REPORT ON THE COMPENSATION POLICY OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.

February 2012

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I. INTRODUCTION

Pursuant to Article 36 of the Regulations of the Board of Directors of Telefónica, S.A. ("**Telefónica**" or the "**Company**"), each year the Board must approve, at the proposal of the Nominating, Compensation and Corporate Governance Committee, a Report regarding the compensation of the Directors of the Company, providing a description of the Company's compensation policy approved by the Board for the current year (in this case, for fiscal year 2012) and of any policy approved for future years. Such report must also include an overall summary of the compensation system applied during the prior fiscal year (i.e., the application of the aforementioned policy in 2011) as well as a breakdown of the individual compensation accrued by each of the Directors.

The policy regarding compensation of the Board of Directors of Telefónica has been formulated in accordance with the provisions of the By-Laws and the Regulations of the Board of Directors.

Furthermore, within the context of a process of continuous improvement of its compensation system and of adherence to best practices in the market, Telefónica has reviewed the requirements and recommendations established in the new regulatory framework applicable to listed corporations.

Consequently, based upon a proposal made by the Nominating, Compensation and Corporate Governance Committee, this Report was approved by the Board of Directors of the Company at its meeting of February 22, 2012. To prepare this document, the Board drew on the advice and cooperation of the Company's Directorate of Corporate Human Resources, as well as on the assistance of the consulting firm Towers Watson.

As provided by Article 36 of the Regulations of the Board of Directors, this Report shall be made available to the shareholders on occasion of the call to the Ordinary General Shareholders' Meeting of the Company, and shall be submitted to a consultative vote of the shareholders as a separate item on the agenda.

DIRECTOR COMPENSATION POLICY FOR THE CURRENT YEAR

This section contains a thorough description of the Director compensation policy applicable in the current year 2012, including (i) a summary of the regulatory sources thereof and of the decision-making process (sub-section A); (ii) a reference to the principles or objectives underpinning the compensation system (sub-section B); and (iii) a breakdown of the compensation structure and of the various compensation items of which the system consists, together with information on the standards to be followed for application of the policy during the current fiscal year.

A. PROCESS OF PREPARATION OF THE COMPENSATION SYSTEM AND POLICY

The compensation system and policy applicable to the Board of Directors of Telefónica, as well as the process of preparation thereof, are established in the By-Laws (Article 28) and in the Regulations of the Board of Directors (Article 35) of the Company. Pursuant to such texts, the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, determines, within the maximum limit set by the shareholders at the Ordinary General Shareholders' Meeting of the Company, the amount that the Directors are to receive for discharging the duties of supervision and collective decision-making inherent in the position of Director.

In addition to and independently of the compensation mentioned above, the By-Laws also provide that the shareholders at the General Shareholders' Meeting may approve the establishment of compensation systems for the Directors that are linked to the listing price of the shares or that entail the delivery of shares or of stock options.

The aforementioned compensation, deriving from membership on the Board of Directors of the Company, is compatible with other compensation received by the Directors by reason of the executive duties they perform at the Company or by reason of any other advisory duties they may perform for the Company, other than those inherent in their capacity as Directors.

To determine the amount to be paid to the Directors, the Board of Directors endeavors to ensure, at all times, that the compensation of the Directors is commensurate with that paid at comparable companies in the market in terms of volume, size and/or business, and that any variable compensation takes into account the professional performance of the beneficiaries and the performance of the Company itself and does not merely stem from the circumstances prevailing in the market.

In addition, the Nominating, Compensation and Corporate Governance Committee performs an annual review of the Director compensation policy, in order to propose to the Board of Directors, if required, the adoption of any resolutions deemed appropriate in connection with this matter.

In determining the compensation amounts, the Board of Directors of the Company also takes into account the responsibility and the level of commitment entailed by the role that each Director is called upon to play, as well as market requirements, using standards of moderation for such purpose that have been duly verified by reports provided by professional experts on the matter. In this regard, and pursuant to the guidelines for action set forth in Article 7 of the Regulations of the Board of Directors, the Board carries out its duties in accordance with the corporate interest, meaning the interests of the Company.

The important role played by the Nominating, Compensation and Corporate Governance Committee in the determination of the compensation system and policy applicable to the Directors is worthy of mention. Article 22.b) of the Regulations of the Board of Directors of the Company provides that such Committee shall have the following powers and duties, among others, and without prejudice to any other tasks that the Board of Directors may assign thereto:

1) To report, following standards of objectivity and conformity to the corporate interest, on the proposals for the appointment, re-election and removal of Directors and senior executive officers of the Company and its subsidiaries, and evaluate the qualifications, knowledge and experience required of candidates to fill vacancies.

2) To report on the proposals for appointment of the members of the Executive Commission and of the other Committees of the Board of Directors, as well as the Secretary and, if applicable, the Deputy Secretary.

3) To organize and coordinate, together with the Chairman of the Board of Directors, a periodic assessment of the Board, pursuant to the provisions of Article 13.3 of the Regulations of the Board of Directors.

4) To propose to the Board of Directors, within the framework established in the By-Laws, the compensation for the Directors, and review it periodically to ensure that it is in keeping with the tasks performed by them, as provided in Article 35 of the Regulations of the Board of Directors.

5) To propose to the Board of Directors, within the framework established in the By-Laws, the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of contractual implementation thereof.

6) To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

7) To supervise compliance with the Company's internal rules of conduct and the corporate governance rules thereof in effect from time to time.

As regards its composition, Article 22.a) of the Regulations of the Board of Directors provides that the Nominating, Compensation and Corporate Governance Committee shall consist of not less than three nor more than five Directors appointed by the Board of

Directors. All members of such Committee must be external Directors, and the majority thereof must be independent Directors. The aforementioned article also provides that the Chairman of this Committee shall in all events be an independent Director, appointed from among its members.

In this connection, and fully in compliance with the above-cited provisions, the Nominating, Compensation and Corporate Governance Committee is currently made up as follows:

- Mr. Alfonso Ferrari Herrero (Chairman)
  (External independent Director)
- Mr. Carlos Colomer Casellas
  (External independent Director)
- Mr. Peter Erskine
  (External Director)
- Mr. Gonzalo Hinojosa Fernández de Angulo
  (External independent Director)
- Mr. Pablo Isla Álvarez de Tejera
  (External independent Director)

There were no changes in the composition of the Nominating, Compensation and Corporate Governance Committee during 2011.

All of the Directors have a proven capacity to serve on the Committee, based on their broad experience and their expertise in compensation or senior management matters.

As far as the operation of the Nominating, Compensation and Corporate Governance Committee is concerned, it meets as many times as is deemed appropriate to review the matters within its purview (in most cases, prior to a meeting of the Board of Directors of Telefónica), when called by the Chairman of the Committee. During 2011, the Nominating, Compensation and Corporate Governance Committee held 8 meetings.

During the current year and as of the date of this Report, the Nominating, Compensation and Corporate Governance Committee has held 2 meetings.

B. DESCRIPTION OF THE BASIC OBJECTIVES OF THE COMPENSATION SYSTEM AND POLICY

As regards the basic objectives of the compensation system and policy applicable to the Directors of Telefónica, a distinction must be made between external Directors (who do not perform any executive duties within the Telefónica Group) and executive Directors, who perform senior management duties or are employees at the Company or within its Group.

- External Directors:

As far as external Directors are concerned (i.e., proprietary, independent and other external Directors), the aim of the compensation policy is to adequately compensate the Directors for the dedication provided and the responsibility assumed, seeking to ensure that such compensation does not compromise their independence.

- Executive Directors:

The basic standard underlying Telefónica's compensation policy for executive Directors is to establish compensation packages that will make it possible to attract, retain and motivate the most distinguished professionals, so as to enable the Company to achieve its strategic objectives within the ever more competitive and internationalized scenario in which it operates.

From this viewpoint, Telefónica's compensation policy seeks:

(i) Transparency: Telefónica considers transparency to be a fundamental principle in corporate governance, and has published the annual report on Director compensation since 2008.

(ii) To ensure that the compensation package, in terms of structure and overall amount, is competitive with that of comparable international entities. Specifically, given the size and multinational scope of the Telefónica Group, the leading European multinational companies are taken as the main point of reference, and the *Global Titans 50* index is also watched. Additionally, there are specific reviews of executive compensation carried out by international consulting firms specializing in this field. During 2011, the Company took the following especially into account: the "Executive Remuneration Guide" survey, prepared by the consulting firm Mercer, the "European Executive Survey," prepared by the consulting firm AON Hewitt, and the "General Industry Top Management Compensation Survey," prepared by the consulting firm Towers Watson.

(iii) To provide incentives for the creation of shareholder value in a sustained fashion over time. To this end, the compensation includes significant short-, medium- and long-term variable components:

    1. Variable annual compensation is linked, on the one hand, to the achievement of specific, quantifiable business objectives that are in line with the corporate interest and have an impact on the creation of value, and on the other hand, to the evaluation of individual performance. Objectives are adjusted to the strategic priorities of the business on an annual basis.

2. Medium- and long-term compensation is linked to the creation of shareholder value.

Taking the foregoing considerations into account, the Board of Directors of the Company, acting upon a prior proposal of the Nominating, Compensation and Corporate Governance Committee and in line with currently existing international good governance policies and best practices on executive compensation, resolved that, beginning in September 2007, the Board Members who are executives of the Company are to receive only such amounts as are established in their respective contracts for the performance of their executive duties.

C. STRUCTURE OF DIRECTOR COMPENSATION

Based on the foregoing, below is a description of the structure established for the current compensation of the Directors:

1. Structure of the compensation of Directors for their activities as such

The compensation accruing to the Directors for their activities as such is structured, within the framework established by the law and the By-Laws, in accordance with the standards and compensation items described below, within the maximum limit determined for such purpose by the shareholders acting at the General Shareholders' Meeting, pursuant to the provisions of Article 28 of the By-Laws.

In accordance with the foregoing, the shareholders acting at the General Shareholders' Meeting held on April 11, 2003 set the sum of 6 million euros as the annual gross maximum amount of the compensation to be received by the Board of Directors as fixed compensation and as fees for attendance at meetings of advisory or control Committees of the Board of Directors. It is not planned to submit a modification of this maximum amount to the shareholders at the Ordinary General Shareholders' Meeting to be held during the current fiscal year, and therefore, such limit will in principle continue to apply to the compensation that the Directors will receive this year in their capacity as such.

It falls upon the Board of Directors to set the exact amount to be paid within the aforementioned limit and to decide how it is to be distributed among the Directors. During fiscal year 2007, the Nominating, Compensation and Corporate Governance Committee, in the performance of the duties assigned thereto and based on current market information, carried out a review of the standards for distribution of the compensation established for the Directors of the Company for serving as such and submitted to the Board of Directors a proposal for review of the compensation to be received by the Directors for their membership on the Board of Directors, in the Executive Commission and in the advisory or control Committees thereof, because the amount established during fiscal year 2004 had not been modified since then. The distribution of compensation approved by the Company's Board of Directors in 2007 will in principle remain unchanged during 2012, and continues in force as of the date of preparation of this Report. The above-mentioned standards for distribution are described in detail in sub-section III.1 below.

1.1. *Fixed amount*

Directors receive a fixed monthly amount, commensurate with market standards, according to the positions held on the Board and the Committees thereof. It is stated for the record that, as of the date hereof, provision is made for payment of a fixed amount for sitting on the Board of Directors, the Executive Commission and advisory or control Committees, on the terms and conditions described later in this Report.

1.2. *Attendance fees*

Directors are entitled to be paid specified amounts as attendance fees. However, as of the date hereof, Directors only receive fees for attending meetings of the advisory or control Committees, as further explained below.

At present, Directors do not receive, merely for serving as such, any compensation as pension or life insurance, nor do they participate in compensation plans linked to the listing price of Telefónica shares, even though such form of compensation is contemplated in the Company's By-Laws.

In addition, it should be noted that some Directors are members of i) certain management decision-making bodies of some subsidiaries and affiliates of Telefónica, and receive the compensation established by such bodies for their directors, and ii) various Territorial Advisory Councils and the Advisory Council of the Corporate University, and receive the compensation established for such duties.

As set forth above, since September 2007, the Members of the Board who are executives of the Company only receive compensation for the performance of their executive duties, pursuant to the terms of their respective contracts.

2. Structure of the compensation of executive Directors

The compensation payable to executive Directors for the performance of executive duties at the Company is structured as follows:

2.1. Fixed compensation

This portion of the compensation is determined according to the competitive level in the market taken as a reference and to the individual contribution of the executive Director.

2.2. *Variable short-term (annual) compensation*

A significant portion of the compensation of Directors performing executive duties at the Company is variable, in order to strengthen their commitment to Telefónica and motivate their performance. The parameters normally used as a reference for variable annual incentives are:

- Compliance with and achievement of the objectives established at the Group level.
- Evaluation of individual performance, according to the duties and objectives specified for each executive.
- Review and assessment of other elements and qualitative circumstances linked to the performance of the individual duties and responsibilities of each position.

2.3. *Variable medium- and long-term compensation*

The Company also makes provision for the implementation of incentive schemes linked to the achievement of medium- or long-term objectives, in order to foster the retention and motivation of executive Directors and the alignment with the creation of value at Telefónica in a sustained fashion over time.

These schemes may include the delivery of Telefónica shares or of options thereon or of compensation rights linked to the value such shares. The application of such compensation systems shall be approved by the shareholders at a General Shareholders' Meeting, who shall determine the value of the shares taken as a reference, the maximum number of shares to be allotted to each Director, the exercise price of the option rights, the duration of such compensation system and any other terms that they deem appropriate.

As of the date hereof, there are three long-term variable compensation plans in effect, the basic terms of which are described in detail in sub-section III.2.2 below:

(i) The Plan known as "Performance Share Plan" ("PSP"), approved by the shareholders at the Ordinary General Shareholders' Meeting of Telefónica held on June 21, 2006, the fifth and last cycle of which began in 2010.

(ii) As the Company believes it important to implement incentive schemes that are tied to the achievement of medium- or long-term objectives in order to foster the retention of its officers, and given that the last Cycle of the PSP ends in 2013, the shareholders acting at the General Shareholders' Meeting approved in 2011 the implementation of a new long-term incentive plan for members of the management team of the Telefónica Group, including Executive Directors, the first

Cycle of which will end in 2014. This plan is known as *Performance & Investment Plan* (“PIP”).

(iii) The Plan known as “Global Employee Share Plan,” approved at the Ordinary General Shareholders’ Meeting held on June 23, 2009, consisting of an incentive Telefónica share purchase plan for employees of the Group at the international level, including management personnel and executive Directors of Telefónica. By means of this Plan, employees are offered the possibility of acquiring Telefónica shares, and the Company undertakes to deliver to participants, free of charge, a specific number of Telefónica shares, provided that certain requirements are satisfied. The employees participating in the Plan may acquire Telefónica shares by means of monthly contributions of up to 100 euros (or the equivalent thereof in domestic currency), subject to a maximum amount of 1,200 euros over a twelve-month period (Purchase Period). If the employee remains at the Telefónica Group and retains the shares for one additional year as from the end of the twelve-month Purchase Period (the Vesting Period), the employee is entitled to receive one free share for each share acquired and retained through the end of the Vesting Period.

2.4. Benefits

As part of their in-kind compensation, executive Directors participate in general health and dental insurance, life insurance and disability insurance plans. They are also participants in pension/retirement plans. These benefits are in line with existing market practices.

2.5. Basic terms of the contracts of executive Directors: termination, non-competition and exclusivity agreement

The contracts of executive Directors and some of the members of the Company’s management team in general provide that they shall be entitled to receive the financial compensation described below in the event of termination of the relationship for a reason attributable to the Company, and in some cases also due to the occurrence of objective circumstances, such as a change of control in the Company. Conversely, if the relationship is terminated because of a breach attributable to the executive Director or officer, or because of his/her own free decision, s/he shall not be entitled to any compensation. However, it should be noted that, in certain cases, the compensation that executive Directors are entitled to receive under their contract does not result from the application of these general standards, but rather depends on their personal and professional circumstances and on the time when the contract was signed. The financial compensation agreed in the event of termination of the relationship, where appropriate, consists of a maximum of three times annual salary and an additional annual salary amount according to length of service at the Company. Annual salary amounts consist of the last fixed compensation and the arithmetic mean of the sum of the last two variable annual compensation payments received pursuant to their contract.

As regards the non-competition and exclusivity agreement, pursuant to the provisions of Section 8.3 of Royal Decree 1,382/85, which governs the employment relationship with senior management, contracts executed with executive Directors include a non-competition agreement that applies following termination of the contract. Such agreement provides that, upon termination of the respective senior management contract and for the term of the agreement, the executive Director may not render services, directly or indirectly, for his/her own account or on behalf of others, personally or through third parties, to Spanish or foreign companies whose business is the same as or similar to that of the Telefónica Group.

The above-mentioned agreement not to compete has a duration of one year following termination of the contract for any reason. There is an exception in the event of dismissal that is wrongful or void and without reinstatement, so declared by a final judicial decision, arbitral award or administrative ruling without the possibility of appeal, in which case the executive Director shall be released from the agreement not to compete.

The contracts with the executive Directors also prohibit, during the term thereof, the signing (whether personally or through intermediaries) of other employment, commercial or civil contracts with other companies or entities carrying out activities similar in nature to those of the Telefónica Group.

Finally, the contracts executed with the executive Directors provide that their employment relationship is compatible with the holding of other representative and management positions and with other professional situations in which the Director may be engaged at other entities within the Telefónica Group or at any other entities unrelated to the Group with the express knowledge of the Board of Directors of Telefónica or of the Chairman thereof.

D. EXPECTED COMPENSATION POLICY FOR FUTURE FISCAL YEARS

As of the date of this report, no significant changes are expected in the application of the Director compensation policy described in sub-sections A, B and C above.

Nevertheless, within the framework of its policy of continuous review of the Company's corporate governance system, the Board of Directors believes that the Company should have a Director compensation policy that is appropriate for the circumstances prevailing at any time, paying particular attention to changes in laws and regulations, best practices, recommendations and trends –both at the domestic and at the international levels– in connection with the compensation of directors of listed companies and the conditions of the market.

In the specific case of executive Directors, in the future the Company intends to continue to apply a policy that provides for a combination of fixed and variable compensation, to be determined in accordance with the principles described in section C above, i.e., following standards and parameters that will allow for the retention, motivation and commitment of the persons performing executive duties for the Group, that are also aligned with the achievement of the strategic and business objectives established at the Telefónica Group at any time. In this connection, it is expected that in future fiscal years, as the life cycles of current plans are completed, new long-term variable compensation plans for executive Directors and employees of the Group will be designed and submitted to the shareholders at the General Shareholders' Meeting.

II. DIRECTOR COMPENSATION DURING FISCAL YEAR 2011: OVERALL SUMMARY AND BREAKDOWN OF INDIVIDUAL COMPENSATION

The features, structure and general standards for application of the Director compensation policy for fiscal year 2011 are basically those described in section II above in connection with the compensation policy for the current year.

In addition, below is a description of some more specific aspects of the application of such policy in fiscal year 2011, including a breakdown of the individual compensation accruing to each Director, both for their activities as such and for the performance of executive duties, where applicable.

1. Compensation of Directors for their activities as such

The annual gross maximum amount of the compensation to be received by the members of the Board of Directors as a fixed amount and as attendance fees for attending the meetings of advisory or control Committees of the Board of Directors, approved by the shareholders at the General Shareholders' Meeting of April 11, 2003, totaling 6 million euros, continued to apply during fiscal year 2011.

As noted in sub-sections II.A and II.C.1 above, it falls upon the Board to set the overall amount of the compensation to be received by the Directors of Telefónica for serving in such capacity, within the amount mentioned above, as well as to distribute such amount among the Directors. For fiscal year 2011, such overall amount (compensation both as a fixed amount and as attendance fees for attending the meetings of advisory or control Committees of the Board of Directors) was 4,549,501 euros.

In fiscal year 2011, such overall amount was distributed among the Directors in accordance with the same standards approved by the Board in 2007, as a result of the respective proposal of the Nominating, Compensation and Corporate Governance Committee mentioned in sub-section II.C.I above. Below is an itemized list of such standards.

1.1 Fixed amount

Set forth below are the amounts established as fixed compensation for sitting on the Board of Directors, the Executive Commission and the advisory or control Committees of Telefónica, pursuant to the resolution adopted by the Board of Directors:

Amounts in euros

Position	Board of Directors	Executive Commission	Advisory or control Committees
Chairman	300,000	100,000	28,000
Vice-Chairman	250,000	100,000	-
Member:			
Executive	-	-	-
Proprietary	150,000	100,000	14,000
Independent	150,000	100,000	14,000
Other external	150,000	100,000	14,000

1.2 *Attendance fees*

As mentioned above, the Directors do not receive any kind of fees for attending meetings of the Board of Directors or of the Executive Commission, and only receive the fees established for attending meetings of advisory or control Committees. The amount established for such item is 1,250 euros per meeting.

1.3 *Summary of the total compensation received by the Directors during fiscal year 2011.*

The table below contains an itemized description of the compensation and benefits received by the Directors of Telefónica during fiscal year 2011.

(Amounts in euros)

Directors	Salary/ Compensation[1]	Fixed Compensation - Committees of the Board[2]	Attendance fees[3]	Short-term variable compensation[4]	Other items[5]	TOTAL 2011
Executive						
Mr. César Alierta Izuel	2,530,800	100,000	--	4,015,440	265,300	6,911,540
Mr. Julio Linares López	1,973,100	--	--	3,011,580	126,084	5,110,764
Mr. José María Álvarez-Pallete López	316,000	--	--	--	21,570	337,570
Proprietary						
Mr. Isidro Fainé Casas	250,000	100,000	--	--	10,000	360,000
Mr. Vitalino Nafría Aznar	250,000	56,000	26,250	--	--	332,250
Mr. José María Abril Pérez	150,000	122,167	13,750	--	--	285,917
Mr. Antonio Massanell Lavilla	150,000	70,000	32,500	--	10,000	262,500
Mr. Chang Xiaobing	87,500	--	--	--	--	87,500
Independent						
Mr. David Arculus	150,000	28,000	11,250	--	--	189,250
Ms. Eva Castillo Sanz	150,000	42,000	25,000	--	--	217,000
Mr. Carlos Colomer Casellas	150,000	156,000	21,250	--	130,000	457,250
Mr. Alfonso Ferrari Herrero	150,000	212,000	58,750	--	132,500	553,250
Mr. Luiz Fernando Furlán	150,000	14,000	5,000	--	--	169,000
Mr. Gonzalo Hinojosa Fernández de Angulo	150,000	198,000	48,750	--	133,750	530,500
Mr. Pablo Isla Álvarez de Tejera	150,000	75,833	13,750	--	--	239,583
Mr. Javier de Paz Mancho	150,000	156,000	11,250	--	120,000	437,250
Other external						
Mr. Fernando de Almansa Moreno-Barreda	150,000	56,000	25,000	--	10,000	241,000
Mr. Peter Erskine	150,000	156,000	27,500	--	3,750	337,250

1 **Salary/Compensation:** Cash compensation, payable at pre-established intervals, whether or not to be vested over time and paid by the company for the mere fact of being employed by it, irrespective of actual attendance by the Director at the meetings of the Board of Telefónica, S.A. It also includes non-variable compensation, if any, accruing to the Director for the performance of executive duties, as applicable.

2 **Fixed compensation - Committees of the Board**: Amount of items other than attendance fees, of which the Directors are beneficiaries for sitting on the Executive Commission or on the advisory or control Committees of the Board of Telefónica, S.A., irrespective of their actual attendance at the meetings of such Committees.

3 **Attendance fees:** Total amount of fees for attending meetings of the advisory or control Committees of the Board of Telefónica, S.A.

4 **Short-term variable compensation:** Variable amount linked to performance or to the achievement of a number of (quantitative or qualitative) individual or group targets and on the basis of other compensation, or else as any other reference in euros, within a period of one year or less.

5 **Other items:** Includes, among other things, the amounts paid for membership in the various Territorial Advisory Spanish Committees as well as in the Advisory Board of the Corporate University.

It is also stated for the record that Mr. Vitalino Nafría Aznar tendered his resignation as a Director on December 14, 2011 and that Mr. Ignacio Moreno Martínez was appointed to replace him on an interim basis. Mr. Moreno Martínez did not receive any compensation in fiscal year 2011.

In addition, the compensation received by the Directors of Telefónica for membership in the various advisory or control Committees during fiscal year 2011 is specifically set forth below:

Directors	Audit and Control	Nominating, Compensation and Corporate Governance	HH.RR Reputation & CR	Regulation	Service Quality and Commercial Service	International Affairs	Innovation	Strategy	TOTAL 2011
Mr. César Alierta Izuel	-	-	-	-	-	-	-	-	-
Mr. Isidro Fainé Casas	-	-	-	-	-	-	-	-	-
Mr. Vitalino Manuel Nafría Aznar	26,500	-	16,500	21,500	-	17,750	-	-	82,250
Mr. Julio Linares López	-	-	-	-	-	-	-		-
Mr. José María Abril Pérez	-	-	-	-	-	20,250	15,667	-	35,917
Mr. José Fernando de Almansa Moreno-Barreda	-	-	-	21,500	-	34,250	-	25,250	81,000
Mr. José María Álvarez-Pallete López	-	-	-	-	-	-	-	-	-
Mr. David Arculus	-	-	-	20,250	-	19,000		-	39,250
Ms. Eva Castillo Sanz	-	-	-	21,500	20,250	-	-	25,250	67,000
Mr. Carlos Colomer Casellas	-	17,750	-	-	17,750	-	41,750	-	77,250
Mr. Peter Erskine	-	20,250	-	-	-	-	24,000	39,250	83,500
Mr. Alfonso Ferrari Herrero	27,750	38,000	17,750	21,500	20,250	20,250	-	25,250	170,750
Mr. Luiz Fernando Furlán	-	-	-	-	-	19,000	-	-	19,000
Mr. Gonzalo Hinojosa Fernández de Angulo	40,500	22,750	19,000	-	20,250	20,250	-	24,000	146,750
Mr. Pablo Isla Álvarez de Tejera	-	20,250	14,000	35,500	14,000	-	5,833	-	89,583
Mr. Antonio Massanell Lavilla	25,250	-	16,500	-	34,250	-	26,500	-	102,500
Mr. Francisco Javier de Paz Mancho	-	-	33,000	16,500	-	17,750	-	-	67,250
Mr. Chang Xiaobing	-	-	-	-	-	-	-	-	-
TOTAL	120,000	119,000	116,750	158,250	126,750	168,500	113,750	139,000	1,062,000

Amounts in euros

1.4. *Other amounts received from other Companies of the Telefónica Group.*

The table below contains an individual breakdown of the amounts received by the Directors of the Company from companies of the Telefónica Group other than Telefónica, S.A. for the performance of executive duties or for sitting on the boards of such companies:

Amounts in euros

Directors	Salary/ Compensation[1]	Attendance fees[2]	Short-term variable compensation[3]	Other items[4]	TOTAL
Executive					
Mr. José María Álvarez-Pallete López	961,709	--	1,140,138	57,553	2,159,400
Proprietary					
Mr. Vitalino Nafría Aznar	16,737	--	--	--	16,737
Independent					
Mr. David Arculus	86,456	--	--	--	86,456
Ms. Eva Castillo Sanz	240,847	--	--	--	240,847
Mr. Alfonso Ferrari Herrero	297,275	--	--	--	297,275
Mr. Luiz Fernando Furlán	299,406	--	--	--	299,406
Mr. Javier de Paz Mancho	840,667	--	--	--	840,667
Other external					
Mr. Fernando de Almansa Moreno-Barreda	436,214	--	--	--	436,214
Mr. Peter Erskine	86,456	--	--	--	86,456

1 **Salary/Compensation:** Cash compensation, payable at pre-established intervals, whether or not to be vested over time and paid by the company in question for the mere fact of being employed by it, irrespective of actual attendance by the Director at the meetings of the Board of Directors or similar bodies of the company of the Telefónica Group in question. It also includes non-variable compensation, if any, accruing to the director for the performance of executive duties.

2 **Attendance fees:** Total amount of the fees for attending meetings of the Board of Directors or of similar bodies of any company of the Telefónica Group.

3 **Short-term variable compensation**: Variable amount linked to performance or to the achievement of a number of (quantitative or qualitative) individual or group targets and on the basis of other compensation, or else as any other reference in euros, within a period of one year or less.

4 **Other items:** Other amounts received in connection with benefit systems.

2. Compensation of executive Directors

2.1. *Fixed and variable annual compensation*

The following table shows the changes in the fixed and variable annual compensation paid to executive Directors for the performance of their executive duties over the last two fiscal years:

Amounts in euros (except percentages)

	2011	2010	2011/2010
Variable compensation [1]	8,167,158	8,186,448	-0.23%
Fixed compensation	5,938,408	6,356,975	-6.58%
Total salary compensation	**14,105,566**	**14,543,423**	-3,01%
Percentage of total salaries represented by variable compensation	57.90%	56.29%	n/a

1 Note: The variable compensation shown for a given year is the compensation paid in such year for the performance and results of the prior fiscal year.

2.2. *Stock Plans: "Performance Share Plan" and "Performance & Investment Plan".*

"Performance Share Plan" - PSP

As mentioned above, as part of the compensation systems established to allow for the retention and loyalty of management talent in the medium and long term, the shareholders acting at the Ordinary General Shareholders' Meeting of Telefónica held on June 21, 2006 approved the application of a long-term incentive plan for executives and management personnel of Telefónica and of other companies of the Telefónica Group, consisting of the delivery to the participants selected for such purpose, and following compliance with the necessary requirements established therein, of a specified number of shares of Telefónica as variable compensation.

The duration of the PSP is seven years, and its fifth and last cycle began in fiscal year 2010. The Plan is divided into five cycles that are independent of each other, having a duration of three years each, with each cycle beginning on July 1 and ending on June 30 of the third year following the commencement date. At present, only the fourth cycle (2009-2012) and the fifth and last cycle of such Plan (2010-2013) are in effect.

At the beginning of each cycle, each beneficiary is assigned a maximum number of shares at the Company's discretion. The specific number of shares to be delivered to beneficiaries at the end of the cycle is obtained by multiplying such maximum number by the level of achievement at the end of the cycle. Such level of achievement is measured and determined by means of the "Total Shareholder Return Index" (TSR). The TSR makes it possible to measure the performance of a company on the basis of the value created for the shareholders through the change in the listing price of its shares and the dividends generated. Changes in Telefónica's TSR throughout each cycle of the PSP are compared to changes in the TSR of other companies (which make up the so-called "Comparison Group" and are listed on the FTSE Global Telecoms Index) during the same period. Thus, the level of achievement will be 100% if the changes in Telefónica's TSR are equal to or greater than those of the third quartile of the comparison group, and 30% if changes in Telefónica's TSR are equal to the median. If such changes are between both percentages, a linear interpolation will be performed, and if they are below the median, no shares will be delivered.

Upon expiration of each cycle, each of the Officers of the Telefónica Group participating in the plan will receive the shares to which such Officer is entitled in accordance with the conditions described above. In any event, the delivery of the shares is contingent upon the continued employment of the beneficiary at the Company during the three years of each cycle; however, certain special conditions are provided for in connection with terminations.

As regards the shares allotted to date under this Plan, the table below sets forth the maximum number of shares for the fourth and the fifth (and last) cycles of the Plan that shall only be delivered (starting on July 1, 2012 and July 1, 2013) to each of the executive Directors of Telefónica if the conditions set for such delivery have been satisfied:

	Maximum no. of shares allotted Fourth Cycle	*Maximum no. of shares allotted Fifth Cycle*
Mr. César Alierta Izuel	173,716	170,897
Mr. Julio Linares López	130,287	128,173
Mr. José María Álvarez-Pallete López	78,962	77,680

In accordance with the PSP schedule, 2011 saw the implementation of the third cycle thereof, in which, according to the TSR achieved by the shares of Telefónica, S.A. compared to the TSR of the shares of the companies making up the FTSE Global Telecoms Index, the coefficient to be applied to the shares allotted to the beneficiaries in order to determine the number of shares to be delivered was 97.8%. The table below shows the number of shares delivered to each executive Director of Telefónica by way of implementation of the third cycle of the Plan:

	No. of shares delivered Third Cycle
Mr. César Alierta Izuel	145,544
Mr. Julio Linares López	99,233
Mr. José María Álvarez-Pallete López	66,155

Performance & Investment Plan

Given that the Company believes it is important to implement incentive schemes tied to the achievement of medium- or long-term objectives in order to foster the retention of its officers, and since the last Cycle of the PSP ends in 2013, the shareholders at the General Shareholders' Meeting resolved in 2011 to implement a new long-term incentive plan for members of the management team of the Telefónica Group, including executive Directors, the first Cycle of which will end in 2014. Such plan is known as *Performance & Investment Plan* ("PIP").

The plan consists of the delivery of Telefónica shares as variable compensation, following compliance with the requirements and conditions established therein. The aim of the PIP is to align the interests of participants with those of the shareholders of the Company, and to promote stock ownership therein.

The total duration of the PIP is five years and it is divided into three cycles, independent of each other, with a duration of three years each. The first cycle began on July 1, 2011, with the delivery of the shares to which the participants are entitled starting on July 1, 2014.

At the beginning of each cycle, the Company determines, at its discretion, the number of shares allotted that, subject to the specified maximum, may be delivered to participants under the plan, depending on the level of achievement of the established objectives.

The PIP includes the possibility of "co-investment" in order for all participants choosing this option to acquire a specified number of shares and to have the status of Telefónica shareholders during the life of the cycle. Thus, and provided the participant meets this co-investment condition, in accordance with the standards established in the plan, the initial allotment of shares will be increased by twenty-five percent. To such end, the participant must hold the above-mentioned number of shares until the date on which his/her right to receive shares under the plan is vested.

The number of shares that must be held in order for the co-investment condition to be deemed to have been complied with in each cycle shall be determined by the Nominating, Compensation and Corporate Governance Committee and shall be independent for each cycle.

The specific number of shares to be delivered at the expiration of the cycle to the executive Directors who are participants of the plan is obtained by multiplying the number of shares allotted (including the additional shares, in the event of co-investment) by the level of achievement of the objective set for each cycle. Such level of achievement will be measured and determined by means of the "Total Shareholder Return Index" (TSR). The TSR makes it possible to measure the performance of a company on the basis of the value created for the shareholders through the change in the listing price of its shares and the dividends generated. Changes in Telefónica's TSR throughout each cycle of the PIP will be compared to the changes in the TSR of other companies (which make up the so-called "Comparison

Group" and are listed on the Dow Jones Sector Titans Telecom Index) during the same period, in accordance with the following ranges:

TSR Percentile range / TELEFÓNICA's TSR percentile range	Plan Target (% of allotted shares vested)
Below the median	0%
Median	30%
Upper quartile	100%
Upper decile	125%

If the Company's TSR is between the median and the upper quartile of the comparison group, vesting will be linear and pro-rated among the relevant points. Intermediate points will be calculated by linear interpolation.

In accordance with the foregoing, and following the resolution adopted by the Board of Directors at its meeting of July 27, 2011, set forth below is the number of notional shares allotted, as well as the maximum possible number of shares to be received by the executive Directors of the Company, only in the event of compliance with the co-investment requirements established in such plan and of maximum achievement of the target TSR set for each cycle.

Name and Surnames	Notional Shares Allotted	Maximum Number of Shares *
Mr. César Alierta Izuel	249,917	390,496
Mr. Julio Linares López	149,950	234,298
Mr. José María Álvarez-Pallete López	79,519	124,249

* Maximum possible number of shares to be received in the event of compliance with the co-investment requirement and of maximum achievement of the target TSR (above the upper quartile).

Global Employee Share Plan

The Plan known as the Global Employee Share Plan, approved by the shareholders at the Ordinary General Shareholders' Meeting held on June 23, 2009, consists of an incentive Telefónica share purchase plan for employees of the Group at the international level (including management personnel and executive Directors of Telefónica).

As regards the Global Employee Share Plan, executives have decided to participate in this plan with the maximum contribution, i.e., one hundred euros monthly, for twelve months. Thus, as of the date of this Report, the three executive Directors had acquired a total of 212 shares under this plan during 2010 and 2011, such that the said Directors are entitled to receive an equivalent number of shares free of charge, provided, among other conditions, that the shares acquired have been held during the vesting period (twelve months following the end of the purchase period).

2.3. *Benefits*

The establishment of an Officer Benefits Plan (Retirement Plan) was approved in fiscal year 2006, in which Plan executive Directors participate and which is funded solely by the Company; its purpose is to supplement the current Pension Plan, which entails defined contributions equal to a specified percentage of the fixed compensation of Officers, on the basis of their professional levels in the organization of the Telefónica Group (ordinary annual contributions), and extraordinary contributions depending on the circumstances of each Officer, made in 2006 and to be received in accordance with the conditions established in such Plan.

Executive Directors also participate in the general employee pension plans of the Telefónica Group (hereinafter, the "Pension Plans") and are beneficiaries, as part of their in-kind compensation (hereinafter, "In-kind compensation"), of life insurance with death or disability coverage and of general medical insurance and dental coverage, in line with the benefits received by all other employees of the Telefónica Group.

Set forth below is the individual compensation received by the executive Directors for each of the above-mentioned items during fiscal year 2011:

Amounts in euros

(Executive) Directors	Pension plan contributions	Contributions to the Benefits Plan [1]	In-kind compensation [2]
Mr. César Alierta Izuel	8,402	1,014,791	57,955
Mr. Julio Linares López	9,468	555,033	83,923
Mr. José María Álvarez-Pallete López	7,574	355,563	17,346

1 Contributions to the **Officer Benefits Plan** established in 2006, funded solely by the Company, to supplement the current Pension Plan, which entails defined contributions equal to a specified percentage of the fixed compensation of the Officers, depending on their professional levels in the organization of the Telefónica Group.

2 The "**in-kind compensation**" item includes contributions for life and other insurance, such as general medical insurance and dental coverage.

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