

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

REGARDING

**PROPOSALS FOR INTERIM APPOINTMENT (CO-OPTION) OF DIRECTORS
SUBMITTED FOR THE CONSIDERATION OF THE BOARD OF DIRECTORS, AND
PROPOSALS FOR RE-ELECTION AND RATIFICATION AND APPOINTMENT OF
DIRECTORS TO BE SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL
SHAREHOLDERS' MEETING**

May 4, 2017

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, the 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 2017 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 re-election and for ratification and appointment of Directors that are expected 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 Nominating, Compensation and Corporate Governance Committee proposes to the Board of Directors the appointment, by co-option, of Mr. Francisco José Riberas Mera and Ms. Carmen García de Andrés as Directors, in both cases as independent directors. These appointments are expected to take place at the meeting to be held by the above Committee today, May 4, 2017.

The proposals for re-election and for ratification 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 Director Mr. José María Álvarez-Pallete López as executive Director for a new four-year period.
- Re-election of the Director Mr. Ignacio Moreno Martínez as proprietary Director.
- Ratification of the appointment by co-option, and appointment as Directors for the bylaw-mandated four-year period, of Mr. Francisco Riberas Mera and of Ms. Carmen García de Andrés, in both cases as independent Directors.

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 to the management team.

The Board of Directors is currently made up of eighteen Directors, one of which is executive and the rest non-executive. Among the non-executive Directors, five are proprietary (*dominical*), nine 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 5.15% of the

share capital of the Company; two are such in representation of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), the holder of 6.33% of such capital; and one in representation of China Unicom (Hong Kong) Limited (China Unicom), holder of 1.27% of the share capital.

It is expected that at the meeting of the Board of Directors to be held next, Mr. César Alierta Izuel (Other External Director), Mr. Gonzalo Hinojosa Fernández de Angulo (Independent Director) and Mr. Pablo Isla Álvarez de Tejera (Independent Director) will tender their resignations in order to facilitate the renewal of the body, with this Nominating, Compensation and Corporate Governance Committee proposing to fill such vacancies through the interim appointment (co-option) of two independent Directors.

3.2 Size of the Board of Directors

The size and composition of the Board of Directors have been analyzed and, following the good governance recommendations and the main international trends, it has been decided to propose to the Board of Directors that its size be reduced to seventeen members. Accordingly, the Nominating, Compensation and Corporate Governance Committee proposes filling, by co-option, only two of the three vacancies referred to above.

3.3 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 the Executive Chairman and the operation 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 2016, at the meeting of the Board of Directors held on December 14, 2016, 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;
- Performance of the Executive Chairman;
- 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.

3.4 Comprehensive Rationale

In the review or preparation, as applicable, of the proposals for interim appointment (co-option), re-election, and ratification and appointment, 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 appointment is being proposed to the Board of Directors, and whose re-election or ratification and appointment are submitted for approval at the General Shareholders' Meeting, in all cases 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.

Furthermore, Ms. Carmen García de Andrés is among the independent Directors whose appointment is submitted for ratification by the shareholders at the General Shareholders' Meeting. Regardless of the recognized merit and personal capabilities thereof, her appointment will entail an increase in the number of women on the Board of Directors, which shows 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 for the proper operation of the Board of Directors and for effective compliance with its supervision and control duties, (ii) the renewal of the Board of Directors deriving from the proposals for interim appointment of Directors and the subsequent proposals for ratification and appointment by the shareholders at the General Meeting, which also results in an increase in the number of 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 appointment, re-election, and ratification 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 appointment submitted to the Board of Directors and the proposals for re-election and for ratification 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 REGARDING THE APPOINTMENT AND THE 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 originate from 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 and appointment of independent Directors:

Interim appointment, ratification and appointment of independent Directors

In view of the three vacancies that will occur on the Board of Directors as a result of the resignations expected to be tendered at the board meeting to be held next, by the Directors Mr. César Alierta Izuel (Other External Director), Mr. Gonzalo Hinojosa Fernández de Angulo (independent Director) and Mr. Pablo Isla Álvarez de Tejera (independent Director), the Nominating, Compensation and Corporate Governance Committee proposes:

- To fill two of the three vacancies through the appointment co-option by the Board of Directors at its meeting of May 4, 2017 of Mr. Francisco Riberas Mera and Ms. Carmen García de Andrés, in both cases as independent Directors; and
- The ratification of the appointment by co-option of Mr. Francisco Riberas Mera and Ms. Carmen García de Andrés and their appointment as Directors by the shareholders at the General Shareholders' Meeting as independent Directors for the bylaw-mandated four-year period.

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 Directors 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.

In particular, in the case of Mr. Riberas Mera, the Nominating, Compensation and Corporate Governance Committee takes a very positive view of his business career as well as his knowledge and experience in the industrial, financial and business spheres, as well as his ability to contribute very positively to the Company's development and innovation strategy.

As regards Ms. García de Andrés, the Nominating, Compensation and Corporate Governance Committee takes a very positive view of her knowledge of audit matters, her extensive experience in the corporate social responsibility area and her ability to contribute to strengthening the Company's strategy in this area.

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 By-Laws 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 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, for a new four-year period, of the Directors Mr. José María Álvarez-Pallete López, as executive Director, and of Mr. Ignacio Moreno Martínez, as proprietary Director.

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 proposed appointments of Directors submitted to the Board of Directors and the proposals to reduce the number of members of the Board of Directors to seventeen, of whom nine will be independent external directors, and for re-election and for ratification 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, May 4, 2017

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RE-ELECTION OF MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ AS EXECUTIVE DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****May 4, 2017**

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 executive Director Mr. José María Álvarez-Pallete López 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 or of the meeting of the Board itself 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 María Álvarez-Pallete López proposed to be re-elected as a Director of the Company, with the classification of executive 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. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ

Mr. José María Álvarez-Pallete López has a degree in Economics from the Complutense University of Madrid. He also studied Economics at the Université Libre of Brussels, in Belgium, holds an International Management Programme (IMP) from IPADE Business School and an Advance Research Degree from the Complutense University of Madrid.

He has been the Chairman & CEO of Telefónica S.A. since April 8, 2016.

In February 1999 he joined the Telefónica Group as Chief Financial Officer of Telefónica Internacional S.A.U., and in September of the same year he became Chief Financial Officer of Telefónica S.A. In July 2002, he was appointed Executive Chairman of Telefónica Internacional S.A.U.; in July 2006, General Manager of Telefónica Latinoamérica; and in March 2009, Chairman of Telefónica Latinoamérica. In September 2011 he was named Executive Chairman of Telefónica Europe until his appointment as Chief Operating Officer of Telefónica S.A. He has been a member of the Board of Directors of Telefónica S.A. since July 2006. He was Chief Operating Officer of Telefónica, S.A. from September 2012 to April 2016. He was appointed Chairman & CEO of Telefónica S.A. on April 8, 2016.

He began his professional career at Arthur Young Auditors in 1987. In 1988, he joined Benito & Monjardín/Kidder, Peabody & Co., where for seven years he held various positions within the analysis and corporate finance departments. After the acquisition of 25% of the share capital by Kidder, Peabody & Co. (General Electric Group - GE) in 1991, he took the firm's "Associate" course in New York and was subsequently involved in the GE Group's operations in Spain. In 1995, he joined the Compañía Valenciana de Cementos Portland (CEMEX) as head of the Investor Relations and Analysis Department. In 1996, he was promoted to Chief Financial Officer in Spain, and in 1998 to Chief Administration and Finance Officer of the Cemex Group in Indonesia, based in Jakarta, where he was also a member of the Board.

In 2001 he won the "CFO Europe Best Practices" award in the Mergers & Acquisitions category for the year 2000. In April 2003, he was appointed a Member of Merit of the Ibero-American Forum of the Fundación Carlos III and in July 2007 he was awarded with the Gold Master of the Executive Management Forum. On October 4, 2011, he received the Person of the Year in Economics Award, given by the Spanish newspaper "El Economista". On December 14, 2013, he received the Excellence 2013 Award for his contribution to progress in telecommunications, given by the Spanish Telecommunication Engineers Association. Fast Company magazine named him one of the 100 Most Creative People in Business 2014. He was also named "Best CEO" of 2016 in Spain by Forbes Magazine.

He has been Chairman of the Board of Telefónica Internacional S.A.U. and of the Supervisory Board of Brasilcel, N.V and of Cesky Telecom; Vice Chairman of the Boards of Directors of Telesp, S.A. and of Telefónica Móviles México, S.A. He was a Member of the Board of Directors of the following companies: Telecomunicações de Sao Paulo; Telefónica Datacorp, S.A.; Telefónica del Perú, S.A.A.; Colombia Telecomunicaciones, ESP; Telefónica Móviles México; Telefónica Larga Distancia de Puerto Rico, S.A.; Admira Media; Inmobiliaria Telefónica; TPI; Telefónica Móviles; Telefónica Holding Argentina; Telefónica de España; Telefónica O2 Europe; Portugal Telecom; and China Netcom. He has held the position of alternate Director at the following companies: Telefónica Chile, S.A.; Telefónica Móviles Colombia, S.A.; Telefónica de Argentina, S.A.; and Telefónica Móviles Chile.

He has been Chairman of Antares, Fonditel, Telfisa and Telefónica North America, and Vice Chairman of Telefónica del Perú, S.A.A.

The Company's Board of Directors finds that the training and experience of Mr. José María Álvarez-Pallete 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 found that Mr. José María Álvarez-Pallete López has the knowledge, experience and professional background necessary to contribute to the progress of the Telefónica Group in the coming years and to face the challenges that will be faced by the telecommunications industry, which will be marked by the gradual digitalization of the businesses in all areas.

The Board of Directors also considers that Mr. José María Álvarez-Pallete López, throughout his time in office, has significantly contributed to the Telefónica Group reaching its current geographic and business dimension, efficiently drawing together the various regions and countries in which it does business.

The Board of Directors has also quite positively valued the innovative, reconciling and enterprising spirit of Mr. José María Álvarez-Pallete López, which, combined with his personal manner and charisma, will allow him to effectively carry out his work.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of Mr. José María Álvarez-Pallete 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, with the classification of executive Director.

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 María Álvarez-Pallete López is currently the Chairman & CEO of Telefónica, S.A., and therefore belongs to the class of executive 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. Álvarez-Pallete, dated May 3, 2017.

7. PROPOSAL FOR RE-ELECTION

For all of the foregoing reasons, the Board of Directors finds that Mr. José María Álvarez-Pallete 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. José María Álvarez-Pallete López as executive 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. José María Álvarez-Pallete López as a Director of the Executive for the bylaw-mandated four-year period, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, with the classification of executive Director.”

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Madrid, May 4, 2017

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

REGARDING

**THE PROPOSAL FOR RE-ELECTION OF MR. JOSÉ MARÍA ÁLVAREZ-PALLETE
LÓPEZ AS EXECUTIVE DIRECTOR TO BE SUBMITTED TO THE SHAREHOLDERS
AT THE GENERAL SHAREHOLDERS' MEETING**

May 3, 2017

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. José María Álvarez-Pallete López as executive Director.

1. ASSESSMENT OF THE PERFORMANCE OF MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ

The Nominating, Compensation and Corporate Governance Committee has analyzed the quality of work as executive Director and the contribution of Mr. José María Álvarez-Pallete López to the Board of Directors since his first appointment in 2006, and particularly during his latest mandate (after re-election by the shareholders at the General Shareholders' Meeting held on May 14, 2012).

It has also taken into account the dedication of Mr. José María Álvarez-Pallete López to holding the position of Director of the Company during the entire period stated, 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. Álvarez-Pallete has performed his duties as Chairman & CEO in an excellent manner, helping the Company's corporate decision-making bodies to perform their activities in a coordinated and efficient manner, carrying out 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. José María Álvarez-Pallete López, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

2.1 Appointments and Classification

Mr. José María Álvarez-Pallete López was appointed as a Director of the Company for the first time on July 26, 2006, having been last re-elected for a five-year period by resolution of the shareholders at the General Shareholders' Meeting held on May 14, 2012. Therefore, his current appointment as Director expires on May 14, 2017.

Mr. José María Álvarez-Pallete López is currently the Chairman & CEO of Telefónica, S.A., and therefore belongs to the class of executive Director.

2.2 Professional Training and Experience

Mr. José María Álvarez-Pallete López has a degree in Economics from the Complutense University of Madrid. He also studied Economics at the Université Libre of Brussels, in Belgium, holds an International Management Programme (IMP) from IPADE Business School and an Advance Research Degree from the Complutense University of Madrid.

He has been Chairman & CEO of Telefónica S.A. since April 8, 2016.

In February 1999 he joined the Telefónica Group as Chief Financial Officer of Telefónica Internacional S.A.U., and in September of the same year he became Chief Financial Officer of Telefónica S.A. In July 2002, he was appointed Executive Chairman of Telefónica Internacional S.A.U.; in July 2006, General Manager of Telefónica Latinoamérica; and in March 2009, Chairman of Telefónica Latinoamérica. In September 2011 he was named Executive Chairman of Telefónica Europe until his appointment as Chief Operating Officer of Telefónica S.A. in September 2012. He has been a member of the Board of Directors of

Telefónica S.A. since July 2006. He was Chief Operating Officer of Telefónica, S.A. from September 2012 to April 2016. He was appointed Chairman & CEO of Telefónica S.A. on April 8, 2016.

He began his professional career at Arthur Young Auditors in 1987. In 1988, he joined Benito & Monjardín/Kidder, Peabody & Co., where for seven years he held various positions within the analysis and corporate finance departments. After the acquisition of 25% of the share capital by Kidder, Peabody & Co. (General Electric Group - GE) in 1991, he took the firm's "Associate" course in New York and was subsequently involved in the GE Group's operations in Spain. In 1995, he joined the Compañía Valenciana de Cementos Portland (CEMEX) as head of the Investor Relations and Analysis Department. In 1996, he was promoted to Chief Financial Officer in Spain, and in 1998 to Chief Administration and Finance Officer of the Cemex Group in Indonesia, based in Jakarta, where he was also a member of the Board.

In 2001 he won the "CFO Europe Best Practices" award in the Mergers & Acquisitions category for the year 2000. In April 2003, he was appointed a Member of Merit of the Ibero-American Forum of the Fundación Carlos III and in July 2007 he was awarded with the Gold Master of the Executive Management Forum. On October 4, 2011, he received the Person of the Year in Economics Award, given by the Spanish newspaper "El Economista". On December 14, 2013, he received the Excellence 2013 Award for his contribution to progress in telecommunications, given by the Spanish Telecommunication Engineers Association. Fast Company magazine named him one of the 100 Most Creative People in Business 2014. He was also named "Best CEO" of 2016 in Spain by Forbes Magazine.

He has been Chairman of the Board of Telefónica Internacional S.A.U. and of the Supervisory Board of Brasilcel, N.V and of Cesky Telecom; Vice Chairman of the Boards of Directors of Telesp, S.A. and of Telefónica Móviles México, S.A. He was a Member of the Board of Directors of the following companies: Telecomunicações de Sao Paulo; Telefónica Datacorp, S.A.; Telefónica del Perú, S.A.A.; Colombia Telecomunicaciones, ESP; Telefónica Móviles México; Telefónica Larga Distancia de Puerto Rico, S.A.; Admira Media; Inmobiliaria Telefónica; TPI; Telefónica Móviles; Telefónica Holding Argentina; Telefónica de España; Telefónica O2 Europe; Portugal Telecom; and China Netcom. He has held the position of alternate Director at the following companies: Telefónica Chile, S.A.; Telefónica Móviles Colombia, S.A.; Telefónica de Argentina, S.A.; and Telefónica Móviles Chile.

He has been Chairman of Antares, Fonditel, Telfisa and Telefónica North America, and Vice Chairman of Telefónica del Perú, S.A.A.

2.3 Suitability

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. José María Álvarez-Pallete 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.

In this regard, this Committee has assessed the achievements of Mr. José María Álvarez-Pallete López during his terms as Executive Director, having contributed to the Telefónica Group reaching its current geographic and business dimension, efficiently drawing together the various regions and countries in which it does business.

Likewise, this Committee considers that Mr. José María Álvarez-Pallete López has the knowledge, experience and professional background necessary to contribute to the progress of the Telefónica Group in the coming years and to face the challenges that will be faced by the telecommunications industry, which will undoubtedly be marked by the gradual digitalization of the businesses in all areas. It has also noted the innovative, reconciling and enterprising spirit of Mr. José María Álvarez-Pallete López, which, combined with his personal manner and charisma, will allow him to effectively carry out his work.

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. José María Álvarez-Pallete 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 executive Director.

* * *

Madrid, May 3, 2017

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RE-ELECTION OF MR. IGNACIO MORENO MARTÍNEZ AS PROPRIETARY DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****May 4, 2017**

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. Ignacio Moreno Martínez 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 or of the meeting of the Board itself 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. Ignacio Moreno Martínez 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. IGNACIO MORENO MARTÍNEZ

Mr. Ignacio Moreno Martínez has a degree in Economics and Business Studies from the University of Bilbao. Master's degree in Marketing and Sales Management from the Instituto de Empresa. MBA from INSEAD.

He is currently Chairman of TESTA Residencial, Socimi, S.A., and of Metrovacesa Suelo y Promoción, S.A. Likewise, is Director of Listed Company Obrascón Huarte Lain, S.A. (OHL).

He was CEO of Metrovacesa, S.A. until October 2016. Previously, he was Chairman of the Company.

He has also served as General Manager of the Chairman's Office at Banco Bilbao Vizcaya Argentaria, S.A., CEO of Vista Capital Expansión, S.A., SGEGR – Private Equity, and CEO of N+1 Private Equity.

He also served as Deputy General Manager of Corporate and Institutional Banking at Corporación Bancaria de España, S.A. – Argentaria, CEO of Desarrollo Urbanístico Chamartín, S.A. and Chairman of Argentaria Bolsa, Sociedad de Valores.

He has also held posts at Banco de Vizcaya, at Banco Santander de Negocios, and at Mercapital as Head of Corporate Banking and Private Equity.

The Company's Board of Directors finds that the training and experience of Mr. Ignacio Moreno Martínez 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. Ignacio Moreno Martínez 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, with the classification of proprietary Director.

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. Ignacio Moreno Martínez is nominated at the request of the shareholder Banco Bilbao Vizcaya Argentaria, S.A., the direct holder of 6.33% 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. Moreno Martínez, dated May 3, 2017.

7. PROPOSAL FOR RE-ELECTION

For all of the foregoing reasons, the Board of Directors finds that Mr. Ignacio Moreno Martínez 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. Ignacio Moreno Martínez 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. Ignacio Moreno Martínez as a Director 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, May 4, 2017

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

REGARDING

**THE PROPOSAL FOR RE-ELECTION OF MR. IGNACIO MORENO MARTÍNEZ AS
PROPRIETARY DIRECTOR TO BE SUBMITTED TO THE SHAREHOLDERS AT THE
GENERAL SHAREHOLDERS' MEETING**

May 3, 2017

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. Ignacio Moreno Martínez as proprietary Director.

**1. ASSESSMENT OF THE PERFORMANCE OF MR. IGNACIO MORENO
MARTÍNEZ**

The Nominating, Compensation and Corporate Governance Committee has analyzed the quality of work as Director and the contribution of Mr. Ignacio Moreno Martínez to the Board of Directors since his appointment in December 2011 (after the ratification by the shareholders at the General Shareholders’ Meeting held on May 14, 2012).

It has also taken into account the dedication of Mr. Ignacio Moreno Martínez 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. Moreno Martínez has quite satisfactorily performed his duties as Director, contributes to the corporate bodies of the Company having a balanced composition that is suitable to the needs thereof, 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. Ignacio Moreno Martínez, including those relating to his status, training, professional experience and suitability, upon the terms set out below.

2.1 Appointments and Classification

Mr. Ignacio Moreno Martínez was appointed as a Director of the Company for the first time on December 14, 2011, his appointment for a five-year period having been ratified by resolution of the shareholders at the General Shareholders' Meeting held on May 14, 2012. Therefore, his current appointment as Director expires on May 14, 2017.

Mr. Ignacio Moreno Martínez is appointed at the proposal of Banco Bilbao Vizcaya Argentaria, S.A., the direct holder of 6.33% of the share capital of the Company, for which reason he is classified as a proprietary Director.

2.2 Professional Training and Experience

Mr. Ignacio Moreno Martínez has a degree in Economics and Business Studies from the University of Bilbao. Master's degree in Marketing and Sales Management from the Instituto de Empresa. MBA from INSEAD.

He is currently Chairman of TESTA Residencial, Socimi, S.A., and of Metrovacesa Suelo y Promoción, S.A. Likewise, is Director of the Board of Listed Company Obrascón Huarte Lain, S.A. (OHL).

He was CEO of Metrovacesa, S.A. until October 2016. Previously, he was Chairman of the Company.

He has also served as General Manager of the Chairman's Office at Banco Bilbao Vizcaya Argentaria, S.A., CEO of Vista Capital Expansión, S.A., SGEGR – Private Equity, and CEO of N+1 Private Equity.

He also served as Deputy General Manager of Corporate and Institutional Banking at Corporación Bancaria de España, S.A. – Argentaria, CEO of

Desarrollo Urbanístico Chamartín, S.A. and Chairman of Argentaria Bolsa, Sociedad de Valores.

He has also held posts at Banco de Vizcaya, at Banco Santander de Negocios, and at Mercapital as Head of Corporate Banking and Private Equity.

Suitability

The Nominating, Compensation and Corporate Governance Committee has verified and confirmed the suitability of Mr. Ignacio Moreno Martínez 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. Ignacio Moreno Martínez 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, May 3, 2017

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RATIFICATION AND APPOINTMENT OF MS. CARMEN GARCÍA DE ANDRÉS AS INDEPENDENT DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****May 4, 2017**

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. Carmen García de Andrés which is 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 or of the meeting of the Board itself 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. Carmen García de Andrés 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. Carmen García de Andrés

- Ms. Carmen García de Andrés has a degree in Economics and Business Studies from Universidad Pontificia de Comillas (ICADE).
- She is a well-respected figure in the corporate social responsibility community, having dedicated many years to promoting the social work of Fundación Tomillo, a private, non-profit, non-denominational and independent entity at which she has held all executive functions and of which she has been the Chairwoman since 2014.
- Fundación Tomillo was created in 1983. It works toward the social integration of teenagers and young people marginalized by society, offering them work and different alternatives, providing them with employment training and guidance. The entity has a significant endowment, and works with more than 260 people through its dynamic and innovative team, supported by many volunteers.
- Ms. García de Andrés also carries out other work in the corporate social responsibility field: she collaborates with Youth Business Spain, she is treasurer of the Spanish Association of Foundations, trustee of Fundación RAIS for the homeless and Director of Fundación Tomillo Social Farming.
- She intends to donate her compensation as independent director of Telefónica, S.A. to Fundación Tomillo.

- She began her professional career in the tax area of audit firm PricewaterhouseCoopers (PwC), where she spent 22 years, starting out in the Audit Department of PwC and progressing to Managing Partner of the Consumer Goods, Distribution, Industry and Services group.

The Company's Board of Directors finds that the training and experience of Ms. Carmen García de Andrés, especially in the fields of social responsibility and auditing gives her extremely valuable and useful knowledge to perform duties 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, her merits and competence to hold the position of Director, and her experience and knowledge in the various industries and issues that are relevant for the Company.

In particular, the Board of Directors has viewed in a very positive light, Ms. García de Andrés' experience in the field of corporate social responsibility and her ability to help strengthen the Company's strategy in this area.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of the candidate 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.

Moreover, in addition to her widely respected capabilities and personal merit, Ms. García de Andrés' appointment increases the number of women on the Board of Directors, which demonstrates the Company's commitment to promoting diversity.

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, with the classification of independent Director.

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. Carmen García de Andrés has been nominated based on her personal and professional characteristics, with the Nominating, Compensation and Corporate Governance Committee and the Board of Directors itself having verified that the candidate is not currently 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. Carmen García de Andrés belongs to the class of independent Director.

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

The proposal for ratification and appointment of Ms. Carmen García de Andrés 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 May 4, 2017, 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. Carmen García de Andrés 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. Carmen García de Andrés 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 (co-option) by the Board of Directors at its meeting held on May 4, 2017 of Ms. Carmen García de Andrés as Director of the Company and to appoint her 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, May 4, 2017

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.**REGARDING****THE PROPOSAL FOR RATIFICATION AND APPOINTMENT OF MR. FRANCISCO RIBERAS MERA AS INDEPENDENT DIRECTOR SUBMITTED TO THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING****May 4, 2017**

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. Francisco Riberas Mera 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 or of the meeting of the Board itself 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. Francisco Riberas Mera 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. Francisco José Riberas Mera

- Mr. Francisco José Riberas Mera has a degree in Law and a degree in Economics and Business Administration from Universidad Pontificia de Comillas (ICADE).
- He has broad professional experience in the industrial sector, promoting the creation of the Gestamp Group in 1990 with the aim of becoming a benchmark supplier in the automotive industry and has held several important management positions at Corporación Gestamp since then.
- It all started in 1958, the year in which his father, Mr. Francisco Riberas Pampliega, founded Gonvarri, S.A. as a company dedicated to steel processing, which continues to be a leader in the sector.
- He joined the company in 1988 and Mr. Riberas Mera has been Chairman and CEO of the family group created by his father since 2010. He has known how to combine great work in the industry with the ability to make progress in the research and development of new products in a complicated business with major national and international competitors. Today the Gestamp Group enjoys great success and a very high profile in the international industrial markets. In addition to its core business, the company is at the forefront in the areas of high technology and innovation.

- Gestamp Automoción, S.A. has been listed on the Spanish Stock Exchanges since 2017 and the Riberas family is its main shareholder.
- Mr. Riberas Mera possesses great strategic capacity and global vision, as well as operating judgment and an excellent ability to recognize talent among his collaborators in the area of human resources. He also has extensive international experience in the financial, economic and industrial fields.

The Company's Board of Directors finds that the training and experience of Mr. Francisco Riberas Mera, particularly in the industrial, financial and business spheres, 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.

In particular, in the case of Mr. Riberas Mera, the Board of Directors took a very positive view of his business career and his knowledge and experience in the industrial, financial and business spheres, as well as his capacity to make a very positive contribution to the Company's development and innovation strategy.

By virtue thereof, the Board of Directors has come to a very favorable conclusion regarding the suitability of the candidate 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, with the classification of independent Director.

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. Francisco Riberas Mera has been nominated based on the personal and professional characteristics thereof, with the Nominating, Compensation and Corporate

Governance Committee and the Board of Directors itself having verified that the candidate is not currently 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. Francisco Riberas Mera belongs to the class of independent Director.

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

The proposal for ratification and appointment of Mr. Francisco Riberas Mera 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 May 4, 2017, 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. Francisco Riberas Mera 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. Francisco Riberas Mera 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 (co-option) by the Board of Directors at its meeting held on May 4, 2017 of Mr. Francisco Riberas Mera 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, May 4, 2017