1995-1998), Director of Autema (Autopista Terrasa-Manresa SACGC) (1991-2003), Director of Inmobiliaria Colonial (1992- 2003), Director of Baqueira Beret (1998-2006), Director of Occidental Hotels Management, B.V. (2003-2007), President of Port Aventura Entertainment (2009- 2012), Chairman of the Barcelona Digital Centre Tecnològic (2005-2015) and a member of the Boursorama, S.A. Board of Directors (2008-2015).

The Company's Board of Directors finds that the training and experience of Mr. Antonio Massanell Lavilla gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Antonio Massanell Lavilla to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Mr. Antonio Massanell Lavilla is nominated at the request of the shareholder Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", the direct and indirect holder of 5.01% of the share capital of the Company, for which reason he is classified as a proprietary Director.

6. REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Annexed to this report is the favorable report of the Nominating, Compensation and Corporate Governance Committee regarding the proposal for re-election of Mr. Massanell Lavilla, dated April 7, 2016.

7. PROPOSAL FOR RE-ELECTION

For all of the foregoing reasons, the Board of Directors finds that Mr. Antonio Massanell Lavilla has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a prior favorable proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for re-election of Mr. Antonio Massanell Lavilla as proprietary Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

“To re-elect Mr. Antonio Massanell Lavilla as a Director of the Company for the bylaw-mandated four-year period, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, with the classification of proprietary Director.”

* * *

Madrid, April 8, 2016

**REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE
GOVERNANCE COMMITTEE OF TELEFÓNICA, S.A.**

REGARDING

**THE PROPOSAL FOR RE-ELECTION OF MR. ANTONIO MASSANELL LAVILLA AS
PROPRIETARY DIRECTOR TO BE SUBMITTED TO THE SHAREHOLDERS AT THE
GENERAL SHAREHOLDERS' MEETING**

April 7, 2016

Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*) provides that proposals for the appointment and re-election of members of the Board of Directors must be accompanied by a substantiating report of the Board assessing the competence, experience and merits of the proposed candidate; and in the case of proposed appointments or re-elections of any non-independent Director shall also be preceded by a report of the Nominating and Compensation Committee.

Article 10.2 of the Regulations of the Board of Directors of Telefónica, S.A. (the “**Company**”) provides that proposals for the appointment, re-election and ratification of Directors that the Board of Directors submits for consideration at the General Shareholders' Meeting, and the resolutions appointing Directors adopted by the Board of Directors itself pursuant to the powers attributed by law thereto, must be preceded by a corresponding report of the Nominating, Compensation and Corporate Governance Committee and, in the case of independent Directors, by a corresponding proposal.

According to this article, in the case of re-election or ratification, such report or proposal of the Nominating, Compensation and Corporate Governance Committee shall contain an evaluation of the work and actual dedication to the position for the latest period of time during which the proposed Director held such position.

In compliance with the foregoing requirements, the Nominating, Compensation and Corporate Governance Committee has approved this report regarding the proposal for re-election of Mr. Antonio Massanell Lavilla as proprietary Director.

**1. ASSESSMENT OF THE PERFORMANCE OF MR. ANTONIO MASSANELL
LAVILLA**

The Nominating, Compensation and Corporate Governance Committee has analyzed the quality of work as Director and the contribution of Mr. Antonio Massanell Lavilla to the Board of Directors since his first appointment in 1995, and particularly during his latest mandate (re-election by the shareholders at the General Shareholders' Meeting held on May 18, 2011).

It has also taken into account the dedication of Mr. Antonio Massanell Lavilla to holding the position of Director of the Company as well as his knowledge, skills and experience, which in the opinion of this Nominating, Compensation and Corporate Governance Committee allow him to properly perform his duties.

As a result of all of the foregoing, the Nominating, Compensation and Corporate Governance Committee has concluded that Mr. Massanell Lavilla has quite satisfactorily performed his work within the Company's corporate decision-making bodies, contributes to such bodies having a balanced composition that is suitable to its needs, and provides significant cooperation for them to be able to perform their duties with the quality, professionalism and dedication required for the full effectiveness thereof.

2. ASSESSMENT OF THE CONDITIONS NECESSARY FOR HOLDING THE POSITION

The Nominating, Compensation and Corporate Governance Committee has also assessed the conditions necessary for holding the position of Director of the Company by Mr. Antonio Massanell Lavilla, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

2.1 Appointments and Classification

Mr. Peter Erskine was appointed as a Director of the Company for the first time on April 21, 1995, having been last re-elected for a five-year period by resolution of the shareholders at the General Shareholders' Meeting held on May 18, 2011. Therefore, his current appointment as Director expires on May 18, 2016.

Mr. Antonio Massanell Lavilla is nominated upon a proposal of Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", the direct and indirect holder of 5.01% of the share capital of the Company, for which reason he is classified as a proprietary Director.

2.2 Professional Training and Experience

Mr. Antonio Massanell Lavilla holds a degree in Business and Economics from the University of Barcelona.

He has been Deputy Chairman of CaixaBank, S.A. since June 2014.

He is also a member of the following Boards of Directors: Cecabank (non-executive Chairman), Mediterranea Beach & Golf Community, S.A., (Deputy Chairman), Director of SAREB (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria), and member of the Supervisory Board of ERSTE Group Bank.

He is also Vice-President of the Board of Trustees of COTEC (Fundación para la Innovación Tecnológica), Chairman of Asociación Barcelona Centre Financer Europeu, a member of the Plenary Board of the Chamber of Commerce of Barcelona (since 2010), and a member of the ERPB (Euro Retail Payments

Board), representing the European Savings and Retail Banking Group (since April 2014).

In 1971, he joined the Caja de Ahorros y Pensiones de Barcelona ("la Caixa"), where he has held several positions. In 1990 he was appointed Assistant Manager and Secretary of the Steering Committee. From 1999 to June 2011 he served as Senior Executive Vice President, until his appointment as General Manager (June 2011 to June 2014).

He has held the following positions, among others, during his professional career: Director of Sociedad Española de Medios de Pago (1990-1992), Chairman of the Governing Board of Sistema 6000 of the Confederación Española de Cajas de Ahorros (1992-1994), Director of Visa España (1995-1998), Director of Autema (Autopista Terrasa-Manresa SACGC) (1991-2003), Director of Inmobiliaria Colonial (1992- 2003), Director of Baqueira Beret (1998-2006), Director of Occidental Hotels Management, B.V. (2003-2007), President of Port Aventura Entertainment (2009- 2012), Chairman of the Barcelona Digital Centre Tecnològic (2005-2015) and a member of the Boursorama, S.A. Board of Directors (2008-2015).

2.3 Suitability

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. Antonio Massanell Lavilla to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. CONCLUSION

As a result of all of the foregoing, based on the performance of the candidate and the personal and professional qualifications thereof, the Nominating, Compensation and Corporate Governance Committee finds that Mr. Antonio Massanell Lavilla has sufficient knowledge and experience to hold the position of Director and meets the suitability requirements applicable thereto, for which reason it has been resolved to submit a favorable report thereon to the Board of Directors to propose to the shareholders at the Company's General Shareholders' Meeting the re-election thereof as Director for the bylaw-mandated four-year period with the classification of proprietary Director.

* * *

Madrid, 7 April 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RATIFICATION AND APPOINTMENT OF MR. WANG XIAOCHU AS PROPRIETARY DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****April 8, 2016**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed ratification and appointment of the proprietary Director Mr. Wang Xiaochu being submitted for approval of the shareholders at the General Shareholders' Meeting pursuant to the provisions of Section 529 decies of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 decies of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders' meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee.”

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Mr. Wang Xiaochu proposed to be ratified and appointed as a Director of the Company, with the classification of proprietary Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MR. WANG XIAOCHU

Mr Wang Xiaochu is a professor-level senior engineer, having received a degree in Telecommunications Engineering from the Beijing Institute of Posts and Telecommunications in 1989 and a doctorate in Business Administration from the Hong Kong Polytechnic University in 2005.

Mr Wang Xiaochu served as Director General of the Hangzhou Telecommunications Bureau in Zhejiang Province and Director General of the Tianjin Posts and Telecommunications Administration.

He also served as Chairman and CEO of China Mobile (Hong Kong) Limited; Vice president of China Mobile Communications Corporation; Chairman and CEO of China Telecom Corporation Limited; Chairman of China Telecommunications Corporation; and Chairman and non-executive Director of China Communications Services Corporation Limited.

Mr. Wang Xiaochu currently serves as the Chairman of China United Network Communications Group Company Limited ("Unicom Group"), and as Chairman and CEO of China Unicom (Hong Kong) Limited.

Mr. Wang Xiaochu has extensive operational and management experience in the telecommunications industry.

The Company's Board of Directors finds that the training and experience of Mr. Wang Xiaochu gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Wang Xiaochu to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Mr. Wang Xiaochu is nominated at the request of the shareholder China Unicom (Hong Kong) Limited (China Unicom), the holder of 1.29% of the share capital of the Company, and is therefore classified as a proprietary Director.

6. REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Annexed to this report is the favorable report of the Nominating, Compensation and Corporate Governance Committee regarding the proposal for ratification and appointment of Mr. Xiaochu, dated April 7, 2016.

7. PROPOSAL FOR RATIFICATION AND APPOINTMENT

For all of the foregoing reasons, the Board of Directors finds that Mr. Wang Xiaochu has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a prior favorable proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for ratification and appointment of Mr. Wang Xiaochu as proprietary Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

To ratify the interim appointment by the Board of Directors at its meeting held on September 30, 2015 of Mr. Wang Xiaochu as Director of the Company and to appoint him as a Director of the Company for the bylaw-mandated four-year period, upon a prior favorable report of the Nominating, Compensation and Corporate Governance Committee, with the classification of proprietary Director.

* * *

Madrid, April 8, 2016

**REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE
GOVERNANCE COMMITTEE OF TELEFÓNICA, S.A.**

REGARDING

**THE PROPOSAL FOR RATIFICATION AND APPOINTMENT OF MR. WANG
XIAOCHU AS PROPRIETARY DIRECTOR TO BE SUBMITTED TO THE
SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING**

April 7, 2016

Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*) provides that proposals for the appointment and re-election of members of the Board of Directors must be accompanied by a substantiating report of the Board assessing the competence, experience and merits of the proposed candidate; and in the case of proposed appointments or re-elections of any non-independent Director shall also be preceded by a report of the Nominating and Compensation Committee.

Article 10.2 of the Regulations of the Board of Directors of Telefónica, S.A. (the “**Company**”) provides that proposals for the appointment, re-election and ratification of Directors that the Board of Directors submits for consideration at the General Shareholders' Meeting, and the resolutions appointing Directors adopted by the Board of Directors itself pursuant to the powers attributed by law thereto, must be preceded by a corresponding report of the Nominating, Compensation and Corporate Governance Committee and, in the case of independent Directors, by a corresponding proposal.

According to this article, in the case of re-election or ratification, such report or proposal of the Nominating, Compensation and Corporate Governance Committee shall contain an evaluation of the work and actual dedication to the position for the latest period of time during which the proposed Director held such position.

In compliance with the foregoing requirements, the Nominating, Compensation and Corporate Governance Committee has approved this report regarding the proposal for ratification and appointment of Mr. Wang Xiaochu as proprietary Director.

1. ASSESSMENT OF THE PERFORMANCE OF MR. WANG XIAOCHU

Mr. Wang Xiaochu was appointed Director of the Company on an interim basis by resolution of the Board of Directors dated September 30, 2015.

The Nominating, Compensation and Corporate Governance Committee has taken into account the work performed and the dedication of Mr. Xiaochu during the time that he has held the position of Director, which have been quite satisfactory, without prejudice to this being a very brief period.

In any event, the Nominating, Compensation and Corporate Governance Committee has concluded that Mr. Xiaochu has quite satisfactorily performed his work within the Company's corporate decision-making bodies, contributes to such bodies having a balanced composition that is suitable to its needs, and provides significant cooperation for them to be able to perform their duties with the quality, professionalism and dedication required for the full effectiveness thereof.

2. ASSESSMENT OF THE CONDITIONS NECESSARY FOR HOLDING THE POSITION

The Nominating, Compensation and Corporate Governance Committee has also assessed the conditions necessary for holding the position of Director of the Company by Mr. Wang Xiaochu, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

2.1 Appointments and Classification

Mr. Wang Xiaochu was appointed Director of the Company on an interim basis by resolution of the Board of Directors at the meeting thereof held on September 30, 2015.

Pursuant to the provisions of law and the Regulations of the Board of Directors, Directors appointed to fill vacancies by interim appointment shall hold office until the date of the next General Shareholders' Meeting.

Mr. Wang Xiaochu is nominated at the request of China Unicom (Hong Kong) Limited (China Unicom), the holder of 1.29% of the share capital of the Company, and is therefore classified as a proprietary Director.

2.2 Professional Training and Experience

Mr Wang Xiaochu is a professor-level senior engineer, having received a degree in Telecommunications Engineering from the Beijing Institute of Posts and Telecommunications in 1989 and a doctorate in Business Administration from the Hong Kong Polytechnic University in 2005.

Mr Wang Xiaochu served as Director General of the Hangzhou Telecommunications Bureau in Zhejiang Province and Director General of the Tianjin Posts and Telecommunications Administration.

He also served as Chairman and CEO of China Mobile (Hong Kong) Limited; Vice president of China Mobile Communications Corporation; Chairman and CEO of China Telecom Corporation Limited; Chairman of China Telecommunications Corporation; and Chairman and non-executive Director of China Communications Services Corporation Limited.

Mr. Wang Xiaochu currently serves as the Chairman of China United Network Communications Group Company Limited ("Unicom Group"), and as Chairman and CEO of China Unicom (Hong Kong) Limited.

Mr. Wang Xiaochu has extensive operational and management experience in the telecommunications industry.

2.3 Suitability

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. Wang Xiaochu to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. CONCLUSION

As a result of all of the foregoing, based on the performance of the candidate and the personal and professional qualifications thereof, the Nominating, Compensation and Corporate Governance Committee finds that Mr. Wang Xiaochu has sufficient knowledge and experience to hold the position of Director and meets the suitability requirements applicable thereto, for which reason it has been resolved to submit a favorable report thereon to the Board of Directors to propose to the shareholders at the Company's General Shareholders' Meeting the ratification and appointment thereof as Director for the bylaw-mandated four-year period with the classification of proprietary Director.

* * *

Madrid, 7 April 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RATIFICATION AND APPOINTMENT OF MS. SABINA FLUXÀ THIENEMANN AS INDEPENDENT DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****April 8, 2016**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed ratification and appointment of the independent Director Ms. Sabina Fluxà Thienemann being submitted for approval of the shareholders at the General Shareholders' Meeting pursuant to the provisions of Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 *decies* of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders' meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee.”

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Ms. Sabina Fluxà Thienemann proposed to be ratified and appointed as a Director of the Company, with the classification of independent Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MS. SABINA FLUXÀ THIENEMANN

Born in Palma de Mallorca (Spain) in April 1980.

She has a degree in Business Management and Administration and an MBA from ESADE. She has also completed a High Business Management Program at IESE.

She joined Iberostar Group in January 2005, where she currently is Co-Vice Executive President and CEO. She is also Board Member of ACS; Regional Advisory Board Member of BBVA; Member of the Board of Directors of APD Illes Balears; and Sponsor of Iberostar Foundation, Eneavor Foundation and ACS Foundation.

Grupo Iberostar is a family-owned Spanish company with more than 60 years of experience in the tourist and hospitality industry. The Group currently does business in 27 countries and has more than 100 4-star and 5-star hotels, with 23,000 employees.

The Company's Board of Directors finds that the training and experience of Ms. Sabina Fluxà Thienemann gives her quite valuable and useful knowledge for the performance thereby as Director of the Company.

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the

position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Ms. Sabina Fluxà Thienemann to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Ms. Sabina Fluxà Thienemann has been nominated based on the personal and professional characteristics thereof, with the Committee and the Board of Directors itself having verified that the candidate is not involved in any of the circumstances provided for in Section 529 *duodecies*.4 of the Companies Act and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Ms. Sabina Fluxà Thienemann is entitled to the Independent Director classification.

6. PROPOSAL OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The proposal for ratification and appointment of Ms. Sabina Fluxà Thienemann as independent Director of the Company comes from the Nominating, Compensation and Corporate Governance Committee, as appears in the comprehensive report of such Committee dated April 7, 2016, which shall be published and shall be available as from the call to the General Shareholders' Meeting pursuant to the provisions of the Regulations of the Board of Directors.

7. RELEASE OF THE BOARD OF DIRECTORS

It is stated for the record that Board of Directors has unanimously approved releasing the candidate from the requirement set forth in article 30 of the Bylaws regarding the holding for more than three years in advance of a number of shares of the Company

representing a nominal value of at least 3,000 euros in order to be appointed as a Director of the Company.

8. PROPOSAL FOR RATIFICATION AND APPOINTMENT

For all of the foregoing reasons, the Board of Directors finds that Ms. Sabina Fluxà Thienemann has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for ratification and appointment of Ms. Sabina Fluxà Thienemann as an independent Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

To ratify the interim appointment by the Board of Directors at its meeting held on April 8, 2016 of Ms. Sabina Fluxà Thienemann as Director of the Company and to appoint him as a Director of the Company for the bylaw-mandated four-year period, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, with the classification of independent Director.

* * *

Madrid, April 8, 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RATIFICATION AND APPOINTMENT OF MR. JOSE JAVIER ECHENIQUE LANDIRIBAR AS INDEPENDENT DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****April 8, 2016**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed ratification and appointment of the independent Director Mr. José Javier Echenique Landiribar being submitted for approval of the shareholders at the General Shareholders' Meeting pursuant to the provisions of Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 *decies* of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders' meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee.”

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Mr. José Javier Echenique Landiribar proposed to be ratified and appointed as a Director of the Company, with the classification of independent Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MR. JOSE JAVIER ECHENIQUE LANDIRIBAR

Born in Isaba (Spain) in 1951.

Degree in Economic and Actuarial Sciences from the Basque Country University (UPV), and professor of Social Security Quantitative Techniques of the Economic Sciences School of Bilbao, UPV, for several years.

He has been Board Member and General Director of Allianz-Ercos, General Director of BBVA Group (responsible for wholesale business: Global Investment Banking, Global Corporate Banking, Corporate Banking, Management Banking, Local Loan Bank, Asset Management, Europe Banking, Insurance and Social Security, E-Business, and Real Estate and Industrial Group).

He has also been Member of the Board of Directors of Telefónica, S.A., Telefónica Móviles, S.A., President of Banco Guipuzcuano, Sevillana de Electricidad, S.A., Acesa, Hidroeléctrica del Cantábrico, Coproración IBV, Metrovacesa, Corporación Patricio Echeverría, Grupo BBVA Seguros, Grupo Edhardt, Uralita, Grupo Porres (Mexico), and Abertis Infraestructuras, S.A.

He is now Member of the Board of Directors of Banco Sabadell (Vice President), Board Member of Repsol, S.A., ACS Actividades de Construcción y Servicios, S.A., ACS Servicios, Comunicaciones y Energía, S.L., Telefónica Móviles México, and Grupo Empresarial ENCE, S.A.

He is also Member of the Telefónica España Advisory Board and a delegate of the Telefónica Basque Country Council, Sponsor of Novia Salcedo Foundation,

Member of the Deusto Business School Board of Trustees and Member of the Basque Businessmen Circle.

The Company's Board of Directors finds that the training and experience of Mr. José Javier Echenique Landiribar gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. José Javier Echenique Landiribar to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Mr. José Javier Echenique Landiribar has been nominated based on the personal and professional characteristics thereof, with the Committee and the Board of Directors itself having verified that the candidate is not involved in any of the circumstances provided for in Section 529 *duodecies*.4 of the Companies Act and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Mr. José Javier Echenique Landiribar is entitled to the Independent Director classification.

6. PROPOSAL OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The proposal for ratification and appointment of Mr. José Javier Echenique Landiribar as independent Director of the Company comes from the Nominating, Compensation and

Corporate Governance Committee, as appears in the comprehensive report of such Committee dated February 7, 2016, which shall be published and shall be available as from the call to the General Shareholders' Meeting pursuant to the provisions of the Regulations of the Board of Directors.

7. RELEASE OF THE BOARD OF DIRECTORS

It is stated for the record that Board of Directors has unanimously approved releasing the candidate from the requirement set forth in article 30 of the Bylaws regarding the holding for more than three years in advance of a number of shares of the Company representing a nominal value of at least 3,000 euros in order to be appointed as a Director of the Company.

8. PROPOSAL FOR RATIFICATION AND APPOINTMENT

For all of the foregoing reasons, the Board of Directors finds that Mr. José Javier Echenique Landiribar has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for ratification and appointment of Mr. José Javier Echenique Landiribar as an independent Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

To ratify the interim appointment by the Board of Directors at its meeting held on April 8, 2016 of Mr. José Javier Echenique Landiribar as Director of the Company and to appoint him as a Director of the Company for the bylaw-mandated four-year period, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, with the classification of independent Director.

* * *

Madrid, April 8, 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RATIFICATION AND APPOINTMENT OF MR. PETER LÖSCHER AS INDEPENDENT DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****April 8, 2016**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed ratification and appointment of the independent Director Mr. Peter Löscher being submitted for approval of the shareholders at the General Shareholders' Meeting pursuant to the provisions of Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 *decies* of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders' meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee.”

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Mr. Peter Löscher proposed to be ratified and appointed as a Director of the Company, with the classification of independent Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MR. PETER LÖSCHER

Was born in 1957 in Austria.

He studied economics at Vienna University of Economics and Business Administration at the Chinese University of Hong Kong. He got his MBA from Vienna University of Economics, and completed the Advanced Management Program (AMP) at Harvard Business School.

He is Chairman of Sulzer AG, Non- Executive Vice Chairman of Renova Management AG, Member of the Supervisory Board of Deutsche Bank and Board member of TBG AG, Switzerland.

Former President and CEO of Siemens AG. Previously President of Global Human Health and Member of the Executive Board of Merck & Co., Inc. CEO of GE Healthcare Bio – Sciences and member of GE's Corporate Executive Council, COOO and member of the Board of Amersham Plc. senior leadership positions in Aventis and Hoeschst.

Mr. Löscher was Chairman of the Board of Trustees of Siemens Foundation and is Member Emeritus of the Advisory Board of the Economic Development Board of Singapore, and also Member of the International Advisory Council of Bocconi University.

He is Honorary Professor at Tongji University Shanghai, holds Honorary Doctorate of Engineering from Michigan State University and is Doctor Honoris Causa of Slovak University of Engineering in Bratislava.

He holds the Grand Decoration of Honor in Gold of the Republic of Austria, the Order of Friendship of the Russian Federation and is Knight Commander of the Order of Civil Merit of Spain.

The Company's Board of Directors finds that the training and experience of Mr. Peter Löscher gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Peter Löscher to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Mr. Peter Löscher has been nominated based on the personal and professional characteristics thereof, with the Committee and the Board of Directors itself having verified that the candidate is not involved in any of the circumstances provided for in Section 529 *duodecies*.4 of the Companies Act and that the candidate can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Mr. Peter Löscher is entitled to the Independent Director classification.

6. PROPOSAL OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The proposal for ratification and appointment of Mr. Peter Löscher as independent Director of the Company comes from the Nominating, Compensation and Corporate

Governance Committee, as appears in the comprehensive report of such Committee dated April 7, 2016, which shall be published and shall be available as from the call to the General Shareholders' Meeting pursuant to the provisions of the Regulations of the Board of Directors.

7. RELEASE OF THE BOARD OF DIRECTORS

It is stated for the record that Board of Directors has unanimously approved releasing the candidate from the requirement set forth in article 30 of the Bylaws regarding the holding for more than three years in advance of a number of shares of the Company representing a nominal value of at least 3,000 euros in order to be appointed as a Director of the Company.

8. PROPOSAL FOR RATIFICATION AND APPOINTMENT

For all of the foregoing reasons, the Board of Directors finds that Mr. Peter Löscher has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for ratification and appointment of Mr. Peter Löscher as an independent Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

To ratify the interim appointment by the Board of Directors at its meeting held on April 8, 2016 of Mr. Peter Löscher as Director of the Company and to appoint him as a Director of the Company for the bylaw-mandated four-year period, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, with the classification of independent Director.

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Madrid, April 8, 2016

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RATIFICATION AND APPOINTMENT OF MR. JUAN IGNACIO CIRAC SASTURAIN AS INDEPENDENT DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****April 8, 2016**

The Board of Directors of Telefónica, S.A. (the “**Company**”) issues this report in order to provide a rationale for the proposed ratification and appointment of the independent Director Mr. Juan Ignacio Cirac Sasturain being submitted for approval of the shareholders at the General Shareholders’ Meeting pursuant to the provisions of Section 529 *decies* of the Companies Act (*Ley de Sociedades de Capital*).

Such Section 529 *decies* of the Companies Act provides as follows:

“1. The members of the board of directors of a listed company shall be appointed by the shareholders at a general shareholders’ meeting or, in the case of an expected vacancy, on an interim basis by the board itself.

2. Interim appointments at listed companies shall be governed by the provisions of this Act, with the following exceptions:

a) A director appointed by the board need not necessarily be a shareholder of the company.

b) If the vacancy occurs after the call to general meeting and prior to the holding thereof, the board of directors may appoint a director until the holding of the next general meeting.

3. There shall be no appointment of alternates at listed corporations (sociedades anónimas).

4. The proposal for appointment or re-election of members of the board of directors is the responsibility of the appointments and compensation committee with respect to independent directors and the board itself in other cases.

5. The proposal must in any case be accompanied by a substantiating report of the board that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or those of the meeting of the board.

6. The proposal for appointment or re-election of any non-independent director must also be preceded by a report of the appointments and compensation committee.

7. The provisions of this article shall also apply to physical persons who are appointed as representatives of corporate directors. The proposal of the physical representative must be submitted for a report of the appointments and compensation committee.”

The Companies Act thus requires that the proposed appointment or re-election of the members of the Board of Directors in any case be accompanied by a substantiating report of the Board of Directors that assesses the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the General Meeting and which, pursuant to Section 518 of the Act, must be continuously published on the corporate website as from the publication of the announcement of the call to meeting.

As required by law and for purposes of greater transparency, this report assesses the competence, experience and merits of the candidate Mr. Juan Ignacio Cirac proposed to be ratified and appointed as a Director of the Company, with the classification of independent Director, and contains the other information required for the shareholders to be able to cast their vote on the proposal made.

1. PROFESSIONAL AND BIOGRAPHICAL PROFILE AND NOTEWORTHY EXPERIENCE

MR. JUAN IGNACIO CIRAC SASTURAIN

Born in Manresa (Spain) in 1965.

Ph. D. in Physics, Universidad Complutense de Madrid and Graduated in Theoretical Physics, by such University. Fields of Specialization in Theoretical Quantum Optics, Quantum Information, Atomic Physics, Quantum Many-Body Physics.

Regarding his professional experience, it is worth stressing: Speaker of the International Max- Planck Research School Quantum Science and Technology (since 2016); Managing Director, Max- Planck Institut für Quantenoptik (2014-2015 and 2005-2007); “Honorarprofessor”, Technical University of Munich (Department of Physics) (since 2002); Director of the Theory Division, Max-Planck Institut für Quantenoptik and member of the Max- Planck society (since 2001); Profesor, Institut für Theoretische Physik, Leopold Franzens Universität Innsbruck (1996-2001); Research Associate, Joint Institute for Laboratory Astrophysics, University of Colorado (1993-1994); “Full Profesor”, Applied Physics Department, Castilla La Mancha University; Fellow “Training of Investigatory Staff” (General Prog.), Optics Division, Universidad Complutense of Madrid (1989-1991).

Among other activities, could be mentioned the following: Member of the Advisory Board of the Institute for the Interdisciplinary Information Sciences, Tsinghua University (since 2015); Member of the Advisory Board of the Russian Quantum Center (since 2012); Member of the Advisory Board of Annalen der Physik (since 2012); Member of the Review Panel, QSIT, Swiss National Science Foundation (since 2011); Member of the Scientific Committee, Fundación BBVA (since 2010); Member of the Governing Council of the Spanish public Council for Scientific Research (2008-2010); Member of the Advisory Board of Science Center of Benasque (since 2008); Member of the CIAR Review Panel, Toronto, Canada (2007-2008); Member of the xQIT Visiting Committee, MIT (2007-2009); Member of the Scientific Advisory Board, Centre of Quantum Technology, NUS, Singapore (since 2007); Member of the Advisory Board ITAMP, Harvard University (2007-2010); Associate Editor, Review of Modern Physics (2005-2011); Member of the International Advisory Board QIP IRC, EPSRC, United Kingdom (2005-2008); Member of the Kuratorium IQOQI, Austrian Academy of Sciences (2005-2008); Associate Editor, Revista Española de Física (2002-2005); Founding managing Editor, Quantum Information and Computation (since 2001); Associate Editor, Physical Review A (2000-2003).

Among the awards received, the most noteworthy are the following: Hamburg Prize for Theoretical Physics; Medal of Honor, Fundación García Cabrerizo; Wolf Prize in Physics; Niels Bohr Institute Medal of Honor; Grand Cross of the Order of Dos de Mayo of the Community of Madrid; Premi Nacional de Pensament i Cultura Científica; Benjamin Franklin Medal, Franklin Institute, US; Medal of Honor, University Complutense of Madrid; BBVA Foundation Frontiers of Knowledge Award; Carl Zeiss- Research Award; Science and Arts award - Castellano Manchegos del Mundo, Junta Castilla La Mancha; National Blas Cabrera Prize for Physical, Material and Earth Sciences; 6th International Quantum Communication Award; Prince of Asturias Award for Technical and Scientific Research; Quantum Electronics Prize of the European Physical Society; Medal of the Royal Physical Society of Spain; Felix Kuschenitz Preis of the Austrian Academy of Sciences; National Prize to early-stage researches of the Royal Physical Society of Spain.

Other Honors: Elected member of the Royal Academy of Sciences, Spain; Doctor Honoris Causa, Polytechnic University of Valencia, Spain; Corresponding member of the Royal Academy of Science of Zaragoza, Spain; Doctor Honoris Causa, University of Valencia, Spain; Distinguished Visiting Professor, Institute for Theoretical Physics, CSIC, Spain; Honorary member for the Spanish Optical Society (SEDOPTICA); Madrid, Spain; World's Most Influential Scientific Minds (Thompson Reuters); Honorary Doctor, University of Zaragoza, Spain; Visiting Miller Professorship Award, University of California Berkeley, California, USA; Corresponding member of the Royal Academy of Sciences and Arts of Barcelona, Spain; David Ben Guiron Medal, Ben Guiron University of the Negev, Israel; Princeton Center for Theoretical Science Lecturer, Princeton University, NJ, USA; Distinguished Lecturer, Technion, Haifa; Tsinghua Songjian Turing lecture, Beijing; Erwin Schrödinger Distinguished Lecture, Vienna; Moore Distinguished Scholar, CALTECH, California, USA; Thomson Reuters Citation laurate in Physics; ISI highly cited scientist; Distinguished Research Chair at perimeter

Institute, Waterloo, Ontario, Canada; Honorary Academic Member of the Academy of Sciences of Murcia region; Honorary Doctor, Polytechnic University of Catalonia, Barcelona; Honorary Doctor, Castilla – la Mancha University; Distinguished Guest Professor, Institute of Photonic Science (Barcelona); Corresponding Member of the Austrian Academy of Sciences; Corresponding Member of the Royal Academy of Sciences; Fellow of the American Physical Society.

Mr. Cirac has more than 40.000 citations according to the ISI Web of Knowledge (h index – 100) and the US patent unforgeable Noise – tolerant quantum tokens.

He has been lecturer in more than 200 international conferences, developing at the same time, teaching works and public classes.

The Company's Board of Directors finds that the training and experience of Mr. Juan Ignacio Cirac gives him quite valuable and useful knowledge for the performance thereby as Director of the Company.

2. SUITABILITY AND MERITS

The Board of Directors has assessed and considered the experience, training and professional profile of the candidate, the merits and competence thereof to hold the position of Director, and the experience and knowledge thereof in the various industries and issues that are relevant for the Company.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. Juan Ignacio Cirac Sasturain to hold the position, meeting the requirements of business and professional respectability and appropriate knowledge and experience for performing the duties thereof as Director of the Company.

3. AVAILABILITY

It has been verified that the candidate is effectively available to provide the dedication required to hold the position of Director of the Company.

4. ABSENCE OF DISQUALIFICATIONS AND CONFLICTS

It has also been verified that the candidate has not incurred any grounds for disqualification, prohibition or permanent conflict of interest that would prevent the candidate from properly performing the duties thereof.

5. CLASS OF DIRECTOR

Mr. Juan Ignacio Cirac Sasturain has been nominated based on the personal and professional characteristics thereof, with the Committee and the Board of Directors itself having verified that the candidate is not involved in any of the circumstances provided for in Section 529 *duodecies.4* of the Companies Act and that the candidate

can hold the position without being influenced by relations with the Company or its Group, its significant shareholders or its officers, for which reason the candidate can be classified as an independent Director.

Therefore, Mr. Juan Ignacio Cirac Sasturain is entitled to the Independent Director classification.

6. PROPOSAL OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The proposal for ratification and appointment of Mr. Juan Ignacio Cirac Sasturain as independent Director of the Company comes from the Nominating, Compensation and Corporate Governance Committee, as appears in the comprehensive report of such Committee dated February 7, 2016, which shall be published and shall be available as from the call to the General Shareholders' Meeting pursuant to the provisions of the Regulations of the Board of Directors.

7. RELEASE OF THE BOARD OF DIRECTORS

It is stated for the record that Board of Directors has unanimously approved releasing the candidate from the requirement set forth in article 30 of the Bylaws regarding the holding for more than three years in advance of a number of shares of the Company representing a nominal value of at least 3,000 euros in order to be appointed as a Director of the Company.

8. PROPOSAL FOR RATIFICATION AND APPOINTMENT

For all of the foregoing reasons, the Board of Directors finds that Mr. Juan Ignacio Cirac Sasturain has the respectability, capability, expertise, competence, experience, qualifications, training, availability, and commitment to duties required to hold the position, and has not incurred any grounds for disqualification, prohibition or permanent conflict of interest.

By virtue thereof, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, the following proposal for ratification and appointment of Mr. Juan Ignacio Cirac Sasturain as an independent Director of the Company for the bylaw-mandated four-year period is made to the shareholders at the General Shareholders' Meeting:

To ratify the interim appointment by the Board of Directors at its meeting held on April 8, 2016 of Mr. Juan Ignacio Cirac Sasturain as Director of the Company and to appoint him as a Director of the Company for the bylaw-mandated four-year period, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, with the classification of independent Director.

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Madrid, April 8, 2016