

## **Annual Report on Corporate Governance**

Included in the Chapter 4 of the 2019 Consolidated Management Report of Telefónica, S.A. and of its Group of Companies

## **Annual Report on Remuneration of Directors**

Included in sections 4.6. (excluding section 4.6.10.) and 4.9.2. of this document

2019

## 4.1. Main aspects of Corporate Governance in 2019 and prospects for 2020

### 4.1.1. Corporate Governance System

Telefónica's basic corporate governance principles are set forth in its Bylaws, in the Regulations of its Board of Directors, in the Regulations for the General Shareholders' Meeting and in certain Policies relating to this matter; particularly noteworthy, among others, are the Diversity Policy in relation to the Board of Directors and the Selection of Board Members. These regulations determine the action principles of the Board, govern its organization and operation, and set the rules of conduct of its members.

The principles underlying Telefónica's corporate governance are the following:

- a. the maximization of the value of the Company in the interest of the shareholders,
- b. the essential role of the Board of Directors in the supervision of the management of the Company, and
- c. transparency as regards information in relations with its stakeholders including employees, shareholders, investors and customers, among others.

As provided in its Regulations of the Board of Directors, the Board will take the necessary measures to ensure: (i) that the Company's management team pursues the creation of value for the shareholders, (ii) that such management team is under its actual supervision, (iii) that no person or small group of persons holds a decision-making power that is not subject to checks and balances or controls, and (iv) that no shareholder receives privileged treatment compared to the others.

### 4.1.2. Continuous improvement of Corporate Governance

Telefónica is firmly committed to the ongoing improvement of its corporate governance framework, increasing, strengthening and consolidating best practices in this area.

In connection therewith, the Company constantly analyses and reviews its corporate governance structures and the level of compliance with the main existing good governance recommendations, considering at all times possible initiatives for improvement in the short and medium term and always keeping in mind the search for the governance formula that best defends the interests of the shareholders and the creation of value.

Within this context and throughout 2019, Telefónica has continued to improve and strengthen its corporate governance framework and has also renewed and reorganized its Board of Directors and the Committees of the Board, thereby reflecting its commitment to ensure a balanced and diverse composition; it has also adapted the roles of some of the Committees.

The main changes made were the following:

#### Changes relating to the Board of Directors

- At its meeting held on December 18, 2019, and at the proposal of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors appointed two Directors of Telefónica, S.A. on an interim basis to fill vacancies, with the classification of Independent Directors: Ms. Claudia Sender Ramírez and Ms. Verónica Pascual Boé.

Ms. Claudia Sender Ramírez and Ms. Verónica Pascual Boé filled the vacancies existing on the Board as a result of the voluntary resignation from their positions as Directors tendered by Mr. Wang Xiaochu and Mr. Luiz Fernando Furlán in order to facilitate the renewal of the Board of Directors of the Company.

Both candidates were selected on the basis of the proposal of the headhunting firm Spencer Stuart, and both proposals for appointment were made in light of the expertise, capability, experience, professional merits and willingness of the new Directors to devote the time and effort required for the effective performance of their duties, taking into account exclusively their personal and professional qualifications. The Nominating, Compensation and Corporate Governance Committee also checked and assessed that the new directors were not affected by any of the circumstances described in section 529 *duodecies.4* of the Companies Act (*Ley de Sociedades de Capital*) and that they would be able to perform their duties without being conditioned by their relations with the Company or its Group, its significant Shareholders or its Officers, such that they could be appointed as Independent Directors.

Ms. Claudia Sender Ramírez holds a degree in Chemical Engineering from the Polytechnical School of the University of São Paulo (Brazil), as well as a Master's in Business Administration (MBA) from the Harvard Business School in Boston (US).

She has extensive international experience, having held executive positions at the highest level at entities from different sectors and in different countries, primarily in Latin America. During her professional career, she has held positions of responsibility focusing more on marketing, customer management, finance, business development and strategic planning; particularly worthy of mention is her participation in the execution of significant strategic projects relating to the transformation of the business to address new challenges, as well as her knowledge of customer-related areas.

Ms. Sender thus has broad international experience in the industrial, financial, services and commercial marketing areas for the building of customer loyalty and the retention of customers, with an international and strategic vision in its

different aspects, and with extensive knowledge of the Brazilian market, which is of huge importance for Telefónica.

Ms. Verónica Pascual Boé holds a degree in aeronautical engineering from Universidad Politécnica de Madrid (Spain), an MBA CDI from the College des Ingénieurs (France), an Executive Master in Positive Leadership and Strategy (EXMPLS) from the IE Business School, and has completed various graduate studies at INSEAD (Singapore), Stanford (California) and the Harvard Business School (Boston).

She possesses extensive professional experience in the world of technological companies and has promoted the growth and development of the family-run company ASTI since she joined in 2004 as well as engaged in the design and manufacture of robotic items basically for industrial use; she has also held important management positions at such company. Since then, ASTI has grown markedly, both geographically and from the standpoint of solutions, with a view to becoming the benchmark provider in the development of process automation solutions for different production environments.

Ms. Pascual thus has long-standing international professional experience in the areas of entrepreneurship, innovation (Internet of Things, Industry 4.0, and automation of industrial and logistics processes), education and the positive impact of technology on society.

- Furthermore, at its meeting held on December 18, 2019, and after a favorable report of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors appointed the Independent Director Mr. José Javier Echenique Landiribar as Vice Chairman of the Board of Directors and, thus, Vice Chairman of the Executive Commission, thus becoming one of the three Vice Chairmen of such bodies.
- In addition, with the two Executive Directors, Mr. José María Álvarez-Pallete López and Mr. Ángel Vilá Boix, abstaining, and at the proposal of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors, at its meeting held on December 18, 2019, appointed Mr. José Javier Echenique Landiribar as Lead Independent Director to replace the Director Mr. Francisco Javier de Paz Mancho (who was reclassified as "Other External" Director).

Mr. Francisco Javier de Paz Mancho was appointed Director of Telefónica, S.A. in December 2007, so that, as provided in section 529 *duodecies.4* of the Companies Act ("those who, among other situations, have been Directors for a period in excess of 12 years may under no circumstances be considered as Independent Directors") and since 12 years had passed since his appointment, he was reclassified from Independent Director to "Other External" Director.

## Changes relating to the Committees of the Board

### • Amendment of the Regulations of the Board of Directors

The Board of Directors, at its meeting held on December 18, 2019 and at the proposal of the Nominating, Compensation and Corporate Governance Committee (which, as provided in article 3 of the Regulations of the Board, prepared the respective Substantiating Report), approved the partial amendment of the Regulations of the Board of Directors of Telefónica, S.A. in order to adapt the organizational structure of the Committees of the Board of Directors of the Company.

The aforementioned amendment consisted of the following: i) all matters relating to Reputation, Corporate Responsibility and Sustainability, which until then were within the purview of the Regulation and Institutional Affairs Committee, would henceforth be the responsibility of the Service Quality and Customer Service Committee, and ii) changing the name of the Service Quality and Customer Service Committee, which is now called the Sustainability and Quality Committee.

Notice of the aforementioned amendment of the Regulations of the Board of Directors was given to the National Securities Exchange Commission, and the amendment was registered with the Madrid Commercial Registry on January 28, 2020, registration number 1913; it was also made available to the shareholders on the Company's website. Such amendment will also be reported at the next General Shareholders' Meeting to be held.

### • Change in the composition of the Committees of the Board of Directors

At a meeting held on December 18, 2019, the Board of Directors and its Committees also approved changes in the composition of the Committees in order to continue to improve and strengthen their performance and the advice and support they provide to the Board of Directors in their respective areas, in line with international best practices and recommendations.

The approved changes were the following:

#### – Audit and Control Committee

To appoint as a Member and Chairman of the Audit and Control Committee the Independent Director Mr. Peter Löscher (his appointment as Chairman was to become effective on February 19, 2020, following the preparation of the 2019 annual information; Mr. Echenique thus continued as Chairman of such Committee until the aforementioned date).

Mr. Francisco Javier de Paz Mancho is no longer a Member of the Audit and Control Committee.

– Nominating, Compensation and Corporate Governance Committee

To appoint the Independent Director Mr. José Javier Echenique Landiribar as Chairman of the Nominating, Compensation and Corporate Governance Committee, to replace Mr. Francisco Javier de Paz Mancho, who stays on as a Member of such Committee.

To appoint the Independent Director Ms. María Luisa García Blanco as a Member of the Nominating, Compensation and Corporate Governance Committee, to replace Mr. Luiz Fernando Furlán.

– Sustainability and Quality Committee

To appoint Other External Director Mr. Francisco Javier de Paz Mancho as a Member and Chairman of the Sustainability and Quality Committee, to replace Mr. Peter Löscher, who is no longer a Member and Chairman of such Committee.

To appoint the Independent Director Ms. Claudia Sender Ramírez as a Member of the Sustainability and Quality Committee to replace Ms. María Luisa García Blanco.

– Strategy and Innovation Committee

To appoint the Independent Director Ms. Verónica Pascual Boé as a Member of the Strategy and Innovation Committee.

Finally, as regards the Regulation and Institutional Affairs Committee, its composition remains unchanged.

#### 4.1.3. Key issues of the Board of Directors

As of December 31, 2019, key issues of the Board of Directors of Telefónica, S.A. are detailed below:

**0.21%** total voting rights

**6.6 Years** - Average Director Tenure

**Renewed Board of Directors since 2016**

**64.71%** Directors

**New Lead Independent Director**

since December 2019

Similarly, regarding the diversity of the Board, the following aspects stand out:

#### **% Directors with the following Knowledge and Skills**

Economic/Finance	59%
Risks	41%
Innovation/Technology	29%
Engineering/Physics	24%
Legal	12%
Humanities	12%

#### **% Directors with Professional Experience in the following sectors**

Industry	41%
Banking	29%
Academic	29%
Public Administration	12%
Services	6%
Marketing	6%
NGO/Foundations	6%

#### **Nationality**

Spanish	14
English	1
Austria	1
Brazilian	1

#### **Number of Directors with International Experience**

Europe	17
Latin America	17
Asia	3
USA	4

#### **% Women of Board**

2016	11%
2017	19%
2018	18%
2019	29%

#### **Board Diversity by Age**

Over 60	8
Between 50-60	6
Under 50	3

Likewise, shown below is the composition of the Board of Directors along with each of its Committees. Additional information can be found in section 4 of the Annual Corporate Governance Report, and in section C of the Annual Corporate Governance Report Statistical Annex.

Name	Post	Board of Directors				Board Committees					
		Executive	Proprietary	Independent	Other External	Executive Commission	Audit and Control	Nominating, Compensation and Corporate Governance	Sustainability and Quality	Regulation and Institutional Affairs	Strategy and Innovation
Mr. José María Álvarez-Pallete López	Chairman	X									
Mr. Isidro Fainé Casas	ViceChairman		X								
Mr. José María Abril Pérez	ViceChairman		X								
Mr. José Javier Echenique Landiribar	ViceChairman and Lead Independent Director			X							
Mr. Ángel Vilá Boix	Chief Operating Officer	X									
Mr. Juan Ignacio Círac Sasurain	Member			X							
Mr. Peter Erskine	Member				X						
Ms. Sabina Fluxà Thienemann	Member			X							
Ms. Carmen García de Andrés	Member			X							
Ms. María Luisa García Blanco	Member			X							
Mr. Jordi Gual Solé	Member		X								
Mr. Peter Löscher	Member			X							
Mr. Ignacio Moreno Martínez	Member		X								
Ms. Verónica Pascual Boé	Member			X							
Mr. Francisco Javier de Paz Mancho	Member				X						
Mr. Francisco José Riberas Mera	Member			X							
Ms. Claudia Sender Ramírez	Member			X							

| Member of the Board Committee  
|| Chairman of the Board Committee

## 4.2. Structure of the Property

### 4.2.1. Share Capital

The share capital of Telefónica, S.A. is set at 5,192,131,686 euros and is divided into 5,192,131,686 common shares, of a single series and with a par value of 1 euro each, fully paid in. All the shares of the Company have the same characteristics and carry the same rights and obligations.

The shares of Telefónica, S.A. are represented by book entries that are listed on the Spanish Electronic Market (within the selective Ibx 35 index) and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao), as well as on the New York and Lima Stock Exchanges (on these latter two Exchanges through American Depositary Shares (ADSs), with each ADS representing one share of the Company).

In 2019, the shares of Telefónica, S.A. were excluded from trading on the London and Buenos Aires Stock Exchanges.

As of December 31, 2019, the total number of shareholders of Telefónica, S.A. amounted to 1.2 million shareholders, and the distribution by investors categories was as follows:

Investor Category	% Share Capital
Domestic Institutional	22%
Foreign Institutional	51%
Retail	27%

### Treasury shares

At its meeting held on May 31, 2017, the Board of Directors of the Company approved the General Framework for Discretionary Treasury Stock Operations of Telefónica, S.A., as provided in articles 16.2 and 17.6 of Telefónica's Internal Rules of Conduct in Matters Relating to the Securities Markets (the "IRC").

Such General Framework sets forth the discretionary action principles for the management of treasury stock, observing and respecting the provisions of the above-mentioned Rules, particularly as regards restrictions on price, volume and timing of the transactions.

As of the closing date of the 2019 fiscal year, the number of direct shares held as treasury stock stood at 77,562,635 (1.49% of the share capital).

As for the changes in treasury stock that occurred during the fiscal year, see Note 17 (Equity) of the Consolidated Accounts of Telefónica, S.A. for fiscal year 2019.

Furthermore, and in connection with the authorization granted to the Board of Directors by the shareholders at the General Shareholders' Meeting to acquire the Company's own shares, the shareholders acting at the Ordinary General Shareholders' Meeting of Telefónica held on June 8, 2018 resolved to renew the aforementioned authorization granted by the shareholders themselves at the General Shareholders' Meeting

of May 30, 2014 for the derivative acquisition of own shares, either directly or through companies of the Group, on the terms that are literally set forth below:

"A) To authorize, pursuant to the provisions of Section 144 et seq. of the Spanish Companies Act (Ley de Sociedades de Capital), the derivative acquisition by Telefónica, S.A., either directly or through any of the subsidiaries, at any time and as many times as it deems appropriate, of its own fully-paid in shares through purchase and sale, exchange or any other legal transaction.

*The minimum acquisition price or minimum value consideration shall be equal to the par value of the shares of its own stock acquired, and the maximum acquisition price or maximum value consideration shall be equal to the listing price of the shares of its own stock acquired by the Company on an official secondary market at the time of the acquisition.*

*Such authorization is granted for a period of five years as from the date of this General Shareholders' Meeting and is expressly subject to the limitation that the par value of the Company's own shares acquired directly or indirectly pursuant to this authorization added to those already held by Telefónica, S.A. and any of its subsidiaries shall at no time exceed the maximum amount permitted by the Law at any time, and the limitations on the acquisition of the Company's own shares established by the regulatory Authorities of the markets on which the shares of Telefónica, S.A. are traded shall also be observed.*

*It is expressly stated for the record that the authorization granted to acquire shares of its own stock may be used in whole or in part to acquire shares of Telefónica, S.A. that it must deliver or transfer to directors or employees of the Company or of companies of its Group, directly or as a result of the exercise by them of their option rights, all within the framework of duly approved compensation systems referencing the listing price of the Company's shares.*

B) To authorize the Board of Directors, as broadly as possible, to exercise the authorization granted by this resolution and to implement the other provisions contained therein; such powers may be delegated by the Board of Directors to the Executive Commission, the Executive Chairman of the Board of Directors, the Chief Operating Officer or any other person expressly authorized by the Board of Directors for such purpose.

C) To deprive of effect, to the extent of the unused amount, the authorization granted under Item V on the Agenda by the shareholders at the Ordinary

*General Shareholders Meeting of the Company on May 30, 2014."*

### Authorisation to increase share capital

As regards the authorizations conferred in respect of the share capital, and in addition to the authorization already described to acquire the Company's own shares, the shareholders acting at the Ordinary General Shareholders' Meeting held on June 12, 2015 resolved to authorize the Board of Directors in order for it, within a maximum period of five years as from the resolution of the shareholders, to decide, on one or more occasions, to increase its share capital by the maximum nominal amount of 2,469,208,757 euros, equal to one-half of the share capital of the Company on the date of adoption of the resolution at the General Shareholders' Meeting, issuing and floating the respective new shares for such purpose (with or without a premium), the consideration for which will consist of monetary contributions, with express provision for incomplete subscription of the shares to be issued. The Board of Directors was also authorized to exclude pre-emptive rights in whole or in part, as provided in section 506 of the current Companies Act. However, the power to exclude pre-emptive rights is limited to 20% of the share capital on the date on which the resolution is adopted. In accordance with the above-mentioned authorization, as of the end of fiscal year 2019, the Board would be authorized to increase the share capital by the maximum nominal amount of 2,469,208,757 euros.

Furthermore, the shareholders acting at the Ordinary General Shareholders' Meeting of Telefónica, S.A. held on June 9, 2017 delegated to the Board of Directors the power to issue debentures, bonds, notes and other fixed-income securities and hybrid instruments, including preferred interests, which may in all cases be simple, exchangeable and/or convertible and/or give the holders thereof an interest in the corporate earnings, as well as warrants, with the power to exclude the pre-emptive right of shareholders. The aforementioned securities may be issued on one or more occasions, at any time, within a maximum period of five years as from the date of adoption of the resolution. The securities issued may be debentures, bonds, notes and other fixed-income securities, or debt instruments of a similar nature, or hybrid instruments in any of the forms admitted by Law (including, among others, preferred interests) both simple and, in the case of debentures, bonds and hybrid instruments, convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies of its Group or of any other company and/or giving the holders thereof an interest in the corporate earnings. Such delegation also includes warrants or other similar securities that may entitle the holders thereof, directly or indirectly, to subscribe for or acquire newly-issued or outstanding shares, payable by physical delivery or through differences. The aggregate amount of the issuance or issuances of securities that may be approved in reliance on this delegation may not exceed, at any time, 25,000 million euros or the equivalent thereof in another currency. In the case of notes and for purposes of the above-mentioned limits, the outstanding balance of those issued in reliance on the delegation shall be computed. In the case of warrants, and also for the purpose of such limit, the sum of the premiums and

exercise prices of the warrants of each issuance approved in reliance on the delegation shall be taken into account.

Furthermore, under the aforementioned delegation resolution, the shareholders at the Ordinary General Shareholders' Meeting of Telefónica, S.A. resolved to authorize the Board of Directors to guarantee, in the name of the Company, the issuance of the aforementioned securities issued by the Companies belonging to its Group of Companies, within a maximum period of five years as from the date of adoption of the resolution.

### Restrictions on the transferability of securities and/or voting rights

As for the existence of restrictions on the transfer of securities and/or voting rights, in accordance with article 26 of the Company's Bylaws, no shareholder may exercise a number of votes exceeding 10 percent of the total share capital with voting rights existing at any time, regardless of the number of shares held, all of the foregoing with full and mandatory submission to the provisions of the Law. In determining the maximum number of votes that each shareholder may cast, only the shares held by the shareholder in question shall be computed, not including those held by other holders who have delegated their representation to that shareholder, without prejudice to the application of the same percentage limit of 10% to each of the shareholders represented individually.

The limitation established in the preceding paragraph shall also apply to the maximum number of votes that may be cast - either jointly or separately- by two or more shareholder companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or legal entity that is a shareholder, and the entity or entities, also shareholders, that the former directly or indirectly controls.

For the purposes indicated in the preceding paragraph, in order to consider the existence of a group of entities, as well as the control situations indicated above, the provisions of section 18 of the Companies Act shall apply.

Establishing in the Bylaws the maximum number of votes that may be cast by the same shareholder or by shareholders belonging to the same group (article 26 of the Bylaws) is warranted because the purpose of such measure is to establish an appropriate balance and to protect the position of minority shareholders, preventing a possible concentration of votes on a small number of shareholders, which could affect the furtherance of the corporate interest or the interest of all the shareholders as a guide for the actions of the shareholders at the General Shareholders' Meeting. Telefónica believes that this measure does not constitute a mechanism to block public tender offers but rather a guarantee that the acquisition of control will require sufficient consensus among all the shareholders since, as is natural and may be seen from experience, potential offerors may condition their offer to the removal of such block.

In addition, and in accordance with section 527 of the Companies Act, at listed companies, bylaw provisions that

directly or indirectly establish, in general terms, the maximum number of votes that may be cast by a single shareholder, companies belonging to the same group or those acting in concert with the foregoing shall cease to have effect when, following a public tender offer, the offeror has reached a percentage equal to or greater than 70 percent of the capital carrying voting rights, unless such offeror is not subject to equivalent neutralization measures or has not adopted them.

On the other hand, the provisions of Law 19/2003, of July 4, on the Legal System of Transfers of Capital and of Financial Transactions with Foreign Countries (section 7) might also apply, which provisions establish that the Government may decide the suspension of the regime of deregulation on foreign investments set out therein in the event of acts, businesses, transactions or operations that, because of their nature, form or conditions of performance, affect or may affect activities related, even if only occasionally, to public order or activities directly related to the national defense, or activities that affect or may affect public order, public safety and public health.

The shareholders acting at a General Shareholders' Meeting of Telefónica, S.A. have not resolved to adopt any neutralization measure in the event of a public tender offer in reliance on the provisions of the Securities Market Act.

#### 4.2.2. Significant Shareholders

According to the information existing at the Company, there is no individual or legal entity that directly or indirectly, individually or jointly with others, exercises or may exercise control over Telefónica on the terms set out in section 5 of the Securities Market Act.

As of the closing date of fiscal year 2019, there are, however, certain shareholders holding interests that may be considered significant within the meaning of Royal Decree 1362/2007, of October 19, and which are the following:

Name or corporate name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
Banco Bilbao Vizcaya Argentaria, S.A. (*)	5.16	0.02	0.00	0.00	5.18
CaixaBank, S.A. (**)	5.00	0.01	0.00	0.00	5.01
BlackRock, Inc. (***)	0.00	5.03	0.00	0.18	5.21

(\*) Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as at December 31, 2019 for the 2019 Annual Report on Corporate Governance.

(\*\*) Based on information provided by CaixaBank, S.A. as at December 31, 2019 for the 2019 Annual Report on Corporate Governance.

(\*\*\*) On December 27, 2019, BlackRock, Inc. notified the CNMV that its shareholding in Telefónica's share capital was 5.211%. On February 6, 2020 BlackRock, Inc. notified the SEC that its shareholding in Telefónica's share capital was 5.7%.

#### Breakdown of indirect interest:

Name or corporate name of indirect shareholder	Name or corporate name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
Banco Bilbao Vizcaya Argentaria, S.A.	BBVA Seguros, S.A. de Seguros y Reaseguros	0.02	0.00	0.02
CaixaBank, S.A.	VidaCaixa, S.A. de Seguros y Reaseguros	0.01	0.00	0.01
BlackRock, Inc.	Grupo BlackRock	5.03	0.18	5.21

It is hereby stated for the record that Telefónica is not aware of the existence of family, commercial, contractual or corporate relationships (whether significant or not arising in the ordinary course of business) among the holders of significant interests in its share capital.

Below is a description of the commercial, contractual or corporate relationships existing between the holders of significant interests and Telefónica, S.A. and/or its Group of companies (except for those of little significance or arising in the ordinary course of business):

Name of related party	Nature of relationship	Brief description
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Shareholding of Banco Bilbao Vizcaya Argentaria, S.A. (or any of the companies of its Group), together with Telefónica, S.A. and with CaixaBank, S.A., in Telefónica Factoring España, S.A., Telefónica Factoring Perú, S.A.C. (TFP Perú), Telefónica Factoring Colombia, S.A., Telefónica Factoring do Brasil, Ltda., and Telefónica Factoring México, S.A. de C.V., SOFOM, E.N.R.
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Shareholding of Ciérvana, S.L. (a company which belongs to Grupo BBVA), together with Telefónica Compras Electrónicas, S.L.U., in Adquira España, S.A.
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Shareholding of BBVA Bancomer, Institución de Banca Múltiple, Grupo Financiero Bancomer (subsidiary of Banco Bilbao Vizcaya Argentaria, S.A.) together with Telefónica Móviles México, S.A. de C.V. (subsidiary of Telefónica, S.A.) in Adquira México, S.A. de C.V.
Banco Bilbao Vizcaya Argentaria, S.A.	Contractual	Memorandum of understanding executed by Telefónica Digital España, S.L.U. with the aim of exploring a potential collaboration to offer loans to consumers and SME in Argentina, Colombia, and Perú.
Banco Bilbao Vizcaya Argentaria, S.A.	Contractual	Financial Collaboration Agreement signed with Banco Bilbao Vizcaya Argentaria, S.A., with special conditions for the Employees, Retirees and Pre-retirees group of the Telefónica Group.
CaixaBank, S.A.	Corporate	Shareholding of CaixaBank, S.A., with Telefónica, S.A. and with Banco Bilbao Vizcaya Argentaria, S.A. (or with any of the companies of its Group), in Telefónica Factoring España, S.A., Telefónica Factoring Perú, S.A.C. (TFP Perú), Telefónica Factoring Colombia, S.A., Telefónica Factoring do Brasil, Ltda., Telefónica Factoring México, S.A. de C.V., SOFOM, E.N.R., and Telefónica Factoring Chile, S.A. (in the latter, without participation of Banco Bilbao Vizcaya Argentaria, S.A.).
CaixaBank, S.A.	Corporate	Shareholding of Caixabank Payments & Consumer, E.F.C., E.P., S.A.U. (subsidiary of CaixaBank, S.A.) together with Telefónica, S.A., in Telefónica Consumer Finance, E.F.C., S.A.
CaixaBank, S.A.	Contractual	Financial Collaboration Agreement signed with CaixaBank, S.A., with special conditions for the Employees, Retirees and Pre-retirees group of the Telefónica Group.

Similarly, below is a description of the relationships and/or positions of some of the Directors of Telefónica, S.A. with its significant shareholders:

Name or company name of related director or representative	Name of company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
Mr. José María Abril Pérez	Banco Bilbao Vizcaya Argentaria, S.A.	Banco Bilbao Vizcaya Argentaria, S.A.	Formerly General Manager of Wholesale and Investment Banking in Banco Bilbao Vizcaya Argentaria, S.A.
Mr. Isidro Fainé Casas	CaixaBank, S.A.	CaixaBank, S.A.	-
Ms. Sabina Fluxà Thienemann	Banco Bilbao Vizcaya Argentaria, S.A.	Banco Bilbao Vizcaya Argentaria, S.A.	Member of Eastern Territorial Regional Advisory Board (Spain) of Banco Bilbao Vizcaya Argentaria, S.A.
Mr. Jordi Gual Solé	CaixaBank, S.A.	CaixaBank, S.A.	Chairman of CaixaBank, S.A.
Mr. Ignacio Moreno Martínez	Banco Bilbao Vizcaya Argentaria, S.A.	Banco Bilbao Vizcaya Argentaria, S.A.	Formerly General Manager of Chairman's Office in Banco Bilbao Vizcaya Argentaria, S.A.
Ms. Verónica Pascual Boé	CaixaBank, S.A.	CaixaBank, S.A.	Member of the Territorial Advisory Board of CaixaBank Castilla y León (Spain). Member of the Advisory Board ImaginBank.

#### Remarks

##### Mr. José María Abril Pérez and Mr. Ignacio Moreno Martínez

Name or company name of the shareholder represented or that has proposed their appointment: Banco Bilbao Vizcaya Argentaria, S.A.

##### Mr. Isidro Fainé Casas and Mr. Jordi Gual Solé

Name or company name of the shareholder represented or that has proposed their appointment: CaixaBank, S.A.

##### Ms. Sabina Fluxà Thienemann

Member of the Eastern Territorial Regional Advisory Board (which includes the regions of Valencia, Murcia and Balears) of Banco Bilbao Vizcaya, S.A., to whom she advises as prominent businesswoman on their objective to keep on approaching their business strategy to the current social-economic situation of such regions, without receiving any remuneration for such position.

##### Ms. Verónica Pascual Boé

As technology expert, she is member of the Advisory Board ImaginBank (without receiving any remuneration for such position), and of the Territorial Advisory Board of CaixaBank Castilla y León (only receiving a remuneration for allowances not exceeding 3,000 euros per year).

### 4.2.3. Directors' Shareholdings

As of December 31, 2019, the total percentage of voting rights held by the Board of Directors was 0.214%.

Specifically, as of such date, and as an indication of their commitment to the Company, the interest in Telefónica, S.A. held by the Executive Chairman, Mr. José María Álvarez-Pallete López, and by the Chief Operating Officer, Mr. Ángel Vilá Boix, amounted to 0.05% and to 0.02% voting rights, respectively.

## 4.3. General Shareholders' Meeting

### 4.3.1. Shareholders' Rights

The Bylaws of Telefónica, S.A. provide for a single class of shares (common shares), giving all the holders thereof identical rights. There are no non-voting shares or shares carrying more than one vote or with privileges in the distribution of dividends, or reinforced quorum or qualified majorities other than those established by law.

There is no provision for the shareholders at a General Shareholders' Meeting having to approve decisions entailing an acquisition, disposition or the contribution to another company of essential assets or similar corporate transactions other than those established by law.

This section describes some of the main rights of the shareholders of the Company.

#### Right to receive information

The General Shareholders' Meeting is called as much in advance as required by law, through a notice published in, at a minimum, (i) the Official Gazette of the Commercial Registry or one of the widest circulation dailies in Spain, (ii) the website of the National Securities Market Commission and (iii) the Company's corporate website.

The notice published on the Company's corporate website remains accessible on a continuous basis at least until the holding of the General Shareholders' Meeting; the Board of Directors may publish notices in other media, if it deems it advisable, in order to ensure public and effective dissemination of the call to meeting.

From the date of publication of the notice of the call to the General Shareholders' Meeting, the Company makes available to its shareholders the documents and information that must be provided to them in accordance with legal or bylaw-mandated requirements in connection with the various items included on the agenda; such items and documents are posted on the Company's website from the above-mentioned date. Notwithstanding the foregoing, shareholders may obtain such documents and information immediately and free of charge at the Company's registered office, and request that they be delivered or mailed to them free of charge, in the cases and on the terms established by law.

In addition, from the date of publication of the call to the General Shareholders' Meeting and until the fifth day prior to the date set for the holding of the meeting on first call, any shareholder may request in writing such information or clarifications or ask such questions in writing as it deems relevant concerning the matters included on the Agenda of the call to meeting, or concerning the information accessible to the public that the Company may have provided to the National Securities Market Commission since the holding of the immediately preceding General Shareholders' Meeting, or concerning the auditor's report.

The Board of Directors will be required to provide in writing, until the day of the holding of the General Shareholders' Meeting, the requested information or explanations, as well as to reply, also in writing, to the questions asked. The replies to the questions and to the requests for information will be sent through the Secretary of the Board of Directors by any of the members of the Board or by any person expressly authorized by the Board of Directors for such purpose.

During the holding of the General Shareholders' Meeting, shareholders may request verbally such information or explanations as they deem appropriate concerning the matters included on the Agenda or with respect to the information accessible to the public provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting or concerning the auditor's report. In the event that it is impossible to satisfy the shareholder's right at that time, the Board of Directors will be required to provide such information in writing within seven days of the end of the General Shareholders' Meeting.

The Board of Directors will be required to provide the requested information as described in the two preceding paragraphs in the manner and within the periods established by law, except in those cases where (i) such information is unnecessary for the protection of the shareholder's rights or there are objective reasons to consider that it could be used other than for corporate purposes, or the dissemination thereof would harm the Company or its related companies; (ii) the request for information or explanations does not relate to matters included on the Agenda or, in the case of paragraph two of this subsection (Right to Receive Information), to information accessible to the public that was provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting; (iii) it is so established in statutory or regulatory provisions. The exception described in subsection (i) above shall not apply if the information was requested by shareholders representing at least one-fourth of the share capital.

The replies to shareholders attending the General Shareholders' Meeting from a distance electronically and simultaneously and exercising their right to receive information through such procedure shall be provided, where applicable, in writing, within seven days following the General Shareholders' Meeting.

#### Supplement to the call to the General Shareholders' Meeting

Shareholders representing at least three percent of the share capital may request that a supplement to the call to the Ordinary General Shareholders' Meeting be published, including one or more items on the Agenda, provided the new items are accompanied by a rationale or, if appropriate, by a duly substantiated proposed resolution. In addition, and on the terms set forth in section 519 of the Companies Act (*Ley de Sociedades de Capital*), shareholders representing at least

three percent of the share capital may, within five days following publication of the notice of the call to meeting, submit duly substantiated proposed resolutions on matters already included or that must be included on the Agenda. Such rights shall be exercised by means of duly authenticated notice, to be received at the Company's registered office within five days following publication of the notice of the call to meeting.

#### **Right to attend and to appoint a proxy**

Shareholders holding at least 300 shares registered in their name in the respective book-entry register five days prior to the General Shareholders' Meeting and providing evidence thereof through the respective attendance card or certificate issued by the Company or by any of the Depositary Entities Members of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR) or in any other form allowed by applicable legislation may attend the General Shareholders' Meeting called.

Any shareholder having the right to attend may be represented at the General Shareholders' Meeting by another person, even if such person is not a shareholder. Proxies may be granted through the proxy forms printed on the attendance cards or in any other manner allowed by law, without prejudice to the provisions of the Companies Act regarding cases of representation by family members and the grant of general powers of attorney. The documents granting the proxy for the General Shareholders' Meeting shall include instructions concerning the direction of the vote. Unless the shareholder granting the proxy expressly states otherwise, it shall be deemed that such shareholder issues precise voting instructions in favor of the proposed resolutions submitted by the Board of Directors on the matters included on the Agenda. If there are no voting instructions because the shareholders acting at the General Shareholders' Meeting could decide on matters that, while not included on the Agenda and therefore not known on the date on which the proxy is granted, might be put to a vote at the General Shareholders' Meeting, the proxy shall cast the vote in the direction the proxy considers best, taking into account the interest of the Company and that of the shareholder the proxy represents. The same provisions shall apply when the respective proposal or proposals submitted to a decision of the shareholders at the General Shareholders' Meeting were not made by the Board of Directors.

It is expressly stated for the record that the notice of call of the last Ordinary General Shareholders' Meeting expressly provided that unless the shareholder granting the proxy expressly stated otherwise, such shareholder would be deemed to issue precise instructions to vote against the respective resolution on any matter that, while not included on the Agenda and therefore not known on the date on which the proxy was granted, might be put to a vote at the General Shareholders' Meeting.

If the proxy document does not state the specific person to whom the shareholder grants his proxy, it shall be deemed to have been granted to the Chair of the Board of Directors of the Company or to the person who may replace him as Chair of the

General Shareholders' Meeting. If the appointed proxy should be in a situation of conflict of interest regarding the vote on any of the proposals which, whether or not included on the Agenda, are submitted at the General Shareholders' Meeting and the shareholder granting the proxy has not issued precise voting instructions, the proxy shall be deemed to have been granted to the Secretary for the General Shareholders' Meeting.

Shareholders who are not holders of the minimum number of shares required to attend may also grant a proxy in writing with respect to such shares to a shareholder with the right to attend or form a group with other shareholders in the same situation until they have the necessary number of shares, and grant a proxy in writing to one of them.

#### **Right to vote and adoption of resolutions**

Every share present in person or by proxy at the General Shareholders' Meeting shall entitle the holder thereof to one vote.

Resolutions shall be adopted by simple majority, meaning that proposed resolutions will be approved when the number of votes in favor of each proposal is greater than the number of votes against it (regardless of the number of blank votes and abstentions), without prejudice to the reinforced voting quorums established in the law and in the Bylaws.

#### **Rules for amending the Company's Bylaws**

The Bylaws and Regulations for the General Shareholders' Meeting of Telefónica confer upon the shareholders acting at a General Shareholders' Meeting the power to approve the amendment of the Bylaws (articles 15 and 5, respectively), subject to applicable legal provisions for all other matters.

The procedure for amending the Bylaws is established in sections 285 *et seq.* of the Companies Act, and must be approved at the General Shareholders' Meeting complying with the quorum and majorities required in sections 194 and 201 of the same law. In particular, if the General Shareholders' Meeting is summoned to deliberate on Bylaw amendments, including capital increases or reductions, on eliminating or restricting pre-emptive rights in respect of new shares and on the transformation, merger, spin-off or the global assignment of assets and liabilities and the relocation of the registered office abroad, then shareholders that own at least fifty percent of the subscribed capital with voting rights will have to be present or be represented by proxy on first call. If there is no sufficient quorum, the General Shareholders' Meeting will be held on second call, in which case at least twenty-five percent of the subscribed capital with voting rights will need to be present, either in person or by proxy. When shareholders that represent less than fifty percent of the subscribed capital with voting rights are present at the Meeting, either in person or by proxy, the resolutions referred to above may only be approved when two-thirds of the capital, present or represented by proxy at the Meeting, vote in favor of the resolution.

Pursuant to section 286 of the Companies Act, if the Bylaws are amended, the Directors or, if appropriate, the shareholders who made the proposal must draw up in full the text of their proposed amendment and a written report justifying the

amendment, which must be made available to the shareholders when the General Shareholders' Meeting is called to deliberate on the amendment.

Furthermore, and pursuant to section 287 of the Companies Act, the notice calling the General Shareholders' Meeting must clearly state the items that might be amended, and note that all the shareholders are entitled to analyze the full text of the proposed amendment and the report on such amendment at the registered offices, as well as to request such documents to be delivered or sent to them free of charge.

Pursuant to section 291 of the Companies Act, when new obligations are established for the shareholders due to an amendment of the Bylaws, the resolution must be passed with the approval of the affected shareholders. Furthermore, if the amendment directly or indirectly affects a type of shares, or part of them, the provisions of section 293 of such Act shall apply.

The procedure for voting on proposed resolutions at the General Shareholders' Meeting is regulated in section 197 *bis* of the Companies Act and in the internal regulations of Telefónica (in particular, article 23 of the Regulations for the General Shareholders' Meeting). This article states, among other things, that when amendments are made to the Bylaws, each article or group of articles which is materially different will be voted on separately.

#### Corporate Website

Telefónica complies with applicable legislation and best practices in terms of the content of its website concerning Corporate Governance. In this respect, it fulfills both the technical requirements for access to and content of the Company website, including information on General Shareholders' Meetings, through direct access from the homepage of Telefónica, S.A. ([www.telefonica.com](http://www.telefonica.com)) in the "Shareholders and Investors" section ([www.telefonica.com/accionistaseinversores](http://www.telefonica.com/accionistaseinversores)), which includes not only all of the information that is legally required but also information that the Company considers to be of interest.

#### 4.3.2. Dialogue with the Shareholders

The Regulations for the General Shareholders' Meeting and the Regulations of the Board of Directors of Telefónica devote several of their sections to governing the channels whereby relations between the Board of Directors and the shareholders of the Company (both individual shareholders and institutional shareholders and investors) are established in order to thereby ensure the greatest possible transparency in such relations. It is further expressly provided that the Board of Directors undertakes to guarantee equal treatment in its relations with the shareholders. The purpose of the Company's actions in this area, based on the paramount standard of transparency, is the distribution of all public information generated by the Company, making it accessible to all its shareholders simultaneously and in a non-discriminatory manner, complying with their need for information and ensuring that published information satisfies the standards of quality, clarity and truthfulness.

In addition, and within this context, the Board of Directors of the Company, at its meeting held on November 25, 2015, approved the Policy on Information, Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors, the second edition of which was also approved by the Board at its meeting of November 4, 2019 to include new developments and the latest trends on the matter.

In connection therewith, and as provided in such Policy, the Board of Directors of Telefónica is the body responsible for establishing and supervising appropriate mechanisms of communication and relationship with shareholders, institutional investors and proxy advisors that fully respect the rules prohibiting market abuse and that provide similar treatment to shareholders in the same position.

Thus, the Board of Directors, acting through its corresponding decision-making bodies, endeavors to defend, protect and facilitate the exercise of the rights of shareholders, institutional investors and the markets generally within the framework of protecting the corporate interest, which is understood as the achievement of a profitable and sustainable business over the long-term, which fosters its continuity and the maximization of the economic value of the company, all in accordance with the following principles:

- a) Transparency and truthfulness of information.
- b) Periodic public information.
- c) Compliance with applicable law and the internal rules of the Company, especially the Internal Rules of Conduct in Matters Relating to the Securities Markets.

Telefónica communicates with its shareholders and institutional investors through the following channels:

- **Communications to the National Securities Market Commission (Comisión Nacional del Mercado de Valores) (CNMV) and other international official bodies.**

The Company communicates all information that is deemed privileged or significant under applicable law through the website of the CNMV.

Likewise, the Company delivers each and every one of the communications that it has recorded with the CNMV to all markets on which its shares are admitted to listing. Within this context, as of the date hereof, Telefónica prepares the following financial information on a periodic basis and discloses it to the markets: i) Quarterly results information; ii) Semi-annual results information; iii) Annual Information (Annual Financial Statements and Management Report, which includes the Statement of Non-financial Information); iv) Annual Corporate Governance Report; v) Annual Report on Directors' Remuneration; and vi) Annual Informational Reports (including the Universal Registration Document filed on an annual basis with the CNMV, or the 20-F report, filed with the Securities and Exchange Commission (SEC) in the United States).

- **Corporate website of Telefónica.**

Access routes to the Shareholders and Investors and "Shareholders' Area" tabs of the corporate website are the following:

<https://www.telefonica.com/accionistas/inversores>

<https://www.telefonica.com/zona-accionistas>

In compliance with applicable legal provisions, the Company has a website, which is an official channel of communication, to allow for the exercise by shareholders of the right to obtain information and to disseminate privileged or significant information required by applicable law

Telefónica's corporate website also provides access to the following information; i) General information regarding the Company; ii) economic/financial and non-financial information; iii) share information; iv) information on corporate governance; and v) specific information for shareholders (Shareholders' Corner) focused solely on minority shareholders.

In particular, the presentations of annual, semi-annual and quarterly results, as well as other types of significant institutional or economic/financial presentations, are published through Telefónica's corporate website.

Telefónica also streams webcasts and conference calls regarding presentations of quarterly results and other significant communications for the market, allowing access to shareholders, analysts and any other persons who so desire.

All documents required by applicable legal provisions regarding the call to and holding of General Shareholders' Meetings are also published on the corporate website.

Except for certain specific documents, the information on Telefónica's website is offered in two languages: Spanish and English.

- **General Shareholders' Meeting.**

As already mentioned in preceding paragraphs, the Board of Directors encourages informed and responsible participation by the shareholders at the General Shareholders' Meeting, and adopts such measures and guarantees as may be appropriate to ensure that the shareholders at the General Shareholders' Meeting effectively perform their duties under the law and the Company's corporate governance principles.

In addition, from the call to the General Shareholders' Meeting, the shareholders can access the Office of the Shareholder, which is also specifically located in the room where the General Meeting is held, in order to resolve questions that might be raised by shareholders and respond to and inform those persons who wish to take the floor.

The Office of the General Secretary of the Company, with the support of the Investor Relations Area, is responsible for maintaining ongoing contact and dialogue with proxy advisors,

answering their questions regarding proposed resolutions submitted at the General Shareholders' Meeting and providing the clarifications they deem to be required.

Likewise, since the General Shareholders' Meeting held in 2019, the Meeting is broadcast live on Telefónica's corporate website. This allows shareholders who are not present, investors and interested persons in general to be fully informed of the results and of the matters dealt with.

- **Relationships with shareholders, institutional investors and financial analysts**

Telefónica's general communication policy provides for properly informing, communicating with and responding to its shareholders and investors with transparency, truthfulness, immediacy, equality and symmetry in the dissemination of information. Thus, Telefónica communicates directly with its shareholders, investors and financial analysts through the Investor Relations area.

This area, which is a part of the Finance and Control Division and includes the Office of the Shareholder, is in charge of and responsible for this communication, and therefore, any contact with shareholders, institutional investors or financial analysts must be channeled through it, and it will validate and coordinate any communication that it makes, whether verbal or written, requesting the participation of other areas of the Telefónica Group whose purview covers the issues for which the consultation is made, such as the Office of the General Secretary, Remuneration or Sustainability. Furthermore, the Group's Investor Relations department will coordinate communication by the various subsidiaries with the market in order to ensure that it is proper, consistent and coherent at all times.

#### a) Investor Relations

In charge of continuously responding to questions and suggestions on an individualized basis through

- An e-mail address ([ir@telefonica.com](mailto:ir@telefonica.com))
- A telephone number (+3491 4828700) and a mailing address (Distrito Telefónica- Edificio Central Pl. 2ª C/Ronda de la Comunicación s/n 28050 Madrid).
- In addition, to provide detailed reports on the evolution, strategy and results of the Company and to answer questions from analysts and institutional investors, informational meetings and roadshows are organized at the main financial centers worldwide. These meetings are held by both Investor Relations and Telefónica's management team.

Attendance at forums and conferences in the telecommunications sector or generally in Europe/Latin America is also a natural channel for Telefónica's communication with institutional investors.

There are also presentations to and meetings with analysts and institutional investors that delve into strategic issues of the Company, which supplement the published information

and may be necessary or appropriate to facilitate communication and the long-term creation of value.

Within this context and for some years now, Telefónica has an Engagement Program with the Company's main investors, informing them transparently and on an ongoing basis of, among other things, business strategy, financial performance, corporate governance (composition of the Board of Directors and Good Governance practices), remuneration and sustainability. In addition to Investor Relations, other areas of the Telefónica Group responsible for matters concerning which queries are received, such as the Office of the General Secretary, Remuneration or Sustainability, also participate in this program. The Company is committed to approximately 38 investors, and regularly makes telephone calls and holds face-to-face meetings in London and Paris.

All these measures are used to coordinate and manage communication with the market in order to ensure that it is appropriate, consistent and coherent at all times.

Communication with institutional investors, analysts and shareholders may not take place during the periods prior to publication of the results of the Group or subsidiaries that are subject to securities market rules.

#### **b) Office of the Shareholder**

Through the Office of the Shareholder, Telefónica ensures transparent, agile and fluid communications with its shareholders, providing the same information in time and form as that provided to institutional shareholders.

The Company distributes to all of them a communication service consisting of the sending of e-mails with information of interest regarding the Company, significant events (*hechos relevantes*), news, quarterly results (videos, images, etcétera), a monthly newsletter, the "Acción Telefónica" magazine, stock market information, etc. to encourage transparency and communication between the Company and its shareholders. This type of information is sent to shareholders who request this service and is available for viewing and or downloading at the Shareholders' Corner ([www.telefonica.com/zona-accionistas](http://www.telefonica.com/zona-accionistas)).

The Office of the Shareholder also holds periodic meetings with shareholders in the various Spanish provinces with the largest number of shareholders, reporting on the Company's strategy and the latest published results, thereby offering personalized service to shareholders and meeting the requirements of transparency in offering the same information to individual and institutional shareholders. Two-way communication is established between the Company and its shareholders at these meetings, where there can be an exchange of viewpoints.

An annual meeting of Telefónica's management team with shareholders is also held prior to the holding of the General Shareholders' Meeting.

Personal communication is maintained with the shareholders throughout the year, both electronically and by mail, and especially upon the presentation of results and on occasion of

the principal communications of privileged or significant information, such as distribution of dividends, calls to General Shareholders' Meetings, corporate transactions, etc.

Furthermore, in order to improve dialogue between the Company and its shareholders, there may be periodic Informational Meetings in which the shareholders participate upon established terms in order to discuss current issues regarding the Telefónica Group that are considered to be of particular interest for this group. These issues can cover regulatory developments in the area of listed companies, aspects relating to the performance of the business or other issues.

The Company publishes the quarterly magazine "Acción Telefónica," with financial information that includes an explanatory summary of periodic public information of a financial and operational nature, interviews on current events and exclusive campaigns that can be accessed. It is available in both paper form and digital format in the Shareholders' Corner and may also be viewed on IOS and Android devices by installing the respective app.

The Company also distributes to all its shareholders a monthly newsletter with stock market information, new developments, technological advances, news, videos, offers, promotions, cultural visits, upcoming events, sponsorships, recognitions, etc.

Upon the holding of the General Shareholders' Meeting, the channels of communication with shareholders are expanded to facilitate their participation therein. The Office of the Shareholder can be contacted directly through a form within a specific microsite for the Meeting. Shareholders can use this medium to ask questions relating to items on the agenda, the delivery of documentation relating thereto, and the procedure for participating in the General Shareholders' Meeting, either in person or by proxy.

The channels for contacting Telefónica's Office of the Shareholder are:

- A toll-free information number (900 111 004) open from 9:00 a.m. to 7:00 p.m., Monday to Friday, except national holidays. This call center is staffed by qualified personnel specializing in the economic/financial field. Information is provided regarding communications of privileged or significant information made by the Company, including the dividend policy, results and corporate transactions, among other things.
- An e-mail address ([accionistas@telefonica.com](mailto:accionistas@telefonica.com)) for responding to questions and suggestions from the Company's shareholders. This channel of communication is attended to in Spanish as well as in English
- A mailing address (Edificio Central Pl. 2ª Ronda de la Comunicación s/n Madrid 20850, Spain).
- A special tab (Shareholders' Area) on the corporate website ([www.telefonica.com/zona-accionistas](http://www.telefonica.com/zona-accionistas)).

Furthermore, throughout the year, the Office of the Shareholder collects and manages the suggestions and requests of the shareholders regarding other areas of the Telefónica Group, such as customer service, billing, sales, etc. and is thus a means for bringing the Company closer to the shareholders.

#### 4.3.3. Main Aspects of the 2019 General Shareholders' Committee

##### Quorum and attendance

At the 2019 Ordinary General Shareholders' meeting, the quorum was 54.65%.

Such quorum breaks down as follows:

Date of general meeting	Attendance data				
	% physically present	% present by proxy	% distance voting		
			Electronic voting	Other	Total
7/6/2019	0.12%	53.62%	0.02%	0.89%	54.65%
Of which, free float	0.07%	32.33%	0.02%	0.89%	33.31%

##### Outcomes of the votes

All the items on the Agenda were approved by a wide majority; the percentage of affirmative votes was 97.21% on average.

The following table summarizes the resolutions approved at the 2019 Ordinary General Shareholders' Meeting and the results of the votes:

Item of the Agenda	Summary of the resolution	Votes in favour	Votes Against	Abstentions	Result of the Voting
I.1	Approval of the 2018 Annual Accounts and of the Management Report.	2,717,953,738 (98.44%)	4,052,649 (0.15%)	38,980,411 (1.41%)	Passed
I.2	Approval of the Non-Financial Information Statement.	2,718,072,916 (98.45%)	1,590,850 (0.06%)	41,323,032 (1.50%)	Passed
I.3	Approval of the management of the Board of Directors.	2,680,802,281 (97.10%)	38,750,235 (1.40%)	41,434,282 (1.50%)	Passed
II	Approval of the Proposed Allocation of the Profits/Losses.	2,717,852,920 (98.44%)	6,115,682 (0.22%)	37,018,196 (1.34%)	Passed
III	Shareholder compensation - Distribution of dividends with a charge to unrestricted reserves.	2,720,086,624 (98.52%)	4,449,203 (0.16%)	36,450,971 (1.32%)	Passed
IV	Delegation of powers to formalize, interpret, remedy and carry out the resolutions adopted by the shareholders at the General Shareholders' Meeting.	2,721,651,675 (98.58%)	2,163,672 (0.08%)	37,171,451 (1.35%)	Passed
V	Consultative vote on the 2018 Annual Report on the Directors' Remuneration.	2,511,710,594 (90.97%)	190,034,502 (6.88%)	59,241,702 (2.15%)	Passed

The full texts of the resolutions adopted by the General Shareholders' Meeting held on June 7, 2019 may be viewed on the Company's corporate website and on the CNMV website (Significant Information sent on April 24, 2019).

##### Communication with shareholders

During 2019 and especially on the occasion of the Ordinary General Shareholders' Meeting, Telefónica continued to strengthen communications, service and relationships with its shareholders and investors:

- Call Center (900-111-004 Shareholder Call Center):
  - 30,657 queries responded to during 2019
  - 12,748 queries during the period of the General Shareholder' Meeting

- Shareholders' Mailbox:
  - 6,871 e-mails responded to during 2019
  - 2,866 e-mails during the period of the General Shareholders' Meeting

## 4.4. The organisational structure of the administrative bodies

### 4.4.1. Board of Directors



*From left to right, located in the bank, Mr. José Javier Echenique Landiribar, Vice Chairman and Independent Director; Mr. José María Abril Pérez, Vice Chairman and Proprietary Director; Mr. José María Álvarez-Pallete López, Chairman and Executive Director; Mr. Isidro Fainé Casas, Vice Chairman and Proprietary Director; and Mr. Ángel Vilá Boix, Chief Operating Officer and Executive Director.*

*From left to right, standing, Mr. Antonio García-Mon Marañés, General Vicesecretary and Vicesecretary of the Board; Ms. Verónica Pascual Boé, Independent Director; Mr. Juan Ignacio Cirac Sasturain, Independent Director; Claudia Sender Ramírez, Independent Director; Mr. Peter Löscher, Independent Director; Ms. Sabina Fluxà Thienemann, Independent Director; Mr. Peter Erskine, Other External Director; Mr. Jordi Gual Solé, Proprietary Director; Ms. María Luisa García Blanco, Independent Director; Mr. Francisco José Riberas Mera, Independent Director; Ms. Carmen García de Andrés, Independent Director; Mr. Ignacio Moreno Martínez, Proprietary Director; Mr. Francisco Javier de Paz Mancho, Other External Director; and Mr. Pablo de Carvajal González, General Secretary and Secretary of the Board.*

**Structure of the Board of Directors (size, composition, diversity, procedure for selecting Directors).**

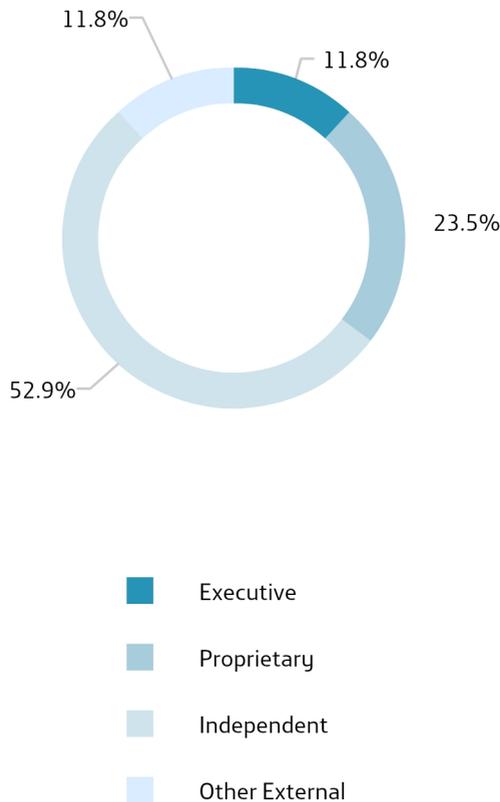
**Size**

As of December 31, 2019, and on the date of issuance of this Report, the Board of Directors was and is composed of 17 members, whose profiles and professional career appear in Section related to "Professional career of the members of the Board of Directors".

The complexity of the organizational structure of the Telefónica Group, given the considerable number of companies it comprises, the variety of sectors it operates in, its multinational nature, as well as its economic and business relevance, justifies the fact that the number of members of the Board is sufficient to achieve the Board's effective and operational functionality.

Likewise, it is important to bear in mind that the Board of Directors of the Company has six Committees (the Executive Commission and five Advisory Committees), thereby ensuring the active participation of all of its Directors.

**Composition by category of Director**



- Executive Directors: 2/17

- Independent Directors: 9/17

The independent Directors represent 52.94% of the Board of Directors, which complies with corporate governance recommendations, which require that the management body consist of a large majority of external Directors and that the number of independent Directors represent at least one-half of the total number of Directors.

- Proprietary Directors: 4/17

- Other External Directors: 2/17

Mr. Peter Erskine and Mr. Francisco Javier de Paz Mancho are considered to be Other External Directors, for the following reasons:

Mr. Peter Erskine was appointed a Director of Telefónica, S.A. in 2006, such that, 12 years after his appointment, and in accordance with the provisions of section 529 *duodecies* of the Companies Act, in 2018 he was reclassified from Independent Director to "Other External" Director.

Similarly, Mr. Francisco Javier de Paz Mancho was appointed a Director of Telefónica, S.A. in 2007, such that, 12 years after his appointment, and in accordance with the provisions of section 529 *duodecies* of the Companies Act, in 2019 he was reclassified from Independent Director to Other External Director.

**Diversity**

Telefónica S.A. has a Director Selection Policy as of November 25, 2015. This Policy was updated on December 13, 2017 to include the Diversity Policy applicable to the Board of Directors and, consequently, was renamed the Diversity Policy in relation to the Telefónica, S.A. Board of Directors and the Selection of Directors.

This Policy ensures that the proposals for appointment or re-election of Directors are based on a prior analysis of the Board of Directors' needs, and encourages diversity of knowledge, training and professional experience, age and gender on the Board, free from any implicit bias that might imply any form of discrimination, particularly on account of gender, disability or any other personal condition.

In accordance with the provisions of said Policy, the selection of candidates to serve as a Director of Telefónica adheres to the following principles:

1. An effort is made to ensure that the Board of Directors has a balanced composition, with a large majority of non-Executive Directors and an appropriate mix of Proprietary and Independent Directors.

2. The Board of Directors endeavors to ensure that the procedures for the selection of Directors favor diversity of knowledge, training, professional experience, age and gender, and are free from any implicit biases that might imply any form of discrimination. The purpose of all of these efforts is to ensure that the Board of Directors has a diverse and balanced

composition overall that (i) enriches analysis and debate, (ii) contributes multiple viewpoints and positions, (iii) favors decision-making, and (iv) gives it maximum independence.

It also ensures that the candidates to serve as a non-Executive Director have sufficient time available for the proper fulfillment of their duties.

3. The process for the selection of candidates to serve as Directors is also based on a prior analysis of the needs of the Company and of its Group. Such analysis is conducted by the Company's Board of Directors, with the advice and with the mandatory prior justifying report of the Nominating, Compensation and Corporate Governance Committee.

4. The justifying report of the Nominating, Compensation and Corporate Governance Committee is published upon the call to the General Shareholders' Meeting at which the ratification, appointment or re-election of each Director is submitted.

5. The Nominating, Compensation and Corporate Governance Committee verifies compliance with the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors on an annual basis, and provides the corresponding information in the Annual Corporate Governance Report and in such other documents as are deemed appropriate.

Furthermore, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee ensure, within the scope of their respective powers, that the candidates chosen for the position of Director are persons of recognized probity, competence and experience, who are willing to devote the time and effort required for the performance of their duties, exercising rigorous care in the selection of the persons called upon to serve as Independent Directors.

Accordingly, the candidates for the position of Director are individuals of recognized prestige, probity, training and professional experience, especially in the areas of telecommunications, automation, economics and finance, accounting, auditing, risk management and/or business administration, with the ability to lead teams made up of individuals belonging to various different fields of activity, as well as broad knowledge about large companies.

Specifically, with regard to gender diversity, the aforementioned selection procedures do not suffer from any implicit bias that would hinder the selection of Directors. In fact, the Company has purposely sought out women who fit the desired professional profile. In this regard, in terms of the percentage of female Directors with respect to the total number of members of the Board of Directors, Table C.1.4 in the Statistical Exhibit shows the qualitative leap that the Company has made in this area, having gone from 11.11% in 2016 to 29.41% in 2019.

All of the measures and procedures that have been agreed upon and adopted by the Board of Directors and by the Nominating, Compensation and Corporate Governance Committee in order to include on the Board a number of females that enables a balanced presence, and to prevent the selection procedures from being affected by any implicit bias that would hinder the appointment of female Directors, have been initiated and implemented by the Company.

Thus, in the change in the composition of the Company's Board of Directors that was implemented in 2016, at the proposal of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors unanimously appointed Ms. Sabina Fluxà Thienemann as an Independent Director of Telefónica. This appointment was ratified by the shareholders at the Ordinary General Shareholders' Meeting of Telefónica held on May 12, 2016.

Similarly, in the change in the composition of the Company's Board of Directors that was implemented in 2017, at the proposal of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors unanimously appointed Ms. Carmen García de Andrés as an Independent Director of Telefónica. This appointment was ratified by the shareholders at the Ordinary General Shareholders' Meeting of Telefónica held on June 9, 2017.

Likewise, in 2018 the Company's Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, unanimously appointed Ms. María Luisa García Blanco as an Independent Director of Telefónica. This appointment was ratified by the shareholders at the Ordinary General Shareholders' Meeting of Telefónica held on June 8, 2018.

Last, in 2019 the Company's Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, unanimously appointed Ms. Claudia Sender Ramírez and Ms. Verónica Pascual Boé as Independent Directors of Telefónica. Their ratification is expected to be proposed at the next Ordinary General Shareholders' Meeting.

It should also be noted that the same criteria and principles that the Company applies to the process of selecting and appointing the members of the Board of Directors are applied to the appointment of the Directors who are part of the various Committees of the Company's Board of Directors.

In this regard, in 2019 the Nominating, Compensation and Corporate Governance Committee verified compliance with the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the selection of Directors on the occasion of the appointment of Ms. Claudia Sender Ramírez and Ms. Verónica Pascual Boé as Directors and the appointment of the members of the Committees of the Board of Directors.

Last, with regard to performance evaluation, the Board of Directors conducts an annual evaluation of its operation and of that of its Committees, assessing in particular the application, in terms of the composition and competencies of the Board of Directors, of the various aspects of diversity included in the aforementioned Policy, 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 Board Committees and adopting appropriate measures for their improvement.

The Diversity Policy in relation to the Telefónica, S.A. Board of Directors and the Selection of Directors is public and may be viewed on the corporate website ([www.telefonica.com](http://www.telefonica.com)).

#### **Procedure for the Selection, Appointment, Re-election and Cessation of Directors**

## Selection and Appointment

As mentioned earlier, Telefónica's Bylaws provide that the Board of Directors shall consist of a minimum of five and a maximum of twenty members, who shall be appointed by the shareholders at the General Meeting.

The Directors shall hold office for a maximum period of four years and may be re-elected one or more times for periods of the same maximum length. On a provisional basis, the Board of Directors, in accordance with the provisions of the Companies Act and of the Bylaws, may fill existing vacancies on an interim basis.

In this regard, it should be noted that on certain occasions, when it is indispensable because vacancies have occurred after the General Shareholders' Meeting was held, and in accordance with the provisions of the Companies Act, Directors are appointed on an interim basis, subject to ratification at the next General Shareholders' Meeting.

Otherwise, and in any event, the proposals for the appointment of Directors must comply with the provisions of the Bylaws and of the Regulations of the Board of Directors, must be preceded by the corresponding report of the Nominating, Compensation and Corporate Governance Committee and, in the case of Independent Directors, by the corresponding proposal. Likewise, the proposal for the appointment of a natural person as the representative of a Director that is a legal entity must be the subject of a report by the Nominating, Compensation and Corporate Governance Committee.

In this regard, and in accordance with the responsibilities assigned to the Nominating, Compensation and Corporate Governance Committee, this Committee must evaluate the skills, knowledge and experience necessary on the Board of Directors, defining the functions and competencies required of the candidates who must fill each vacancy, and evaluating the specific amount of time and dedication that will allow them to perform their duties effectively.

With regard to the latter, and in accordance with the provisions of Article 28.2 of the Regulations of the Board of Directors, those who are members of more than five Boards of Directors of other companies other than Telefónica, S.A. and its Group companies may not be appointed to the Company's Board. For these purposes, a) all Boards of Directors of companies that are part of the same Group shall be counted as a single board of directors; and b) those Boards of Directors of asset-holding companies or those that constitute vehicles or complements for the professional exercise of the Director himself/herself, his/her spouse or person with a similar relationship, or his/her closest relatives, shall not be counted. As an exception, and for duly justified reasons, the Board of Directors may exempt the Director from this prohibition.

Similarly, it must submit to the Board of Directors the proposals for the appointment of Independent Directors, whether for their appointment on an interim basis or for their submission to a decision by the shareholders at the General Shareholders' Meeting, along with the proposals for the re-election or separation of said Directors at the General Shareholders' Meeting. Likewise, it must report on the proposals for the appointment of the remaining Directors of the Company, whether for their appointment on an interim basis or for their submission to a decision by the shareholders at the General

Shareholders' Meeting, along with the proposals for their re-election or separation at the General Shareholders' Meeting.

Similarly, it shall explain the category of each Director by the Board of Directors at the General Shareholders' Meeting at which the shareholders must make or ratify their appointment. Furthermore, such category shall be reviewed annually by the Board, after verification by the Nominating, Compensation and Corporate Governance Committee, and a summary of this review shall be included in the Annual Corporate Governance Report.

In any case, and in the event of the re-election or ratification of Directors at the General Meeting, the report of the Nominating, Compensation and Corporate Governance Committee, or, in the case of Independent Directors, the proposal of said Committee, shall contain an assessment of the work and effective dedication to the position during the last period of time in which it was held by the proposed Director.

The Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates proposed for the position of Director are persons of recognized probity, competence and experience, who are willing to devote the time and effort required for the performance of their duties, exercising rigorous care in the selection of the persons called upon to serve as Independent Directors.

The Board of Directors must endeavor to ensure that the procedures for the selection of its members favor diversity of gender, experience and knowledge, are free from any implicit bias that might imply any form of discrimination, and, in particular, facilitate the selection of female Directors.

In this regard, and as mentioned earlier, at its meeting of November 25, 2015 the Board of Directors approved a Policy for the Selection of Directors. Furthermore, on December 13, 2017, the Board of Directors approved an update of the said Policy to include the Diversity Policy applicable to the Board of Directors, such that it was renamed the Diversity Policy in relation to the Telefónica, S.A. Board of Directors and the Selection of Board Members and reflects compliance with the most recent regulatory standards regarding diversity.

The Nominating, Compensation and Corporate Governance Committee shall verify, on an annual basis, compliance with the policy for the selection of Directors, and shall include the corresponding summary in the Annual Corporate Governance Report.

## Re-election

The Company's Directors may be re-elected one or more times for periods of the same length as that of the initial period.

In the same way as proposals for appointments, proposals for the re-election of Directors must be preceded by the corresponding report of the Nominating, Compensation and Corporate Governance Committee, and, in the case of Independent Directors, by the corresponding proposal.

## Cessation or Removal

Directors shall cease to hold office when the time period for which they were appointed expires, or when so decided by the

shareholders at the General Meeting in the exercise of the powers legally granted to them.

When a Director ceases to hold office before the end of his or her term, such Director must explain the reasons in a letter that will be sent to all of the members of the Board of Directors.

The Board of Directors shall not propose the removal of any Independent Director prior to the end of the bylaw-mandated period for which the said Director was appointed, unless due grounds therefor are present, as acknowledged by the Board after a report by the Nominating, Compensation and Corporate Governance Committee. Specifically, due grounds shall be deemed to exist when the Director has failed to perform the duties inherent in his position.

The removal of Independent Directors may also be proposed as a result of Public Tender Offers, mergers or other similar corporate transactions that entail a change in the structure of the company's capital.

Likewise, in accordance with the provisions of article 12 of the Regulations of the Board of Directors, the Directors must tender their resignation to the Board of Directors and formalize the said resignation in the following cases:

- a. When they cease to hold the executive positions with which their appointment as Directors was associated, or when the reasons for their appointment no longer exist.
- b. When they are affected by any of the cases of incompatibility or prohibition provided by Law.
- c. When they are severely reprimanded by the Nominating, Compensation and Corporate Governance Committee for having failed to fulfill any of their obligations as Directors.
- d. When their continued presence on the Board of Directors might affect the Company's credit or its reputation on the market, or otherwise jeopardize its interests.

Similarly, article 30.h) of the Regulation establishes that Directors must report to the Board, as promptly as possible, any circumstances pertaining to themselves that might damage the Company's credit or its reputation.

In this regard, it should be noted that no member of the Board of Directors has reported to the company that he or she has been prosecuted or has been the recipient of an order for the opening of oral proceedings for any of the offenses mentioned in section 213 of the Companies Act.

Neither the Bylaws nor the Regulations of the Board establish any limit as to the age of the Directors.

## Professional background of the members of the Board of Directors

### MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ



#### Executive Chairman

Executive Director

Joined the Board in 2006.

**Nationality:** Spanish. Born in 1963 in Madrid, Spain.

**Education:** Degree in Economics from Universidad Complutense de Madrid. Also studied Economics at the *Université Libre* of Brussels. International Management Program (IMP) at the IPADE Business School (Pan American Institute of Senior Management). Advanced Studies Diploma from the Chair of Financial Economics and Accounting of Universidad Complutense de Madrid.

**Experience:** He began his professional activity at Arthur Young Auditores in 1987, before joining Benito & Monjardín / Kidder, Peabody & Co. in 1988. In 1995 he joined Compañía Valenciana de Cementos Portland (CEMEX) as head of the Investor Relations and Research Department. In 1996 he was appointed Chief Financial Officer for Spain, and in 1998 General Director of Administration and Finance of the CEMEX Group in Indonesia and a member of the Board of Directors of CEMEX Asia Ltd.

He joined the Telefónica Group in February 1999 as Chief Financial Officer of Telefónica Internacional, S.A.U. In September of that year he became the General Director of Corporate Finance at Telefónica, S.A. In July 2002 he was appointed CEO of Telefónica Internacional, S.A.U.; in July 2006, General Director of Telefónica Latinoamérica; and in March 2009, President of Telefónica Latinoamérica. In September 2011 he became the CEO of Telefónica Europa. And in September 2012 he was appointed Chief Operating Officer of Telefónica, S.A. On April 8, 2016 he was appointed Executive Chairman (Chief Executive Officer) of Telefónica, S.A.

**Other relevant positions:** He is currently a Trustee of Fundación Telefónica.

**Board Committees of which he is a member:** The Executive Commission (Chairman).

### MR. ISIDRO FAINÉ CASAS



#### Vice Chairman

Proprietary Director

Joined the Board in 1994.

**Nationality:** Spanish. Born in 1942 in Manresa, Spain.

**Education:** Doctorate in Economics; ISMP in Business Administration from Harvard University; and Diploma in Senior Management from the IESE. Academic Numerary of the Royal Academy of Economics and Finance and of the Royal Academy of Doctors.

**Experience:** He began his professional career in banking as Director of Investments at Banco Atlántico in 1964. Later, in 1969, he joined the Banco de Asunción in Paraguay as its General Director. He then returned to Barcelona to hold various positions of responsibility in several financial organizations: Personnel Director of Banca Riva y García (1973); Director and General Director of Banca Jover (1974); and General Director of Banco Unión (1978). In 1982 he joined la Caixa as its Assistant General Director, holding various positions of responsibility. In April 1991 he was appointed Executive Deputy General Director, and in 1999, General Director of the company, whose presidency he assumed in June 2007, remaining until June 2014. He was also the President of Naturgy Energy Group, S.A. from September 2016 to February 2018, when he was named President Emeritus. He served as President of CaixaBank, S.A. from 2011 until his resignation as a member of the Board of Directors in 2016.

**Other relevant positions:** He is currently Chairman of the Board of Trustees of Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona la Caixa and of Critería Caixa, S.A.U., as well as a Director of the Bank of East Asia and of Suez; President of the Spanish Confederation of Savings Banks (CECA), the World Savings Bank Institute (WSBI), and Vice-President of the European Savings Banks Group (ESBG); President of the Spanish Confederation of Senior Officers and Executives (CEDE), of the Spanish Chapter of the Club of Rome and of the Financial Circle. Member of the Board of Trustees of the Prado National Museum, and Carlos Slim Foundation.

**Board Committees of which he is a member:** The Executive Commission (Vice Chairman).

**MR. JOSÉ MARÍA  
ABRIL PÉREZ****Vice Chairman***Proprietary Director*

Joined the Board in 2007.

**Nationality:** Spanish. Born in 1952 in Burgos, Spain.

**Education:** Degree in Economics from the Commercial University of Deusto, and a professor for nine years at said university.

**Experience:** Between 1975 and 1982 he was the Chief Financial Officer of Sociedad Anónima de Alimentación (SAAL). Thereafter, and until joining Grupo Banco Bilbao Vizcaya Argentaria, he held the position of Chief Financial Officer of Sancel-Scott Iberica. In 1985 he joined Banco Bilbao as Director of Corporate Banking Investment. Subsequently, from January to April 1993, he was the Executive Coordinator of Banco Español de Crédito, S.A. In 1998 he was appointed General Director of Grupo Industrial, and in 1999, a member of the Management Committee of Grupo BBV. He has been a director, among other companies, at Repsol, Iberia and Corporación IBV, and Vice-President of Bolsas y Mercados Españoles (BME). In 2002 he was appointed General Director of Wholesale and Investment Banking and a Member of the Executive Committee of Banco Bilbao Vizcaya Argentaria, S.A.

**Board Committees of which he is a member:** The Executive Commission (Vice Chairman), and the Strategy and Innovation Committee (Member).

**MR. JOSÉ JAVIER  
ECHENIQUE LANDIRÍBAR****Vice Chairman and Lead  
Independent Director***Independent Director*

Joined the Board in 2016.

**Nationality:** Spanish. Born in 1951 in Isaba (Navarre), Spain.

**Education:** Degree in Economics and Actuarial Sciences from the University of the Basque Country, and Professor of Quantitative Social Security Techniques at the Bilbao School of Economic Sciences of said university for several years.

**Experience:** He has been Director and General Manager of Allianz-Ercos, and General Manager of the BBVA Group (Head of Wholesale Business: Global Investment Banking, Global Corporate Banking, Business Banking, Administrative Banking, Local Credit Bank, Asset Management, Banking in Europe, Insurance and Estate Planning, E-Business, and the Industrial and Real Estate Group). He has also been a member of the Board of Directors of Repsol, S.A.; Celestics Holding, S.L.; Banco Guipuzcoano, S.A. (Chairman); Telefónica Móviles, S.A.; Sevillana de Electricidad, S.A.; Acesa; Hidroeléctrica del Cantábrico; Corporación IBV; Metrovacesa; Corporación Patricio Echeverría; Grupo BBVA Seguros; Grupo Edhardt; Uralita; Grupo Porres (Mexico), and Abertis Infraestructuras, S.A.

**Other relevant positions:** He is currently a member of the Board of Directors of Banco Sabadell (Vice-President); ACS Actividades de Construcción y Servicios, S.A.; ACS Servicios, Comunicaciones y Energía, S.L.; and Grupo Empresarial ENCE, S.A. He is also a Trustee of Fundación Novia Salcedo, a Director of the Deusto Business School, a member of the Círculo de Empresarios Vascos and a member of the McKinsey Advisory Council.

**Positions in other companies within the Telefónica Group (no executive duties):** He is a Director of Telefónica Móviles México, S.A. de C.V. and of Telefónica Audiovisual Digital, S.L.U.

**Board Committees of which he is a member:** The Executive Commission (Vice Chairman); the Nominating, Compensation and Corporate Governance Committee (Chairman); and the Audit and Control Committee (Chairman).

**MR. ÁNGEL  
VILÁ BOIX****Chief Operating Officer***Executive Director*

Joined the Board in 2017.

**Nationality:** Spanish. Born in 1964 in Barcelona, Spain.

**Education:** Degree in Industrial Engineering from the Polytechnic University of Catalonia in Barcelona, and an MBA from Columbia Business School.

**Experience:** He joined Telefónica in 1997, assuming successively the positions of Controller of the Group, CFO of Telefónica Internacional, Director of Corporate Development and General Manager of Finance and Corporate Development. In 2015 he was appointed General Manager of Strategy and Finance. Before joining Telefónica, he developed his professional career at Citigroup, McKinsey & Co., Ferrovial and Planeta. In the financial sector, he was a member of the Board of Directors of Banco Bilbao Vizcaya Argentaria (BBVA) and of the Advisory Panel of Macquarie MEIF Infrastructure Funds.

In the TMT (Technology, Media and Telecom) sector, he was the President of Telefónica Contenidos, Vice-President of Telco S.p.A. (Italy) and a member of the Board of Endemol, Digital+, Atento, Telefónica Czech, CTC Chile, Indra SSI and Terra Lycos.

**Other relevant positions:** He is currently a Trustee of Fundación Telefónica.

**Board Committees of which he is a member:** The Executive Commission (Chief Operating Officer).

**MR. JUAN IGNACIO  
CIRAC SASTURAIN****Member***Independent Director*

Joined the Board in 2016.

**Nationality:** Spanish. Born in 1965 in Manresa, Spain.

**Education:** Degree and doctorate in Physics from Universidad Complutense de Madrid. Areas of specialization: Quantum optics, quantum computing and atomic physics.

**Experience:** Scholarship under the Research Staff Training Program, Department of Optics, Universidad Complutense de Madrid (1989-1991); Full Professor of the University, Department of Applied Physics, University of Castilla La Mancha (1991-1996); Researcher, Joint Institute for Laboratory Astrophysics, University of Colorado (1993-1994); Professor, Institut für Theoretische Physik, Leopold Franzens Universität Innsbruck (1996-2001); Associate Editor, *Physical Review A* (2000-2003); Associate Editor, *Spanish Journal of Physics* (2002-2005); member of the International Advisory Board QIP IRC, EPSRC, United Kingdom (2005-2008); member of the Kuratorium IQOQI, Austrian Academy of Sciences (2005-2008); Associate Editor, *Review of Modern Physics* (2005-2011); member of the CIAR Review Panel, Toronto, Canada (2007-2008); member of the xQIT Visiting Committee, MIT (2007-2009); member of the ITAMP Advisory Board, Harvard University (2007-2010); member of the Governing Council, Higher Council for Scientific Research (2008-2010); member of the Review Panel, QSIT, Swiss National Scientific Foundation (2011-2017); and Managing Director, Max-Planck Institut für Quantenoptik (2014-2015 and 2005-2007).

**Other relevant positions:** He is currently Co-Director of the Center for Quantum Sciences and Technologies in Munich (since 2019); Director of the Max Planck International School of Quantum Sciences and Technologies (since 2016); member of the Advisory Committee of Fundación la Caixa (since 2016); member of the Advisory Board of the Interdisciplinary Institute of Information Sciences, Tsinghua University (since 2015); member of the Advisory Board of the Russian Quantum Center (since 2012); member of the Advisory Board of *Annalen der Physik* (since 2012); member of the Science Committee, Fundación BBVA (since 2010); member of the Advisory Board of the Benasque Science Center (since 2008); member of the Science Advisory Board, Center for Quantum Technology, NUS, Singapore (since 2007); Honorary Professor, Technical University of Munich (since 2002), Director of the Theory Division, Max-Planck Institut für Quantenoptik; member of the Max Planck Society (since 2001); and the Founder and Editor of the journal *Quantum Information and Computation* (since 2001).

**Board Committees of which he is a member:** The Strategy and Innovation Committee (Member).

**MR. PETER  
ERSKINE****Member***Other External Director*

Joined the Board in 2006.

**Nationality:** English. Born in 1951 in London, United Kingdom.

**Education:** Degree in Psychology from the University of Liverpool. Doctor *honoris causa* from the University of Reading.

**Experience:** He began his professional career in the marketing area at Polycell and at Colgate Palmolive. He worked for several years in the MARS Group before being appointed European Vice-President of Mars Electronics. In 1990 he was appointed Vice-President of Marketing and Sales at UNITEL. He joined British Telecom (BT) in 1993, and between 1993 and 1998 he held several high-level positions, including that of Director of BT Mobile and that of President and Executive Director of Concert. In 1998 he became General Manager of BT Cellnet. Subsequently, in 2001, he became a director and Chief Executive Officer of O2, Plc. (now known as Telefónica O2 Holdings Limited). In 2006 he became President of this company, serving until December 31, 2007, on which date he was appointed a Non-Executive Director. In January 2009 he joined the Board of Ladbrokes Plc. as a Non-Executive Director and was then appointed President in May 2009. In December 2015 he left that position, having played a leading role in the merger of Ladbrokes PLC with Gala Coral Group.

**Other relevant positions:** He is currently President of the BRAINSTORM charity, which focuses on funding brain tumor research.

**Positions in other companies within the Telefónica Group (no executive duties):** He is a member of the Supervisory Board of Telefónica Deutschland Holding AG (since 2016).

**Board Committees of which he is a member:** The Executive Commission (Member); the Strategy and Innovation Committee (Chairman); and the Nominating, Compensation and Corporate Governance Committee (Member).

**MS. SABINA  
FLUXÀ THIENEMANN****Member***Independent Director*

Joined the Board in 2016.

**Nationality:** Spanish. Born in 1980 in Palma de Mallorca, Spain.

**Education:** Degree in Business Administration and Management. MBA from ESADE, and completion of the IESE Senior Management Program.

**Experience:** In January 2005 she joined the Iberostar Group, a Spanish multinational company that has been active in the tourism business since 1956.

**Other relevant positions:** She is currently the Vice-President and CEO of the Iberostar Group. She also currently holds the positions of member of Eastern Territorial Regional Advisory Board (Spain); member of the Board of Governors of APD Illes Balears; and Trustee of the Iberostar Foundation.

**Board Committees of which she is a member:** The Nominating, Compensation and Corporate Governance Committee (Member).

**MS. CARMEN  
GARCÍA DE ANDRÉS****Member***Independent Director*

Joined the Board in 2017.

**Nationality:** Spanish. Born in 1962 in Madrid, Spain.

**Education:** Degree in Economics and Business Administration from Universidad Pontificia de Comillas, ICADE.

**Experience:** She joined PricewaterhouseCoopers (Coopers & Lybrand Legacy) in 1985 and was promoted to Director in 1995, becoming a partner of the firm in the year 2000. Since then, she has held several positions of responsibility at Landwell Lawyers and Tax Advisors, and in the Tax Law Area of PwC. Specializing in advising large companies, she has been a representative of the Spanish firm in the International Group of Indirect Taxation Specialists for more than 6 years. Since 1998 the scope of her work has consisted essentially of advising multinational companies established in Spain with strong international involvement.

From 2004 to 2007 she was a Managing Partner in the Major Consumption, Distribution, Industry and Services Group of Madrid, with more than 30 specialists in a variety of legal and tax-related fields. Furthermore, between 2005 and 2007 she headed the Women in PwC diversity program. From 2005 to 2010 she was affiliated with the Leadership and MET (Women, Business and Technology) Program of the Business Institute. She was also a Professor of International Taxation at ESADE during the 2005/06 and 2006/07 academic years, and a facilitator at the Circles of Trust Center for Courage and Renewal 2017. From 2013 to April 2017, she served as President of the Youth Business Spain Foundation.

**Other relevant positions:** She is currently President of Fundación Tomillo. She is also a Director of Fundación Tomillo Tietar and a member of its Board of Trustees, as well as being a member of the Board of Trustees of the Youth Business Spain Foundation. Since June 2011 she has been a member of the Board of Directors of the Spanish Association of Foundations (AEF), currently serving as its Treasurer. She is a member of the Board of Trustees of Fundación Secretariado Gitano; of Fundación Xavier de Salas; and a member of the Board of the Juntos por el Empleo collective initiative for the most disadvantaged. She was a co-founder of Fundación Aprendiendo a Ser and has been a trustee of the foundation since December 2018.

**Board Committees of which she is a member:** The Audit and Control Committee (Member), and the Sustainability and Quality Committee (Member).

**MS. MARÍA LUISA  
GARCÍA BLANCO****Member***Independent Director*

Joined the Board in 2018.

**Nationality:** Spanish. Born in 1965 in Córdoba, Spain.

**Education:** Law degree from the University of Córdoba.

**Experience:** Government attorney (1992 promotion), on leave since October 2013. She was Assistant General Manager of Constitutional and Human Rights, and the government attorney heading the Department of Constitutional and Human Rights. Representative of the Kingdom of Spain to the European Court of Human Rights. Coordinator and leader of the Spanish Delegation to various United Nations Committees in Geneva (2002-2013). Other noteworthy activities include: Secretary of the Board of Directors of the State Society of Agricultural Infrastructures of the North (SEIASA DEL NORTE) and of its Audit and Control Committee (1999-2010); member of the Board of Directors of the State Society of Agricultural Infrastructures (SEIASA) (2010-2013); Director of the State Water Company of the North Basin (ACUANORTE) (2009-2012) and of the State Water Company of the Basins of Spain (AcuaEs) (2012-2013); and coordination and cooperation activities for the promotion and defense of human rights in Uruguay (2006), Colombia (2007 and 2008), Chile (2009), and Guatemala (2010).

**Other relevant positions:** Founding Partner of the firm of Salama García Blanco, whose major areas of activity include administrative constitutional law; advising and providing technical protection for credit institutions; civil and commercial procedure; and arbitration (Arbitrator in the Spanish Court of Arbitration; in the Court of Arbitration of the Official Chamber of Commerce, Industry and Services of Madrid; and in the Civil and Commercial Court of Arbitration (CIMA).

**Board Committees of which she is a member:** The Nominating, Compensation and Corporate Governance Committee (Member), and the Regulation and Institutional Affairs Committee (Member).

**MR. JORDI  
GUAL SOLÉ****Member***Proprietary Director*

Joined the Board in 2018.

**Nationality:** Spanish. Born in 1957 in Lérida, Spain.

**Education:** Doctorate in Economics (1987) from the University of California (Berkeley); Professor of Economics at IESE Business School; and Research Fellow of the Center for Economic Policy Research (CEPR) in London.

**Experience:** Before assuming the Presidency of CaixaBank, he was the Chief Economist and Executive Director of Strategic Planning and Research at CaixaBank, and the General Manager of Planning and Strategic Development at CriteriaCaixa. He joined Grupo 'la Caixa' in 2005. He has been a member of the Board of Directors of Repsol; an Economic Advisor in the General Directorate of Economic and Financial Affairs of the European Commission in Brussels; and a visiting professor at the University of California, Berkeley; the Université Libre de Bruxelles; and the Barcelona Graduate School of Economics.

**Other relevant positions:** He has been the President of CaixaBank since 2016. He is also a member of the Supervisory Board of Erste Group Bank; the Chairman of FEDEA; Vice-President of the Economics Club and of Fundació Cotec para la Innovació; and a member of the Board of Trustees of the CEDE Foundation, the Elcano Royal Institute, and Barcelona Mobile World Capital.

**Board Committees of which he is a member:** The Regulation and Institutional Affairs Committee (Member) and the Strategy and Innovation Committee (Member).

**MR. PETER  
LÖSCHER****Member***Independent Director*

Joined the Board in 2016.

**Nationality:** Austrian. Born in 1957 in Villach, Austria.

**Education:** Degree in Economics from the Vienna University of Economics, and in Business Administration from the Chinese University of Hong Kong. MBA from the Vienna University of Economics, and completion of the Harvard Business School Advanced Administration Program. Honorary doctorate in Engineering from Michigan State University; honorary doctorate from the Slovak University of Engineering in Bratislava.

**Experience:** Former Chairman of the Supervisory Board of OMV AG (Austria). From March 2014 to March 2016, he was the CEO of Renova Management AG (Switzerland). Former Chairman and CEO of Siemens AG. He was previously the President of Global Human Health; a member of the Executive Board of Merck & Co., Inc.; Chief Operating Officer of GE Healthcare Bio-Sciences, a member of the Corporate Executive Council of GE; and Director of Operations and a member of the Board of Amersham Plc. He held executive leadership positions at Aventis and Hoechst. He also served as Chairman of the Board of Directors of the Siemens Foundation.

**Other relevant positions:** He is currently Chairman of the Board of Directors of Sulzer AG; a Director of Thyssen-Bornemisza Group AG (Switzerland); and a non-executive member of the Board of Directors of Doha Venture Capital LLC, in Qatar.

He is also an emeritus member of the Advisory Board of the Economic Development Board of Singapore and a member of the International Advisory Board of Bocconi University, as well as being an honorary professor at Tongji University (Shanghai).

**Board Committees of which he is a member:** The Audit and Control Committee (Member) and the Strategy and Innovation Committee (Member).

**MR. IGNACIO  
MORENO MARTÍNEZ****Member***Proprietary Director*

Joined the Board in 2011.

**Nationality:** Spanish. Born in 1957 in Santander, Spain.

**Education:** Degree in Economics and Business Administration from the University of Bilbao. Master's degree in Business Administration (MBA) from INSEAD.

**Experience:** Until October 2016 he was the Chief Operating Officer of Metrovacesa, S.A. He previously served as the President of the Company. He was also the General Manager of the Presidency Area at Banco Bilbao Vizcaya Argentaria, S.A. (BBVA); Chief Operating Officer of N+1 Private Equity; and Chief Operating Officer of Vista Capital Expansión, S.A., SGEER (Private Equity). At the Corporación Bancaria de España, S.A. - Argentaria he served, among other functions, as Assistant General Manager for Corporate and Institutional Banking; as Chief Operating Officer of Desarrollo Urbanístico Chamartín, S.A.; and as President of Argentaria Bolsa, Sociedad de Valores. He worked at Banco de Vizcaya, Banco Santander de Negocios, and Mercapital, as Office Manager, Corporate Banking Manager and Senior Private Equity Manager.

**Other relevant positions:** He is currently the President of Metrovacesa, S.A.; a Director of Roadis Transportation Holding, S.L.U.; and a Director of General de Alquiler de Maquinaria, S.A. (GAM). He is also a Senior Advisor at Apollo Investment Consulting Europe LTD. for Spain.

**Board Committees of which he is a member:** The Audit and Control Committee (Member), the Regulation and Institutional Affairs Committee (Chairman) and the Sustainability and Quality Committee (Member).

**MS. VERÓNICA  
PASCUAL BOÉ****Member***Independent Director*

Joined the Board in 2019.

**Nationality:** Spanish and French. Born in 1979 in Barcelona, Spain.

**Education:** Degree in Aeronautical Engineering from the Universidad Politécnica de Madrid. Master's degree in Business Administration (MBA) from the College des Ingenieurs de Paris, and Executive Master's degree in Positive Leadership and Strategy (EXMPLS) from the IE Business School. She also completed several postgraduate courses at INSEAD, Stanford and the Harvard Business School.

**Experience:** She began her professional career at the international level in the Human Resources Strategic Management Department of the Bouygues multinational industrial group. In 2004 she joined the family company ASTI, holding various management positions at that company (in Technical Management and Commercial Management). By the end of 2006 she was its General Manager, and in 2008 she opted to acquire said company.

She had previously held a variety of positions, including, among others: Sponsor and Founder of the Digital Innovation Hub of Burgos, through ASTI de DIHBU (2018); President of the Grupo de Trabajo de Industria 4.0 of the Governing Authority of Castile and León (2016-2018); President of the Comisión de Industria 4.0 and Vice-President of Talent Development at AMETIC (2016-2018); Member of the Advisory Board of the Quality Agency of the University System (2015-2016); member of the Advisory Board of the EAE Business School (2015-2016); member of the Governing Board of APD Castile and León (2014-2015); member of the Board of Directors of Empresa Familiar Castilla y León (2001-2013).

**Other relevant positions:** She currently heads a group of companies linked to the digital transformation led by ASTI Mobile Robotics Group, a company based in Spain, France, Germany and the United States, dedicated to providing autonomous vehicle systems for the automation of industrial processes in sectors such as the automotive industry, food, cosmetics, pharmaceuticals and retail sales. She is also a Director of General de Alquiler de Maquinaria, S.A. (GAM).

**Board Committees of which she is a member:** The Strategy and Innovation Committee (Member).

**MR. FRANCISCO JAVIER  
DE PAZ MANCHO****Member***Other External Director*

Joined the Board in 2007.

**Nationality:** Spanish. Born in 1958 in Valladolid, Spain.

**Education:** Degree in Information and Advertising. Studied law. Senior Business Management Program at the IESE (University of Navarre).

**Experience:** From September 2014 to March 2016 he was the Chairman of Telefónica Gestión de Servicios Compartidos España, S.A.U. From July 2006 to November 19, 2014 he was a member of the Executive Committee of the Superior Council of Chambers. From 2008 to May 10, 2018 he was a Director of Telefónica Argentina, S.A. From December 2008 to December 2012 he was the Chairman of Atento Inversiones y Teleservicios, S.A.U. From June 2004 to December 2007 he was the Chairman of the MERCASA National Company. He was also Deputy Chairman and Director of Corporate Strategy of the Grupo Panrico Donuts (1996-2004); General Manager of Internal Trade at the Ministry of Commerce and Tourism (1993-1996); General Secretary of the Consumers' Union of Spain (UCE); Chief Executive Officer of the magazine *Ciudadano* (1990-1993); General Secretary of Juventudes Socialistas; and a member of the Executive Board of the PSOE (1984-1993). He has also held the following positions and responsibilities: Director of Túnel del Cadí (2004-2006); President of the Pan y Bollería Marca Employers' Group (COE) (2003-2004); Director of Mutua de Accidentes de Zaragoza (MAZ) (1998-2004); Director of the Grupo Panrico (1998-2004); Head of the Commercial Distribution Monitoring Office of the Ministry of Commerce and Tourism (1994-1996); member of the Economic and Social Council and of its Standing Committee (1991-1993 and 1996-2000); and Director of Tabacalera, S.A. (1993-1996).

**Positions in other companies within the Telefónica Group (no executive duties):** He is the Chairman of Telefónica Ingeniería de Seguridad, S.A.; a Director of Telefónica Móviles de Argentina, S.A.; a Director of Telefónica Brasil, S.A.; and a Director of Telefónica Móviles México, S.A. de C.V.

**Board Committees of which he is a member:** The Executive Commission (Member), the Sustainability and Quality Committee (Chairman), the Nominating, Compensation and Corporate Governance Committee (Member) and the Regulation and Institutional Affairs Committee (Member).

**MR. FRANCISCO JOSÉ  
RIBERAS MERA****Member***Independent Director*

Joined the Board in 2017.

**Nationality:** Spanish. Born in 1964 in Madrid, Spain.

**Education:** Degrees in Law and in Economics and Business Administration from Universidad Pontificia de Comillas (ICADE E-3), Madrid.

**Experience:** He began his professional career holding a variety of positions in Grupo Gonvarri, as Director of Corporate Development and later as its Chief Executive Officer. In 1997 he created Gestamp Automoción, and since then has served as its Executive Chairman, creating over time what is now the Grupo Gestamp, a global leader in metal components for the automotive industry.

**Other relevant positions:** He is currently the Executive Chairman of Gestamp Automoción. He is also a member of the Board of Directors of CIE Automative and of General de Alquiler de Maquinaria, S.A. (GAM). Furthermore, he is a member of the management bodies of other companies within Grupo Gestamp, and of companies in the Acek family holding group (including companies in Grupo Gonvarri, Acek Energías Renovables, Inmobiliaria Acek and Sideacedero). He is also the president of the Family Business Institute, and participates in Fundación Endeavor, among others.

**MS. CLAUDIA  
SENDER RAMÍREZ****Member****Independent Director**

Joined the Board in 2019.

**Nationality:** Brazilian. Born in 1974 in São Paulo, Brazil.

**Education:** Degree in Chemical Engineering from the Polytechnic School of the University of São Paulo, and a Master's degree in Business Administration (MBA) from the Harvard Business School in Boston.

**Experience:** She previously held various positions with the following entities, among others: (i) Latam Airlines Group: Vice-President for Customer Relations (2017-2019); CEO of LATAM Brazil (2013-2017); Vice-President of LATAM Brazil (2011-2013); (ii) at Whirlpool, S.A.: Vice-President of Marketing (2009-2011); Division Director of Marketing (2007-2009); and Director of Strategic Planning (2005-2007); and (iii) at Bain & Company Brazil: Consultant specializing in Strategy and Marketing (1998-2005).

**Other relevant positions:** She is currently a Director of LafargeHolcim Ltd. (since 2019); a Director of Gerdau, S.A. (since 2019); a Director of Yduqs, formerly known as Estácio (since 2019); and a Director of Amigos do Bem (since 2019), a Brazilian NGO dedicated to the eradication of poverty in northwestern Brazil.

**Board Committees of which she is a member:** The Sustainability and Quality Committee (Member).

**Functions and Operation of the Board of Directors****General functions of the Board of Directors**

The Board of Directors is the highest management and representative body of the Company. As such it is empowered, within the scope of the corporate purpose defined in the Bylaws, to perform any legal acts or transactions for purposes of management and disposition, under any title, except for those reserved by law or by the Bylaws exclusively to the shareholders at a General Shareholders' Meeting.

The foregoing provisions notwithstanding, the Board of Directors is configured basically as a supervisory and control body, entrusting the day-to-day management of the Company's business to the executive bodies and to the management team.

The Board of Directors cannot delegate those powers that the law or the Bylaws reserve to its own exclusive purview, or those other powers that are necessary for the responsible exercise of its basic function of supervision and control, or the powers delegated to it by the shareholders at a General Shareholders' Meeting, unless such subdelegation is expressly authorized.

Specifically, the Board of Directors cannot, under any circumstances, delegate the following powers:

- a) Supervision of the effective operation of the Committees that it has created and of the activities of the delegated bodies and of the Officers that it has designated.
- b) Determination of the Company's general policies and strategies.
- c) Authorization or waiver of the obligations arising from the duty of loyalty, in accordance with the provisions of these Regulations.
- d) Its own organization and operation.
- e) Preparation of the Annual Accounts and their submission at the General Shareholders' Meeting.
- f) Preparation of any type of report that by law must be presented to the management body, provided that the transaction to which the report refers cannot be delegated.
- g) Appointment and removal of the Company's Chief Operating Officers, as well as the establishment of the terms of their contracts.
- h) Appointment and removal of the Officers who are to report directly to the Board or to any of its members, as well as the establishment of the basic conditions of their contracts, including their compensation.
- i) Decisions regarding the compensation of the Directors, within the framework of the Bylaws and, where appropriate, of the compensation policy approved by the shareholders at the General Shareholders' Meeting.
- j) The call to the General Shareholders' Meeting and the preparation of the agenda and the proposed resolutions.
- k) The policy regarding the Company's own shares or equity interests.

- l) The powers delegated by the shareholders at the General Shareholders' Meeting to the Board of Directors, unless subdelegation of such powers was expressly authorized by the shareholders.
- m) Approval of the strategic or business plan, the annual management and budgetary goals, the investment and finance policy, the corporate social responsibility policy and the dividend policy.
- n) Determination of the risk control and risk management policy, including tax-related risks, and supervision of the internal information and control systems.
- o) Determination of the corporate governance policy of the Company and of the Group; its organization and operation; and, in particular, the approval and modification of its internal Regulations.
- p) Approval of the financial information that the Company must periodically disclose because of its status as a listed company.
- q) Definition of the structure of its Group of companies.
- r) Approval of investments or transactions of all kinds that, because of their high amount or special characteristics, are of a strategic nature or entail a special tax risk, unless their approval is within the purview of the shareholders at the General Shareholders' Meeting.
- s) Approval of the creation or acquisition of interests in special-purpose entities or entities that are domiciled in countries or territories that are considered to be tax havens, as well as any other transactions of a similar nature that, due to their complexity, might diminish the transparency of the Company and its Group.
- t) Approval, following a report of the Audit and Control Committee, of the transactions that the Company or companies in its Group carry out with Directors or with shareholders who, either individually or jointly with other parties, hold a substantial equity interest.

In any event, when duly justified urgent circumstances arise, the decisions corresponding to the foregoing matters may be adopted by the delegated bodies or persons and must be ratified at the next meeting of the Board of Directors that is held after the adoption of the decision.

#### Allocation of positions and duties

The Board of Directors of Telefónica, S.A. has implemented a corporate governance structure that ensures the effective fulfillment of its duties and responsibilities.

This structure is configured basically in the following way:

- **Chief Executive Officer - Mr. José María Álvarez-Pallete López**

The Chairman of the Board of Directors holds the position of chief executive of the Company, with responsibility for effective guidance of the business activities, always in accordance with the decisions and criteria set by the shareholders at the General Shareholders' Meeting and by the Board of Directors.

As Chief Executive Officer, all of the powers and duties of the Board of Directors are expressly delegated to him, except for those that cannot be delegated, whether by law, the Bylaws or the Regulations of the Board of Directors, article 5.4 of which establishes the powers that are reserved to the Board of Directors and that cannot be delegated. In addition to such delegation of powers, the Company's CEO is granted specific (non-general) powers to carry out specific transactions that have been approved by the Company.

- **Chief Operating Officer - Mr. Ángel Vilá Boix**

The powers of the Board of Directors associated with the conduct of the business and with the fulfillment of the highest executive duties in all of the Company's business areas are delegated to the Chief Operating Officer, except for the powers that cannot be delegated, whether by law, the Bylaws or the Regulations of the Board of Directors. In addition to such delegation of powers, the Company's Chief Operating Officer is granted specific (non-general) powers to carry out specific transactions that have been approved by the Company.

- **Lead Independent Director - Mr. José Javier Echenique Landiribar (appointed on December 18, 2019 to replace Mr. Francisco Javier de Paz Mancho)**

The Lead Independent Director performs, among others, the following duties and tasks:

- a) Coordinates the work of the external Directors, in order to protect the interests of all of the Company's shareholders; reflects the concerns of the said Directors; and meets with them when he deems it appropriate.
- b) When appropriate, he may ask the Chairman of the Board to call a meeting of the Board of Directors, in keeping with Good Governance standards.
- c) He may request that certain matters be included on the Agenda of the meetings of the Board of Directors that have already been called.
- d) Directs the evaluation carried out by the Board of Directors of its Chairman.
- e) He may preside over meetings of the Board of Directors, in the absence of the Chairman and of the Vice Chairmen.
- f) Maintains contacts with investors and shareholders in order to know their views, for the purpose of forming an opinion regarding their concerns, particularly with regard to the Company's corporate governance.
- g) Coordinates the Chairman's succession plan.

- **General Secretary and Secretary of the Board of Directors - Mr. Pablo de Carvajal González**

The Secretary of the Board of Directors assists the Chairman of the Board in the fulfillment of his duties, and ensures the proper functioning of the Board of Directors, with very particular attention to providing to the Directors the necessary advice and information; keeping the company records; properly reflecting in the minute books the proceedings of the meetings of the Board of Directors; and attesting to its resolutions.

The Secretary of the Board also sees to the formal and substantive legality of the activities of the Board of Directors and to their compliance with the Bylaws and with the Regulations for the General Shareholders' Meeting and of the Board of Directors, ensuring that the good governance recommendations adopted by the Company and in force at any time are duly taken into account.

The Secretary of the Board is also the General Secretary of the Company. Mr. Pablo de Carvajal González is also Telefónica's Global Director of Regulatory Affairs.

The Board of Directors also has a Deputy Secretary, Mr. Antonio García-Mon Marañés, who assists the Secretary and replaces him in the performance of his duties in the event of his absence or inability. Mr. García-Mon is also Deputy General Secretary and Director of Corporate Legal Services.

Neither the Secretary nor the Deputy Secretary of the Board have the status of Directors.

#### • Committees of the Board of Directors

As of December 31, 2019, and on the date of issuance of this Report, the Board of Directors had and has an Executive Commission and five advisory or control committees, whose composition, duties and powers are described in detail in advance.

#### Operation of the Board of Directors

Both the Bylaws and the Regulations of the Board specify that the Board of Directors shall meet routinely once a month, and, at the initiative of the Chairman, as often as he deems it appropriate for the proper functioning of the Company. During fiscal year 2019 the Telefónica Board of Directors held twelve meetings, each lasting between three and one-half and four and one-half hours, depending on the topics discussed.

The power to call a meeting of the Board of Directors and, if appropriate, to draw up the Agenda of the Board's meetings rests with the Chairman of the Board of Directors, who must however call a meeting when requested to do so by three Directors who indicate the issues to be discussed.

A meeting of the Board of Directors may also be called by at least one-third of its members, with an indication of the Agenda, if, after the submission of a request to the Chairman of the Board of Directors, the Chairman, without just cause, has not called the meeting within a period of one month.

The Company adopts the measures that are necessary in order for the Directors to have, whenever possible and sufficiently in advance, the necessary information, which shall be drawn up and oriented specifically toward the preparation of the meetings of the Board and of its Committees. In no case shall its compliance be waived on the grounds of the importance or confidential nature of the information, except under absolutely exceptional circumstances.

In this regard, and in accordance with the provisions of articles 18 and 20 of the Regulations of the Board of Directors, the Board of Directors and its Committees shall draw up a calendar of the meetings to be held during the year. Such calendar may be modified by resolution of the Board itself or of the

corresponding Committee, or pursuant to a decision by its Chairman, in which case the modification must be disclosed to the Directors as soon as possible.

The Board and its Committees also have an Action Plan that contains a detailed description and the frequency of the activities to be carried out in each fiscal year, according to the powers and duties assigned to them.

Similarly, all of the meetings of the Board and of the Committee have a pre-established Agenda, which is communicated at least three days before the date on which the meeting is scheduled to be held, along with the call to the meeting. The Agenda for each meeting clearly indicates the items regarding which the Board of Directors or the Executive Commission must make a decision or adopt a resolution.

With the same goal, in general, the documentation associated with the Agenda for the meetings is made available to the Directors sufficiently in advance. In this regard, and in compliance with the provisions of article 19 of the Regulations of the Board of Directors, the Chairman of the Board of Directors organizes the discussions, seeking and encouraging the active participation of all of the Directors in the deliberations, safeguarding the unconstrained statement of their viewpoints. Similarly, with the assistance of the Secretary, the Chairman ensures that the Directors receive beforehand sufficient information to deliberate on the items on the Agenda. He also ensures that sufficient time is devoted to the discussion of strategic issues and stimulates debate during the meetings, safeguarding the unconstrained statement of viewpoints by the Directors.

To facilitate the provision of all of the information and clarifications that may be necessary regarding some of the issues to be addressed, the main officers of the Group attend essentially all of the meetings of the Board and of its Committees, along with the speakers who are deemed appropriate, for the presentation of matters lying within their purview.

Furthermore, and in general, the Regulations of the Board (article 26) expressly provide that the Directors are vested with the broadest powers for obtaining information about any aspect of the Company and to examine its books, records, documents and other background materials relating to corporate activities. The exercise of this right of information is channeled through the Chairman or the Secretary of the Board of Directors, who handle requests from the Directors, either providing the information directly to the Directors or placing them in touch with the proper contact persons at the appropriate organizational level.

The Board of Directors can validly hold a meeting when more than one-half of its serving members are present or represented at the meeting. The Directors must personally attend the meetings of the Board of Directors. If, under exceptional circumstances, they are unable to do so, they shall ensure that the proxy they give to another member of the Board of Directors includes, insofar as possible, the appropriate instructions. Non-executive Directors can delegate their proxy only to another non-executive Director. Such delegations may be made by letter or in any other way that ensures the certainty and validity of the proxy, in the opinion of the Chairman of the

Board of Directors (article 19 of the Regulations of the Board of Directors and article 34.4 of the Bylaws).

All of the Directors were present, either in person or by proxy, at the twelve meetings held by the Board in 2019. It should be noted that one of such meetings was the annual strategic off-site meeting held by the Company in Barcelona.

In all cases, resolutions are adopted by an absolute majority of the votes of the Directors who are present at the meeting, either in person or by proxy, except in those instances in which, for certain resolutions to be valid, the law requires the favorable vote of a larger number of Directors.

### Board Committees

Both the Bylaws and the Regulations of the Board provide for an Executive Commission of the Board of Directors, with general decision-making authority and, consequently, with the express delegation of all of the powers of the Board of Directors, except for those powers that, by law or pursuant to the Bylaws, cannot be delegated.

The Regulations also authorize the Board of Directors to create one or more advisory or control committees entrusted with the task of examining and continuously monitoring any area of special importance to the good governance of the Company, or performing the specific analysis of any factor or issue whose significance or magnitude requires it. Such Committees do not have the status of corporate bodies, but rather are tools in the service of the Board of Directors, to which they convey the conclusions that they reach with regard to the issues or subjects whose handling has been entrusted to them.

As of December 31, 2019, and on the date of issuance of this Report, the Board of Directors had and has an Executive Commission and five advisory or control committees, whose composition, duties and powers are described below.

As mentioned earlier, the Company's Board of Directors, at its meeting held on December 18, 2019, and at the proposal of the Nominating, Compensation and Corporate Governance Committee, approved, with a view toward adapting the organizational structure of the committees, the partial amendment of the Regulations of the Board of Directors of Telefónica, S.A., which amendment consists of: (i) shifting the matters relating to Reputation, Corporate Responsibility and Sustainability to the Service Quality and Customer Service Committee, which matters had until then been handled by the Regulation and Institutional Affairs Committee, and (ii) changing the name of the Service Quality and Customer Service Committee, which would thenceforth be known as the Sustainability and Quality Committee.

Similarly, at a meeting held on December 18, 2019, the Board of Directors and its committees approved certain changes in the composition of the committees, in order to continue improving and strengthening their performance and the advice and support that they provide to the Board of Directors in their respective spheres, in accordance with best international practices and recommendations.

### The Executive Commission

The Board of Directors has delegated its authority and powers (except for those that by law, under the bylaws and pursuant

to the regulations cannot be delegated) to an Executive Commission.

The Executive Commission provides the Board of Directors with greater operability and effectiveness in the exercise of its functions, inasmuch as it meets more often than the Board of Directors does.

In accordance with the provisions of article 38 of the Bylaws of Telefónica, S.A., article 21 of the Regulations of the Company's Board of Directors governs the Executive Commission in the following terms:

#### a) Composition.

The Executive Commission shall consist of the Chairman of the Board of Directors, once he has been appointed as a member of the Committee, and no fewer than three and no more than ten other members, all of whom shall be Directors, appointed by the Board of Directors.

The Board of Directors shall ensure that the external Directors constitute a majority over the executive Directors.

In any event, in order to be valid, the appointment or renewal of the members of the Executive Commission shall require the favorable vote of at least two-thirds of the members of the Board of Directors.

As of December 31, 2019, and on the date of this Report, the Executive Commission was and is composed of the following persons:

Name	Post	Category
Mr. José María Álvarez-Pallete López	Chairman	Executive
Mr. Isidro Fainé Casas	Vice Chairman	Proprietary
Mr. José María Abril Pérez	Vice Chairman	Proprietary
Mr. José Javier Echenique Landiribar	Vice Chairman	Independent
Mr. Ángel Vilá Boix	Member	Executive
Mr. Peter Erskine	Member	Other External
Mr. Francisco Javier de Paz Mancho	Member	Other External

#### b) Operation.

The Executive Commission shall meet whenever it is called by its Chairman, normally holding meetings every 15 (fifteen) days. During the year 2019 it held 16 meetings, lasting on average 2 hours and 30 minutes each. Also noteworthy is the high level of participation of all of its members.

The Chairman and the Secretary of the Board of Directors shall serve as the Chairman and the Secretary of the Executive Commission. One or more Vice Chairmen and a Deputy Secretary may also be appointed.

The Executive Commission can validly hold a meeting when more than one-half of its members are present at the meeting, either in person or by proxy.

Resolutions shall be adopted by a majority of the Directors present at the meeting either in person or by proxy. In the event of a tie in the voting, the Chairman shall cast the deciding vote.

### c) Relationship with the Board of Directors.

The Executive Commission shall promptly inform the Board of Directors of the matters that are discussed and the decisions that are made at its meetings. Copies of the minutes of such meetings shall be made available to the members of the Board (article 21.C of the Regulations of the Board).

### Most important activities during the fiscal year

During fiscal year 2019 the Executive Commission of the Board of Directors of Telefónica, S.A. analyzed and reviewed, deliberated on and adopted resolutions (which have been ratified by the Company's Board of Directors) relating to certain issues associated with the following matters, among others:

- The business developed by the Telefónica Group: (i) products and services (Digitization, the Internet of Things, Security, Cyber security, Investment Funds, Novum, Wayra, MNCs, Edge for 5G, Terminals, Cloud B2B, B2B Business Acceleration, etc.), (ii) the evolution of the business in the various different countries in which the Telefónica Group operates, and iii) operating trends.
- The regulatory situation of the telecommunications industry (including, among others, regulatory changes and spectrum auctions).
- Corporate and finance-related transactions of the Telefónica Group.

### Audit and Control Committee

The Audit and Control Committee of Telefónica, S.A. is governed by the provisions of article 39 of the Bylaws and by the provisions of article 22 of the Regulations of the Board of Directors. Accordingly, and in order to comply with the recommendations set forth in Technical Guide 3/2017 of the National Securities Market Commission regarding Audit Committees of Public Interest Entities, the Board of Directors, at its meeting held on December 13, 2017, approved the Regulations of the Audit and Control Committee of Telefónica, S.A., which Regulations govern such Committee under the following terms:

#### a) Composition.

The Audit and Control Committee shall consist of the number of Directors that the Board of Directors determines at any given time. In no case shall the said number be fewer than three persons appointed by the Board of Directors. All of its members must be External or Non-Executive Directors, and at least a majority of them must be Independent Directors. In appointing the members of the committee, and, in particular, its Chairman, the Board of Directors shall take into account their knowledge and experience in accounting, auditing or both, as well as in risk management. Collectively, the members of the Committee shall possess the technical knowledge that is pertinent to the area of business to which the Company belongs.

The Chairman of the Audit and Control Committee, whose position in any case shall be held by an Independent Director, shall be appointed from among the members of such

Committee. The Chairman must be replaced every four years and may be re-elected after a period of one year has elapsed since his departure.

As of December 31, 2019, and on the date of this Report, the Audit and Control Committee was and is composed of the following persons:

Name	Post	Category
Mr. José Javier Echenique Landiribar	Chairman	Independent
Ms. Carmen García de Andrés	Member	Independent
Mr. Peter Löscher	Member	Independent
Mr. Ignacio Moreno Martínez	Member	Proprietary

Mr. Peter Löscher was appointed as a Member and Chairman of the Audit and Control Committee on December 18, 2019. His appointment as Chairman became effective on February 19, 2020, after the preparation of the Company's annual report for 2019, such that Mr. José Javier Echenique Landiribar continued to serve as Chairman of the Committee until such date.

Furthermore, all the members of the Audit and Control Committee have a financial background, and were appointed taking into account their knowledge and experience in accounting, auditing or both.

#### b) Responsibilities.

Without prejudice to any other tasks that may be assigned to it by the Board of Directors, the primary function of the Audit and Control Committee shall be to support the Board of Directors in its supervisory functions. In particular, the Committee shall have at least the following responsibilities:

1) To provide information to the shareholders at the General Shareholders' Meeting about the issues that arise within its purview and, in particular, about the outcome of the audit, explaining how the audit contributed to the integrity of the financial information, and the role that the Committee played in the process.

2) To present to the Board of Directors the proposals for the selection, appointment, re-election and replacement of the external auditor, taking responsibility for the selection process, as provided by law, along with the terms and conditions under which the external auditor is to be retained, as well as collecting regularly from the auditor information about the audit plan and its implementation, in addition to preserving its independence in the fulfillment of its duties.

3) To supervise the internal audit, including, in particular:

- a) Ensuring the independence and effectiveness of the internal audit function;
- b) Proposing the selection, appointment and removal of the head of the internal audit department;
- c) Proposing the budget for that department;
- d) Reviewing the annual working plan of the internal audit office and the annual activity report;

- e) Receiving periodic information about the associated activities; and
  - f) Verifying that senior management takes into account the conclusions and recommendations presented in its reports.
- 4) To supervise the process of preparing and presenting the mandatory financial information, and to present recommendations or proposals to the management body with a view toward safeguarding its integrity. In this regard, the Committee is responsible for supervising the preparation process and the integrity of the financial information about the Company and the Group, reviewing its compliance with regulatory requirements, the appropriate delimitation of the consolidation boundary and the proper application of accounting criteria, reporting on these matters to the Board of Directors.

On this point, and with regard to the mechanisms established by the Board to prevent the Financial Statements prepared by it from being presented at the General shareholders' Meeting with qualifications in the Audit Report, article 40 of the Regulations of the Board establishes that the Audit and Control Committee shall ensure that the Board of Directors prepares the financial statements in their definitive form, such that there are no limitations or qualifications on the part of the Auditor, with the proviso, however, that when the Board believes that its opinion must be upheld, the Chairman of the Audit and Control Committee shall publicly explain the content and scope of the discrepancies.

5) To supervise the effectiveness of the Company's internal controls, the internal audit and the risk management systems, including in relation to tax risks, and to discuss with the Statutory Auditor the significant weaknesses of the internal control system that were detected during the course of the audit, all without sacrificing its independence. For this purpose, and where appropriate, recommendations or proposals may be presented to the Board of Directors, along with the corresponding follow-up period. In this regard, the Committee shall be responsible for proposing to the Board of Directors the risk control and management policy, which shall identify, at a minimum, the following items:

- a) The types of risk (operational, technological, financial, legal and reputational) to which the company is exposed;
- b) The determination of the level of risk that the Company considers acceptable, and the measures for mitigating the impact of the identified risks, if they materialize; and
- c) The control and information systems that will be used to control and manage such risks.

6) To establish and supervise a system that allows employees to report, both confidentially and anonymously, any potentially significant irregularities, especially those involving finance and accounting, that are observed within the Company.

7) To establish and maintain appropriate relations with the Statutory Auditor, in order to receive information about issues that might pose a threat to its independence, for consideration by the Committee, and any other issues associated with the process of auditing the accounts; and, when appropriate, to authorize services other than those that are prohibited, in compliance with the terms set forth by applicable legislation,

as well as those other communications mentioned in the legislation governing the auditing of accounts and in auditing standards. In any event, the Audit and Control Committee shall annually receive from the Statutory Auditor the statement of its independence in relation to the entity or entities directly or indirectly related thereto, as well as detailed and itemized information about the additional services of any type that were provided, and the corresponding fees received from those entities by such Auditor, or by the persons or entities related to it, in accordance with the provisions of applicable regulations.

8) To issue annually, prior to issuance of the report on the audit of the accounts, a report in which it expresses an opinion as to whether the independence of the Statutory Auditor has been compromised. This report must in any case include a statement regarding the reasoned assessment of the provision of each and every one of the additional services mentioned in item (7) above, considered both individually and as a whole, separate from the legal audit, and associated with the principle of independence or with the regulatory framework governing the account auditing activity.

9) To analyze and disclose the economic conditions, the accounting impact and, if applicable, the proposed exchange ratio for the transactions associated with the structural and corporate modifications that the Company plans to make, before they are submitted to the Board of Directors.

10) To disclose beforehand to the Board of Directors all of the issues set forth in the law and in the Bylaws, including, in particular:

1. The financial information that the Company must publish periodically;
2. The creation or acquisition of interests in special-purpose entities or entities that are domiciled in countries or territories that are considered to be tax havens; and
3. Transactions with related parties.

11) To exercise all of the inherent powers of the Audit Committee contemplated at any time by applicable legislation with respect to those companies in its Group that are considered to be Public Interest Entities (as defined by applicable legislation), as approved by the Board of Directors, provided that they are fully held, either directly or indirectly, by the Company, in accordance with the provisions of applicable legislation, and provided that their management has not been allocated to a Board of Directors.

The provisions of paragraphs 2, 7 and 8 shall be understood as being without prejudice to the regulatory framework governing the auditing of accounts.

#### Mechanisms established to preserve the independence of external auditors

With regard to the independence of the Company's external auditor, and in accordance with the provisions of Telefónica's Regulations of the Board of Directors (Article 40), the Board of Directors has established, through the Audit and Control Committee, a stable and professional relationship with the Accounts Auditor, with strict respect for the independence thereof.

Furthermore, the Audit and Control Committee, as part of its fundamental powers (Article 22 of the Regulations of the Board of Directors and Article 4 of the Regulations of the Audit and Control Committee), has established and maintains the appropriate relationships with the auditors to receive information on those matters that may threaten their independence, to be considered by the Committee, and any others related to the process of carrying out the audit, and, where appropriate, the authorisation of services other than those prohibited, in accordance with the terms set forth in the applicable law, as well as other communications set forth in audit legislation and audit regulations.

In any case, the Audit and Control Committee annually receives the accounts auditor's declaration of independence with regard to the entity or entities directly or indirectly related to it, as well as detailed and personalised information on the additional services of any kind provided and the corresponding fees received from these entities by the reported auditor, or the persons or entities related to him/her in accordance with the provisions of current regulations.

Furthermore, the Committee issues, prior to issuing the audit report of the accounts, an annual report expressing an opinion on whether the independence of the accounts auditor has been compromised. This report states, in any case, the evaluation, with supporting evidence/rationale, of the provision of each and every one of the additional services referred to in the previous section, taken into account individually and together, different to the statutory audit and in relation to the independence regime or the regulations governing account auditing.

In addition, and in accordance with the Regulations of the Board of Directors (Article 22), the Company's Audit and Control Committee puts forward proposals to the Board of Directors for the selection, appointment, re-election and replacement of the external auditor, taking responsibility for the selection process in accordance with the law, as well as the terms and conditions of his/her contract, regularly obtaining information from the auditor on the audit plan and the execution thereof, as well as preserving his/her independence in the exercise of his/her duties.

Furthermore, the external auditor has direct access to the Audit and Control Committee, participating regularly in its meetings, without the presence of members of the Company's management team when this is deemed necessary. In this regard, and in accordance with the requirements of US regulations on this matter, the External Auditor reports to the Audit and Control Committee, at least on an annual basis, on the most significant accounting policies and practices followed in drawing up the Company's financial and accounting information, on any alternative accounting treatment within generally accepted accounting principles and practices that affects any relevant element within the financial statements that may have been discussed with the management team, and, finally, on any relevant communication between the auditor and the Company's management team. In addition, and in accordance with Article 40 of the Regulations of the Board of Directors, the auditor shall hold an annual meeting with the full Board of Directors to provide an update on the work carried out and the evolution of the Company's accounting and risk situation.

In accordance with the Company's internal regulations, and also in line with the legal requirements imposed by Spanish, European and US regulations, contracting any service with the Company's External Auditor must always be approved beforehand by the Audit and Control Committee. Furthermore, this contracting of services, other than those of the audit itself, is carried out in strict compliance with the Audit Act, European regulations and the Sarbanes-Oxley Act enacted in the United States and its implementing regulations. In this respect, and before hiring the auditor, the Audit and Control Committee analyses the content of the work to be carried out, assessing the situations that may entail a risk to the independence of the Company's External Auditor, and specifically supervises the percentage represented by the fees paid by the latter of the audit firm's total revenue. In this regard, the Company states in its Annual Report, in accordance with the legal requirements in force, how much the Company's External Auditor is paid, including those fees related to services of a different nature from auditing.

Consequently, the Company has implemented, in practice, the legal provisions on this matter as indicated in the preceding paragraphs.

#### c) Operation.

The Audit and Control Committee must have access to information in a suitable, timely and sufficient manner, for which purpose:

- The Chairman of the Committee and, if deemed appropriate or requested, the rest of its members, shall maintain regular contact with the key personnel involved in the governance and management of the Company.
- The Chairman of the Committee, through the Secretary of the Committee, shall channel and provide the necessary information and documentation to the other members of the Committee, allowing sufficient time for them to analyze such information prior to their meetings.

The Audit and Control Committee shall meet at least once every quarter, and whenever a meeting is deemed appropriate, in response to a call from its Chairman. In any event, the Committee shall meet, at a minimum, on each date on which annual or interim financial information is published. In such cases, the Internal Auditor shall be present. If any type of review report is issued, the Auditor shall also be present.

In this regard, and with reference to the meetings held with the Statutory Auditor and with the Internal Auditor, the provisions of article 7 of the Regulations of the Company's Audit and Control Committee are complied with, which provisions establish that, for the proper exercise of its supervisory function, the Committee must be familiar with, and understand, the decisions made by Senior Management regarding the application of the most significant criteria and the results of the reviews conducted by the Internal Audit Office, while maintaining fluid communications with the Statutory Auditor. In point of fact, the External Auditor has participated in meetings of the Audit and Control Committee in order to explain the work that was done, and also to clarify, at the request of Committee, those issues that may have been raised in connection with the duties assigned to such External Auditor. The members of the Committee also held separate meetings with each of these contact persons when such

meetings were deemed necessary, in order to conduct a rigorous follow-up of the preparation of the Company's financial information.

During 2019 it held 14 meetings, lasting on average two hours each. Also noteworthy is the high level of participation of all of its members.

Likewise, in the fulfillment of its duties, the Committee may request the presence of the following persons at its meetings: the Statutory Auditor, the head of the Internal Audit Office, any employee or Officer of the Company and the experts that it deems appropriate.

Attendance at the formal meetings of the Committee shall be preceded by the allocation, on the part of its Members, of sufficient time to analyze and evaluate the information received by them.

The Committee also has a Secretary, as well as the necessary support staff for planning meetings and agendas; for drafting documents and meeting minutes; and for compiling and distributing information, among other tasks.

For the purposes of appropriate scheduling that makes it possible to ensure the efficient accomplishment of the objectives pursued, the Committee establishes an Annual Work Plan.

The meetings are scheduled by the Chairman of the Committee, who communicates them to the Secretary of the Committee, so that its members will receive the documentation sufficiently in advance. All of these actions are performed bearing in mind that the duties of the Members of the Committee are fundamentally supervisory and advisory, with no involvement in execution or management, which are the responsibility of Senior Management.

#### Most important activities during the fiscal year and fulfillment of duties.

The primary activities and actions performed by the Audit and Control Committee of the Board of Directors of Telefónica, S.A. during fiscal year 2019 have been associated with the powers and functions of such Committee. Accordingly, the Audit and Control Committee has performed, among others, the following tasks:

- In the financial area: (i) a review of the Company's financial information (Annual Accounts and Management Reports, which include non-financial information for 2018, periodic quarterly and semi-annual financial information about the Telefónica Group and the Group's Public Interest Entities for which this Committee has taken on the duties of its Audit Committee, and Alternative Performance Measures, included in the Company Financial Information); (ii) a review of the financial debt situation of the Telefónica Group, and its development during the fiscal year; (iii) a review of the informative brochures presented by the Company to the various supervisory bodies (including, among others, the 20-F Annual Report and numerous informative brochures about share-financing and debt-financing transactions); and (iv) a review of specific presentations on financial aspects of, and changes in, accounting regulations. The Committee also reviewed the non-financial information and

the information on diversity prepared by the Company, in compliance with applicable regulations.

- Regarding the external auditor: (i) a proposal regarding the fees to be received by PwC as the Statutory Auditor for fiscal year 2019, and (ii) a review of the audit work and the limited reviews conducted by the external auditor with regard to the above-mentioned financial information.
- Regarding internal controls: (i) a review of the work performed by the Internal Audit Office regarding the review of cross-cutting processes, investigations and inspections; and (ii) a review of the risk management system.
- Regarding compliance, the activities carried out by the Compliance area, including, among others, the review and strengthening of the Company's regulatory framework (such as the anti-corruption standards), advice on conflicts of interest, global due-diligence procedures associated with operations, etc.
- Other items of interest: (i) the 2018 report of the Audit and Control Committee on related-party transactions; (ii) the monthly report of the head of the Telefónica, S.A. Treasury Stock Management Team on treasury-stock transactions; (iii) a review to ensure that the financial information published on the Company's website is continuously updated and matches the information prepared, in each instance, by the Board of Directors and published on the CNMV website; (iv) the de-listing of Telefónica, S.A. shares from the Buenos Aires and London Stock Exchanges; and (v) periodic training to ensure that the knowledge imparted to the members of the Committee is up to date.

#### **The Nominating, Compensation and Corporate Governance Committee**

The Nominating, Compensation and Corporate Governance Committee of Telefónica, S.A. is governed by the provisions of article 40 of the Bylaws and of article 23 of the Regulations of the Board of Directors. Accordingly, and in order to comply with the recommendations set forth in Technical Guide 1/2019 of the National Securities Market Commission regarding Nominating and Compensation Committees, the Board of Directors, at its meeting held on June 26, 2019, approved the Regulations of the Nominating, Compensation and Corporate Governance Committee of Telefónica, S.A., which regulations govern such Committee under the following terms:

##### **a) Composition.**

The Nominating, Compensation and Corporate Governance Committee shall consist of the number of Directors that the Board of Directors determines at any given time. In no case shall the said number be fewer than three persons appointed by the Board of Directors. All of its members must be external or non-executive Directors, and the majority of them must be independent Directors. The Lead Independent Director must also be a member of the Committee.

The Chairman of the Nominating, Compensation and Corporate Governance Committee, whose position shall in any case be held by an independent Director, shall be appointed from among the members of such Committee.

As of December 31, 2019, and on the date of this Report, the Nominating, Compensation and Corporate Governance Committee was and is composed of the following persons:

Name	Post	Category
Mr. José Javier Echenique Landiribar	Chairman	Independent
Mr. Peter Erskine	Member	Other External
Ms. Sabina Fluxà Thienemann	Member	Independent
Ms. María Luisa García Blanco	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Other External

#### b) Responsibilities.

Notwithstanding any other tasks that may be assigned to it by the Board of Directors, the Nominating, Compensation and Corporate Governance Committee shall have the following responsibilities:

- 1) To evaluate the competencies, knowledge and experience that are necessary on the Board of Directors. For these purposes, it shall define the functions and skills required of the candidates who will fill each vacancy and shall evaluate the time and dedication that are needed in order for them to be able to perform their duties effectively.
- 2) To establish a goal for the representation of the least-represented gender on the Board of Directors, and to draw up guidelines on how to achieve this goal.
- 3) To submit to the Board of Directors the proposals for the appointment of independent Directors, whether for their appointment on an interim basis or for their submission for a decision by the shareholders at the General Shareholders' Meeting, along with the proposals for re-election or separation of such Directors by the shareholders at the General Shareholders' Meeting.
- 4) To disclose the proposals for the appointment of the remaining Directors of the Company, whether for their appointment on an interim basis or for their submission for a decision by the shareholders at the General Shareholders' Meeting, along with the proposals for their re-election or separation at the General Shareholders' Meeting. It shall also report on the proposals for appointment and separation of the Secretary and, if applicable, of the Deputy Secretary of the Company's Board of Directors, along with the proposals for appointment, re-election and separation of the Directors of its subsidiaries.
- 5) To report on the proposals for appointment and separation of the Senior Officers of the Company and of its subsidiaries.
- 6) 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 proposal for appointment of the corresponding Secretary and, if applicable, of the corresponding Deputy Secretary.
- 7) To propose to the Board of Directors the appointment of the Lead Independent Director from among the independent Directors.

8) To organize and coordinate, in conjunction with the Chairman of the Board of Directors, the periodic evaluation of the Board of Directors, in accordance with the provisions of the Regulations of the Board of Directors.

9) To report on the periodic evaluation of the performance of the Chairman of the Board of Directors.

10) To examine and organize the succession plan for the Chairman of the Board of Directors and, if applicable, to make proposals to the Board of Directors so that the succession occurs in a planned and orderly manner.

11) To propose to the Board of Directors, within the framework established in the Bylaws, the compensation of the Directors, and to review the compensation periodically to ensure its appropriateness for the task performed by the Directors, pursuant to the provisions of article 34 of the Regulations of the Board.

12) To propose to the Board of Directors, within the framework established in the Bylaws, the extent and amount of the remuneration, fees and financial compensation of the Chairman of the Board of Directors, of the executive Directors and of the Company's senior officers, as well as the basic terms and conditions of their contracts, for the purposes of their contractual implementation.

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

14) To verify the information about the compensation of the Directors and of the senior officers contained in the various corporate documents, including the annual report on the compensation of the Directors.

15) To supervise compliance with the Company's internal codes of conduct and with the corporate governance rules adopted by it and in force at any time.

16) To fulfill the other responsibilities assigned to the Nominating, Compensation and Corporate Governance Committee in the Regulations of the Board of Directors.

#### c) Operation.

The Nominating, Compensation and Corporate Governance Committee must have access to information in a suitable, timely and sufficient manner, for which purpose:

- a. The Chairman of the Committee and, if deemed appropriate or requested, the rest of its members, shall maintain regular contact with the key personnel involved in the governance and management of the Company.
- b. The Chairman of the Committee, or, if applicable, the Secretary of the Committee, shall channel and provide the necessary information and documentation to the other members of the Committee, allowing sufficient time for them to analyze such information prior to their meetings.

This information shall be available through the corresponding information technology application, enabled by the Company for the handling of the documentation associated with this Committee.

The Nominating, Compensation and Corporate Governance Committee shall meet at least once every quarter, and whenever a meeting is deemed appropriate, in response to a call from its Chairman. In addition to holding the meetings scheduled on the annual calendar, the Nominating,

Compensation and Corporate Governance Committee shall meet whenever the Company's Board of Directors or the Chairman of the Board of Directors requests the issuance of a report or the preparation of a proposal within the scope of its responsibilities, and whenever, in the opinion of the Chairman of the Board, a meeting is appropriate for the proper fulfillment of its duties.

During 2019 it held 11 meetings, lasting on average two hours each. Also noteworthy is the high level of participation of all of its members.

The Committee shall also meet sufficiently in advance of the meetings of the Board of Directors.

Attendance at the formal meetings of the Committee shall be preceded by the allocation, on the part of its Members, of sufficient time to analyze and evaluate the information received by them.

The Committee shall have a Secretary (who will normally be the Secretary or the Deputy Secretary of the Board of Directors), as well as the necessary support staff for planning meetings and agendas; for drafting documents and meeting minutes; and for compiling and distributing information, among other tasks.

For the purposes of appropriate scheduling that makes it possible to ensure the efficient accomplishment of the objectives pursued, the Committee shall establish an Annual Work Plan.

The meetings shall be scheduled by the Chairman of the Committee, who shall communicate them to the Secretary of the Committee, so that its members will receive the documentation sufficiently in advance. All of these actions shall be performed bearing in mind that the duties of the Members of the Committee are fundamentally supervisory and advisory, with no involvement in execution or management, which are the responsibility of Senior Management.

The Nominating, Compensation and Corporate Governance Committee shall consult the Chairman of the Board of Directors, particularly with regard to matters involving the executive Directors and senior officers.

#### Most important activities during the fiscal year and fulfillment of duties.

The primary activities and actions performed by the Nominating, Compensation and Corporate Governance Committee of the Board of Directors of Telefónica, S.A. during fiscal year 2019 have been associated with the powers and functions of such Committee or with legal requirements or with Telefónica's internal regulations. Accordingly, the Nominating, Compensation and Corporate Governance Committee has analyzed and reported on the following issues, among others:

- The policy and the compensation plan for the Directors and Officers of the Telefónica Group (in terms of fixed and variable compensation and share plans).
- Proposed appointments associated with the Board of Directors of Telefónica, S.A. and its Committees.

Thus, at its meeting held on December 17, 2019, the Nominating, Compensation and Corporate Governance Committee:

- Proposed to the Board of Directors the appointment on an interim basis of Ms. Claudia Sender Ramírez and of Ms. Verónica Pascual Boé as Independent Directors, following the voluntary resignation from their position as Director of Mr. Wang Xiaochu and Mr. Luiz Fernando Furlán.
- Proposed to the Board of Directors the appointment of Mr. José Javier Echenique Landiribar as Lead Independent Director.
- Reported favorably on the appointment of Mr. José Javier Echenique Landiribar as Vice Chairman of the Board of Directors and, consequently, as Vice Chairman of the Executive Commission.
- Reported favorably on the appointment of the Independent Director Mr. Peter Löscher as a Member of the Audit and Control Committee.
- Reported favorably on the appointment of the Independent Director Ms. María Luisa García Blanco as a Member of the Nominating, Compensation and Corporate Governance Committee.
- Reported favorably on the appointment of the Other External Director Mr. Francisco Javier de Paz Mancho as a Member of the Sustainability and Quality Committee, and also on the appointment of Ms. Claudia Sender Ramírez as a Member of the said Sustainability and Quality Committee.
- Reported favorably on the appointment of Ms. Verónica María Pascual Boé as a Member of the Strategy and Innovation Committee.
- Proposals for the appointment of Directors at the Subsidiaries of the Telefónica Group.
- Appointment proposals associated with the Senior Officers and the organizational structure of the Telefónica Group.
- The 2018 Corporate Governance Report and Compensation Report.
- Amendment of the Regulations of the Board of Directors.

#### **The Regulation and Institutional Affairs Committee**

The Regulation and Institutional Affairs Committee was created by the Board of Directors pursuant to the provisions of article 20.b) of its Regulations.

##### **a) Composition.**

The Board of Directors determines the number of members of this Committee.

The Chairman of the Regulation and Institutional Affairs Committee is appointed from among its members.

As of December 31, 2019, and on the date of this Report, the Regulation and Institutional Affairs Committee was and is composed of the following persons:

Name	Post	Category
Mr. Ignacio Moreno Martinez	Chairman	Proprietary
Ms. María Luisa Garcia Blanco	Member	Independent
Mr. Jordi Gual Solé	Member	Proprietary
Mr. Francisco Javier de Paz Mancho	Member	Other External

#### b) Functions.

Without prejudice to other functions that may be assigned to it by the Board of Directors, the Regulation and Institutional Affairs Committee shall have, at a minimum, the following functions:

- 1) Performing, through its research, analysis and discussion activities, the ongoing monitoring of the principal regulatory topics and issues that affect the Telefónica Group at any time.
- 2) Serving as a communications and information channel between the management team and the Board of Directors for regulatory matters, and, when appropriate, bringing to the attention of the Board those issues that it deems relevant to the Company or to any of the companies in its Group, and regarding which it may be necessary or appropriate to make a decision or to establish a particular strategy.
- 3) Analyzing, reporting on and proposing to the Board of Directors the principles that should be complied with by the Group's Sponsorship and Patronage policies; performing the corresponding follow-up; and approving individually the sponsorships or patronages whose magnitude or importance exceeds the threshold set by the Board and must be approved by it.

#### Most important activities during the fiscal year and fulfillment of duties.

As noted earlier, until December 18, 2019, on which date the Board of Directors approved the amendment of its Regulations, matters involving Reputation, Corporate Responsibility and Sustainability were the responsibility of the Regulation and Institutional Affairs Committee.

Consequently, over the course of the 11 meetings that were held by this Committee during fiscal year 2019, the following items were analyzed and discussed:

- The regulatory matters that are most important to the Telefónica Group, as reflected in the Regulatory Agenda, all at the global level and at the level of the European Union, by region (Europe and Latin America) and by country. The most significant developments, in terms of the most notable issues on the above-mentioned Regulatory Agenda, are updated at each meeting, as are the specific documents or reports presented to the Committee, when the issue or its circumstances make it advisable.
- The continuous monitoring of, on the one hand, the Sponsorship and Patronage Policy, including the sponsorship proposals presented by the Global Sponsorships Office of Telefónica, S.A., and, on the other hand, the Corporate Social Reputation of the Telefónica Group, including the most relevant issues in terms of

Sustainability (ethical behavior, sustainable innovation, digital trust, the supply chain, talent and diversity management, customers, the environment and climate change), including Responsible Business Plans and the Integrated Annual Report.

- The most relevant institutional milestones of the Telefónica Group with regard to the Company's Institutional Relations.

#### The Strategy and Innovation Committee

The Strategy and Innovation Committee was created by the Board of Directors pursuant to the provisions of article 20.b) of its Regulations.

#### a) Composition.

The Board of Directors determines the number of members of this Committee.

The Chairman of the Strategy and Innovation Committee is appointed from among its members.

As of December 31, 2019, and on the date of this Report, the Strategy and Innovation Committee was and is composed of the following persons:

Name	Post	Category
Mr. Peter Erskine	Chairman	Other External
Mr. José María Abril Pérez	Member	Proprietary
Mr. Juan Ignacio Cirac Sasurain	Member	Independent
Mr. Jordi Gual Solé	Member	Proprietary
Mr. Peter Löscher	Member	Independent
Mr. Verónica Pascual Boé	Member	Independent

#### b) Functions.

Without prejudice to other functions that may be assigned to it by the Board of Directors, the Strategy and Innovation Committee shall have, at a minimum, the following functions:

- 1) To support the Board of Directors in the analysis and monitoring of the strategic policies of the Telefónica Group at the global level.
- 2) To advise and provide support regarding all matters related to innovation, by conducting a periodic analysis, study and follow-up of the Company's innovation projects, while also providing an opinion and support to ensure the appropriate implementation and development of the projects throughout the Telefónica Group.

#### Most important activities during the fiscal year and fulfillment of duties.

Over the course of the 9 meetings held by the Strategy and Innovation Committee during fiscal year 2019, the Committee analyzed various issues associated fundamentally with the telecommunications sector, in keeping with the strategic policy of the Telefónica Group and its business.

This Committee has also conducted a periodic follow-up of the Company's innovation projects, providing opinions and support in order to ensure their appropriate implementation and development throughout the Telefónica Group.

### The Sustainability and Quality Committee

In accordance with the amendment approved by the Board of Directors on December 18, 2019, the Sustainability and Quality Committee is now governed by the provisions of article 25 of the Regulations of the Company's Board of Directors.

#### a) Composition.

The Sustainability and Quality Committee shall consist of the number of members, all of whom shall be Directors, determined by the Board of Directors at any time. Under no circumstances shall the Committee have fewer than three members, a majority of whom must be external Directors.

The Chairman of the Sustainability and Quality Committee shall be appointed from among its members.

As of December 31, 2019, and on the date of this Report, the Sustainability and Quality Committee was and is composed of the following persons:

Name	Post	Category
Mr. Francisco Javier de Paz Mancho	Chairman	Other External
Ms. Carmen García Andrés	Member	Independent
Mr. Ignacio Moreno Martínez	Member	Proprietary
Ms. Claudia Sender Ramírez	Member	Independent

#### b) Functions.

Without prejudice to other functions that may be assigned to it by the Board of Directors, the Sustainability and Quality Committee shall have, at a minimum, the following functions:

- 1) To supervise and review the strategies and policies of the Company's Responsible Business Policy and its Customer Promise, ensuring that they are oriented toward responding to the expectations of the Company's stakeholders and toward the creation of value, and, if applicable, to propose updates and amendments to the Board of Directors.
- 2) To encourage a proactive relationship strategy with our stakeholders (customers, investors, suppliers, employees and society in general) with the aim of identifying the significant issues for the Company from the viewpoints of risk and opportunity.
- 3) To monitor the risk and impact analyses associated with the Company's Responsible Business strategy and its reputation, from the perspective of both the business and its impact on society, including, in particular, Human Rights and the Environment, as well as the legal modifications, recommendations and best business practices that may have a significant influence on the Telefónica group in terms of sustainability and reputation.
- 4) To analyze, drive and monitor the objectives, action plans and practices of the Telefónica Group with regard to social

and environmental responsibility, including aspects such as ethical behavior, human rights, the environment and climate change, responsible management of the supply chain, digital trust and responsible use of technology, talent and diversity, and sustainable innovation, as well as other issues that are identified as risks or opportunities for the company in terms of sustainability and the Customer Promise.

- 5) To monitor the strategy and practices associated with sustainability and the Customer Promise, and to evaluate its compliance through, among other things, quality indices, ESG, and assessments of reputation and sustainability, while also proposing recommendations, when appropriate, for improving the positioning of the Telefónica Group in this area.
- 6) To supervise and coordinate, in conjunction with the Audit and Control Committee, the process of reporting non-financial information in the areas of social responsibility and sustainability, including the aspects and matters described in detail in paragraphs 2), 3), and 4) above, in compliance with international benchmark standards.
- 7) Any other functions associated with the matters within its purview, as requested by the Board of Directors or by its Chairman.

With regard to these functions, and with reference to the issues pertaining to ethics and responsibility, Telefónica wishes to be a significant participant in the communities in which it operates, internalizing within its strategy and its operating methods the impacts of its activities on society and on the environment. Its purpose in this area is to make the world more human by connecting lives, which means that it must always be aware of how it can contribute toward generating a positive impact through its products and services, while taking great care to minimize any negative impacts that its activities might cause. This involves being an ethical and responsible company - a concern that is reflected in Telefónica's strategy and governance.

The Principles of Responsible Business and the Group's Responsible Business Plan reflect, respectively, the ethical framework and the sustainability roadmap, both of which are approved by the Board of Directors, as well as the Group's most relevant policies in this area (see the policies in the chapter on ethics). The Sustainability and Quality Committee also monitors the implementation of the above-mentioned Responsible Business Plan at its monthly meetings.

Furthermore, the Audit and Control Committee plays an important supervisory role in the area of ethics and sustainability, inasmuch as it oversees the Company's compliance function, the risk analysis and risk management process, and the reporting processes.

The Group's Responsible Business Plan includes goals and projects involving the ethical and responsible management of the Company; respect for human rights; the Customer Promise; commitments to privacy; freedom of expression and information; security; the ethical management of artificial intelligence and the responsible management of technology; sustainable management of the Supply Chain; the strategy for addressing Climate Change and the Environment; the

promotion of Diversity; the safety and well-being of our employees; and a business strategy focused on generating products and services that contribute toward addressing the major social and environmental challenges facing society (through sustainable innovation).

Some of the most important goals of the Responsible Business Plan are taken into account for the determination of the variable compensation of the Company's employees.

Therefore, through the Company's governance bodies, the Responsible Business Plan is presented for its:

Approval	BOARD OF DIRECTORS	
Super-vision	Sustainability and Quality Committee	Audit and Control Committee
Monitoring	The Responsible Business Office	
Implement-ation	Corporate Business and Support Areas	Country OBs

The Responsible Business Plan is monitored by the Responsible Business Office, which four times a year brings together the senior managers in the areas of Compliance, Audit, Legal Services, People, Corporate Ethics and Sustainability, Communications, Security, Procurement, Operations, Data & Analytics, Telefónica Tech and Telefónica Infra. This Office reports to the Sustainability and Quality Committee through the head of Corporate Ethics and Sustainability.

The corporate business support areas, on the one hand, and the Executive Committees of the Operators, on the other hand, handle the implementation of the goals set out in the Responsible Business Plan.

#### Most important activities during the fiscal year and fulfillment of duties.

Over the course of the 5 meetings held by the Sustainability and Quality Committee during fiscal year 2019 (bearing in mind that until December 18, matters involving Reputation, Corporate Responsibility and Sustainability were within the purview of the Regulation and Institutional Affairs Committee), the Committee analyzed the quality indices for the principal services provided by the companies within the Telefónica Group and evaluated the levels of commercial service given to customers by those companies.

Regarding the matters addressed by the Committees, and in accordance with the provisions of article 20 b) 3. of the Regulations of the Board, a full report is delivered to the Board of Directors so that it will be aware of the said matters for the exercise of its responsibilities. At the beginning of each of the monthly meetings of the Board of Directors, the Chairman of each of the Committees delivers a report on the major matters that were addressed and on the activities and tasks that were carried out by the respective Committee, making available to the Directors the corresponding documentation, so that the Directors will be aware of such activities for the purposes of the exercise of their responsibilities.

Additionally, and in the same way as the Board of Directors itself, all of the Committees prepare, at the start of each fiscal year and in accordance with the provisions of article 20 b) 3. of

the Regulations of the Board of Directors, an Action Plan that contains a detailed description of, and a schedule for, the actions to be taken in each fiscal year in each Committee's individual area of activity.

Similarly, all of the Committees prepare an Activity Memorandum (which, for the Audit and Control Committee and the Nominating, Compensation and Corporate Governance Committee, is known as the Performance Report), which summarizes the major activities and actions that were carried out during the preceding fiscal year, including the details of the matters that were examined and addressed at the meetings that were held, and emphasizing the aspects associated with their duties and responsibilities, composition and performance.

#### **Evaluation of the Board and of its Committees**

Once a year, all of the Company's Directors evaluate the performance of the Board of Directors of Telefónica, S.A., of its Committees and of the General Shareholders' Meeting.

Next, the Nominating, Compensation and Corporate Governance Committee reviews and analyzes the results of the evaluation performed by the Directors, identifying those areas that are susceptible to any measures for improvement. After a detailed examination and analysis of the results that were obtained, the Nominating, Compensation and Corporate Governance Committee proposes to the Board of Directors the implementation of the suggestions and recommendations that it considers appropriate.

Regarding fiscal year 2019, at the end of it a questionnaire was delivered to all of the Directors so that they could perform the evaluation for the said fiscal year.

This questionnaire contained numerous questions grouped in the following five sections:

- Composition, operation and responsibilities of the Board of Directors, expressly including the appropriateness of the performance of the Directors, as well as their contributions to the Board of Directors.
- Composition and operation of the Committees, expressly including the performance of the Chairmen of the Committees and their contributions to the Board of Directors.
- Performance of the Chief Executive Officer.
- Rights and Duties of the Directors.
- The General Shareholders' Meeting.
- Other matters.

At its meeting held on January 28, 2020, the Nominating, Compensation and Corporate Governance Committee reviewed and analyzed the results of this evaluation and, in general, concluded that the Directors expressed a high degree of satisfaction with the organization and activities of the aforementioned governance bodies.

Similarly, and as a result of this evaluation, certain areas for improvement were identified, in view of which, and after a detailed examination and analysis of the results that were obtained, the Board of Directors, at the proposal of the

Nominating, Compensation and Corporate Governance Committee, approved, at its meeting of January 29, 2020, the proposals for improvements that are listed below, in order to optimize the operation of the Company's Governance Bodies:

- The Board of Directors

*Composition:* In accordance with the process already initiated by the Company, continue to drive the application of the Diversity Policy, in terms of both gender and profile.

*Debate and Agenda:* In order to improve the process of reporting the activities of the Committees to the Board of Directors, analyze the possibility of condensing this report and making it more concise.

- The General Shareholders' Meeting: In order to optimize the development of the General Shareholders' Meeting in terms of participation and discussions, continue working on the implementation of the most appropriate methods and actions.
- Training: Similarly, and taking into account the upcoming entry into force of regulations that might affect the Corporate Governance system or other systems (such as the Shareholder Guidelines, Related-party Transactions, the MAR development regulations, Sustainability, Technologies, etc.), work to develop and implement the training actions that are deemed appropriate.

With respect to the 2018 financial year, the Appointments, Compensation and Corporate Governance Committee, at its meeting held on 19 February 2019, reviewed and analysed the results of the evaluation of the Board of Directors, its Committees and the Company's General Meeting, concluding that the directors had expressed a high degree of satisfaction with the organisation and activities carried out by the aforementioned governing bodies and officers.

As a result of this evaluation, the following proposals for improvement were approved:

- i) Continue with the implementation of measures and actions that facilitate the smooth operation of the General Shareholders' Meeting.
- ii) Continue with the process of analysing the composition of the Board of Directors with regard to succession plans and with the application of the Diversity Policy.
- iii) Evaluate the inclusion on the Agenda of the Board of Directors and the Executive Committee of more presentations related to the strategy, so that they can be debated.

It should be noted that, in accordance with the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Board Members, at least once every three years the Board of Directors shall conduct the evaluation with the assistance of an external consultant, whose independence shall be verified by the Nominating, Compensation and Corporate Governance Committee

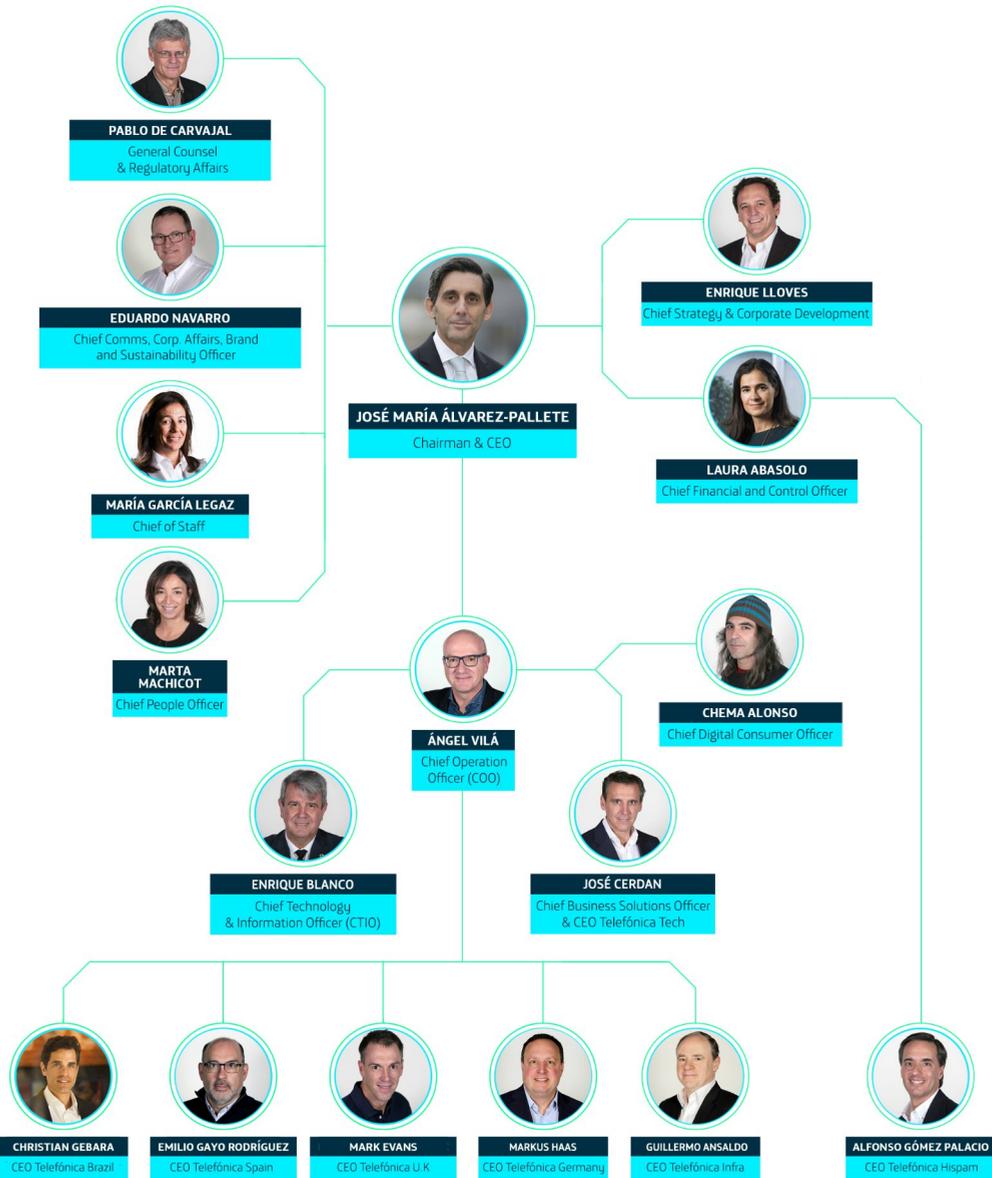
Thus, the evaluation of the Board of Directors for the year 2017 was carried out by the External Advisor, Villafañe & Asociados Consultores.

For its part, the evaluations of the Board of Directors corresponding to the 2019 and 2018 financial years were carried out internally by the Company, without the assistance of an External Advisor.

### 4.4.2. Management Team

As regards the Company's Executive Committee, its composition as of 31 December, 2019 is shown below.

#### TELEFÓNICA'S EXECUTIVE COMMITTEE



## 4.5. Transactions with Related Parties and Conflicts of Interest

### 4.5.1. Transactions with Related Parties

- **The procedure for approval of related-party and intragroup transactions**

The Article 5 of the Regulations of the Board of Directors includes a number of powers of the Board which cannot be delegated, including the following:

The approval, based on a favorable report by the Audit and Control Committee, of the transactions which the company carries out with directors, significant shareholders or representatives on the board, or related parties.

Also, as set forth in Article 30.f) of the Regulations of the Board of Directors, Directors shall not directly or indirectly enter into professional or commercial transactions with the Company or with any of the companies of the Group, if such transactions are unrelated to the ordinary course of business of the Company or not performed on an arm's length basis, unless the Board of Directors is informed thereof in advance and, on the recommendation of the Audit and Control Committee, it approves the transaction upon the affirmative vote of at least 90% of the Directors (present in person or by proxy).

Also, the Article 38 of the Regulations of the Board of Directors specifically regulates transactions performed with significant shareholders, and establishes that the Board of Directors, based on a favorable report by the Audit and Control Committee, will approve the transactions which the Company or its Group perform with directors, individual or together with others, of a significant shareholding, including shareholders represented in the Board of Directors of the Company or other Group companies or with persons related to them, unless this power is attributable by law to the General Shareholders Meeting.

Directors affected or which represent or which are related to affected shareholders will have to refrain from taking part in the deliberation and voting on the resolution in question.

This approval does not include transactions which, according to prevailing laws, do not require such approval or exemption, i.e. according to Article 529 ter of the Spanish Corporations Act, the transactions which simultaneously fulfill the three following requirements:

- 1.º they are performed by virtue of contracts whose conditions are standardized and are applied on an across-the-board basis to a large number of clients,
- 2.º they are performed at prices or tariffs generally set by the person supplying the goods or services, and
- 3.º their amount is not more than one per cent of the company's annual revenues.

The transactions referred to above shall be assessed from the point of view of equal treatment of shareholders and the arm's-length basis of the transaction, and shall be included in the Annual Corporate Governance Report and in the periodic public information of the Company upon the terms provided by law.

For the transaction to be approved, it will be necessary to ensure that the transaction does not compromise the capital, or, if applicable, that it is performed on an arm's-length basis and that the process is transparent.

Only where there are imperative grounds of urgency, duly justified, decisions mentioned above could be adopted by delegated bodies or persons, and subsequently ratified by the Board of Directors (Article 5.5 of the Regulations of the Board of Directors).

During fiscal year 2019 neither Telefónica, S.A. nor any company in its Group has carried out transactions with any member of the Board of Directors or with any member of senior management other than those derived from the Group's ordinary business or traffic.

The significant and relevant transactions carried out by companies of the Telefónica Group with related parties are included in Note 11 (Related Parties) of the Consolidated Annual Accounts of Telefónica, S.A. corresponding to fiscal year 2019. Likewise, transactions with associated companies and joint ventures are described in Note 10 ("Associates and joint ventures") of the aforementioned Consolidated Annual Accounts.

### 4.5.2. Conflicts of Interest

Company policy establishes the following principles governing possible conflicts of interest that may affect directors, senior executives or significant shareholders:

- With respect to Directors, Article 30 of the Regulations of the Board of Directors establishes that Directors shall inform the Board of Directors of any situation of direct or indirect conflict they may have with the interest of the company. In the event of conflict, the Director affected shall refrain from participating in the transaction to which the conflict refers.

Moreover, and in accordance with the provisions set out in the Regulations of the Board, Directors shall refrain from participating in votes that affect matters in which they or persons related to them have a direct or indirect interest.

Likewise, the aforementioned Regulations establish that Directors shall not directly or indirectly enter into professional or commercial transactions with the Company or with any of the companies of the Group, if such transactions are unrelated to the ordinary course of

business of the Company or not performed on an arm's length basis, unless the Board of Directors is informed thereof in advance and, on the recommendation of the Audit and Control Committee, it approves the transaction upon the affirmative vote of at least 90% of the Directors (present in person or by proxy).

Directors must also report with respect to themselves as well as the persons related thereto (a) the direct or indirect interests held by them and (b) the offices held or duties performed at any company that is in a situation of actual competition with the Company.

For purposes of the provisions of this paragraph, the following shall not be deemed to be in a situation of actual competition with the Company, even if they have the same or a similar or complementary corporate purpose: (i) companies controlled thereby (within the meaning of Article 42 of the Commercial Code); and (ii) companies with which Telefónica, S.A. has established a strategic alliance. Likewise, for purposes of the provisions hereof, proprietary directors of competitor companies appointed at the request of the Company or in consideration of the Company's interest in the capital thereof shall not be deemed to be in a situation of prohibition of competition.

Transactions arising from the duty of loyalty and its exemption regime shall also be subject to prevailing laws.

- Also, Article 38 of the Regulations of the Board of Directors specifically regulates transactions performed with significant shareholders, and establishes that the Board of Directors, based on a favorable report by the Audit and Control Committee, will approve the transactions which the Company or its Group perform with directors, individual or together with others, of a significant shareholding, including shareholders represented in the Board of Directors of the Company or other Group companies or with persons related to them, unless this power is attributable by law to the General Shareholders Meeting.

Directors affected or representing or linked to affected shareholders must refrain from participating in the deliberation and in votes of the agreement.

This approval does not include transactions which, according to prevailing laws, do not require such approval or exemption, i.e. according to Article 529 ter of the Spanish Corporations Act, the transactions which simultaneously fulfill the three following requirements:

- 1.º they are performed by virtue of contracts whose conditions are standardized and are applied on an across-the-board basis to a large number of clients,
- 2.º they are performed at prices or tariffs generally set by the person supplying the goods or services, and
- 3.º their amount is not more than one per cent of the company's annual revenues.

The transactions referred to above shall be assessed from the point of view of equal treatment of shareholders and

the arm's-length basis of the transaction, and shall be included in the Annual Corporate Governance Report and in the periodic public information of the Company upon the terms provided by law.

For the transaction to be approved, it will be necessary to ensure that the transaction does not compromise the capital, or, if applicable, that it is performed on an arm's-length basis and that the process is transparent.

- With respect to senior executives, the Internal Code of Conduct for Securities Markets Issues sets out the general principles of conduct for the persons subject to the said regulations who are involved in a conflict of interest. The aforementioned Code includes all the Company's management personnel within the concept of affected persons.

In accordance with that established in this regulation, the people with management responsibilities, their administrative personnel and the managers or employees of Telefónica Group who have privileged information, or participate or have access to or knowledge of a confidential operation (as defined in the previous terms of the internal conduct regulations regarding Stock Markets) have the obligation to (a) remain loyal to the Group and its shareholders at all times, regardless of his/her own or other's interests; (b) refrain from intervening in or influencing decision making that could affect persons or companies with which there is conflict; and (c) refrain from accessing information classified as confidential that affects said conflict. Additionally, these people (except for the members of the Company Board of Directors who will be governed in terms of communicating conflicts under the standards established in the regulation of the Board of Directors) have the obligation to make the Company Regulatory Compliance Unit aware of these situations, as soon as possible, that would potentially entail the manifestation of conflicts of interest because of its activities outside the Telefónica Group, its family relationships, its personal assets or any other reason with: (a) financial intermediaries operating with the Group Telefónica; (b) professional or institutional investors who have a significant relationship with the Group Telefónica; (c) suppliers of significant equipment or material; or (d) professional service providers or External Advisors.

Telefónica, S.A. is the only company of the Telefónica Group that is listed in Spain, so it is not necessary to have defined the specific mechanisms that would be applied to resolve possible conflicts of interest with subsidiaries listed in Spain.

## 4.6. Remuneration

### Remuneration of Directors of Telefónica, S.A.

This section and section 4.9.2 below constitute the Annual Report on Remuneration of Directors of Telefónica, S.A., which must be prepared and submitted to the General Shareholders' Meeting for a consultative vote. This Report, in previous years, has been published separately, being offered this year as part of the Annual Corporate Governance Report.

#### 4.6.1. PRINCIPLES OF THE REMUNERATION POLICY

At the General Shareholders' Meeting held on 8 June 2018, Telefónica, S.A. ("Telefónica" or the "Company") submitted a directors' remuneration policy for a valid term encompassing

2019, 2020 and 2021 (hereinafter referred to as the "Remuneration Policy"). The Remuneration Policy maintains the essential principles applied in the previous financial years and was approved by the General Shareholders' Meeting with 88.45% of the votes cast.

The main focus of Telefónica's Remuneration Policy is to attract, retain and motivate professionals for the Company, enabling it to achieve its strategic targets within the highly competitive and globalised setting in which it performs its business, by applying the most appropriate measures and practices for such purpose.

Based on the foregoing, the following are the principles of the Remuneration Policy:

		Executive Directors	Non-Executive Directors
<b>Value creation</b>	Alignment with the shareholders' interests and the aim of sustainably creating value over time.	•	
<b>Pay for Performance</b>	A significant part of the total remuneration for the Executive Directors is variable and receiving it is subject to achieving financial, business, value creation and ESG targets that are predetermined, specific, quantifiable, and aligned with the Company's corporate plan.	•	
<b>Flexibility</b>	The variable remuneration is not guaranteed and is sufficiently flexible so that there is a possibility of not paying this component.	•	
<b>Competitiveness</b>	In order to ensure the Company has the best professionals on board, the remuneration package must be competitive, both in its structure and its overall amount, with respect to other comparable companies at an international level.	•	•
<b>Good Governance</b>	When determining the remuneration for the Directors, the Company takes into consideration the developments taking place in regulations, best practices and national and international recommendations and trends related to the remuneration of Directors of companies listed on the stock market.	•	•
<b>Fair Pay</b>	The professional value, experience, time spent and responsibility of each director is sufficiently remunerated, ensuring that the remuneration policies and practices guarantee there is no discrimination for any reason (among others, due to gender, age, culture, religion and/or race).	•	•
<b>Suitability</b>	The amounts are sufficient to remunerate the qualifications, time spent and responsibility of the Directors, guaranteeing their required loyalty and allegiance to the Company, without compromising the independence of the Non-Executive Directors.		•
<b>Transparency</b>	The level of transparency in relation to remuneration is in line with the best corporate governance practices in order to create trust among stakeholders, including shareholders and investors.	•	•

For further information, the Remuneration Policy can be downloaded [here](https://www.telefonica.com/documents/162467/142439447/director-remuneration-policy.pdf/791e8f42-4857-05f9-29ee-a4669bfb2dfe): [https://www.telefonica.com/documents/162467/142439447/director-remuneration-policy.pdf/791e8f42-4857-05f9-29ee-a4669bfb2dfe]

In addition, in order to determine the remunerative terms and conditions for the Executive Directors, the remunerative system applicable to the Company's employees has been taken into account, as follows:

- The Remuneration Policy for the Executive Directors is aligned with the policy for the other employees, being remunerated for the value they contribute to Telefónica and it shares the same principles.

- The elements included in the Directors' remuneration for their executive duties are aligned with the elements included in Telefónica's senior executive group remuneration package.

Section 7 in Telefónica's Remuneration Policy provides further information in this respect.

## 4.6.2. WHAT WE DO

### EXECUTIVE DIRECTORS

- Linking the payment of the remuneration to the Company's results ("pay for performance").
- The weighting of the quantitative metrics to which the variable remuneration is linked is currently 80%.
- The remuneration is aligned with the interests of the shareholders and the society as a whole, since a part of the annual variable remuneration is linked with customer trust and ESG (Environmental, Social and Governance) targets.
- Long-Term Incentive Plans:
  - A minimum performance period of three years for the targets.
  - Payment in shares.
  - Linked to metrics aligned with Telefónica's long-term strategic targets.
  - Holding of part of the awarded shares for a certain term.
- Shareholding equivalent of two times the fixed remuneration.
- As part of the process of assessing the variable remuneration, the Nominating, Compensation and Corporate Governance Committee considers the quality of long-term results and any associated risk.
- Recurring external advice for the purpose of considering market practices as an additional factor to be taken into account in the process of adopting decisions on the Policy's design.
- There is no guaranteed variable remuneration.
- Non-discrimination is guaranteed regarding remuneration for any reason (among others gender, age, culture, religion or race). Telefónica's staff are remunerated based on their professional merit, skills, experience, time spent and the responsibility they undertake.

### NON-EXECUTIVE DIRECTORS

- Remuneration is determined in accordance with the responsibilities and duties undertaken by each Director but without compromising the members' independence.
- The Non-Executive Directors are not included in the remuneration formulae or systems linked to the individual or Company's performance.
- The Non-Executive Directors are not paid in shares, options, stock options or any share linked instruments.
- The Non-Executive Directors do not participate in any long-term savings systems, such as retirement plans, pension plans and any other welfare systems.

## 4.6.3. THE PROCESS FOR DETERMINING THE REMUNERATION POLICY AND THE COMPANY'S BODIES INVOLVED

The Nominating, Compensation and Corporate Governance Committee, the duties of which are stipulated in Article 40 of the Articles of Association, Article 23 of the Board of Directors' Regulations and Article 4 of the Nominating, Compensation and Corporate Governance Committee's Regulations, plays a crucial role in defining the Telefónica Group's Remuneration Policy and in developing and deciding on its elements; however the most important decisions must be approved by the Board of Directors.

The Committee's mandate, within the scope of remuneration consists of continuously reviewing and updating the remuneration system applicable to Directors and Senior Executive Officers and designing new remuneration plans that enable the Company to attract, retain and motivate the most outstanding professionals, aligning their interests with the Company's strategic targets.

In addition, other bodies and external advisors take part in the process of determining the Remuneration Policy.

The functions performed by the various company bodies involved in determining and approving the Remuneration Policy and its conditions are explained below, with a reference to the involvement of external advisors in this matter:

	Determining and designing the remuneration elements	Applying the variable remuneration	Analysis of the external competitiveness of the remuneration
<b>General Shareholders' Meeting</b>	<p>It approves the Remuneration Policy at least every three years as a separate item on the agenda.</p> <p>It approves the maximum amount of the annual remuneration for all the Directors.</p> <p>It approves the variable remuneration systems for the Directors that include payment in shares or stock options or share-linked instruments.</p> <p>It has an advisory vote on the Annual Report about the Directors' Remuneration, detailing the remuneration accrued during the last financial year.</p>	<p>Advisory vote on the Annual Report on the Directors' Remuneration, in which the remuneration payable during the financial year is stated.</p>	
<b>Board of Directors</b>	<p>Directors in their capacity as such: They approve the allocation of the maximum amount approved by the General Shareholders' Meeting among the various items.</p> <p>Executive Directors: They approve the fixed remuneration and the main terms and conditions of the short- and long-term variable remuneration system.</p> <p>The Board approves adaptations or updates to the Remuneration Policy.</p> <p>It approves the contracts that regulate the functions and responsibilities of the Executive Directors.</p> <p>It approves the Annual Report on the Directors' Remuneration to be submitted to the advisory vote of the General Shareholders' Meeting.</p>	<p>It approves the design, target amounts, the level the targets are achieved and the amounts of the incentive payable, if any, both for the short- term and long-term variable remuneration of the Executive Directors, based on a proposal made by the Nominating, Compensation and Corporate Governance Committee.</p> <p>It approves the Annual Report on Directors' Remuneration to be submitted to the advisory vote of the General Shareholders' Meeting.</p>	<p>It is reported based on an analysis and remuneration studies of the Directors' remuneration conducted by the Nominating, Compensation and Corporate Governance Committee.</p>
<b>Nominating, Compensation and Corporate Governance Committee</b>	<p>Directors in their capacity as such: They propose the allotment of the maximum amount to the Board of Directors approved by the General Shareholders' Meeting, among the various items.</p> <p>The Committee reviews the remuneration of Directors on a regular basis to ensure that it is appropriate for the duties they perform.</p> <p>Executive Directors:</p> <ul style="list-style-type: none"> <li>They propose the fixed remuneration for the Executive Directors to the Board of Directors considering, among other factors, their level of responsibility and leadership within the organisation, promoting the retention of key staff, attracting top talent and creating sufficient economic independence to ensure balance with the significance of other items included in the remuneration.</li> <li>They review, on an annual basis, the terms and conditions for the variable remuneration, including the structure and maximum levels of remuneration, the targets set and the weighting of each of them, taking into account the Company's strategy, needs and business situation. These conditions are subject to the approval of the Board of Directors.</li> <li>They propose the contracts to the Board of Directors that regulate the functions and responsibilities of the Executive Directors.</li> <li>They propose the Annual Report on the Directors' Remuneration and the Remuneration Policy, when appropriate, to the Board of Directors.</li> </ul> <p>When carrying out these actions, the Nominating, Compensation and Corporate Governance Committee takes into account the votes of the shareholders at the General Shareholders' Meeting at which the Annual Report on the Directors' Remuneration for the previous year was submitted, in a consultative manner.</p>	<p>It proposes the targets at the beginning of each measurement period to the Board of Directors.</p> <p>It assesses achievement of the targets at the end of the measurement period. This assessment is carried out on the basis of the results audited by the Company's external and internal auditor, which are first analysed by the Audit and Supervisory Committee, as well as the level of achievement of the targets. In this respect, for the purpose of ensuring that there is an effective relation between the variable remuneration and the professional performance of the recipients thereof, any positive or negative economic impact caused by extraordinary events that could distort the findings of the assessments are disregarded.</p> <p>It proposes to the Board of Directors the variable remuneration payable to the Executive Directors. Such proposal also considers the long-term results and any associated risk in the proposed variable remuneration.</p> <p>It proposes the Annual Report on Directors' Remuneration and, when appropriate, the Remuneration Policy to the Board of Directors.</p>	<p>It regularly reviews the Directors' remuneration. This process includes an external competitive remuneration analysis and also takes into account the Remuneration Policy for the executives and other employees in the organisation.</p> <p>A reference market, selected based on a series of objective standards, is considered for conducting the external competitiveness analysis, according to the terms set out below:</p> <ol style="list-style-type: none"> <li>A sufficient number of companies are selected to obtain results that are representative and statistically reliable and sound.</li> <li>Data on size (turnover, assets, market capitalisation and number of employees) are considered so that Telefónica is positioned at the median of the comparison group.</li> <li>Geographic distribution: Mainly companies with their parent company located in Continental Europe and in the United Kingdom are included, as well as representative North American enterprises in the technology, media and entertainment sectors that are benchmarks for the Company.</li> <li>Geographic scope: Companies are included that operate at an international level.</li> <li>Distribution by sector: It is a multi-sector sample, with homogeneous distribution among the business sectors.</li> </ol>

	Determining and designing the remuneration elements	Applying the variable remuneration	Analysis of the external competitiveness of the remuneration
<b>Audit and Supervisory Committee</b>		It analyses the profits and losses audited by the external and internal auditor to evaluate achievement of the targets for the variable remuneration.	
<b>Planning and Control, Corporate Ethics and Sustainability Human Resources</b>		They draw up reports related to the achievement level of the operative, financial and non-financial targets based on the results audited by the Company's external and internal auditor.	
<b>Secretary General</b>	<p>This person draws up formal documents related to the Remuneration Policy to be submitted to the General Shareholders' Meeting, the Board of Directors, the Executive Committee and/or the Advisory or Supervisory Committees.</p> <p>Together with HR Management, it prepares the Annual Report on the Directors' Remuneration.</p>	Together with HR Management, it prepares the Annual Report on Directors' Remuneration.	
<b>Human Resources</b>	<p>It draws up the proposals related to the design of the Remuneration Policy applicable to the Executive Directors.</p> <p>Together with the General Secretary, it prepares the Annual Report on the Directors' Remuneration.</p>	Together with General Secretary, it prepares the Annual Report on Directors' Remuneration.	
<b>External Advisors in 2019</b>	<p>Willis Towers Watson advised on drawing up the Annual Report on the Directors' Remuneration for 2019.</p> <p>Moreover, the law firms Uría Menéndez and Garrigues took part in the review of the aforementioned report.</p>	<p>Mercer-Kepler analyses the level of achievement of the Total Shareholder Return (TSR) of Telefónica for each of lifecycles of the share plan on a quarterly basis.</p>	<p>Willis Towers Watson provided advice on the comparative analysis of the market for the Directors' and the Senior Executives' remunerative package.</p>

#### 4.6.4. THE WORK PERFORMED BY THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Pursuant to Article 40 of the Articles of Association, Article 23 of the Board of Directors' Regulations and Article 1 of the Nominating, Compensation and Corporate Governance Committee's Regulations, the Committee must be composed of no fewer than three Directors appointed by the Board of Directors; they must be external or Non-Executive Directors and the majority of them must be independent Directors. It is also stated that the Chairperson of this Committee must be an independent Director in all cases.

In this respect, the Committee is composed of the following directors:

Name	Position	Type	Date of Appointment
D. José Javier Echenique Landiribar	Chairman	Independent	4 May 2017 (as a member) 18 December 2019 (the date he was appointed as Chairman)
D. Peter Erskine	Member	Other External Director	27 February 2008
D <sup>a</sup> Sabina Fluxà Thienemann	Member	Independent	27 April 2016
D <sup>a</sup> María Luisa García Blanco	Member	Independent	18 December 2019
D. Francisco Javier de Paz Mancho	Member	Other External Director	8 April 2016 (Chairman until 18 December 2019)

The Nominating, Compensation and Corporate Governance Committee applies the Technical Guide 1/2019 on Appointment and Remuneration Committees, approved by the National Securities Market Commission (CNMV) on 20 February 2019.

During the financial year 2019 and up to the date this report was approved, the most significant activities carried out by the Nominating, Compensation and Corporate Governance Committee within the scope of remuneration have been the following:

##### Year 2019:

- Drawing up an Annual Work Plan for 2019 in order to ensure suitable planning to guarantee the targets sought are effectively achieved by the Committee.
- Evaluation of the fulfilment of targets linked to the annual variable remuneration of Executive Directors for the financial year 2018 (payable in 2019).
- Drawing up a Regulation of the functioning of the Committee, in line with the CNMV recommendations included in its Technical Guide 1/2019.

- Analysis of the Executive Directors' total remuneration for 2019.
- Analysis of the total remuneration for the members of the Executive Committee in 2019.
- Proposal for determining and monitoring the targets linked to the annual variable remuneration of Executive Directors for the financial year 2019.
- Allocation of shares corresponding to the second cycle of the Long-Term Incentive Plan 2018-2023.
- Review and analysis of the proposal of the HR Management of Telefónica, S.A., regarding the launch of the Global Stock Option Plan for the shares of Telefónica, S.A. (GESP) for the employees in the Telefónica Group.
- Analysis of the organisational structure of the Telefónica Group and other issues related to the staff, such as gender diversity or different policies applicable to the Executives and employees.
- Proposal regarding the 2018 Annual Report on the Directors' Remuneration to be submitted to the Board of Directors and subsequently submitted to the Ordinary General Shareholders' Meeting held in 2019.

**Year 2020** (until the date this report was approved, on 19 February 2020):

- Analysis of the Executive Directors' total remuneration for 2020.
- Analysis of the total remuneration for the members of the Executive Committee for 2020.
- Evaluation of the achievement of targets linked to the annual variable remuneration of Executive Directors for the financial year 2019 (payable in 2020).
- Proposal for determining and monitoring of the targets linked to the annual variable remuneration of Executive Directors for the financial year 2020.
- Proposal regarding the 2019 Annual Report on the Directors' Remuneration, to be submitted to the Board of Directors and subsequently submitted to the Ordinary General Shareholders' Meeting held in 2020.

In order to better fulfil its duties, the Nominating, Compensation and Corporate Governance Committee can request the Board of Directors to hire legal, accounting and financial advisors and other experts at the Company's expense. In this respect, Willis Towers Watson provided advice on the design of this Annual Report on Directors' Remuneration. Likewise, the law firms Uría Menéndez and Garrigues have taken part in the review thereof.

**4.6.5. REMUNERATION POLICY OF TELEFÓNICA APPLICABLE IN 2020**

Telefónica regularly conducts a reflection process of the Remuneration Policy in force, in which it considers both internal and external factors:

- Internal factors: The results obtained by the Group, the short- and long-term targets, their link to the strategic and sustainability plan, as well as their alignment with the general remuneration policy for the Company's employees.
- External factors: The recommendations received in the involvement process that Telefónica regularly conducts with shareholders, market practices of relevant companies for Telefónica due to being competitors or due to their business or talent and companies considered high performers and general corporate governance recommendations at an international level.

After such analysis was conducted, it was shown that no changes needed to be made to the guidelines determined in the Remuneration Policy in force (approved with 88.45% of the votes cast at the General Shareholders' Meeting held on 8 June 2018).

Therefore, no differences are planned compared with the Policy applied in 2019, as explained in section 4.6.8 below.

In relation to the next Annual General Meeting, the Board of Directors will not submit any modifications to the Remuneration Policy approved on the 8<sup>th</sup> of June of 2018.

**4.6.6. THE EXECUTIVE DIRECTORS' REMUNERATION IN 2020**

As specified above, as of the date of this Report, the Executive Directors of Telefónica, S.A. are Mr. José María Álvarez-Pallete López, Executive Chairman, and Mr. Ángel Vilá Boix, Chief Operating Officer/C.O.O. ("*Consejero Delegado*").

**Pay for performance and pay mix**

The remunerative system for Telefónica's Executive Directors is characterised by its competitiveness and high demands. The variable remuneration, which is designed to incentivise achievement of the Company's short- and long-term targets, is one of the fundamental pillars of this system.

In this respect, Telefónica's long-term strategy is based on the following three basic pillars, which are linked to the variable remuneration of Telefónica's whole human team:

- (i) **Growth**, in the form of Operational Revenue and Total Shareholders Return;
- (ii) **Efficiency**, through improving the Operative Income Before Depreciations and Amortisations (OIBDA) margin and generating Free Cash Flow;
- (iii) **Trust**. Telefónica is a company that is fully committed to the sustainability. For such purpose, factors are weighted such as customer trust, society trust, gender diversity or contributing to the fight against climate change.

Receiving the Annual Variable Remuneration is linked to achieving certain financial and business operational targets linked to growth and efficiency, as well as a series of non-financial targets linked to customer trust and ESG. Moreover, the long-term variable remuneration is linked to the value creation in the Telefónica Group in the medium- and long-term by measuring the growth in the total shareholders return and economic financial targets:

	GROWTH		EFFICIENCY		TRUST	
	Operating Revenue	Total Shareholder Return	OIBDA	Free Cash Flow	Customer Trust (NPS & GAP/NPS)	Society Trust (ESG Factors, Climate Change, Gender Diversity & Gender Diversity (in Women on Executive roles))
Short-Term Variable Pay	X		X	X	X	X
Long-Term Variable Pay		X		X		

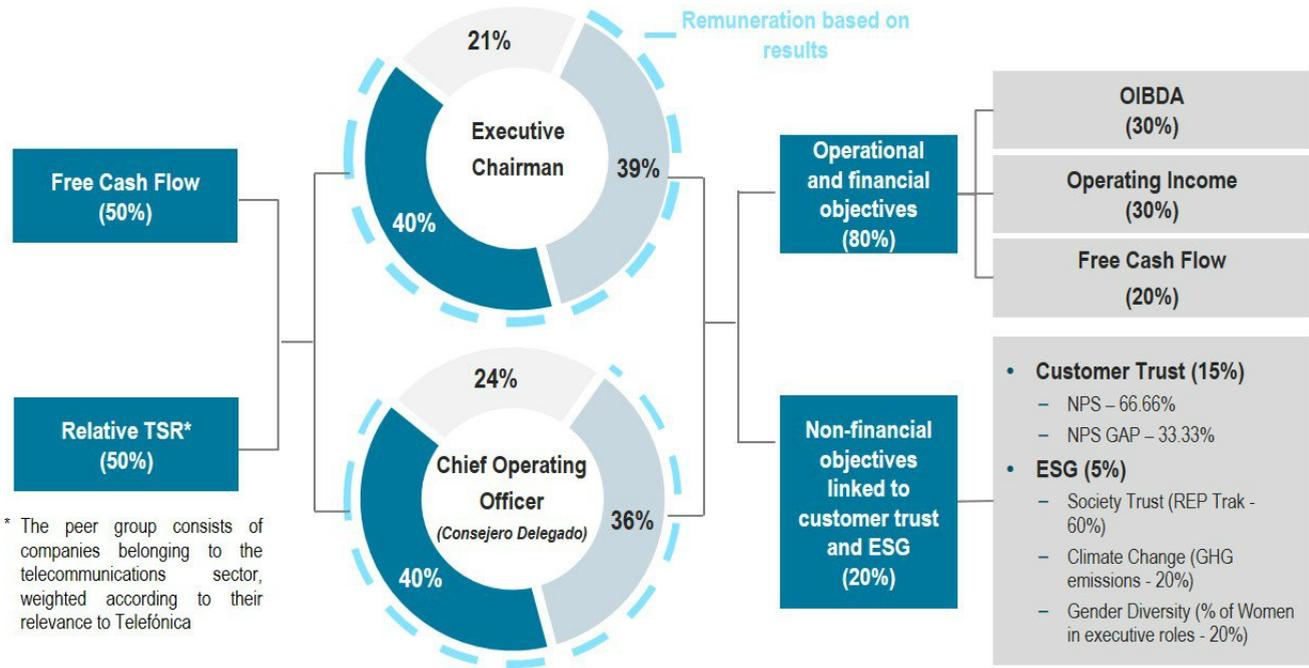
All the targets are predetermined, specific, quantifiable and aligned with Telefónica's strategic goals, strictly determined and assessed by the Nominating, Compensation and Corporate Governance Committee, which monitors them, so that their alignment with Telefónica's social interests is ensured.

The Executive Directors benefit from a fully flexible variable remuneration system that implies no amount is paid to them for this item if they do not meet the minimum achievement thresholds. The short- and long-term variable remuneration percentage may become relevant if the maximum target is achieved. In any case, such percentage of their total remuneration (considering, for such purpose, the sum of the Fixed Remuneration, Annual Variable Remuneration and the annualised long-term incentive) may not exceed 85%.

The pay mix for Telefónica's Executive Directors is shown below, bearing in mind a situation in which the stipulated targets are achieved:

2020 Remuneration scheme for Executive Directors

In Telefónica, the remuneration based on results has a significant weight in the total remuneration (paymix in case of 100% achievement of objectives or target level)



\* The peer group consists of companies belonging to the telecommunications sector, weighted according to their relevance to Telefónica

■ Fixed Remuneration ■ Annual Variable Remuneration ■ Long Term Incentive in Shares\*

\*Since the allocation of shares of the third cycle within the 2020-2023 long-term incentive plan has not been made yet, the pay mix reflects the allocation made last year for the second cycle 2019-2022

Components of the remuneration package in 2020:

The elements included in the Executive Directors' remuneration package for performing their executive duties are the following:

A. FIXED REMUNERATION

Purpose:

Suitable compensation for performing their executive duties according to the level of responsibility, leadership and performance within the organisation, promoting the retention of key staff and attracting top talent and creating sufficient economic independence to balance the significance of other remunerative items.

Amount:

No increases of the Executive Directors' fixed remuneration are expected during 2020.

Executive Chairman: €1,923,100.

This remuneration is the same as the amount paid since 2016, and it was determined for his position as Chief Executive Officer and remained the same after his appointment as Chairman in the referred 2016 year. This remuneration is 13.8% lower than the one determined for the position of Executive Chairman prior to his appointment as such.

Chief Operating Officer ("Consejero Delegado"): €1,600,000.

This remuneration is the same as the amount paid when Mr. Vilá was appointed as a Chief Operating Officer ("Consejero Delegado") of the Company on 26 July 2017.

Functioning:

The annual gross fixed remuneration is paid on a monthly basis. This remuneration is determined by the Board, according to a proposal of the Nominating, Compensation and Corporate Governance Committee, in a manner consistent with the level of responsibility and leadership within the organisation, encouraging the retention of key professionals and attracting top talent, and providing sufficient economic independence to balance the importance of other remunerative items.

This remuneration may be adjusted every year depending on the criteria approved from time to time by the Nominating, Compensation and Corporate Governance Committee. The maximum annual increase may not exceed 10% of the gross annual salary in the previous year. In certain situations, such as a change in responsibility, development of the duties and/or special needs for retention and motivation, the Committee may decide to apply higher increases. The underlying reasons will be explained in the relevant Annual Report on the Directors' Remuneration.

**B. ANNUAL VARIABLE REMUNERATION****Purpose:**

Rewarding the achievement of a combination of financial, business operations related to customer trust and ESG targets that are pre-determined, specific, quantifiable and aligned with the social interest and Telefonica's strategic targets.

**Amount:**

Target Amount (this is reached when 100% of the pre-determined targets have been achieved):

- Executive Chairman: 180% of the Fixed Remuneration.
- Chief Operating Officer: 150% of the Fixed Remuneration.

Maximum Amount (this is reached when the pre-determined targets are achieved at the maximum level):

- Executive Chairman: 233.10% of the Fixed Remuneration (129.5% of the target).
- Chief Operating Officer: 194.25% of the Fixed Remuneration (129.5% of the target).

The target and maximum amounts are the same as for 2018 and 2019.

**Metrics:**

For the financial year 2020, the Appointment, Compensation and Good Governance Committee has reviewed the targets, metrics and performance scales to be applied in order to ensure fulfilment of the Telefónica Group's Strategic Plan. As a result, the Board of Directors has selected the quantifiable and measurable metrics that best reflect the Telefónica Group's value creation levers, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee. These metrics and their relevant weight are as follows:

- 80% of the targets are operational and financial:
  - 30% of the targets are linked to the OIBDA, which reflects both the Group's growth and development in operational execution.
  - 30% of the targets are linked to the Operating Revenue, which enables the Telefónica Group's growth to be measured.

- 20% of the objectives is linked to the Free Cash Flow, whose generation enables the decrease of the debt.
- The remaining 20% is linked to non-financial targets related to the customer trust and ESG targets, aligned with the Company's Strategic Plan:
  - 15% of the targets is linked to Customer Trust, not only related to Telefónica but also in relative terms compared with our competitors:
    - NPS - 66,66%
    - GAP NPS - 33,33%
  - 5% of the targets is linked to the following ESG targets: Society Trust, Diversity and Climate Change:
    - Society Trust (REP Trak - 60%).
    - Climate Change (GHG Emissions - 20%).
    - Gender Diversity (% of Women in executive roles - 20%).

**Functioning:**

The aforementioned targets are approved by the Board of Directors at the beginning of each financial year, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee.

The maximum level of the Annual Variable Remuneration target in 2020 remains at 129.5% in the case of the maximum achievement of the pre-determined targets.

For the purpose of calculating the payment coefficient obtained for each level of target achievement, a performance scale is determined for each metric, which includes a minimum threshold below which no incentive is paid. In the case of 100% achievement of the target set, the target Annual Variable Remuneration will be paid and, in the case of maximum achievement of the targets the maximum Annual Variable Remuneration will be payable.

Information is provided below in greater detail about the scales for achieving each of the targets and how the stipulated maximum is achieved:

METRICS	TYPE OF METRIC	WEIGHTING (%)	PAY LEVELS (% of target)			% OF MAXIMUM WEIGHTED
			Minimum	Target	MAXIMUM	
OIBDA	Financial	30%	50%	100%	140%	42%
Operating income		30%	50%	100%	125%	37,5%
Free Cash Flow		20%	50%	100%	125%	25%
<b>Objectives linked to Customer Trust and ESG</b> Customer Trust (NPS / GAP NPS), Society Trust (REP Trak), Climate Change (GHG emissions), Gender Diversity (% of Women in executive roles)	Non-financial	20%	50%	100%	125%	25%
						<b>129.5%</b>

In order to calculate the amount of the Annual Variable Remuneration, the Nominating, Compensation and Corporate Governance Committee firstly considers the level of achievement and weighting of each target on an individual basis and then the overall level of achievement of the targets as a whole. For such purpose, it applies the internal target assessment rules and procedures set out by the Company for its executives. When conducting this assessment, the Committee is supported by the Audit and Supervisory Committee, which provides information about the audited results by the external auditor of the Company (PRICEWATERHOUSECOOPERS AUDITORES, S.L.) and by the internal audit. The Committee also considers any associated risk for both setting the targets and assessing their achievement.

In this respect, any positive or negative economic effects caused by extraordinary events that could distort the findings of the assessment are disregarded and the long-term quality of the results and any associated risk are considered in the proposed Annual Variable Remuneration.

The Annual Variable Remuneration is fully paid in cash provided the targets set for this purpose have been achieved.

Moreover, the Nominating, Compensation and Corporate Governance Committee is authorised to propose to the Board of Directors to fully or partially cancel payment of the annual variable remuneration if certain unforeseen circumstances arise, as described in section 4.6.6 of this Report.

	Target Incentive (% Fixed remuneration)	% of maximum weighted	Maximum Incentive (% Fixed remuneration)
<b>Executive Chairman</b>	180%	129,5%	233,10%
<b>Chief Operating Officer</b> (Consejero Delegado)	150%		194,25%

**C. LONG-TERM INCENTIVE PLAN 2018-2023**

**Purpose:**

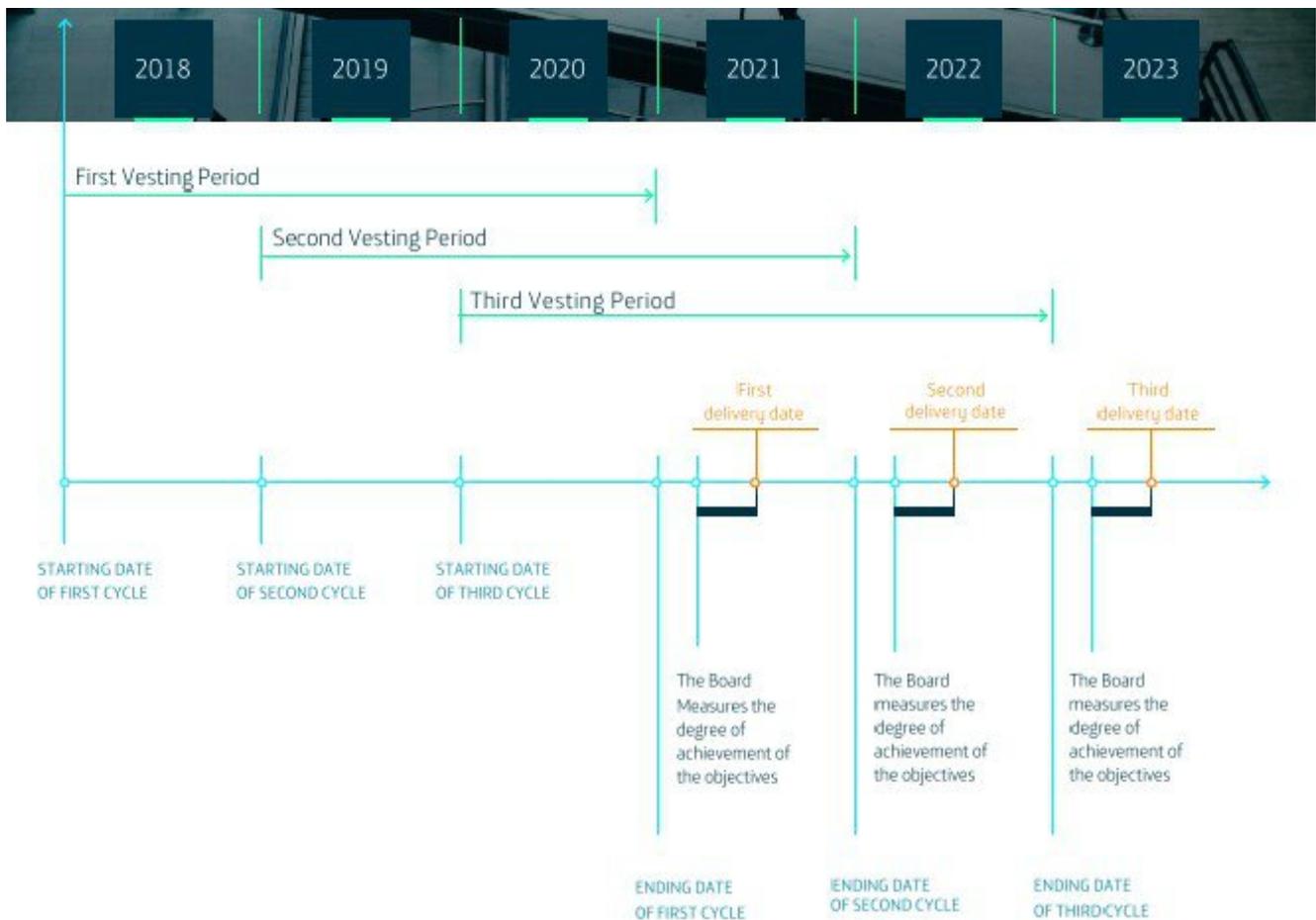
To increase the Executive Directors' and management team commitment to the Company and its Strategic Plan, linking their remuneration to creating value for the shareholders and sustainable achievement of the strategic targets, so that they are in line with the best remuneration practices. In turn, by means of its Long-Term Incentive Plan, the Company also aims to offer a competitive remuneration package that contributes to retain managers who occupy key positions in the organisation.

**Description:**

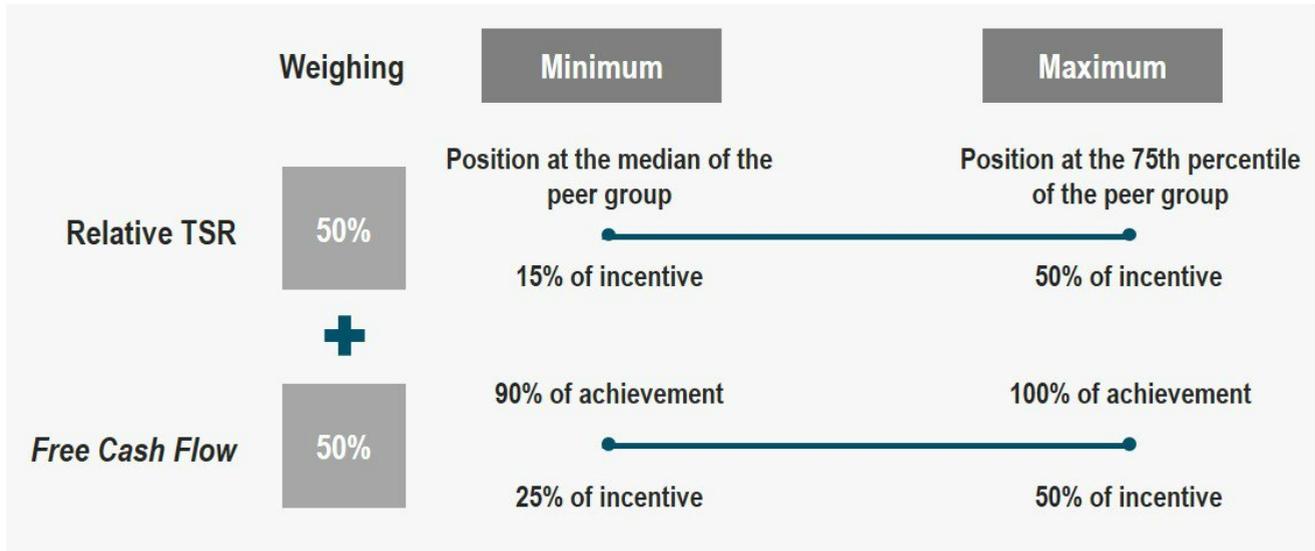
A Long-Term Incentive Plan was approved at the General Shareholders' Meeting held in 2018 consisting of payment with the shares of Telefónica, S.A. The Executives of the Telefonica Group, including the Executive Directors of Telefónica, S.A, that meet the requirements stipulated for such purpose from time to time are invited to take part in such Plan.

The total term of the Plan is five (5) years divided into three (3) cycles, independent one from the other, of three (3) years each (in other words, providing the shares corresponding to each cycle takes place once three years have elapsed counted from the start of each cycle).

1. The first cycle 2018-2021: The target measurement period began on 1 January 2018 and will end on 31 December 2020. If the targets are achieved the shares will be provided in 2021.
2. The second cycle 2019-2022: The target measurement period began on 1 January 2019 and will end on 31 December 2021. If the targets are achieved the shares will be provided in 2022.
3. The third and last cycle 2020-2023: The target measurement period began on 1 January 2020 and will end on 31 December 2022. If the targets are achieved the shares will be provided in 2023. On the date this report was submitted, the shares had still not been allocated.



**Metrics and functioning:**



**Relative TSR**

**Free Cash Flow**

**Definition**

Sum of the cumulative variation of the share value of Telefónica, S.A. plus the dividends and other similar concepts perceived by the shareholder during the cycle in question.

Free cash flow generation.

**Establishment of the grade of achievement**

The evolution of TSR from the Telefónica S.A. share is measured from the beginning of the cycle (2020) to the end of such cycle (2022), in relation to the TSR from other companies pertaining to the telecommunication sector, weighing depending upon its relevance to Telefónica, S.A. Those companies form the comparison group. The companies included in the comparison group are the following: America Movil, BT Group, Deutsche Telekom, Orange, Telecom Italia, Vodafone Group, Belgacom, Royal KPN, Millicom, Swisscom, Telenor, TeliaSonera, y Tim Participações.

The level of FCF generated by the Telefónica Group is measured during each year, in comparison with the value set in the budgets approved by the Board of Directors for each year, considering the degree of final achievement of FCF, the average of the annual partial results obtained and approved by Nomination, Compensation and Good Governance Committee.

**Performance Scale**

The number of shares to be delivered associated with the achievement of this objective will be between 15% of the number of theoretical shares, in the case that the evolution of the TSR of the share of Telefónica, S.A. is, at least, the median of the Comparison Group, and 50% if the evolution is in the third or higher quartile of the Comparison Group. The percentage by linear interpolation is calculated for those that are in between the median and the third quartile.

For each cycle, the Board of Directors, on the proposal of the Nominating, Compensation and Corporate Governance Committee, determines an achievement scale that includes a minimum threshold, below which no incentive is paid and whose achievement involves the delivery of 25% of the theoretical shares assigned, and a maximum level, which assumes the delivery of 50% of the theoretical shares assigned.

The Nominating, Compensation and Corporate Governance Committee conducts an assessment of the targets on an annual basis and, once the Plan has ended, the level of achievement is determined. When conducting this assessment, the Committee is supported by the Audit and Supervisory Committee, which provides information about the accounts audited by the Company's external auditor. The Committee also considers any associated risk for both setting the targets and assessing their achievement.

When determining the target achievement level, any positive or negative economic impact caused by extraordinary events that could distort the results of the assessment is disregarded.

At least 25% of the shares awarded within the scope of the Plan to the Executive Directors and other members that are determined by the Board of Directors are subject to a retention period of one year.

In order for each of the participants to be entitled to receive the corresponding shares, they must have held an employment or commercial relationship with the Telefónica Group on the date the shares of each cycle are provided (subject to the exceptions considered appropriate) and have been associated with the Telefónica Group for at least one year.

#### Incentives allocated in the three cycles of the Plan:

Apart from the number of shares allocated at any time, the features of the three cycles of the Long-Term Incentive Plan are the same as those previously described.

The value of the shares allocated in the first and second cycle of the Plan is lower than the maximum limit determined in the Remuneration Policy (250% of the Fixed Remuneration).

Regarding the third and last cycle of the Plan, on the date this report was submitted, the shares had still not been allocated. In any case, the allocation in the third cycle of the Plan will take place in accordance with the maximum limit determined in the Directors' Remuneration Policy (250% of the Fixed Remuneration).

The number of shares to be provided at the end of each cycle in the Plan will depend on the allocation approved by the Board of Directors and the level the targets of the Plan is achieved.

In any case, the total number of shares to be provided by executing the Plan to all the participants (including Executive Directors) at the end of each cycle may never exceed 0.27% of the share capital of Telefónica, S.A. at the beginning of the relevant cycle.

Long Term Incentive Plan 2018-2023	Performance (Measurement) Period	Year of shares delivery	Number of allocated shares		Value of allocated shares (% Fixed Remuneration)	
			Executive Chairman	Chief Operating Officer	Executive Chairman	Chief Operating Officer
First Cycle	2018, 2019 y 2020	2021	421,000	312,000	185%	165%
Second Cycle	2019, 2020 y 2021	2022	468,000	347,000	185%	165%
Third Cycle	2020, 2021 y 2022	2023	<i>On the date this report was submitted, the shares had still not been allocated. In any case, the allocation in the third cycle of the Plan will take place in accordance with the maximum limit determined in the Directors' Remuneration Policy (250% of the Fixed Remuneration).</i>			

## D. TELEFÓNICA EMPLOYEE PENSION PLAN

### Contributions

The Pension Plan for the Executive Directors is in accordance with the same scheme and is aligned with the Pension Plan for Telefónica's employees regarding its terms and conditions and the contribution percentages:

- Executive Chairman: 6.87% of his base salary, plus 2.2% as a mandatory contribution to be made by the Executive Chairman up to the maximum annual limit that the law stipulates from time to time.
- Chief Operating Officer ("Consejero Delegado"): 4.51% of his base salary, plus 2.2% as a mandatory contribution to be made by the Chief Operating Officer ("Consejero Delegado") up to the maximum annual limit that the law stipulates from time to time.

### Functioning:

As described in each of the Executive Directors contracts, the Pension Plan is a defined-contribution plan and the contingencies covered are as follows: retirement; death of the participant; death of the beneficiary; total and permanent disability to work in one's usual profession, absolute and permanent incapacity for all work and serious disability; and severe or major dependency of the participant.

The benefits consist of the economic right accrued by the beneficiaries as a result of the occurrence of any of the contingencies covered by this Pension Plan. It is quantified according to the number of account units that correspond to each participant based on the amounts contributed to the Pension Plan and is assessed for the purpose of payment according to the value of the account unit from the business day before the date when the benefit becomes effective.

The participants may also exercise their vested rights, in whole or in part, on an exceptional basis in the event of serious illness or long-term unemployment.

The Pension Plan is included within the "Fonditel B Pension Fund," managed by Fonditel Pensiones, EGFP, S.A.

It should be noted that, in 2015, applicable law reduced the financial and tax limits of contributions to pension plans, therefore in order to compensate the difference arising in favour of the beneficiaries, a unit-link group insurance policy was taken out through which the aforementioned differences are channelled in each financial year they arise.

This unit-link insurance policy is taken out with the company Plus Ultra, Seguros Generales y Vida, S.A. de Seguros y Reaseguros (after merger by absorption of Seguros de Vida y Pensiones Antares, S.A. by Plus Ultra, on the 31<sup>st</sup> of December of 2019), and covers the same contingencies as in the Pension Plan with the same exceptional liquidity events in the case of serious illness or long-term unemployment.

#### E. REMUNERATION IN KIND

In addition to the life insurance policy covering death or disability described above, the Executive Directors are provided with a general health insurance and dental coverage as remuneration in kind and they are also provided with a company vehicle, all of the foregoing in line with the general policy applicable to the Company's Executives.

Moreover, the General Shareholders' Meeting held in 2018 approved a "Global Incentive Telefonica, S.A. Stock Option Plan for Employees of the Telefonica Group" (hereinafter referred to as the "Global Plan"), according to which Telefonica's employees, including the Executive Directors, may acquire Telefonica's shares for a maximum annual amount of €1,800 over a period of twelve (12) months (purchase period). The Company provides a maximum of one (1) additional share free of charge for each two (2) shares they acquire, if the condition is met that they remain in the Company and the shares are retained for one (1) year after the purchase period has ended (holding period).

The requirement for receiving these shares is remaining in the Company and retaining the purchased shares for one (1) year after the purchase period has ended. In any event, the total of additional shares for the whole Plan may never exceed 0.1% of the share capital of Telefonica, S.A. at the date of approval of this resolution, *i.e.* at the date of the 2018 General Shareholders' Meeting. Out of the total of Additional Shares of the Plan, the maximum number to be delivered to the Executive Directors of Telefonica, S.A. will amount to 500 shares of Telefonica, S.A., with a par value of one euro.

On the date this report was approved, the plan is under the execution period. As a sample of their commitment to the Company and in order to provide an incentive to other employees to take part in the Global Plan, the Executive Directors will contribute the maximum permitted by applicable Plan of €1,800.

Moreover, Telefonica has taken out a third-party liability insurance policy (D&O) for its managers, executives and staff performing similar duties in the Telefonica Group, with the usual terms and conditions for these kinds of insurance policies. This policy also includes the Company's subsidiaries in certain cases.

#### F. EXECUTIVE BENEFITS PLAN

##### Maximum contribution:

35% of the Fixed Remuneration.

Contributions to the Pension Plan for Telefonica employees are deducted from these payments, which are calculated according to the above percentage.

Payment of any compensation related to the termination of the labour relationship is incompatible with recognition of any economic right related to this Executive Benefits Plan.

##### Functioning:

The implementation vehicle of this Plan approved in 2006 is a unit-link group life insurance policy taken out with an insurance company.

The contingencies covered by the EBP are retirement, early retirement, permanent loss of working capacity consisting of total or absolute disability or serious disability and death. However, as explained above, no economic right whatsoever is recognised if the Executive Director receives any compensation due to the termination of his/her labour relationship.

The amount of the benefits from this coverage is equivalent to the mathematical provision corresponding to the insured party on the date when the policyholder provides notice and proves to the insurance company that such situation has arisen.

There is currently no vesting of economic rights in favour of the Executive Directors. In the case of legislative amendments on this matter, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee, the Board of Directors may make the appropriate adjustments.

Any adjustments to be included in the EBP must be approved by the Board of Directors. These adjustments must be justified and proposed by the Nominating, Compensation and Corporate Governance Committee. The reasons for the adjustments must be duly explained in the annual report on the directors' remuneration.

Even though there are no changes planned for the functioning of this Plan, it may be updated by the Board of Directors according to a proposal made by the Nominating, Compensation and Corporate Governance Committee to adapt it to any amendments made to applicable legislation.

### Malus and claw-back clauses for the variable remuneration

Regarding claw-back formulae or clauses in order to claim the return of the variable remuneration components based on the results, if such components have been paid based on data that is later clearly shown to be inaccurate, and to adopt measures to avoid any conflict of interest, the following should be taken into account:

- The Nominating, Compensation and Corporate Governance Committee is authorised to propose cancellation of payment of the variable remuneration to the Board of Directors under these circumstances.
- Furthermore, the Nominating, Compensation and Corporate Governance Committee must assess whether exceptional circumstances of this kind could even lead to termination of the relationship with the respective party or parties responsible, proposing to the Board of Directors that such measures as may be appropriate should be adopted.

In addition, in 2018, the Company included malus and claw-back clauses in the Long-Term Incentive Plan 2018-2023, approved by the General Shareholders' Meeting held in 2018. According to these clauses, in the years 2021, 2022 and 2023, each time shares are provided, it must be assessed whether to partially or fully confirm or cancel the relevant settlement in each financial year and, if need be, to claim partial or full return of the shares already provided (or reimbursement of their value in cash) if the number of shares delivered was not in accordance with the terms and conditions stipulated by the Board of Directors or when they had been provided bearing in mind data that have later been proven to be inaccurate.

Moreover, in 2024, when drawing up the annual accounts for the previous financial year, it will be assessed whether the return of the shares previously provided should be partially or fully claimed (or reimbursement of their value in cash) if the aforementioned situations arise. Moreover, the Company may partially or fully cancel payment of the Plan to the Executive Directors if the Company's external auditor includes exceptions in its report that reduce the results taken into consideration to determine the number of shares to be provided.

### Possible severance pay

The contracts signed with the Executive Directors are for an indefinite term and include a non-competition clause. This clause implies that, once the relevant contract has been terminated and during the valid term of the clause (two years after the termination of the contract for any reason), the Executive Directors may not indirectly or directly render their services themselves or through others, either on their own behalf or for third parties, to Spanish or foreign companies that engage in the same or similar business activities as Telefónica.

Regarding the conditions related to the termination of the contracts, the Executive Chairman, Mr. José María Álvarez-Pallete López, and the Chief Operating Officer ("*Consejero Delegado*"), Mr. Ángel Vilá Boix, have the same terms and conditions as in their previous, which specify agreed severance

pay for termination of the relationship, when appropriate, which could amount to a maximum of four (4) annual payments. Each annual payment consists of the last fixed remuneration and the arithmetic mean of the sum of the last two (2) amounts of annual variable remuneration paid pursuant to the contracts.

### Contractual terms and conditions for the Executive Directors

The contracts that currently regulate performing the Executive Directors' duties and responsibilities are of a commercial nature and include clauses that are normally used for these kinds of contracts. These contracts have been proposed by the Nominating, Compensation and Corporate Governance Committee, approved by the Board of Directors and have not suffered any significant modifications during 2019.

In addition to the prior notice and severance pay conditions explained in the previous point, a summary is provided below of the main terms and conditions of the Executive Directors' contracts:

- Term: Indefinite
- Prior notice: There is an obligation to provide prior notice in the event of the contract being terminated due to a unilateral decision adopted by the Chief Operating Officer, being stipulated that he must notify such unilateral decision in writing with at least three months' prior notice, except in cases of force majeure. If this obligation is not fulfilled, he must pay the Company an amount equivalent to the Fixed Remuneration for the period of prior notice he had failed to observe.
- Exclusivity: During the term of the contracts, it is prohibited to sign (whether directly or through intermediaries) any employment, commercial or civil contracts with other companies or institutions that engage in activities similar in nature to those of Telefónica.
- Non-competition clause: The contract states the relationship is compatible with holding representative, administrative and management posts and other professional positions in other companies in the Telefónica Group or in any other undertakings unrelated to the Company when expressly notified to the Nominating, Compensation and Corporate Governance Committee and the Board of Directors.

In addition, it states that the relationship is incompatible, during the term of the clause (two (2) years after the termination of the contract for any reason) with directly or indirectly rendering services, on an employed or self-employed basis, by themselves or through third parties, to any Spanish or foreign companies that engage in activities identical or similar to those of Telefónica.

- Confidentiality: While the relationship remains in force and also after the termination thereof, there is a duty of confidentiality regarding any information, data and any kinds of reserved and confidential documents that they have

knowledge of or to which they have had access as a result of performing their duties.

- Compliance with the regulatory system: The contracts include the obligation to abide by the rules and obligations set out within Telefónica's regulatory system, which are contained, among other regulations, in the Board of Directors Regulations and Telefónica's Internal Stock Market Conduct Regulations.

#### Commitment to hold shares on a permanent basis

As it is stipulated in section 4.2 of the Remuneration Policy, the Executive Directors must hold (directly or indirectly) a number of shares (including those awarded as remuneration) equivalent to two (2) years' gross fixed remuneration as long as they are members of the Board of Directors and perform executive duties.

The term set for meeting this target is five years, counted from the date the Policy comes into force or, in the case of Executive Directors appointed at a later time, counted from the date of their appointment.

	Shareholding requirement
Executive Chairman	200% of his Gross Fixed Remuneration
Chief Operating Officer ("Consejero Delegado")	200% of his Gross Fixed Remuneration

In the event of non-compliance with this commitment, the Board of Directors, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee, may reduce the amount payable for the Long-Term Incentive.

Although this requirement came into effect on 1<sup>st</sup> of January of 2019 and the Executive Directors have until 31 of December of 2023 to comply with it, the Executive Chairman of the Company, Mr. José María Álvarez-Pallete López held a shareholding at Telefónica, S.A. on the 31<sup>st</sup> of December of 2019, which amounted to 1,452,067 voting rights, which were valued with a price of 7.1164 euros per share (according to its average value during 2019), representing a 537% of his fixed remuneration. In this regard, it should be noted that, Mr. Álvarez-Pallete, as a demonstration of his commitment with Telefónica, has acquired since his appointment as Executive Chairman 898,813 shares.

Likewise, the Chief Operating Officer (C.O.O.), Mr. Ángel Vilá Boix, held a shareholding at Telefónica, S.A., which amounted to 380,109 voting rights, which were valued with the same price per share, representing 169% of his fixed remuneration.

#### 4.6.7. THE DIRECTORS' REMUNERATION IN THEIR POSITIONS AS SUCH IN 2020

The remuneration payable to the Directors in their positions as such is structured, within the legal and statutory framework, pursuant to the remunerative criteria and items specified below, up to the maximum limit determined for such purpose by the General Shareholders' Meeting, pursuant to the provisions in Article 35 of the Articles of Association.

According to the foregoing, the Ordinary General Shareholders' Meeting held on 11 April 2003 set the annual gross maximum amount at 6 million euros for the remuneration payable to the Directors in their positions as members of the Board of Directors.

The aforementioned remuneration is, in all cases, the maximum amount payable and the Board of Directors is responsible for proposing the allotment of the amount among the various items and among the different Directors, taking into account the duties and responsibilities assigned to each Director, membership of Committees within the Board of Directors and other objective circumstances that would be considered relevant.

Regarding the financial year 2020, according to the market information available, the Committee has proposed to the Board not to increase the Directors' fixed remuneration, both in their positions as such and for performing their executive duties. This remuneration has remained the same since 2012.

euros	Board of Directors	Executive Committee	Advisory or Supervisory Committee (*)
<b>Chairman (**)</b>	240,000	80,000	22,400
<b>Vice Chairman</b>	200,000	80,000	-
<b>Proprietary Member</b>	120,000	80,000	11,200
<b>Independent Member</b>	120,000	80,000	11,200
<b>Other External Member</b>	120,000	80,000	11,200

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

(\*\*) In this regard, the Executive Chairman has waived payment of the aforementioned amounts (i.e. €240,000 as Chairman of the Board of Directors and €80,000 as Chairman of the Executive Committee), as in previous years

The Executive Directors can waive payment of the aforementioned amounts.

Moreover, the Non-Executive Directors receive the remuneration payable to them due to being members of certain management bodies of Telefónica's subsidiaries and investee companies.

#### 4.6.8. APPLICATION OF THE REMUNERATION POLICY IN 2019

##### Summary of the Remuneration Policy applied during 2019 and the results of the ballot on the 2019 Annual Report on the Directors' Remuneration

The remuneration payable in the financial year 2019 was in line with the terms of the Remuneration Policy approved by the shareholders on a binding basis at the General Shareholders' Meeting held on 8 June 2018, which was in force until the end of the financial year 2018, pursuant to the provisions in the Transitional Provision of Article 529 Nineteen of the Capital Companies Act.

For further information, please access the Remuneration

Policy in force in 2019 [here](https://www.telefonica.com/documents/162467/142439447/director-remuneration-policy.pdf/791e8f42-4857-05f9-29ee-a4669bfb2dfe). [https://www.telefonica.com/documents/162467/142439447/director-remuneration-policy.pdf/791e8f42-4857-05f9-29ee-a4669bfb2dfe]

In this respect, the remuneration payable in 2019 to the Executive Directors and the Directors in their positions as such consists of the same elements as those described for the Remuneration Policy in force in 2020.

The detailed description of the Directors' remunerativesystem for 2019 is included in section 8 of the Annual Report on the Directors' Remuneration for 2018. This report was approved by 90.97% of the votes cast, with a 6.88% of votes against and a 2.15% abstention. Therefore, and taking into account the high level of approval of this Report, the Company has considered

appropriate to elaborate the 2019 Annual Report on Remuneration in similar terms, modifying the drafting of some items to contribute the rise of the transparency level.

**Summary of the total remuneration payable to the Executive Directors**

The total remuneration payable to the Executive Directors in 2019 amounted to €5,537 thousand in the case of the Executive Chairman and €4,094 thousand in the case of the Chief Operating Officer ("Consejero Delegado"). This remuneration is aligned with the remuneration paid in previous years and with the Company's results.

**Executive Chairman**



**Chief Operating Officer**



■ Fixed Remuneration    
 ■ Remuneration in Kind    
 ■ Pension scheme for Telefónica Employees    
 ■ Annual Variable Remuneration

Data expressed in thousands of euros.

## Executive Directors' remuneration in 2019

### A. FIXED REMUNERATION

a. Executive Chairman €1,923,100.

In the case of the Executive Chairman, the amount of his Fixed Remuneration in 2019 was the same as that paid since 2016, which was determined in his position as Chief Operating Officer ("Consejero Delegado"), having remained the same after his appointment as Chairman in the referred 2016 year.

b. Chief Operating Officer ("Consejero Delegado") €1,600,000.

This remuneration is the same as the amount paid when Mr. Vilá was appointed as a Chief Operating Officer ("Consejero Delegado") of the Company on 26 July 2017.

### B. ANNUAL VARIABLE REMUNERATION

Executive Chairman: € 3,447,734.

*Calculated as the multiplication of the Fixed Remuneration (€1,923,100) by the Bonus Target (180%) by Overall Target Achievement Level (99.6%)*

Chief Operating Officer ("Consejero Delegado"): €2,390,400.

*Calculated as the multiplication of the Fixed Remuneration (€1,600,000) by the Bonus Target (150%) by the Overall Target Achievement Level (99.6%).*

For the financial year 2019, the Board of Directors approved, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee, the quantifiable and measurable metrics that best reflected the levers for creating value for the Telefónica Group with the aim of guaranteeing fulfilment of its Strategic Plan. These metrics and their relative weightings are the following:

METRIC	DEFINITION AND MEASURING METHOD	WEIGHTING
<b>OIBDA</b>	It is the Operating Result before Amortizations and Depreciations. OIBDA includes the operating income minus all costs (direct, commercial, customer management, network, systems, support and employees, amongst others.)	<b>30%</b>
<b>OPERATING REVENUES</b>	Correspond to service revenues, revenues generated from the core business of the Company, revenues for terminal sales and other operating revenues.	<b>30%</b>
<b>FREE CASH FLOW</b>	The amount of funds generated from operations throughout the year and it is calculated as funds collected from customers less payments required to carry out operations and invest in assets, including therefore payments to suppliers, employees, as well as spectrum, fees, taxes and interest on debt.	<b>20%</b>
<b>CUSCUSTOMER TRUST</b> (NPS / GAP NPS) <b>TOMER TRUST</b> (NPS / GAP NPS)	NPS and GAP NPS are the metrics used to measure our customers experience. It calculates which is their willingness to recommend our products and services; as well as the difference compared to our main competitor.  It is calculated through the answer to the following question: How likely are you to recommend the services of Movistar/O2/Vivo to a family member, friend or colleague? (On a scale of 1 to 10, 1 means I would not recommend; and 10 means I would recommend). Ratings between 9 and 10 are considered promoters, and between 1 and 6 are considered detractors. NPS = % Promoters - % Detractors	<b>15%</b>
<b>SOCIETY TRUST</b> (REP Trak ©)	RepTrak® Pulse is the metric used to measure the reputation (the society perception for Telefonica). It measures the emotional attractiveness of our brands according to 4 fundamental elements: admiration and respect, esteem, confidence, and good impression.	<b>3%</b>
<b>CAMBIO CLIMÁTICO</b> (reducing greenhouse gas emissions)	Greenhouse gas (GHG) emissions is the metric used to measure our environmental impact. It is measured through direct and indirect CO2 emissions from our daily activity due to fuel consumption, refrigerant gas leaks and electricity use.  CO2 emission = Activity x Emission Factor - Activity data: Amount of energy, fuel, gas, etc. consumed by the Company - Emission Factor: Amount of CO2 emitted to the atmosphere by the consumption of each activity unit. For electricity, the emission factor provided by the supplier of this electricity is used and for fuels, the emission factors of the GHG Protocol are used.	<b>1%</b>
<b>GENDER DIVERSITY</b> (% of Women in management roles)	The percentage of women within the managers group in the Telefónica Group is the metric used to measure Gender Diversity. It is measured on the total group of Telefónica Group Managers in the workforce at the end of December. The managers group is defined according to the criteria and processes established by the People area at corporate level. Prior to the Nominating, Compensation and Good Governance Committee, there is a Transparency and Diversity Committee, made up of the Chairman and four members of the Executive Committee, which validates, on a monthly basis, the proposals for appointments from this group, to ensure compliance with the measures and policies established in the area of transparency and gender diversity.	<b>1%</b>

Throughout the year, the Nominating, Compensation and Corporate Governance Committee monitored the following targets set for the Annual Variable Remuneration in 2019, payable in 2020.

The aforementioned targets were finally assessed based on the audited accounts for the financial year 2019, according to the following process:

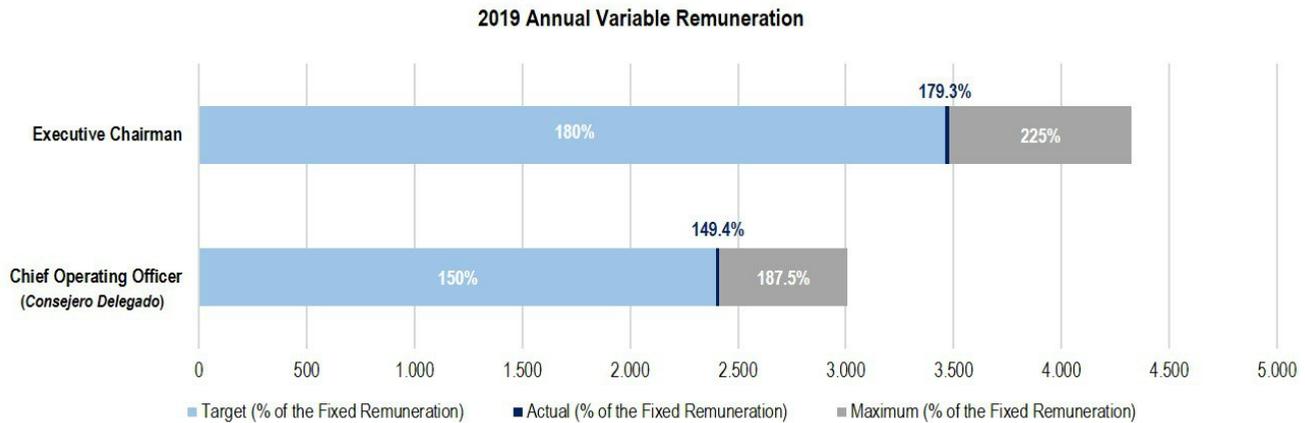
1. The results for the financial year 2019 and the level of achievement of the targets were firstly examined by the Audit and Supervisory Committee, based on the results audited by PRICEWATERHOUSECOOPERSAUDITORES, S.L.

2. Following this examination, the Nominating, Compensation and Corporate Governance Committee prepared a bonus proposal that was submitted to the Board of Directors for approval.

3. Lastly, the Board of Directors approved the proposal for the Annual Variable Remuneration submitted by the Nominating, Compensation and Corporate Governance Committee. As a result of the foregoing, the Board has agreed that the amount to be received by the Executive Directors during the first quarter of 2020, as detailed in the following table and based on the following level of achievement of the targets, will be as follows:

METRICS	TYPE OF OBJECTIVE	RESULTS (% of achievement of objectives on target)			WEIGHTING (%)
		Minimum	Target	Maximum	
OIBDA	Financial		99 %		30%
Operating Revenue	Financial		99 %		30%
Free Cash Flow	Financial		100 %		20%
Objectives linked to customer trust and ESG objectives	Customer Trust (NPS)		95 %		10%
	Customer Trust (GAP NPS)		100 %		5%
	Society trust (RepTrack®)		The maximum level has been exceeded		3%
	Climate Change (GHG Emissions)		The maximum level has been exceeded		1%
	Gender Diversity (% Women in management roles)			97 %	

The overall achievement level of the targets corresponds to 99.6% of the weighted payment coefficient. The Annual Variable Remuneration target was 180% of the Annual Fixed Remuneration for the Executive Chairman and 150% of the Annual Fixed Remuneration for the Chief Operating Officer (“*Consejero Delegado*”).



### C. THE LONG-TERM INCENTIVE PLAN 2018-2023

In the financial year 2019, the Executive Directors did not accrue any amount whatsoever from the long-term incentive plans.

As explained in section 4.6.6 above, the General Shareholders' Meeting in 2018 approved a Long-Term Incentive Plan consisting of awarding shares of Telefonica, S.A. aimed at Executives of Telefonica, S.A. that, meeting the requirements stipulated for such purpose from time to time, are invited to participate therein, including the Executive Directors de Telefonica, S.A.

The first two cycles of the Plan, 2018-2021 and 2019-2022, were in force in 2019, the features of which have been described in section 4.6.6 above.

### D. PENSION PLAN FOR TELEFÓNICA'S EMPLOYEES

The contributions made in 2019 to the “Fonditel B, Fondo de Pensiones” Pension Plan:

- Executive Chairman: € 6.060.
- Chief Operating Officer (“*Consejero Delegado*”): € 5.377

The contributions made in 2019 to the unit link insurance policy, related to the Pension Plan, taken out with the company Plus Ultra, Seguros Generales y Vida, S.A. de Seguros y Reaseguros (after merger by absorption of Seguros de Vida y Pensiones Antares, S.A. by Plus Ultra on the 31<sup>st</sup> of December of 2019), were as follows:

- Executive Chairman: € 126,057
- Chief Operating Officer (“*Consejero Delegado*”): € 66,783.

The Pension Plan for the Executive Directors follows the same

scheme and is aligned with the Pension Plan for Telefonica's employees regarding its terms and conditions and the contribution percentages

	Contribution (% regulatory salary)	Fonditel Pension Plan	+	Unit-link Insurance Policy	TOTAL
<b>Executive Chairman</b>	<b>6.87%</b>	€ 6,060	+	€ 126,057	<b>€ 132,117</b>
<b>COO (<i>Consejero Delegado</i>)</b>	<b>4.51%</b>	€ 5,377	+	€ 66,783	<b>€ 72,160</b>

*The contribution percentages are aligned with Telefonica's employee pension plan*

The amount of the vested rights on 31 December 2019 was as follows:

- Mr. José María Álvarez-Pallete López: € 303,099 (of which he amount of € 1655,253 corresponds to the rights generated by the Pension Plan of Telefonica Internacional and the rest Telefonica's Pension Plan).
- Mr. Ángel Vilá Boix: € 325,003 (of which the amount of € 22,437 corresponds to the rights generated by the Pension Plan of Telefonica España and the rest Telefonica's Pension Plan)

The mathematical provision of the unit-link insurance policy on 31 December 2019 was as follows:

- Mr. José María Álvarez- Pallete López: € 657,715.
- Mr. Ángel Vilá Boix: € 299,196.

It is recorded that the development of the accumulated funds recorded is related to both the contributions made and their revaluation.

Additional information can be found about the features of the

Pension Plan for employees in section 4.6.6 of this report).

#### E. REMUNERATION IN KIND

In this respect, the Executive Directors receive the following benefits:

- An insurance policy for general health and dental coverage.
- A life insurance policy with coverage for death and disability.

The cost of this remuneration in kind amounted to € 33,345 in 2019 for the Executive Chairman and € 18,692 for the Chief Operating Officer.

In addition, the Executive Directors are provided with a company vehicle, in line with the general policy applicable to the Company's Senior Executives.

Telefónica has also taken out a third party liability policy (D&O) for directors, executives and other staff with similar duties in the Telefónica Group, with the customary terms and conditions for this type of insurance.

#### F. EXECUTIVE BENEFITS PLAN

As explained in section 4.6.6 above, there is currently no vesting of economic rights in favour of the Executive Directors. In the case of legislative amendments on this matter, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee, the Board of Directors could make the appropriate adjustments.

In addition, if any severance pay is received due to the termination of the employment relationship, this will be incompatible with the being granted any economic right whatsoever, linked to this Plan.

The contributions in 2019 to the benefits plan were as follows:

- Executive Chairman: €540,968.
- Chief Operating Officer ("*Consejero Delegado*"): €487,840.

The expected rights on 31 December 2019 were as follows:

- Mr. José María Álvarez-Pallete López: € 8,859,838.
- Mr. Ángel Vilá Boix: € 6,688,361.

#### Further information:

- The "Performance & Investment Plan" ("PIP") 2016-2019: Regarding the third cycle of the PIP (2016-2019), the Company's Board of Directors, with a prior favourable report issued by the Nominating, Compensation and Corporate Governance Committee, agreed not to execute or implement it due to considering it was not sufficiently aligned with the Telefónica Group's Strategic Plan, taking into account the macroeconomic circumstances and situation.
- Malus and claw-back clauses: Since in 2019 no settlement whatsoever was made regarding the Long Term Incentive Plan, these clauses were not applicable.
- During the financial year 2019, the Executive Directors did not receive nor accrue any payment for early termination or

termination of their contracts, or advances, loans or guarantees, or payments made by Telefónica to a third party to which the director provides services, or any other remuneration item apart from the ones already mentioned.

- The terms and conditions of the Executive Directors' contracts in 2019 were the same as those described in section 4.6.6 of this report.

#### Remuneration of the directors in their positions as such

The remuneration payable to the Directors in their positions as such is according to the same scheme as the one described in section 4.6.7 of this report and the one applied in the financial year 2018.

In this respect, as explained in the previous section 4.6.7 the Executive Chairman waived payment of €240,000, as Chairman of the Board of Directors, and €80,000 as Chairman of the Executive Committee.

External Directors also receive the remuneration to which they are entitled for belonging to certain Management Decision-Making Bodies of some Subsidiaries and affiliates of Telefónica.

According to the foregoing, the aggregate remuneration for the items in 2019 was as follows:

euros	2019	2018
Fixed amount due to being a member on the Board, Executive Commission and Advisory or Supervisory Committees	2,662,401	2,643,067
Fees for attending the meetings of the Advisory or Supervisory Committees	212,000	195,000
Remuneration for being a member on certain Management Decision-Making Bodies of some subsidiaries of Telefónica	566,714	497,308

During the financial year 2019, the Directors in their positions as such did not accrue payments for early termination or termination of their contracts, or advances, loans or guarantees, or payments made by Telefónica to a third party to which the director provides services, or any other remuneration item apart from the ones already mentioned.

The individual amounts per director are provided in the statistical annex attached to this report.

#### 4.6.9. ALIGNMENT OF THE REMUNERATIVE SYSTEM WITH THE RISK PROFILE

Telefónica's Remuneration Policy has the following features that enable a reduction in its exposure to excessive risks and adjustment to the Company's long-term targets, values and interests:

##### Adopting measures related to the staff categories whose professional work has a significant impact on the Company's risk profile

- The Nominating, Compensation and Corporate Governance Committee supervises the examination, analysis and application of the remunerative policy of the professionals whose work could have a significant impact on the Company's risk profile.
- The Company's Audit and Supervisory Committee takes part in the decision-making process related to the short-term variable remuneration (bonus) of Executive Directors, by verifying the economic-financial and non-financial information that may be part of the targets set for the purpose of such remuneration, as this Committee must first verify the Company's results as the basis for calculating the relevant targets.
- The Nominating, Compensation and Corporate Governance Committee is composed of 5 members, one of whom is also a member on the Audit and Supervisory Committee. The fact that the same Director is member of these two Committees ensures that the risks related to remuneration are taken into account in the discussions of both Committees and in their proposals submitted to the Board, both in the determination and assessment process of the annual and multiannual incentives.
- The Nominating, Compensation and Corporate Governance Committee is authorised to propose cancellation of payment of the variable remuneration to the Board of Directors under certain circumstances. In addition, the Company included some malus and claw-back clauses in the Long-Term Incentive Plan 2018-2023, approved by the General Shareholders' Meeting held in 2018. In this regard, the detailed information can be found in section 4.6.6 on this report.

##### Consistency with the Group's strategy and focus on achieving results in the long-term

- The design of the remunerative policy, consistent with the Company's strategy and aimed at obtaining long-term results, is as follows:
  - a. The total remuneration for the Executive Directors and Senior Executives consists of various remunerative items, mainly composed of the following: (i) fixed remuneration, (ii) short-term variable remuneration and (iii) medium- and long-term variable remuneration. In the case of the Executive Directors, this long-term component accounts for a weight of no less than 30% of their total remuneration in a scenario of standard achievement of targets (fixed + short-term variable + medium- and long-term variable).
  - b. Medium- and long-term variable remuneration plans are part of a multi-annual framework in order to ensure that the assessment process is based on long-term profits and that the Company's underlying economic cycle is taken into account. This remuneration is allocated and paid in the form of shares based on the creation of value, so that the Executives' interests are in line with those of the shareholders. In addition, they are overlapping cycles that generally follow one another indefinitely over time, with a permanent focus on the long-term in all decision-making.
- A suitable balance between the fixed and variable components of the remuneration:

Executive Directors have a variable remuneration system that is fully flexible, which includes a minimum threshold below which no incentive is payable. The short-term and long-term variable remuneration percentage can be relevant in the event of maximum achievement of the targets. In any case, such percentage with respect to the total remuneration (considered as the Fixed Remuneration, Annual Variable Remuneration and annualised Long-Term Incentive) will not exceed 85%.

Likewise, and concerning the measures adopted to avoid conflicts of interest in relation to the remuneration system, see the provisions of section 4.6.6 above.

#### 4.6.10. Remuneration of members of Senior Management (non-Directors)

See Annex II (Remuneration to the Board and Senior Management) of the Consolidated Annual Accounts of Telefónica, S.A. corresponding to fiscal year 2019.

## 4.7. Risk Control and Management Systems

See chapter 3 ("Risks") of the 2019 Consolidated Management Report of Telefónica, S.A.

## 4.8. Internal Risk Control and Management Systems in relation to the Financial Information System (SCIIF)

### 4.8.1. Control Environment

#### Responsible bodies

The Board of Directors of Telefónica, S.A. (hereinafter "Telefónica" or the "Company") is ultimately responsible for the existence and maintenance of an adequate and effective system of internal control over financial reporting (ICFR).

The Board of Directors is, in accordance with Laws and the Bylaws, the highest administrative and representative body of the Company, and basically consists of a supervisory and control body, while the executive bodies and management team are responsible for the day-to-day management of the Company's businesses.

The Bylaws and Regulations of the Board of Directors of the Company state that the primary duty of the Audit and Control Committee shall be to support the Board of Directors in its supervisory duties, highlighting, among others, the following powers:

- i. Submitting to the Board of Directors proposals for the selection, appointment, re-election and replacement of the external auditor, being responsible for the selection process in accordance with the provisions of the Law, as well as the conditions of their engagement, and regularly collecting information from the auditor regarding the audit plan and its execution, in addition to preserving its independence in the exercise of its functions.
- ii. Supervise the Internal Audit, and, in particular:
  - a) Ensure the independence and effectiveness of the Internal Audit function;
  - b) Propose the selection, appointment and removal of the person responsible for the Internal Audit service;
  - c) Propose the budget for that service;
  - d) Review the annual work plan of the Internal Audit and the annual activity report;
  - e) Receive periodic information on their activities; and
  - f) Verify that senior management takes into account the conclusions and recommendations of its reports.
- iii. Supervise the process of preparing, presenting and breaking down the mandatory financial information and submit recommendations or proposals to the administration body aimed at safeguarding integrity. In relation to this, it is responsible for supervising:
  - The correct design and operation of the controls on the breakdown and the procedures of the process for preparing the financial information, revealing any material information regarding that reporting process of the Group.
  - The environment of internal control over the financial reporting, with the objective of providing, faced with third parties, reasonable assurance regarding the reliability in the process for reporting and preparing the financial information according to accounting standards.
  - Any material change in the internal control system over the reporting of financial information that occurred during the annual assessment period.
  - Compliance with regulatory requirements, adequate delimitation of the consolidation perimeter, and the correct application of the accounting criteria, giving account to the Board of Directors.
- iv. Supervise the effectiveness of the Company's internal control, Internal Audit and risk management systems, including fiscal risks, as well as discuss with the Account Auditor the significant design and operating weaknesses of the controls over financial information reporting detected in the development of the audit, and do all of this without breaking their independence. For those purposes, where applicable, it may submit recommendations or proposals to the Board of Directors and the corresponding deadline for their follow-up. With regard to this, the Board of Directors is responsible for proposing the Policy on Risk Control and Management, which will identify, at least:
  - a) Risk types which the Company faces;
  - b) Setting of the risk level which the Company considers acceptable; the measures for mitigating the impact of the identified risks should they materialise; and
  - c) Control and information systems to be employed to control and manage those risks.
- v. Establish and supervise a system that enables employees to communicate, in a confidential and anonymous manner, irregularities of potential importance, specially financial and accounting irregularities, that may be noticed within the Company.
- vi. Establish and maintain the opportune relations with the Account Auditor to receive information on those issues that may be a threat to the independence of the Auditor, for examination by the Committee, and any other related to the process of developing the audit of accounts, and, when applicable, the authorization of services other than those prohibited, in the terms stated in the applicable legislation, as well as other communications expected in the legislation on audit of accounts, and in the auditing

standards. In any case, the Audit and Control Committee shall receive annually from the Account Auditor the declaration of its independence in relation to the entity or entities linked to it directly or indirectly, as well as the detailed and individualized information of the additional services of any type provided and the corresponding fees received from these entities by the aforementioned Auditor, or by the persons or entities linked to them in accordance with the provisions of current regulations.

- vii. On an annual basis, prior to the issuance of the account audit report, issue a report expressing an opinion on whether the Account Auditor's independence is compromised. This report must conclude, in any case, on the reasoned assessment of the rendering of each and every one of the additional services referred to in point vi above, individually considered and as a whole, other than the legal audit and in relation to the independence regime or with the regulations governing the activity of the account audit.
- viii. Analyse and report the economic conditions, the accounting impact and, if applicable, the exchange ratio proposed for the operations of structural and corporate modifications that the Company plans to carry out, before being submitted to the Board of Directors.
- ix. Inform, in advance, the Board of Directors, on all matters stated in the Law and the Bylaws, and, in particular, on:
  1. The financial information that the Company must periodically publish;
  2. The creation or acquisition of participations in special purpose entities or domiciled in countries or territories that are considered tax havens; and
  3. Operations with related parties.
- x. Exercise, with regard to companies of its Group which are considered Public Interest Entities (as they are defined in the current legislation) as approved by the Board of Directors, provided that they are fully owned, directly or indirectly, by the Company, in accordance with the provisions of current legislation, and which are not attributed to a Board of Directors, all the functions of the Audit Committee contemplated at any time by current legislation.

The provisions above are understood without prejudice to the regulations governing the audit of accounts.

According to the Regulation of the Board of Directors, the periodicity of the sessions of the Audit and Control Committee must be, at least, quarterly. In practice, the Committee meets, approximately, thirteen times a year.

In order to perform this supervisory function, the Audit and Control Committee has the support of the entire Company Management, including Internal Audit.

In this way, Internal Audit becomes an independent area in the management of the Company, which supports the Audit and

Control Committee in its competencies on assurance, risk management, and the internal control system. For this purpose, Internal Audit applies a systematic and disciplined approach by the following main lines of action:

- Coordination and review of the consistency of the Internal Regulation Framework of the Telefónica Group;
- Coordination and supervision of the Risk Management System;
- Ongoing Audit;
- Supervision of controls on fund outflows;
- Specific reviews or audits on the Company processes. Among these activities, the following, at least, are included:
  - i) assessment on the internal control over financial reporting, required by the Sarbanes-Oxley Act of 2002, to companies listed in the United States of America which also serves to cover the assessment on the System for the Internal Control over financial reporting (ICFR) for companies listed in Spain;
  - ii) audits on the efficiency and effectiveness of the design and execution of the controls in processes, and
  - iii) other specific audits or reviews for compliance across the Telefónica Group.
- Specific reviews or audits both on the operating and the functionality and design, as well as on the security of technologies, in elements of the four technological platforms of the Group: (1) Network infrastructure and assets, (2) infrastructures and assets of the Information Systems, (3) Products and Services, and (4) Big Data and "4th Platform for data", as well as over cybersecurity controls of the Group, both at the external and internal perimeter of the mentioned technological platforms.
- Perform other specific audits or reviews, of interest for the Board of Directors or the Management of the Company.

All the different areas and functional units of the Telefónica Group are relevant for the internal control over financial reporting (ICFR), the Finance and Control area playing a key role, as they are responsible for preparing, maintaining and updating the different procedures that govern their operations, these procedures identify the tasks to be carried out, as well as the persons in charge for executing these tasks.

**Departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clearly the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) sufficient procedures so this structure is communicated effectively throughout the Company.**

The Board of Directors is responsible for designing and reviewing the Company's organisational structure, and must ensure that there is an adequate segregation of duties and that satisfactory coordination mechanisms among the different

areas are established. People Management carries out the deployment of the organisational structure in the respective fields.

The financial-accounting information system in the Telefónica Group is regulated through several manuals, instructions and internal rules and regulations, internally made available, the most noteworthy of which are the following:

- **Corporate Regulation on the Recording, Communication and Control of Financial-Accounting Information of the Telefónica Group**, which sets out the basic principles of the financial-accounting information system of the Group, as well as the procedures and mechanisms in place to supervise this system.
- **Manual of Accounting Policies**, which includes the accounting standards applicable to the reporting of the companies of the Telefónica Group for the preparation of the consolidated financial information. The Manual of Accounting Policies is based on IFRS (International Financial Reporting Standards), specifically, on the set of regulations and interpretations in force published by the IASB at all times.
- **External audit and reporting instructions**, which are published on a quarterly basis and have as purpose to establish the procedures and calendar to be followed by all the Companies of the Telefónica Group and by their external auditors (for solely calendar by external audit) in the reporting of the financial-accounting information and results of the external audit processes at the closing of each period in order to comply with the legal and informational obligations of the Telefónica Group both in Spain and in the rest of the countries where the shares of the Group companies are listed.
- **Manual for the Filling in of the Consolidation Reporting of the Telefónica Group**, which is updated, at least, annually and establishes specific instructions to fill in the reporting forms necessary for the preparation of consolidated annual accounts and interim consolidated financial information.
- **Annual calendar of financial-accounting information**, applicable to all Telefónica Group companies to establish from the start of the year the monthly deadlines for reporting the financial-accounting information.
- **Corporate Accounting Plan ("PCC")**, which consists of the following documents: a) Table of accounts; b) Manual of definitions and Accounting Relations; and c) Auxiliary tables. The PCC intends to homogenise the sources of financial information included in the accounts of the companies of the Telefónica Group.
- **Corporate Regulation on Intragroup Operations (NCC-006)**, mandatory for all companies in the Telefónica Group, and whose purpose is to recast in a specific regulation the mandatory compliance criteria with regard to the accounting recording and payment of transactions between companies in the Group.

**Code of conduct, approving body, dissemination and instruction degree, included principles and values (stating whether there are specific mentions to the recording of operations and the preparation of financial information), body in charge of analysing non-compliance and proposing corrective or disciplinary actions.**

With regard to the Code of Conduct, the Board of Directors of Telefónica approved, in December 2006, the unification of the Codes of Ethics of the Group's companies, in the so-called Business Principles. The Business Principles are applied in a homogeneous manner in all countries where the Telefónica Group operates and apply to all its employees (the Business Principles affect at all levels of the organisation, directors and non-directors).

In 2017, The Board of Directors approved a new version of the Principles which includes an update of the commitments in matters of privacy and security, compliance and fiscal transparency, responsible communication and protection of minor stockholders, among others.

The Business Principles emanate from three basic values: integrity, commitment and transparency, which are essential values to foster the trust relationship that Telefónica wants to have with its groups of interest.

Regarding the financial information, the following principles are set:

- **Transparency of the information:** we shall provide, immediately and without discrimination, all the relevant information. We are aware of the importance for all our groups of interest to share true, complete, timely and clear information in the reports registered with the relevant Supervising Bodies of the Securities Markets, as well as in other public communications of the Company.
- **Privileged Information:** we abstain from using, in our own profit or that of third parties, any privileged information, safeguarding the confidentiality and establishing the controls and processes legally required by the Supervising Bodies of the Securities Markets in all the actions related to these markets.

The Business Principles are available for all employees at the Intranet, there are procedures to update, monitor adherence to and disseminate these Business Principles in the Telefónica Group. Likewise, training programmes are also periodically established to ensure employees are aware of these principles.

In this regard, Telefónica has a Corporate Policy on the Comprehensive Discipline Program that aims to define the basic principles of the Group's disciplinary system and that provides that all employees must receive a homogeneous, objective, proportional and non-arbitrary treatment, without prejudice to and with absolute respect for the legislation and other regulations that are applicable in each case to the Group companies in the different countries in which it operates.

Telefónica has the Business Principles Office, composed of senior representatives from the areas of Corporate Ethics and Sustainability, General Secretariat and Regulation, People Management, Internal Audit, Operations, Purchasing,

Compliance, Security, Communication, Data & Analytics, Telefonica Tech and Telefonica Infra. This Office monitors the responsible Business Plan and reports to the Sustainability and Quality Committee, through the head of Corporate Ethics and Sustainability. Among the responsibilities of this Office, the following stand out:

- Ensure that Telefonica develops its business in an ethical and responsible manner, through the monitoring and implementation of the Responsible Business Plan. The Responsible Business Plan of the company includes objectives and projects related to the ethical and responsible management of the company, the respect for Human Rights, the Customer Promise, our commitments regarding Privacy, Freedom of Expression and Information, Security, ethical management of Artificial Intelligence and responsible management of technology, a sustainable management of the Supply Chain, the Climate Change and Environment strategy, the promotion of Diversity, the safety and welfare of our employees and a business strategy focused in generating products and services that contribute to addressing the great social and environmental challenges of society (sustainable innovation).
- Propose and supervise initiatives and measures that contribute to compliance with the Business Principles in the Group.
- Analyse any matter or proposal that takes place in the Group that could represent a risk for the compliance with the Business Principles and associated policies.

On a different issue, in case of being aware of any conduct which contravenes what is established by the Law, by the Business Principles or by other valid internal regulations, after proper analysis, disciplinary measures will be applied in accordance with the regime established in the applicable labour legislation, distinguishing between minor, serious and very serious sanctions, depending on the circumstances.

Telefonica also has an "Internal Code of Conduct" for matters relating to Securities Markets, last modified on 14th December 2016, which sets out the general guidelines and principles of conduct to be followed by persons affected by securities and financial instrument operations issued by the Company or its subsidiary Companies.

**Whistle-blowing channel, which enables to inform the Audit and Control Committee about any irregularities of a financial and accounting nature, as well as eventual breaches of the code of conduct and irregular activities in the organisation, informing, where applicable, about a confidential nature.**

With regard to the whistle-blowing channel, as specified in Article 22 of Telefonica, S.A.'s Regulations for the Board of Directors, and in Article 4 of Regulation for the Audit and Control Committee, this Committee has as competency: "establishing and supervising a system which enables employees to communicate, in a confidential and anonymous manner, irregularities of potential significance, specially financial and accounting irregularities detected within the Company".

The Telefonica Group has a Policy of Management of the Whistleblowing Channel where the bases of the Whistleblowing Channel of the Telefonica Group are set, through which employees, directors and Board members of the Telefonica Group can communicate any information they become aware of, by any means -formal or not- about the existence of any possible irregularity, any act contrary to legality or internal regulations, also including eventual irregularities referring to accounting matters, issues related to auditing and/or aspects related to the internal control over financial reporting, in compliance with section 301 of the Sarbanes-Oxley Act, of 2002, of the United States of America and other regulatory requirements in this sense.

When managing the Whistleblowing Channel it is mandatory to apply the confidentiality principles to data provided and declarations made, and also the principles of respect and legal basis; so that any decision adopted after receiving a complaint will be reasoned, proportionate and will consider the circumstances of the facts denounced, always with full respect to the rights and the due guarantees for the whistle-blower and the persons affected, if any.

In listed Companies, the Audit and Control Committee of the Board of Directors of the corresponding company, through Internal Audit, where appropriate, is informed both about complaints regarding matters related to accounting aspects, to audit issues, to internal controls over financial information and / or all those issues referred to in the Sarbanes-Oxley Act, including any fraud, material or not, that affects the Management, or any other employee of the listed Company, who has a relevant role in the internal control of the financial information reporting process, and it is also informed about the result of the managing derived from the audit of these cases.

Internal Audit periodically informs the Audit and Control Committee of Telefonica, S.A. about the activity related to the Whistleblowing Channel. In this sense, this Audit and Control Committee receives periodic information on all relevant complaints received in the Group, and in particular, on complaints related to deficiencies in internal control over financial reporting, if applicable.

**Periodic training and updating courses for personnel involved in the preparation and review of financial information, as well as ICFR assessment, which cover, at least, accounting rules, auditing, internal control and risk management.**

With regard to the training of employees in financial and control matters, we must note that, in 2007, the Corporate University of Telefonica "Universitas Telefonica" started its activity, with the objective of contributing to the Telefonica Group's progress through the ongoing development of its professionals. All the programs in the training offer of the University of Telefonica are based on the development of the corporate culture, the business strategy and management and leadership competences.

Likewise, the Consolidation and Accounting Policies Area develops specific training actions, as well as updating seminars addressed to all personnel in the financial areas and other

affected areas of the Group (Tax, M&A, etc.), with the aim of making known those changes which, from an accounting and financial point of view, are relevant for the preparation of the consolidated financial information. This Area also publishes updated Information Bulletins on IFRS (International Financial Reporting Standards) where to present a summary of the main changes in accounting matters, as well as clarifications on various aspects that may arise in this matter.

Additionally, the personnel of the areas involved in financial reporting also attend technical sessions imparted by external enterprises related to the main accounting changes.

Lastly, the Telefónica Group has also a training platform included in the corporate People management tool (Success Factors), which includes both a Finance School, with specific knowledge and updating programs in financial information matters and an internal control training program that includes training related to auditing, internal control and risk management.

#### 4.8.2. Risk Assessment of Financial Information

##### Main characteristics of the risk identification process

Given the width of the universe of processes with impact on financial reporting at the Telefónica Group, a model has been developed to select the most significant processes based on applying the so-called Scope Definition Model, which is a part of the Audit Methodology on the Internal Control over Financial Information. This model is applied to the financial information reported by subsidiaries and associate companies. The model selects the significant accounts, i.e., those accounts with the largest contribution to the Group's consolidated financial information and, subsequently, identifies the relevant processes which generate the information of those accounts. Once the relevant processes have been identified, an analysis is made on those processes that have a more relevant impact on significant accounts, reviewing the effectiveness of the design and operating of the key controls which address the main associated risks or "objectives of financial information" (also named financial premises).

The aforementioned procedure for identifying and reviewing the key controls covers the objectives of the financial information (also named financial premises) of accuracy, valuation, integrity, cut-off of operations, existence / occurrence, presentation and comparability, as well as breakdown, and rights and obligations. This identification of the key controls, aimed at addressing the aforementioned financial premises of the significant accounts and relevant processes in scope, is carried out annually, verifying during the period that no event has taken place so as to determine a modification thereof.

With regard to the process for identifying the company perimeter, the Finance and Control Office carries out, in a periodic manner, an update on its consolidation perimeter, verifying additions and removals of companies with the legal and financial departments of the different companies which are part of the Group, including the corporate departments.

Telefónica constantly monitors the most significant risks that could affect the main companies that make up its Group. For this purpose, For that purpose the Company has a Risk Management Corporate Model based on COSO (Committee of Sponsoring Organizations of the Treadway Commission). It is implemented in a homogeneous manner in the main operations of the Group, so that the persons responsible for the Company, in their field of action, carry out a timely identification, assessment, response and monitoring of the main risks. After the update of the COSO ERM framework in 2017, "Enterprise Risk Management - Integrating with Strategy and Performance", Telefónica has been working on aligning its risk management model to the requirements of that framework, mainly in strengthening the link between the risks and the Company strategy.

The process for the control and management of risks takes as a reference starting point the strategy and objectives of the Company, as a basis for the identification of the main risks that might affect its attainment. Once identified, the risks are assessed in a qualitative and/or quantitative manner with a view to prioritising their monitoring and response to them, either through mitigation plans or through actions to avoid or transfer those risks.

In order to have an integral model, oriented to the needs and the own configuration of the Group, the Model of Telefónica considers a risk assessment with four complementary perspectives: Top-down, Bottom-up and cross (in projects and by processes).

According to this Model, and based on the references and practices recognised in risk management, four risk categories have been defined:

- Business: possible losses of value or results derived from the competition situation, from innovation, from the regulatory framework as well as from events that affect the sustainability and reputation of the Company.
- Operational: possible losses of value or results derived from events caused by the inadequacy or failures from the networks or computing systems, security, customer service, human resources, as well as operating management.
- Financial: possible losses of value or results derived from adverse movements in the economic environment or in financial variables, and from the inability of the company to face its commitments or to liquidate its assets. Likewise, risks of a fiscal nature are also included in this category.
- Legal and regulatory compliance: possible losses of value or results derived from litigation and compliance with anti-corruption legislation.

The Board of Directors, through the Audit and Control Committee, is the entity's governing body that supervises the process, as defined in Article 22 of the Regulation of the Board of Directors of Telefónica, S.A.

#### 4.8.3. Control Activities

### Procedures for reviewing and authorizing the financial information

The Board of Directors of Telefónica, S.A. approved, on March 26th, 2003, the "Regulations Governing Disclosure and Reporting to the Markets". This regulation regulates the basic principles of functioning of the financial disclosure control processes and systems, through which to aim at guaranteeing that all relevant information of Telefónica, S.A., at a consolidated level, is known by the Company's senior executives and its management team, assigning to Internal Audit the duty of assessing, periodically, the functioning of these processes and systems.

On a quarterly basis, the Consolidation and Accounting Policies Department of Telefónica submits to the Audit and Control Committee the periodic financial information, highlighting the main events occurred and the accounting criteria applied in its preparation, clarifying those aspects of major importance occurred during the period.

Likewise, the Telefónica Group has documented economic-financial processes in place which enable that the criteria for preparing financial information are common, both in the companies of the Group and in those activities that are outsourced, if any.

Likewise, the Company follows documented procedures for preparing the consolidated financial information, so that the persons responsible for the different areas involved verify this information.

Additionally, in accordance with internal regulations, the Executive Chairmen or Chief Executive Officers and the Finance Directors of the companies of the Group must submit to the Consolidation and Accounting Policies Office an annual certificate stating to have reviewed the financial information presented, stating that the financial statements submitted represent faithfully, in all their relevant aspects, the financial situation, results and liquidity situation, and, additionally, that there are not known significant risks to the business or unhedged risks which might have a significant incidence on the equity and financial position.

In relation to the accounting closing procedure, the Consolidation and Accounting Policies Office issues instructions, setting out the calendar and contents of the financial information reporting for the preparation of the consolidated annual accounts, which are mandatory to comply with.

The specific review on relevant judgments, estimates, valuations and projections is carried out by the Consolidation and Accounting Policies Office, to identify critical accounting policies to the extent that they require the use of estimates and value judgements. In these cases, the Consolidation and Accounting Policies Office establishes, likewise, the necessary operational coordination actions with the rest of the units in the Telefónica Group in their specific fields of action and knowledge, prior to presenting them to the Audit and Control Committee. The most relevant ones are dealt with by the Audit and Control Committee and Senior Management defines the presentation format in the annual accounts, prior to approval by the Board of Directors.

Finally, Internal Audit, within its annual audit plan, among other actions, establishes annually work plans to assess the model for internal control over financial reporting of the Telefónica Group, in line with the above stated. That is, the internal audit plans include the review on the design and operability of the controls on the breakdown and reporting of financial information, as well as the assessment of the internal control system of the mentioned process for the preparation of financial information, and the review of any modification, during the annual assessment period, of the Group's internal control system on the process for the preparation of the consolidated annual accounts.

### Internal control policies and procedures on information systems

The Global Security Policy considers an integral concept of the physical and operational security of human resources the information, technologies, cybersecurity, and material resources that support them as fundamental assets, with the purpose of guaranteeing corporate protection against potential damage or eventual losses. For this reason, guaranteeing the Group security is considered an essential aspect in the strategy of Telefónica and an essential enabler of the organisation's activity.

With the approval of this Policy, the Board of Directors expresses its determination and commitment to reaching a level of security that is adequate to the needs of the business and that guarantees the protection of the assets in a homogeneous way in all the companies of the Telefónica Group.

In this context, the Global Digital Security Office is responsible for the definition and promotion of the implementation of Security Policies and Standards in the Telefónica Group, understanding Security as an integral concept. These Policies and Standards aim at preserving the assets and protecting the strategic interests and objectives of the Telefónica Group, both in its vertical organisation (including its business units) and in its cross-cutting dimension (including its four technological platforms: (1) Network infrastructure and assets, (2) Infrastructures and assets of Information Systems, (3) Products and Services, and (4) Big Data and 4th Platform for data); With them, the confidentiality and integrity of the assets, interests and objectives of the Telefónica Group that are strategic is guaranteed, protecting them, as well, from potential actions that might affect their availability, damage their value, alter their contents, reduce their efficiency or affect their operability. The Global Digital Security Office is also in charge of measuring the level of implementation of the Security Regulations Framework on the assets and processes of the four technological platforms mentioned above and in charge of supervising the status of security on an ongoing manner.

The Global Networks and Information Systems Office of the Telefónica Group is responsible for the integral management of the infrastructures and assets of both the Network and the Information Systems for all the Group businesses, defining the technological strategy and planning, as well as their evolution and ensuring compliance with the conditions of service quality, cost and security required by the Group. Its various functions

include the development and implementation of Systems and Networks that improve the efficiency, effectiveness and profitability of the processes of the Group, as well as the implementation of Security Policies and Standards defined by the Global Security Office on the infrastructures and assets under its responsibility, including the Internal Control Model for Security in the field of Information Systems.

The security activities developed by organisational structures, responsible for assets and employees for the four technological platforms defined above will be governed by the principles of legality, efficiency, co-responsibility, cooperation, and coordination. The adequate mechanisms must be established to foster them, conduct them, control them and improve them.

- **Principle of Legality:** ensure the necessary compliance with all laws and regulations in matters of Security, both national and international, valid at any given time in any of the territories where the Telefónica Group operates.
- **Principle of Efficiency:** in order to reach the required level of Security in an efficient manner, the anticipatory and preventive nature of actions must be ensured. For this purpose, knowledge of potential threats must be privileged and potential risks must be analysed, as part of an intelligence process where to identify and understand the most relevant threats that affect the organisation. The objective is to get ahead of their action and evolution, and to safeguard the Telefónica Group's global organisation from their potential harmful effects and mitigate the damages from those risks down to an acceptable level for the business.

With the aim of reaching a homogeneous level of security, a Global Security Regulations Framework is defined, which will take into account the analyses of risks and threats as well as the setting of precise protective or corrective prevention measures.

Likewise, strategic plans will be conceived and prepared so that they enable to identify and prioritise the projects and budgets necessary for reaching the adequate levels of Security and Auditability, minimising the security risks identified in the corresponding analyses, and maximising the effectiveness of the investment and the resources used.

- **Principle of Co-responsibility:** users must preserve the Security of the assets that Telefónica makes available to them, in line with the security criteria, requirements, procedures, and technologies defined in the Security Regulations Framework, as well as in line with the applicable laws and regulations in this matter. At the same time, users must exclusively use the assets for the performance of activities that correspond to their workstation and assigned tasks.
- **Principle of Cooperation and Coordination:** in order to reach the levels of efficiency required by Telefónica business project, the global action and integral concept of Security activities must be preserved and, together with the aforementioned requirements of anticipation and prevention, cooperation and coordination between all

business units and employees must be prioritised, in order to generate the adequate synergies and to jointly reinforce the capabilities.

The Security Organisation coordinates the Security responsibilities of the various Telefónica Group structures, promoting cooperation among them to guarantee the efficient and joint protection of the assets.

Finally, the Internal Audit unit, with the scope established in its Annual Audit Plan, sets out work plans to verify the efficacy and efficiency of the IT governance model, the Information Security policies, the suitability of controls and their effective operation and the integrity of information.

**Internal control policies and procedures aimed at supervising the managing of activities outsourced to third parties, as well as those aspects of assessment, calculation or valuation commended to independent experts that may affect in a material manner the financial statements.**

In the case that a process or part of a process is outsourced to a third party unrelated to the company, this does not exempt from the need to have controls which ensure an adequate internal control level in the whole of the process. Given the importance of service outsourcing and the consequences that this can cause on the opinion about the effectiveness of the internal control over financial reporting, the necessary actions are taken in the Telefónica Group in order to achieve to evidence an adequate control level. The actions that are carried out to achieve the mentioned objective may vary among the three following ones:

- **Certification of internal control by an independent third party:** ISAE3402 and/or SSAE18 certifications in their different typologies.
- **Establishing specific controls:** identified, designed, implemented and assessed by the Company.
- **Direct assessment:** an assessment, carried out by the Internal Audit area, on certain administrative outsourced processes, with the scope established in its annual audit plan.

When Telefónica, S.A. or any of its subsidiaries uses the services of an independent expert whose result and conclusions may present potential impacts on the consolidated financial information, with regard to the process to select a supplier, the area that requests the service and, if applicable, together with the purchase department, must make sure about the competence, training, credentials and independence of the third party regarding the methods and main hypotheses used. The Finance and Control Office has established control activities aimed at guaranteeing the validity of data, the methods used, and the reasonability of the hypotheses used by the third party through the recurrent monitoring on the own KPIs<sup>1</sup> of each duty which enable to ensure compliance of the outsourced process according to the policies and guidelines issued by the Group.

Likewise, there is an internal procedure for engaging independent experts which requires certain levels of approval.

#### 4.8.4. Information and Communication

##### A specific duty in charge of accounting policies

The Consolidation and Accounting Policies Office of the Group is in charge of defining and updating the accounting policies for the purposes of consolidated financial information.

Thus, this area issues updated Information Bulletins on IFRS (International Financial Reporting Standards), where this area presents a summary of the main changes in accounting matters, as well as clarifications on various aspects that may arise regarding this matter. These Bulletins are monitored in a systematic way by the Accounting Policies Area, they are issued monthly.

Additionally, the Telefónica Group has a Manual of Accounting Policies which is updated annually, the last update took place in February 2019. The objectives of this Manual are: to adapt the corporate accounting principles and policies to the IFRS regulatory framework; to maintain accounting principles and policies which enable that the information is comparable within the Group and which facilitate an optimum management from the origin of the information; to improve the quality of the accounting information of the various Group companies and of the Consolidated Group by disclosing, agreeing and implementing accounting principles which are unique to the Group; and to facilitate the accounting integration of acquired and newly-created companies into the Group's accounting system by means of having a reference manual.

All companies belonging to the Telefónica Group must comply in a mandatory manner with the mentioned Manual when carrying out their reporting for the preparation of the consolidated financial information.

This documentation is regularly sent by email and is available for the whole Group on the Telefónica Intranet.

Likewise, the Accounting Policies Area maintains a fluid communication with the accounting heads of the Group's main operations, both proactively and reactively. This communication is useful not only for resolving doubts or conflicts but also to ensure that accounting criteria in the Group are homogeneous as well as to share best practices among operators.

##### Mechanisms to capture and prepare financial information

As stated above, there is a Manual for Filling in the Consolidation Reporting of the Telefónica Group which provides specific instructions for preparing the details which make up the reporting pack, reported by all components of the Telefónica Group for the preparation of the Telefónica Group's consolidated financial statements and the consolidated explanatory notes.

Likewise, the Telefónica Group has implemented a specific system, through a software, which supports the reporting of the individual financial statements of its various subsidiaries, as well as the necessary notes and disclosures for preparing the consolidated annual accounts. This tool is used, likewise, to carry out the consolidation process and its subsequent analysis. The system is managed centrally, and all components of the Telefónica Group use the same account plan.

#### 4.8.5. Supervision of System Operation

##### The ICFR supervision activities and results in 2019

As mentioned above, the Corporate Bylaws and Regulations of the Board of Directors state that the primary duty of the Audit and Control Committee shall be to support the Board of Directors in its supervisory duties, establishing among its competencies to supervise the effectiveness of the Company's internal controls and the systems for risk management and control, as well as to discuss with the Account Auditors significant deficiencies or material weaknesses in the internal control system over financial reporting detected during the development of the audit.

Telefónica has an Internal Control Policy that sets that the Board of Directors, through the Audit and Control Committee, supervises the internal control system, with the support of the Internal Audit unit of the Telefónica Group. In that Policy, "internal control" is defined as the process performed by the Board of Directors, Management and the rest of the staff of the Company, being designed with the purpose of providing a reasonable assurance degree for the attainment of the objectives related to operations, information and compliance. With the purpose of helping to the achievement of its objectives, the Company has an internal control model defined in accordance with the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Likewise, there is an Internal Audit Organization Policy, which includes aspects regarding the organisation and functioning of this area.

According to what is set in that Policy, Internal Audit is the area in Telefónica in charge of confirming, by means of appropriate evidence, the adequate functioning of the internal control and risk management structures and, if applicable, detecting possible inefficiencies or non-compliance with the control system that the Group establishes in its processes. In this manner, Internal Audit becomes an area independent from the Company management which supports the Audit and Control Committee in its competencies on assurance, risk management and the internal control system.

The Internal Audit function is developed in accordance with the International Standards for the Professional Practice of Internal Auditing and, in this regard, it has been awarded a Quality Certificate from the International Institute of Internal Auditors.

With regard to supervision of Internal Control over Financial Reporting (ICFR), Telefónica, S.A., as company listed on the New York Stock Exchange, is subject to the regulatory requirements established by the North American regulatory bodies that affect companies listed on that Stock Exchange.

Among those requirements is the aforementioned Sarbanes-Oxley Act, of 2002, and, specifically, Section 404 of that Act, which stipulates the need for companies listed in the US market to assess on an annual basis the effectiveness of the procedures and structures of the internal control over financial reporting (ICFR). In order to comply with this requirement, and as stated above, the Telefónica Group has a model to assess the system for the internal control over financial reporting (ICFR), Internal Audit is the area in charge of performing, on an annual basis, the assessment on its effectiveness.

Additionally, and in accordance with what is established by this Act, the External Auditor issues their own independent opinion on the effectiveness of the system for the internal control over financial reporting (ICFR) in accordance with the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

#### Review on specific processes and controls

Without prejudice to filling in the self-assessment questionnaire, in certain companies, according to criteria regarding the relevance of their contribution to the economic-financial magnitudes of the Group and other considered risk factors, a direct review is made on their processes and controls by applying the ICFR-SOX Assessment Methodology of the Telefónica Group, for this purpose, the Scope Definition Model is available, which enables to identify the significant accounts of each Company of the Telefónica Group depending on the previously established criteria for the assessment on the system for the internal control over financial reporting (ICFR) at the Telefónica Group level.

Once the significant accounts subject to be reviewed are identified, the General Assessment Model is applied in the following manner:

- Identify processes and systems associated with significant accounts.
- Identify risks regarding financial reporting associated to those processes.
- Review and, if necessary, establish control activities in processes in order to guarantee, in a reasonable manner, that the documentation and the design of controls over financial reporting are adequate.
- Assess, by applying audit tests, the effectiveness of the design and the operability of key control activities.

#### Review on IT general controls

The Information Technology General Controls (ITGCs), which support the business processes in the assessment scope of the internal control over financial reporting (ICFR), are assessed at least annually, they consider aspects fundamentally related to

regulations and guidelines which apply at global level in the Group.

The review on IT general controls over information systems has the objective to assess the effectiveness of the design and operability of key controls related to (i) managing changes to programs, which includes the authorization of the changes implemented at the production stage and that must be supported by their corresponding user tests (UATs), ensuring an adequate segregation of duties and environments, such as (i) logical access, which includes the control on credentials and profiles, as well as the segregation of duties and the monitoring of activities that are critical in information systems and in the technological infrastructure that supports them (databases and operating systems), and (ii) other IT general controls which support the correct operation of information systems (managing changes to infrastructures, back-ups, managing programmed tasks and their monitoring and managing gaps).

#### Self-assessment Questionnaires

All the companies that depend from the Group receive annually internal control self-assessment questionnaires, whose answers must be subsequently certified by the persons responsible for the internal control over financial reporting (ICFR), in each Company (Executive Presidents or / and Finance Directors). These questionnaires address aspects of internal control over financial reporting (ICFR) that are considered minimum requirements in order to achieve a reasonable assurance of the reliability of the financial information reported. The answers are audited by the Internal Audit Unit on a sample basis.

#### Assessment on the system for the internal control over financial reporting (ICFR)

Internal Audit has performed the assessment of the effectiveness of Telefónica's internal control over financial reporting as of December 31, 2019, concluding that Telefónica Group maintained in all material respects, an effective internal control system over financial reporting as of December 31, 2019, in accordance with the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

#### Other results on the assessment on the system for the internal control over financial reporting (ICFR)

In case of identifying control deficiencies and/or improvement opportunities during the ICFR assessment procedures, those control deficiencies and/or improvement opportunities must be reported to Management through the conclusions issued by Internal Audit, analysing their impact, both individual and aggregate, on the assessment on the system for the internal control over financial reporting (ICFR) of the Telefónica Group, if applicable. Additionally, for the purposes of this assessment, it is necessary to consider the existing compensating controls, which validate the processes supported in case that the original controls cannot be corrected. In addition, the significant deficiencies or material weaknesses are reported to the Audit and Control Committee.

### Action plans

The control owners communicate their action plans agreed for solving the identified control deficiencies, as well as the deadlines scheduled for their implementation. These action plans have as fundamental objectives:

- To remedy the control deficiencies identified in the ICFR annual assessment, so that the control activities operate in an effective manner.
- To prioritise the implementation of improvement opportunities in the efficiency of processes; improvement opportunities are defined as such, since they do not constitute internal control deficiencies.

In the case of having identified significant deficiencies or material weaknesses in the system for the internal control over financial reporting, the implementation of their corresponding action plans would be followed-up periodically by the Audit and Control Committee.

### Weakness detection and management procedure

As previously stated, the Internal Audit area is also in charge, among other functions, to provide support to the Audit and Control Committee in the supervision of the functioning of the system for the internal control over financial reporting (ICFR).

The Internal Audit unit participates in the Audit and Control Committee meetings and informs regularly about the conclusions of the carried out works, and also informs about the action plans designed and agreed for mitigation and about the degree of implementation thereof. This includes to communicate internal control significant deficiencies and material weaknesses which may have been identified in the process for ICFR assessment, as well as the follow-up on the implementation of action plans related to significant deficiencies and material weaknesses.

On the other hand, the External Auditor also participates in the Audit and Control Committee, at the request of the Audit and Control Committee, in order to explain and clarify aspects of their audit reports and the rest of work carried out by the External Auditor, which including work carried out to audit the effectiveness of the internal control over financial reporting. The External Auditor is obliged to communicate the internal control significant deficiencies or material weaknesses identified in the development of their audit on the system for the internal control over financial reporting (ICFR). For this purpose, the External Auditor has direct access at all times to Senior Management and the Chairman of the Audit and Control Committee, the External Auditor also reports independently to that Committee the results of both the preliminary and final phase of their audit on the system for the internal control over financial reporting (ICFR).

### 4.8.6. External Auditor's Report

As indicated above, the Group was commissioned to the External Auditor, both to audit the effectiveness of the internal control system over financial reporting (ICFR) in accordance with the criteria established in Internal Control - Integrated

Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and to review the description of the attached information on the ICFR the Telefónica Group, whose report is attached an appendix to this document.



*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## Independent reasonable assurance report on the design and effectiveness of the internal control over financial reporting (ICFR)

To the Board of Directors of Telefónica, S.A.:

We have carried out a reasonable assurance report of the design and effectiveness of the Internal Control over Financial Reporting (hereinafter, ICFR) and the description of it that is included in the attached Report that forms part of the corresponding section of the Annual Corporate Governance Report of the Directors Report accompanying the consolidated financial statements of Telefónica, S.A., and its subsidiaries (hereinafter, the Telefónica Group) as at December 31, 2019. This system is based on the criteria and policies defined by the Telefónica Group in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control-Integrated Framework 2013" report.

An Internal Control over Financial Reporting is a process designed to provide reasonable assurance over the reliability of financial information in accordance with the applicable financial reporting framework and includes those policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it and that they are made only in accordance with established authorizations; and (iii) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, use or sales of the Group's assets that could have material effect on the financial information.

### Inherent Limitations

In this regard, it should be borne in mind that, given the inherent limitations of any Internal Control over Financial Reporting, regardless of the quality of the design and operation of the system, it can only allow reasonable, but not absolute security, in relation to the objectives it pursues, which may lead to errors, irregularities or fraud that may not be detected. On the other hand, the projection to future periods of the evaluation of internal control is subject to risks such that said internal control being inadequate as a result of future changes in the applicable conditions, or that in the future the level of compliance of the established policies or procedures may be reduced.

### Director's responsibility

The Directors of Telefónica, S.A. are responsible for taking the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate Internal Control over Financial Reporting, as well as the evaluation of its effectiveness, the development of improvements to that system and the preparation and establishment of the content of the information relating to the ICFR attached.



### Our Responsibility

Our responsibility is to issue a reasonable assurance report on the design and effectiveness of the Telefónica Group Internal Control over Financial Reporting, based on the work we have performed and on the evidence we have obtained. We have performed our reasonable assurance engagement in accordance with "International Standard on Assurance Engagements 3000 (ISAE 3000)" (Revised), "Assurance Engagements other than Auditing or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

A reasonable assurance report includes the understanding of the Internal Control over Financial Reporting, assessing the risk of material weaknesses in the internal control, that the controls are not properly designed or they do not operate effectively, the execution of tests and evaluations on the design and effective implementation of this ICFR, based on our professional judgment, and the performance of such other procedures as may be deemed necessary.

We believe that the evidence we have obtained provides a sufficient and adequate basis for our opinion.

### Our Independence and Quality Control

We have complied with the independence requirements and other ethical requirements of the Accounting Professionals Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior.

Our firm applies the "International Standard on Quality Control 1 (ISQC 1)" and maintains an exhaustive qualitative control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory provisions.

### Opinion

In our opinion, the Telefónica Group maintained, as at December 31, 2019, in all material respects, an effective Internal Control over Financial Reporting for the period ended at December 31, 2019, which is based on the criteria and the policies defined by the Telefónica Group's management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control-Integrated Framework 2013" report.

In addition, the attached description of the ICFR Report as at December 31, 2019 has been prepared, in all material respects, in accordance with the requirements established by article 540 of the Consolidated Text of the Capital Companies Act and with the Circular 5/2013 of June 12, 2013 of the CNMV, as amended by CNMV Circular No. 7/2015 dated December 22, 2015 and CNMV Circular No. 2/2018 dated June 12, 2018 for the purposes of the description of the ICFR in the Annual Reports of Corporate Governance.

This work does not constitute an audit nor is it subject to the regulations governing the audit activity in force in Spain, so we do not express any audit opinion in the terms provided in the aforementioned regulations.

PricewaterhouseCoopers Auditores, S.L.

A handwritten signature in blue ink, appearing to read 'Virginia Arce', with a horizontal line drawn through it and a small arrow pointing to the right.

Virginia Arce Peralta

February 20, 2020

## 4.9. Additional Corporate Governance Information

**4.9.1 Annual Corporate Governance Report Statistical Annex for listed companies (established by Circular 2/2018, of 12 June, of the Spanish Securities and Exchange Commission, that modifies Circular 5/2013, of 12 June, that established the templates for the Annual Corporate Governance Report for listed companies).**

Unless otherwise indicated all data as of 31 December 2019.

### A. Capital Structure

**A.1 Complete the table below with details of the share capital of the company:**

Date of last change	Share capital (€)	Number of shares	Number of voting rights
20/09/2017	5,192,131,686.00	5,192,131,686	5,192,131,686

**Please state whether there are different classes of shares with different associated rights:**

No

**A.2 Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:**

Name or corporate name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
Banco Bilbao Vizcaya Argentaria, S.A.	5.16	0.02	0.00	0.00	5.18
CaixaBank, S.A.	5.00	0.01	0.00	0.00	5.01
BlackRock, Inc.	0.00	5.03	0.00	0.18	5.21

**Breakdown of the indirect holding:**

Name or corporate name of indirect shareholder	Name or corporate name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
Banco Bilbao Vizcaya Argentaria, S.A.	BBVA Seguros, S.A. de Seguros y Reaseguros	0.02	0.00	0.02
CaixaBank, S.A.	VidaCaixa, S.A. de Seguros y Reaseguros	0.01	0.00	0.01
BlackRock, Inc.	Grupo BlackRock	5.03	0.18	5.21

**A.3 In the following tables, list the members of the Board of Directors (hereinafter directors) with voting rights in the company:**

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Mr. José María Álvarez-Pallete López	0.03%	0.00%	0.02%	0.00%	0.05%	0.00%	0.00%
Mr. Isidro Fainé Casas	0.01%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%
Mr. José María Abril Pérez	0.01%	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%
Mr. José Javier Echenique Landiribar	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. Ángel Vilá Boix	0.01%	0.00%	0.01%	0.00%	0.02%	0.00%	0.00%
Mr. Peter Erskine	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ms. Carmen García de Andrés	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ms. María Luisa García Blanco	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. Peter Löscher	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. Ignacio Moreno Martínez	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. Francisco Javier de Paz Mancho	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. Francisco José Riberas Mera	0.00%	0.12%	0.00%	0.00%	0.12%	0.00%	0.00%

**Total percentage of voting rights held by the board of directors**

0.21%

**Breakdown of indirect holding:**

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments
Mr. José María Abril Pérez	Other company shareholders	0.01%	0.00%	0.01%	0.00%
Mr. José Javier Echenique Landiribar	Other company shareholders	0.00%	0.00%	0.00%	0.00%
Mr. Francisco José Riberas Mera	Other company shareholders	0.12%	0.00%	0.12%	0.00%
Ms. María Luisa García Blanco	Other company shareholders	0.00%	0.00%	0.00%	0.00%

**A.7 State whether the company has been notified of any shareholders' agreements that may affect it, in accordance with Articles 530 and 531 of the Ley de Sociedades de Capital (Corporate Enterprises Act or LSC). If so, describe these agreements and list the party shareholders:**

No

**State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:**

No

**A.8 State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores (Spanish Securities Market Act or LMV). If so, please identify them:**

No

**A.9 Complete the following table with details of the company's treasury shares:**

**At close of the year:**

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
77,562,635	-	1.49 %

**(\*) Through:**

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**A.11 Estimated working capital:**

	%
Estimated working capital	82.90

**A.14 State if the company has issued shares that are not traded on a regulated EU market.**

Yes

## B. General Shareholders' Meeting

**B.4 Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:**

Date of general meeting	Attendance data				
	% physically present	% present by proxy	% distance voting		Total
			Electronic voting	Other	
09/06/2017	0.27%	55.71%	0.03%	0.49%	56.50%
Of which, free float	0.06%	35.87%	0.03%	0.49%	36.45%
08/06/2018	0.09%	52.80%	0.04%	0.49%	53.42%
Of which, free float	0.03%	34.64%	0.04%	0.49%	35.20%
07/06/2019	0.12%	53.62%	0.02%	0.89%	54.65%
Of which, free float	0.07%	32.33%	0.02%	0.89%	33.31%

**B.5 State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason.**

No

**B.6 State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:**

Yes

Number of shares requires to attend General Meetings	300
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Number of shares requires for distance voting	300
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## C. Company management structure

### C.1 Board of Directors

**C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:**

Maximum number of directors	20
Minimum number of directors	5
Number of directors set by the general meeting	17

**C.1.2 Please complete the following table on directors:**

Name of director	Natural person representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board
Mr. José María Álvarez-Pallete López	—	Executive	Chairman	26/07/2006	09/06/2017	Resolution of General Shareholders' Meeting
Mr. Isidro Fainé Casas	—	Proprietary	Vice Chairman	26/01/1994	12/05/2016	Resolution of General Shareholders' Meeting
Mr. José María Abril Pérez	—	Proprietary	Vice Chairman	25/07/2007	08/06/2018	Resolution of General Shareholders' Meeting
Mr. José Javier Echenique Landiribar	—	Independent	Vice Chairman	08/04/2016	12/05/2016	Resolution of General Shareholders' Meeting
Mr. Ángel Vilá Boix	—	Executive	Chief Operating Officer	26/07/2017	08/06/2018	Resolution of General Shareholders' Meeting
Mr. Juan Ignacio Cirac Sasturain	—	Independent	Director	08/04/2016	12/05/2016	Resolution of General Shareholders' Meeting
Mr. Peter Erskine	—	Other External	Director	25/01/2006	12/05/2016	Resolution of General Shareholders' Meeting
Ms. Sabina Fluxà Thienemann	—	Independent	Director	08/04/2016	12/05/2016	Resolution of General Shareholders' Meeting
Ms. Carmen García de Andrés	—	Independent	Director	04/05/2017	09/06/2017	Resolution of General Shareholders' Meeting
Ms. María Luisa García Blanco	—	Independent	Director	25/04/2018	08/06/2018	Resolution of General Shareholders' Meeting
Mr. Jordi Gual Solé	—	Proprietary	Director	31/01/2018	08/06/2018	Resolution of General Shareholders' Meeting
Mr. Peter Löscher	—	Independent	Director	08/04/2016	12/05/2016	Resolution of General Shareholders' Meeting
Mr. Ignacio Moreno Martínez	—	Proprietary	Director	14/12/2011	09/06/2017	Resolution of General Shareholders' Meeting
Ms. Verónica Pascual Boé	—	Independent	Director	18/12/2019	18/12/2019	Co-optation
Mr. Francisco Javier de Paz Mancho	—	Other External	Director	19/12/2007	08/06/2018	Resolution of General Shareholders' Meeting
Mr. Francisco José Riberas Mera	—	Independent	Director	04/05/2017	09/06/2017	Resolution of General Shareholders' Meeting
Ms. Claudia Sender Ramírez	—	Independent	Director	18/12/2019	18/12/2019	Co-optation
<b>Total number of directors</b>						<b>17</b>

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was member	Indicate whether the director left before the end of the term
Mr. Luiz Fernando Furlán	Independent	08/06/2018	18/12/2019	Member of the Nominating, Compensation and Corporate Governance Committee	Yes
Mr. Wang Xiaochu	Proprietary	12/05/2016	18/12/2019	—	Yes

C.1.3 Complete the following tables regarding the members of the Board and their categories:

#### EXECUTIVE DIRECTORS

Name or company name of director	Post in organisational chart of the company	Profile
Mr. José María Álvarez-Pallete López	Executive Chairman	Degree in Economics. International Management Program (IPM) from IPADE Business School (Instituto Panamericano de Alta Dirección de Empresa). An Advance Research Degree from the Department of Financial Economics and Accounting.
Mr. Ángel Vilá Boix	Chief Operating Officer (C.O.O.)	Degree in Industrial Engineering. MBA at Columbia Business School.

<b>Total number of executive directors</b>	2
<b>Percentage of Board</b>	11.76%

## PROPRIETARY DIRECTORS

Name of Director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
Mr. José María Abril Pérez	Banco Bilbao Vizcaya Argentaria, S.A.	Degree in Economics. Professor at the University of Deusto.
Mr. Ignacio Moreno Martínez	Banco Bilbao Vizcaya Argentaria, S.A.	Degree in Economics and Business Administration. MBA at INSEAD. Chairman of Metrovacesa, S.A., Director of Roadis Transportation Holding, S.L.U. and Director of General de Alquiler de Maquinaria, S.A. (GAM). Senior Advisor of Apollo Investment Consulting Europe LTD for Spain.
Mr. Isidro Fainé Casas	CaixaBank, S.A.	PhD in Economics. ISMP in Business Administration. Post graduate degree in senior management at IESE. An academic at the Royal Academy of Economic and Financial Sciences and at the Real Academia de Doctores. Chairman of the Board of Trustees of Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa" and Criteria Caixa, S.A.U. Director of "The Bank of East Asia", and of Suez. Chairman of the Spanish Confederation of Savings Banks (CECA), of the World Savings Bank Institute (WSBI) and Vice Chairman of European Savings Banks Group (ESBG). Chairman of the Spanish Confederation of Directors and Executives (CEDE). Honorary Chairman of Naturgy Energy Group, S.A.
Mr. Jordi Gual Solé	CaixaBank, S.A.	PhD in Economics. Professor of Economics at the IESE Business School. Research Fellow at the Centre for Economic Policy Research (CEPR) in London. Chairman of CaixaBank, S.A. Member of the Supervisory Board at Erste Group Bank. Chairman of FEDEA. Vice Chairman of Círculo de Economía and of Cotec Foundation for Innovation, and member of the Board of Trustees of CEDE Foundation, of Real Instituto Elcano Foundation and of Barcelona Mobile World Capital Foundation.
<b>Number of independent directors</b>		4
<b>Percentage of the Board</b>		23.53%

## INDEPENDENT DIRECTORS

Name of director	Profile
<b>Mr. Juan Ignacio Cirac Sasturain</b>	Graduated in Theoretical Physics. PhD in Physics. Fields of specialization in Quantum Optics, Quantum Computation, Atomic Physics. Co-Director of the Munich Quantum Science and Technology Center. Director of International Max-Planck Research School Quantum Science and Technology.
<b>Mr. José Javier Echenique Landiribar</b>	Economics and Actuarial Sciences Graduate. Professor of Social Security Quantitative Techniques. Vice Chairman of Banco Sabadell, S.A. Director of ACS Actividades de Construcción y Servicios, S.A., Director of ACS Servicios, Comunicaciones y Energía, S.L., and Director of Grupo Empresarial ENCE, S.A. Trustee of Novia Salcedo Foundation, Director of the Deusto Business School, Member of the Basque Businessmen Circle and of the McKinsey Advisory Council.
<b>Ms. Sabina Fluxà Thienemann</b>	Degree in Business Management and Administration. MBA from ESADE. High Business Management Program at IESE. Vice Chairman and CEO of Iberostar Group. Member of the Board of Directors of APD Illes Balears. Trustee of Iberostar Foundation.
<b>Ms. Carmen García de Andrés</b>	Degree in Economic and Business Sciences. Chairwoman of Tomillo Foundation. Member of the Young Business Spain Foundation. Member of the Asociación Española de Fundaciones (AEF), being currently its Treasurer. Member of the Trust of Secretariado Gitano, of Xavier de Salas Foundations, and as well as member of the Board of Directors of the collective initiative "Juntos por el Empleo de los más desfavorecidos". Co-Founder and member of the Trust of "Aprendiendo a Ser".
<b>Ms. María Luisa García Blanco</b>	Degree in Law. State Attorney (on leave of absence). Founding Partner at law firm Salama García Blanco.
<b>Mr. Peter Löscher</b>	Degree in Economics and Business. MBA at Vienna University of Economics. Advanced Management Program at Harvard Business School. Honorary Doctorate of Engineering from Michigan State University. Doctor Honoris Causa of Slovak University of Engineering in Bratislava. Chairman of the Board of Directors of Sulzer AG, member of the Board of Thyssen-Bornemisza Group AG, and a no-executive member of the Board of Directors of Doha Venture Capital LLC, Qatar.
<b>Ms. Verónica Pascual Boé</b>	Degree in Aeronautical Engineering. Master in Business Administration (MBA). Executive Master in Positive Leadership and Strategy (EXMPLS) from IE Business School. Several postgraduate qualifications from INSEAD, Stanford, and Harvard Business School. CEO of ASTI Mobile Robotics Group. Director of General de Alquiler de Maquinaria, S.A. (GAM).
<b>Mr. Francisco José Riberas Mera</b>	Degree in Law and in Economics and Business Administration. Chief Executive Officer of Gestamp Automoción, S.A. Member of the Board of Directors of CIE Automative, S.A. and of General de Alquiler de Maquinaria, S.A. (GAM). Chairman of the Instituto de la Empresa Familiar and collaborates with the Endeavor Foundation.
<b>Ms. Claudia Sender Ramírez</b>	Degree in Chemical Engineering. MBA from Harvard Business School. Director of LafargeHolcim Ltd, Director of Gerdau, S.A., and Director of Yduqs. Director of the ONG Amigos do Bem.

<b>Total number of independent directors</b>	9
<b>Percentage of the Board</b>	52.94%

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

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In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

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**OTHER EXTERNAL DIRECTORS**

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
Mr. Peter Erskine	Mr. Peter Erskine was appointed Director of Telefónica, S.A. in 2006, and therefore, in accordance with article 529 duodecies of the Spanish Companies Act ("Those who, among other situations, have been Directors for a continuous period of more than 12 years may not be considered Independent Directors under any circumstances"), and 12 years after his appointment, he was reclassified from Independent Director to "Other External" Director.	Telefónica, S.A.	Degree in Psychology. Honorary Doctorate from the University of Reading. Until December 2007 he was General Manager of Telefónica Europe. From 2009 to 2015 he was Chairman of Ladbrokes, Plc. Chairman of the Charity Brainstorm.
Mr. Francisco Javier de Paz Mancho	Mr. Francisco Javier de Paz Mancho was appointed Director of Telefónica, S.A. in 2006, and therefore, in accordance with article 529 duodecies of the Spanish Companies Act ("Those who, among other situations, have been Directors for a continuous period of more than 12 years may not be considered Independent Directors under any circumstances"), and 12 years after his appointment, he was reclassified from Independent Director to "Other External" Director.	Telefónica, S.A.	Graduate in Information and Advertising. Law Studies. IESE business Management Program (University of Navarra). Formerly Chairman of the State owned company MERCASA. From 2014 to 2016, he was Chairman of Telefónica Gestión de Servicios Compartidos.

<b>Total number of other external directors</b>	2
<b>Percentage of the Board</b>	11.76%

State any changes in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current Status
Mr. Francisco Javier de Paz Mancho	18/12/2019	Independent Director	Other External Director

**C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:**

	Number of female directors				% of directors for each category			
	Year 2019	Year 2018	Year 2017	Year 2016	Year 2019	Year 2018	Year 2017	Year 2016
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	5	3	2	1	55.56%	33.33%	22.22%	11.11%
<b>Other external</b>	0	0	1	1	0.00%	0.00%	100.00%	33.33%
<b>Total</b>	5	3	3	2	29.41%	17.65%	18.75%	11.11%

**C.1.11 List any legal-person directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:**

Name of director	Name of listed company	Position
Mr. José Javier Echenique Landiribar	Banco Sabadell, S.A	Vice-Chairman
	ACS, Actividades de Construcción y Servicios, S.A	Director
	Ence, Energía y Celulosa, S.A	Director
Mr. Isidro Fainé Casas	The Bank of East Asia	Director
	Suez Environnement Company	Director
Mr. Jordi Gual Solé	CaixaBank, S.A	Chairman
	Erste Group Bank, AG	Director
Mr. Peter Löscher	Sulzer AG	Chairman
Mr. Ignacio Moreno Martinez	Metrovacesa, S.A.	Chairman
	General del Alquiler de Maquinaria, S.A. (GAM)	Director
Ms. Verónica Pascual Boé	General del Alquiler de Maquinaria, S.A. (GAM)	Director
Mr. Francisco José Riberas Mera	Gestamp Automoción, S.A.	Chairman
	CIE Automotive, S.A.	Director
	General del Alquiler de Maquinaria, S.A. (GAM)	Director
Ms. Claudia Sender Ramírez	LafargeHolcim Ltd.	Director
	Gerdau, S.A.	Director
	Yduqs	Director

**C.1.12 State whether the company has established rules on the number of board on which its directors may hold sets, providing details if applicable, identifying, where appropriate, where his is regulated:**

Yes

**C.1.13 State total remuneration received by the Board of Directors:**

Board remuneration in financial year (thousand euros)	13,072
Amount of vested pension interests for current members (thousand euros)	17,133
Amount of vested pension interests for former members (thousand euros)	1,637

**C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:**

Name	Position
Mr. Pablo de Carvajal González	General Secretary, Secretary of the Board of Directors and Director Global of Regulation
Ms. Laura Abasolo García de Baquedano	Chief Finance and Control Officer
Mr. Guillermo Ansaldo Lutz	CEO of Telefónica Infra
Mr. Juan Francisco Gallego Arrechea	General Manager of Internal Audit
Mr. Eduardo Navarro de Carvalho	Chief Comms, Corporate Affairs, Brand and Sustainability Officer
<b>Total senior management remuneration (thousand euros)</b>	<b>11,843</b>

**C.1.15** State whether the Board rules were amended during the year

Yes

**C.1.21** Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors.

Yes

**C.1.23** State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law:

No

**C.1.25** State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	12
Number of Board meetings without the chairman	0

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	0
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Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the Executive Committee	16
Number of meetings held by the Audit and Control Committee	14
Number of meetings held by the Nominating, Compensation and Corporate Governance Committee	11
Number of meetings held by the Sustainability and Quality Committee	5
Number of meetings held by the Regulation and Institutional Affairs Committee	11
Number of meetings held by the Strategy and Innovation Committee	9

**C.1.26** State the number of meetings held by the Board of Directors during the year in which all of its directors were present. For the purposes of this section, proxies given with specific instructions should be considered as attendance:

Number of meetings attended in person by at least 80% of the directors	12
% of personal attendance over the total of votes cast during the fiscal year	90.20%
Number of meetings attended in person, or representations made with specific instructions, of all directors	12
% of votes personally cast and representations realized with specific instructions over the total of votes cast during the fiscal year.	100%

**C. 1.27** State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

No

State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

-

**C.1.29** Is the secretary of the Board also a director?

No

If the secretary is not a member of the Board, fill in the following table:

Name of the secretary	Representative
Mr. Pablo de Carvajal González	—

**C.1.31** State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

No

If there were any disagreements with the outgoing auditor, please provide an explanation:

No

**C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:**

No

**C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.**

No

**C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:**

	Individual	Consolidated
Number of consecutive years	3	3
Number of years audited by the current audit firm/ number of fiscal years the company has been audited (by %)	8.11	10.34

**C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:**

Yes

#### Explanation of procedure

The Company adopts the necessary measures, whenever possible, that the Directors receive the necessary information, specially drawn up and geared to preparing the meetings of the Board and its Committees, sufficiently in advance. Under no circumstances shall such a requirement not be fulfilled, on the grounds of the importance or the confidential nature of the information, apart from in absolutely exceptional cases.

In this regard, and in accordance with Articles 18 and 20 of the Regulation of the Board of Directors, at the beginning of each year the Board of Directors and its Committees set the calendar of ordinary meetings to be held during the year. The calendar may be amended by resolution of the Board itself, or by decision of the Chairman, in which case the Directors shall be made aware of the amendment as soon as practicable. Likewise, the Regulations of the Audit and Control Committee detail the operating regime of this Committee.

Also, at the beginning of the year the Board and its Committees shall prepare an Action Plan detailing the actions to be carried out and their timing for each year, as per their assigned powers and duties.

Likewise, all the meetings of the Board and the Board Committees have a pre-established agenda, which is communicated at least three days prior to the date scheduled for the meeting together with the call for the session. The Agenda for each meeting will clearly state points on which the Board of Directors, or the Executive Committee, have to adopt a decision or resolution.

For the same purpose, in general, the Directors are sent the documentation related to the agenda of the meetings sufficiently in advance. In accordance with Article 19 of the Regulations of the Board of Directors, the Chairman of the Board of Directors organizes the debates, promoting and encouraging all Directors to play an active role in the deliberations, safeguarding their right to freely adopt their own position on all matters. Moreover, with the assistance of the Secretary, he shall ensure that the Directors are sent sufficient information to discuss the points set out in the agenda sufficiently in advance of the meeting. He also ensures that sufficient time is given over to discussing strategic matters, and shall encourage debate during meetings, safeguarding the Directors' right to adopt their positions freely on all points discussed.

To provide all the information and clarifications necessary in relation to certain points deliberated, the Group's senior executive officers attend nearly all the Board and Committee meetings to explain the matters within their powers.

Furthermore, and as a general rule, the Regulations of the Board of Directors (Article 26) expressly establish that Directors are granted the broadest powers to obtain information about all aspects of the Company, to examine its books, records, documents and other data regarding corporate transactions. Exercising of this right to receive information shall be channeled through the Chairman or Secretary to the Board of Directors, who shall respond to the requests made by the Directors, providing them with the requested information directly or offering them the proper contacts at the appropriate level of the organization.

**C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.**

<b>Number of beneficiaries</b>	27
<b>Type of beneficiaries</b>	Executive Directors, Senior Managers and other Employees

**Description of Agreement:** With regards to the conditions applicable to termination of contracts, the Executive Chairman, Mr. José María Álvarez-Pallete López, and the Chief Operating Officer (C.O.O.), Mr. Ángel Vilá Boix, maintain the conditions of his previous contract which provided for agreed economic compensation for the termination of the employment relationship, where applicable, that can amount to four years' of remuneration at the most. Annual remuneration on which the indemnity is based is the last fixed remuneration and the arithmetic mean of the last two variable remuneration payments received by contract.

Regarding the contracts of members of Senior Management, in general, they are contractually entitled the right to receive the economic compensation indicated below in the event that their employment relationship is ended for reasons attributable to the Company or, in some instances, is due to objective reasons such as a change of control in the Company. However, if the employment relationship is terminated because of a breach attributable to the Executive, he/she will not be entitled to any compensation whatsoever. That notwithstanding, in certain cases the severance benefit to be received by the member of Senior Management according to their contract is not calculated as per these general criteria, but rather is based on other circumstances of a personal or professional nature or on the time when the contract was signed. The agreed economic compensation for the termination of the employment relationship, where applicable, consists of a maximum of three times annual remuneration plus another year based on length of service at the Company. Annual remuneration on which the indemnity is based is the last fixed remuneration and the arithmetic mean of the last two variable remuneration payments received by contract.

Meanwhile, contracts that tie employees to the Company under a common employment relationship do not include indemnity clauses for the termination of their employment. In these cases, the employee is entitled to any indemnity set forth in prevailing labor legislation. However, contracts of some company employees, depending on their level and seniority, as well as their personal or professional circumstances or when they signed their contracts, establish their right to receive compensation in the same cases as in the preceding paragraph, generally consisting of a year and a half salary. The annual salary on which the indemnity is based is the last fixed salary

and the average amount of the last two variable payments received b contract.

**State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:**

	Board of directors	General Shareholders' Meeting
<b>Body authorizing the severance clauses</b>	-	-
<b>Are these clauses notified to the General Shareholders' Meeting</b>	No	

## C.2 Committees of the Board of Directors

**C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:**

### EXECUTIVE COMMISSION

Name	Post	Category
Mr. José María Álvarez-Pallete López	Chairman	Executive
Mr. Isidro Fainé Casas	Vice Chairman	Proprietary
Mr. José María Abril Pérez	Vice Chairman	Proprietary
Mr. José Javier Echenique Landiribar	Vice Chairman	Independent
Mr. Ángel Vilá Boix	Member	Executive
Mr. Peter Erskine	Member	Other External
Mr. Francisco Javier de Paz Mancho	Member	Other External
<b>% of executive directors</b>		28.57%
<b>% of proprietary directors</b>		28.57%
<b>% of independent directors</b>		14.29%
<b>% of external directors</b>		28.57%

## AUDIT AND CONTROL COMMITTEE

Name	Post	Category
Mr. José Javier Echenique Landiribar	Chairman	Independent
Ms. Carmen García de Andrés	Member	Independent
Mr. Peter Löscher	Member	Independent
Mr. Ignacio Moreno Martínez	Member	Proprietary

% of executive directors	0.00%
% of proprietary directors	25.00%
% of independent directors	75.00%
% of other external directors	0.00%

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience
Mr. José Javier Echenique Landiribar
Mr. Peter Löscher
Ms. Carmen García de Andrés
Mr. Ignacio Moreno Martínez
Date of appointment of the chairperson
08/04/2016

## NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Name	Post	Category
Mr. José Javier Echenique Landiribar	Chairman	Independent
Mr. Peter Erskine	Member	Other External
Ms. Sabina Fluxà Thienemann	Member	Independent
Ms. María Luisa García Blanco	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Other External

% of executive directors	0.00%
% of proprietary directors	0.00%
% of independent directors	60.00%
% of other external directors	40.00%

## REGULATION AND INSTITUTIONAL AFFAIRS COMMITTEE

Name	Post	Category
Mr. Ignacio Moreno Martínez	Chairman	Proprietary
Ms. María Luisa García Blanco	Member	Independent
Mr. Jordi Gual Solé	Member	Proprietary
Mr. Francisco Javier de Paz Mancho	Member	Other External

% of executive directors	0.00%
% of proprietary directors	50.00%
% of independent directors	25.00%
% of other external directors	25.00%

## SUSTAINABILITY AND QUALITY COMMITTEE

Name	Post	Category
Mr. Francisco Javier de Paz Mancho	Chairman	Other External
Ms. Carmen García Andrés	Member	Independent
Mr. Ignacio Moreno Martínez	Member	Proprietary
Ms. Claudia Sender Ramírez	Member	Independent

% of executive directors	0.00%
% of proprietary directors	25.00%
% of independent directors	50.00%
% of other external directors	25.00%

## STRATEGY AND INNOVATION COMMITTEE

Name	Post	Category
Mr. Peter Erskine	Chairman	Other External
Mr. José María Abril Pérez	Member	Proprietary
Mr. Juan Ignacio Cirac Sasturain	Member	Independent
Mr. Jordi Gual Solé	Member	Proprietary
Mr. Peter Löscher	Member	Independent
Ms. Verónica Pascual Boé	Member	Independent

% of executive directors	0.00%
% of proprietary directors	33.33%
% of independent directors	50.00%
% of other external directors	16.67%

**C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:**

	Number of female directors			
	2019 Year Number %	2018 Year Number %	2017 Year Number %	2016 Year Number %
Executive Commission	0	0	0	0
Audit and Control Committee	1 (25.00%)	1 (25.00%)	1 (25.00%)	0
Nominating, Compensation and Corporate Governance Committee	2 (40.00%)	1 (20.00%)	1 (20.00%)	1 (20.00%)
Regulation and Institutional Affairs Committee	1 (25.00%)	1 (25.00%)	1 (33.33%)	1 (16.67%)
Sustainability and Quality Committee	2 (50.00%)	2 (50.00%)	2 (66.67%)	1 (20.00%)
Strategy and Innovation Committee	1 (16.67%)	0	1 (20.00%)	1 (14.29%)

## D. Related-Party and Intragroup Transactions

**D.2 Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company's significant shareholders:**

Name of significant shareholder	Name of company within the group	Nature of the relationship	Type of transaction	Amount (thousand euros)
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Interest paid	8,258
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Receipt of services	1,469
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Others	11,481
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance arrangements: Loans	472,942
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Guarantees	339
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance Arrangements: others	607,626
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Dividends and other distributed earning	121,445
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Interest charged	639
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Interest paid	23,523
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Receipt of services	6,768
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Interest charged	25,935
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Services rendered	12,601
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	8,895
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Others	904,772
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance Arrangements: Loans	95,156
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees	168,499
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Purchase options commitments	220
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Remunerations	3,780
CaixaBank, S.A.	Telefónica, S.A.	Contractual	Interest paid	2,664
CaixaBank, S.A.	Telefónica, S.A.	Contractual	Receipt of services	1,584
CaixaBank, S.A.	Telefónica, S.A.	Contractual	Finance arrangements: Loans	18,580
CaixaBank, S.A.	Telefónica, S.A.	Contractual	Guarantees	8,200
CaixaBank, S.A.	Telefónica, S.A.	Contractual	Finance arrangements: Others	674,523
CaixaBank, S.A.	Telefónica, S.A.	Contractual	Dividends and other distributed earnings	107,873
CaixaBank, S.A.	Telefónica, S.A.	Contractual	Interest charged	51
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Interest paid	3,923
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Receipt of services	6,752
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Services rendered	63,343
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	48,825
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Operating lease contracts	5,220
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Guarantees	82,372
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Purchase options commitments	88,508
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Other	11
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Purchase of goods (finished or in progress)	62,023
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Finance arrangements: Loans	97,112
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Interest charged	2
CaixaBank, S.A.	Rest of Telefónica Group	Contractual	Purchases of property, plant and equipment	3,972

**D.3 Describe any transactions that are significant, either because of their amount or subject matter, entered into between the company or entities within its group and directors or managers of the company:**

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**D.4 Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.**

**In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:**

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**D.5 State the amount of any transactions conducted with other related parties that have not been reported in the previous sections.**

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
China Unicom	As stated in Note 11 ("Related Parties") of the Consolidated Annual Accounts of Telefónica, S.A. corresponding to the year 2019, in the year 2015 a "joint venture" with China Unicom was incorporated, for the development of Big Data Services in China, using the "Smart Steps" technology developed by Telefónica. Telefónica's stake at that time in this Company was 45% held by Telefónica Digital España, S.L., with China Unicom Big Data Limited Corporation owning the remaining 55% stake. Moreover, in the year 2019 it came to pass the entry of a third shareholder in the "joint venture" by way of a capital increase fully subscribed by Suqian Xindongteng Business Service Co., Ltd, controlled by JD.com (reaching a shareholding of 16.67% of the capital share of the aforementioned "joint venture") with the consequent dilution of then shareholders (Telefónica now holds 37.5%).	0
Grupo Global Dominion Access	As stated in note 11 ("Related Parties") of the Consolidated Annual Accounts of Telefónica, S.A. corresponding to the year 2019, certain subsidiary companies of the Telefónica Group, in conjunction with the Global Dominion Access Group in the year 2019, transactions arising from the Group's ordinary traffic or business, mainly Telefónica de España, for a total of €27 million.	27

**D.7 Is there more than one company in the group listed in Spain?**

No

## G. Extent of Compliance with Corporate Governance Recommendations

Specify the company's level of compliance with recommendations from the Unified Code of Good Governance.

**In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not acceptable.**

**1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.**

### Explain

In accordance with Article 26 of the Corporate Bylaws, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder and in full compliance with mandatory requirements of law. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed. It does not include additional votes cast on behalf of other shareholders who may have appointed them as proxy, who are themselves likewise restricted by the 10 percent voting ceiling.

The limitation established in the preceding paragraphs shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholder companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

In addition, Article 30 of the Corporate Bylaws stipulates that no person may be appointed as Director unless they have held, for more than three years prior to their appointment, a number of shares of the Company representing a nominal value of at least 3,000 euros, which the Director may not transfer while in office. These requirements shall not apply to those persons who, at the time of their appointment, are related to the Company under an employment or professional relationship, or when the Board of Directors resolves to waive such requirements with the favorable vote of at least 85 percent of its members.

Article 31 of the Corporate Bylaws establishes that, in order for a Director to be appointed Chairman, Vice-Chairman, Chief Executive Officer or member of the Executive Commission, it shall be necessary for such Director to have served on the Board for at least the three years immediately prior to any such

appointment. However, such length of service shall not be required if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

The Corporate Bylaws (Article 26) restrict the number of shares that may be cast by a single shareholder or by shareholders belonging to the same group in order to achieve a suitable balance and protect the position of minority shareholders, thus avoiding a potential concentration of votes among a reduced number of shareholders, which could impact on the guiding principle that the General Shareholders' Meeting must act in the social interest and interest of all the shareholders. Telefónica believes that this measure does not constitute a blocking mechanism of takeover bids but rather a guarantee that the acquisition of control required the sufficient support of all shareholders, because, naturally, and as taught by experience, potential offerers may make their offer conditional upon the removal of the defense mechanism.

In relation to the above and in accordance with the provisions of Article 527 of the Spanish Corporations Act, any clauses in the Bylaws of listed corporations that directly or indirectly restrict the number of shares that may be cast by a single shareholder by shareholders belonging to the same group or by any parties acting together with the aforementioned, will be rendered null and void when, subsequent to a takeover bid, the offerer has a stake equal to or over 70% of the share capital which confers voting rights, unless the offerer was not subject to neutralization measures to prevent a takeover bid or had not adapted these measures accordingly.

In addition, the special requirements for appointment as Director (Article 30 of the Corporate Bylaws) or as Chairman, Vice-Chairman, Chief Operating Officer or member of the Executive Commission (Article 31 of the Corporate Bylaws) are justified by the desire that access to the management decision-making body and to the most significant positions thereon is reserved to persons who have demonstrated their commitment to the Company and who, in addition, have adequate experience as members of the Board, such that continuity of the management model adopted by the Telefónica Group may be assured in the interest of all of its shareholders and stakeholders. In any event, these special requirements may be waived by broad consensus among the members of the Board of Directors, namely, with the favorable vote of at least 85 percent of its members, as provided by the aforementioned Articles of the Corporate Bylaws.

**2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:**

**a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.**

**b) The mechanisms in place to resolve any conflicts of interest that may arise.**

**Not applicable**

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

- a) Changes that have occurred since the last General Shareholders' Meeting.
- b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

Complies

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

- a) Report regarding the auditor's independence.
- b) Reports regarding the workings of the audit committee and the appointments and remuneration committee.

c) Report by the audit committee regarding related-party transactions

d) Report on the corporate social responsibility policy.

Complies

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

- a) Immediately distributes the additions and new proposals.
- b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.
- c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.
- d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Not applicable

**11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.**

Not applicable

**12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.**

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies

**13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.**

Explain

In accordance with article 29 of the Telefónica, S.A. corporate bylaws, the Board of Directors shall be composed of a minimum of five and a maximum of twenty members. However, in line with the Good Governance tendencies to reduce the number of Board Members, the General Shareholder's Meeting held on June 9, 2017 approved the establishment of seventeen members as the number of Board of Directors members, based on the recommendation of the Company Board of Directors and the favorable report of the Nominating, Compensation and Corporate Governance Committee.

The complexity of the Telefónica Group organizational structure, given the considerable number of companies it comprises, the variety of sectors it operates in, its multinational nature, as well as its economic and business relevance, justify the fact that the number of members of the Board is adequate to achieve an efficient and operative operation.

Likewise, it is important to bear in mind that the Board of Directors of the Company have six Committees (the Executive Commission and five Advisory Committees), which ensures the active participation of all its Directors.

**14. That the Board of Directors approves a selection policy for directors that:**

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.
- c) Favors diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies

**15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.**

Complies

**16. That the percentage of proprietary directors divided by the number of non-executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.**

This criterion may be relaxed:

- a) In companies with a high market capitalization in which interests that are legally considered significant are minimal.
- b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

**Explain**

The aforementioned recommendation 16 refers to the composition of the group of non executive Directors. As stated in Section 4.1.1. of this Annual Corporate Governance Report, at December 31, 2019, the group of non Executive Directors of Telefónica, S.A. was composed of 15 members (of a total of 17 Members), of whom 4 are Proprietary Directors, 9 are Independent Directors and 2 falls under the "Other External Directors" category.

Out of the four Proprietary Directors, two represent or have been proposed by CaixaBank, S.A. (CaixaBank), the holder of 5.01% of the share capital of Telefónica, S.A.; and another two represent or have been proposed by Banco Bilbao Vizcaya Argentaria, S.A., holder of 5.18% of the share capital.

Applying the proportional criterion established in Article 243 of the LSC regarding the total number of Directors, the stakes held by CaixaBank and BBVA are sufficient to entitle each entity to appoint a Director.

Moreover, it must be taken into account that recommendation 16 stipulates that this strict proportionality criterion can be relaxed so the weight of Proprietary Directors is greater than would strictly correspond to the total percentage of capital they represent in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

In this regard, Telefónica ranks among the top listed companies on Spanish stock exchanges in terms of stock market capitalization, reaching the figure of 32,331.4 million euros at December 31, 2019, which means a very high absolute value of the stakes of CaixaBank and BBVA in Telefónica (that of CaixaBank was around 1,619.8 million euros, and that of BBVA was around 1,674.8 million euros). This justifies the overrepresentation of these entities on the Board of Directors, rising from one member of the Board each (to which they would strictly have the right in accordance with Article 243 of the Spanish Corporations Act) to two members, i.e. permitting the appointment of just one more Proprietary Director over the strictly legal proportion.

**17. That the number of independent directors represents at least half of the total number of directors.**

**Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.**

**Complies****18. That companies publish and update the following information regarding directors on the company website:**

- a) Professional profile and biography.
- b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.
- c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.
- d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.
- e) The shares and options they own.

**Complies****19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honored, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honored.****Complies****20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.****Complies****21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the**

circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offenses set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

Complies

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfill their duties including, should circumstances warrant, external advice at the company's expense.

Complies

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require

Complies

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.

Complies

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the

company; and coordinate a succession plan for the chairman.

Complies

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.

b) The workings and composition of its committees.

c) Diversity of membership and competence of the Board of Directors.

d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.

e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies

37. That if there is an executive committee, the proportion of each different director category must be similar to

**that of the Board itself, and its secretary must be the secretary of the Board.**

#### Partially complies

Although the participation structure by director category of the Executive Commission is not exactly the same as that of the Board of Directors, the Company considers itself to be in compliance with the ultimate objective of this recommendation; which is to ensure that the functions of the Executive Commission are exercised with a similar perspective to that of the Board of Directors. In this regard, the Executive Commission includes directors of all categories, although the percentage of independent directors is higher on the Board of Directors. This is mainly due to the re-classification, in 2018 and 2019, of two of the members of the Executive Committee, Mr Peter Erskine and Mr Francisco Javier de Paz Mancho, who went from being Independent Board Members to "other external directors" once they had been Company Board Members for 12 years. The Company considers that this change in the classification of two of the members of the Executive Committee, by the mere passage of time, does not justify, in and of itself, the modification of the composition of the Executive Committee. In addition, the fact that the Executive Committee, as is common practice, has a much smaller number of members than the Board of Directors, means that the aforementioned changes in the classification has a greater impact on it than on the Board of Directors. In any case, Telefónica considers all categories of Directors to be adequately represented in the Executive Commission, and that the differences in the percentages of participation of independent, executive, and other external Directors do not prevent this committee from exercising its duties with a similar perspective to that of the Board of Directors. In all other respects, the Secretary of the Executive Commission is the same as the Secretary of the Board of Directors.

**38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.**

#### Complies

**39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.**

#### Complies

**40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal**

**control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.**

#### Complies

**41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.**

#### Complies

**42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:**

**1. With regard to information systems and internal control:**

**a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.**

**b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.**

**c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.**

**2. With regard to the external auditor:**

**a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.**

**b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.**

**c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with**

the outgoing auditor and, if applicable, the contents thereof.

d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies

45. That the risk management and control policy identify, as a minimum:

- a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.
- b) Fixing of the level of risk the company considers acceptable.
- c) Means identified in order to minimize identified risks in the event they transpire.
- d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies

47. That members of the appointment and remuneration committee -- or of the appointments committee and the remuneration committee if they are separate - are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies

48. That high market capitalization companies have formed separate appointments and remuneration committees.

Explain

Article 40 of the Bylaws, and Article 23 of the Regulation of the Board of Directors, expressly state, on regulating the Nominating, Compensation and Corporate Governance Committees, that the Board of Directors shall be entitled to set up two Committees, separately giving each of them powers for appointments, and the other the powers for remuneration, while the corporate governance powers may be included in either one of them.

The Board of Directors of Telefónica, S.A. has not considered appropriate, so far, separating the functions of the Nominating, Compensation and Corporate Governance Committee because it believes that by putting the powers to assess Directors and determine their remuneration in the same Committee, is helpful to coordinate and to produce a results-driven remuneration system (pay for performance). Furthermore, it is noted that the Board of Directors currently has five Consultative Committees (Audit and Control Committee, the Nominating, Compensation and Corporate Governance Committee, Regulation and Institutional Affairs Committee, Sustainability and Quality Committee and the

Strategy and Innovation Committee), in addition to the Executive Commission.

In this context, the separation of the Nominating, Compensation and Corporate Governance Committee would not have been appropriate with the facilitating objective of the reorganization of the Consultative or Committees of the Company, approved by the Board of Directors on April 27, 2016, generating unnecessary inefficiencies and needs for additional allocations.

**49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.**

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies

**50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:**

- a) Propose basic conditions of employment for senior management.
- b) Verify compliance with company remuneration policy.
- c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.
- d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.
- e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies

**51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.**

Complies

**52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:**

- a) That they are comprised exclusively of non-executive directors, with a majority of them independent.
- b) That their chairmen be independent directors.
- c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.
- d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.
- e) That their meetings be recorded and the minutes be made available to all directors.

Explain

1. The supervision and control committees which are attributed the powers referred to in recommendation 52 are the Audit and Control Committee and the Nominating, Compensation and Corporate Governance Committee. The composition and operation rules of the two Committees are set out in the Regulation of the Board of Directors and in the specific Regulations of each one of them. Likewise, both Committees are not only consistent with legally dispositions applicable but are also an improvement upon them, in certain areas. For example, according to the Regulation of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee must have a majority of independent members, as opposed to the minimum of two according to prevailing laws. In fact, in practice, the Committee is composed of three independent Directors, and two with the category of "Other external".

2. The Board of Directors has other Consulting Committees which are allocated other functions (Regulation and Institutional Affairs Committee, Sustainability and Quality Committee, and Strategy and Innovation Committee), which are strongly linked with the businesses developed by the Company and with management aspects.

These Committees are not expressly regulated in the Regulation of the Board of Directors or they are regulated with fewer details with respect to those that are legally mandatory.

In particular, it has been decided that Committees with powers in matters linked to the Company's businesses and management aspects do not necessarily have to be chaired by independent Directors nor do most of the members of the committees need to have independent directors, but rather it is preferable to take into account the technical knowledge and specific expertise of their members when appointing the

Director to chair them and the other Directors who should sit on these committees.

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organization, which at least the following responsibilities shall be specifically assigned thereto:

a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.

b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.

c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.

d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.

e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.

f) Supervision and evaluation of the way relations with various stakeholders are handled.

g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

h) Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

Complies

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

a) The objectives of the corporate social responsibility policy and the development of tools to support it.

b) Corporate strategy related to sustainability, the natural environment and social issues.

c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

e) Means of supervising non-financial risk, ethics, and business conduct.

f) Communication channels, participation and dialogue with stakeholders.

g) Responsible communication practices that impede the manipulation of data and protect integrity and honor.

Complies

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies

**58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.**

And, in particular, that variable remuneration components:

a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.

c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

**Complies**

**59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.**

**Complies**

**60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.**

**Not applicable**

**61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.**

**Complies**

**62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.**

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

**Explain**

On December 31, 2019, the Executive Director of the company, Mr. José María Álvarez-Pallete López held a shareholding at Telefónica, S.A., which amounted to 1,452,067 voting rights, which were valued with a price of 7.1164 euros per share (according to its average value during 2019), represented 537% of his fixed remuneration. In this regard, it is noted that since his appointment as Executive Chairman, Mr. Álvarez-Pallete, as a demonstration of his commitment with Telefónica, has acquired a total of 898.813 shares.

Likewise, the Chief Operating Officer (C.O.O.), Mr. Ángel Vilá Boix, held a shareholding at Telefónica, S.A., which amounted to 380,109 voting rights, which were valued with the same price per share, represented 169% of his fixed remuneration.

This shareholding owned demonstrate his commitment to Telefónica, and show that his own interests are aligned with the other shareholders' interests.

On the other hand, the Remuneration Policy for the Directors of Telefónica, S.A., approved by the Company's General Shareholders' Meeting on June 8, 2018, introduces, among others, the following novelties:

- It involves a new Long-Term Incentive Plan aimed at the Executive Directors, which establishes that at least 25% of the shares delivered derived from the Plan will be subject to a period of retention of no less than one year.
- Executive Directors must maintain (directly or indirectly) a number of shares (including those delivered as remuneration) equivalent to two annuities of their gross fixed remuneration, while they continue to remain on the Board of Directors and develop executive functions, establishing a five years period from the commencement of the Policy or, in the case of Executive Directors appointed thereafter, since their appointment, to achieve this objective.

**63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.**

**Partially complies**

The Nominating, Compensation and Corporate Governance Committee is empowered to propose that the Board of Directors cancels a variable remuneration payment in the event of circumstances such as those described in this recommendation. The Nominating, Compensation and Corporate Governance Committee will also assess if exceptional circumstances of this kind may even entail the termination of the relationship with the person responsible, proposing measures which are deemed pertinent to the Board of Directors.

**64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.**

**Explain**

With regards to the conditions applicable to termination of contracts, the Executive Chairman, Mr. José María Álvarez-Pallete López, and the Chief Operating Officer (C.O.O.), Mr. Ángel Vilá Boix, maintain the conditions of their previous contract which provided for agreed economic compensation for the termination of the employment relationship, where applicable, that can amount to four years' of remuneration at the most. Every annual payment includes the last fixed remuneration and the arithmetic average of the last two variable annual remuneration received according to contract.

**List whether any directors voted against or abstained from voting on the approval of this report.**

No

**I declare that the information included in this statistical annex are the same and are consistent with the descriptions and information included in the annual corporate governance report published by the company.**

**4.9.2. Statistics on Annual Report on Remuneration of Directors of listed companies (established by Circular 2/2018, of June 12, of the National Securities Market Commission, which modifies Circular 4/2013, of June 12, which establishes the annual remuneration report models of the Directors of listed public limited companies).**

Unless otherwise indicated all data as of 31 December 2019.

**B. Overall summary of how remuneration policy has been applied during the year ended**

**B.4 Report on the result of the consultative vote at the General Shareholders' Meeting on remuneration in the previous year, indicating the number of votes against that may have been cast:**

	Number	% of total
<b>Votes cast</b>	2,760,986,798	53.18%

	Number	% cast
<b>Votes against</b>	190,034,502	6.88%
<b>Votes in favour</b>	2,511,710,594	90.97%
<b>Abstentions</b>	59,241,702	2.15%

**C Itemised individual remuneration accrued by each Director**

<b>Name</b>	<b>Type</b>	<b>Period of accrual in 2019</b>
Mr. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ	Executive Director	From 01/01/2019 to 31/12/2019
Mr. ISIDRO FAINÉ CASAS	Proprietary Director	From 01/01/2019 to 31/12/2019
Mr. JOSÉ MARÍA ABRIL PÉREZ	Proprietary Director	From 01/01/2019 to 31/12/2019
MR. JOSÉ JAVIER ECHENIQUE LANDIRÍBAR	Independent Director	From 01/01/2019 to 31/12/2019
Mr. ÁNGEL VILÁ BOIX	Executive Director	From 01/01/2019 to 31/12/2019
Mr. JUAN IGNACIO CIRAC SASTURAIN	Independent Director	From 01/01/2019 to 31/12/2019
Mr. PETER ERSKINE	Other External Director	From 01/01/2019 to 31/12/2019
Ms. SABINA FLUXÀ THIENEMANN	Independent Director	From 01/01/2019 to 31/12/2019
Ms. CARMEN GARCÍA DE ANDRÉS	Independent Director	From 01/01/2019 to 31/12/2019
Ms. MARÍA LUISA GARCÍA BLANCO	Independent Director	From 01/01/2019 to 31/12/2019
Mr. JORDI GUAL SOLÉ	Proprietary Director	From 01/01/2019 to 31/12/2019
Mr. PETER LÖSCHER	Independent Director	From 01/01/2019 to 31/12/2019
Mr. IGNACIO MORENO MARTÍNEZ	Proprietary Director	From 01/01/2019 to 31/12/2019
Ms. VERÓNICA PASCUAL BOÉ	Independent Director	From 18/12/2019 to 31/12/2019
Mr. FRANCISCO JAVIER DE PAZ MANCHO	Other External Director	From 01/01/2019 to 31/12/2019
Mr. FRANCISCO JOSÉ RIBERAS MERA	Independent Director	From 01/01/2019 to 31/12/2019
Ms. CLAUDIA SENDER RAMÍREZ	Independent Director	From 18/12/2019 to 31/12/2019
Mr. LUIZ FERNANDO FURLÁN	Independent Director	From 01/01/2019 to 18/12/2019
Mr. WANG XIAOCHU	Proprietary Director	From 01/01/2019 to 18/12/2019

**C.1 Complete the following tables regarding the individual remuneration of each director (including the salary received for performing executive duties) accrued during the year.**

## a) Remuneration from the reporting company:

## i) Remuneration in cash (thousand euros)

Name	Fixed Remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total in 2019	Total in 2018
MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ	0	0	0	1,923	3,448	0	0	0	5,371	5,402
MR. ISIDRO FAINÉ CASAS	200	0	80	0	0	0	0	0	280	280
MR. JOSÉ MARÍA ABRIL PÉREZ	200	9	91	0	0	0	0	0	300	300
MR. JOSÉ JAVIER ECHENIQUE LANDIRÍBAR	120	25	114	0	0	0	0	0	259	257
MR. ÁNGEL VILÁ BOIX	0	0	0	1,600	2,390	0	0	0	3,990	4,012
MR. JUAN IGNACIO CIRAC SASTURAIN	120	9	11	0	0	0	0	0	140	141
MR. PETER ERSKINE	120	17	114	0	0	0	0	0	251	246
MS. SABINA FLUXÀ THIENEMANN	120	8	11	0	0	0	0	0	139	140
MS. CARMEN GARCÍA DE ANDRÉS	120	19	22	0	0	0	0	0	161	158
MS. MARÍA LUISA GARCÍA BLANCO	120	16	22	0	0	0	0	0	158	102
MR. JORDI GUAL SOLÉ	120	19	22	0	0	0	0	0	161	147
MR. PETER LÖSCHER	120	14	34	0	0	0	0	0	168	157
MR. IGNACIO MORENO MARTÍNEZ	120	30	45	0	0	0	0	0	195	190
MS. VERÓNICA PASCUAL BOÉ	0	0	0	0	0	0	0	0	0	0
MR. FRANCISCO JAVIER DE PAZ MANCHO	120	35	125	0	0	0	0	0	280	280
MR. FRANCISCO JOSÉ RIBERAS MERA	120	0	0	0	0	0	0	0	120	120
MS. CLAUDIA SENDER RAMÍREZ	0	0	0	0	0	0	0	0	0	0
MR. LUIZ FERNANDO FURLÁN	120	11	11	0	0	0	0	0	142	142
MR. WANG XIAOCHU	120	0	0	0	0	0	0	0	120	120

## ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

Name	Name of Plan	Financial instruments at start of 2019		Financial instruments granted at start of 2019		Financial instruments consolidated during the year				Instruments matured but not exercised	Financial instruments at end of 2019	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares/handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (thousand €)	No. of instruments	No. of instruments	No. of equivalent shares
<b>MR. JOSÉ MARÍA ALVAREZ-PALLETE LÓPEZ</b>	Performance Share Plan ("PSP") 2018-2021 (First Cycle)	421,000	421,000	0	0	0	0	0	0	0	421,000	421,000
	Performance Share Plan ("PSP") 2019-2022 (Second Cycle)	0	0	468,000	468,000	0	0	0	0	0	468,000	468,000
	Global Employee Share Plan ("GESP") 2019-2021	0	0	56	56	0	0	0	0	0	56	56
<b>MR. ÁNGEL VILÁ BOIX</b>	Performance Share Plan ("PSP") 2018-2021 (First Cycle)	312,000	312,000	0	0	0	0	0	0	0	312,000	312,000
	Performance Share Plan ("PSP") 2019-2022 (Second Cycle)	0	0	347,000	347,000	0	0	0	0	0	347,000	347,000
	Global Employee Share Plan ("GESP") 2019-2021	0	0	56	56	0	0	0	0	0	56	56

iii) Long-term saving systems

Name	Remuneration from consolidation of rights to savings system (thousand €)
Mr. José María Álvarez-Pallete López	132
Mr. Ángel Vilá Boix	72

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with consolidated economic rights		Savings systems with consolidated economic rights		Systems with consolidated economic rights		Systems with unconsolidated economic rights	
	2019 Year	2018 Year	2019 Year	2018 Year	2019 Year	2018 Year	2019 Year	2018 Year
Mr. José María Álvarez-Pallete López	132	132	541	541	796	618	8,860	7,796
Mr. Ángel Vilá Boix	72	72	488	488	602	488	6,688	5,809

## iv) Details of other items

Name	Item	Remuneration Amount
Mr. José María Álvarez-Pallete López	Health insurance premium	6
Mr. José María Álvarez-Pallete López	Life insurance premium	28
Mr. Ángel Vilá Boix	Health insurance premium	5
Mr. Ángel Vilá Boix	Life insurance premium	14
Mr. Ángel Vilá Boix	Company vehicle	13

## b) Remuneration of the company directors for seats on the boards of other group companies:

## i) Remuneration in cash (thousand euros)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total in 2019	Total in 2018
MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ	0	0	0	0	0	0	0	0	0	0
MR. ISIDRO FAINÉ CASAS	0	0	0	0	0	0	0	0	0	0
MR. JOSÉ MARÍA ABRIL PÉREZ	0	0	0	0	0	0	0	0	0	0
MR. JOSÉ JAVIER ECHENIQUE LANDIRÍBAR	156	0	0	0	0	0	0	0	156	105
MR. ÁNGEL VILÁ BOIX	0	0	0	0	0	0	0	0	0	0
MR. JUAN IGNACIO CIRAC SASTURAIN	0	0	0	0	0	0	0	0	0	0
MR. PETER ERSKINE	20	0	0	0	0	0	0	0	20	20
MS. SABINA FLUXÀ THIENEMANN	0	0	0	0	0	0	0	0	0	0
MS. CARMEN GARCÍA DE ANDRÉS	0	0	0	0	0	0	0	0	0	0
MS. MARÍA LUISA GARCÍA BLANCO	0	0	0	0	0	0	0	0	0	0
MR. JORDI GUAL SOLÉ	0	0	0	0	0	0	0	0	0	0
MR. PETER LÖSCHER	0	0	0	0	0	0	0	0	0	0
MR. IGNACIO MORENO MARTÍNEZ	0	0	0	0	0	0	0	0	0	0
MS. VERÓNICA PASCUAL BOÉ	0	0	0	0	0	0	0	0	0	0
MR. FRANCISCO JAVIER DE PAZ MANCHO	305	0	0	0	0	0	0	0	305	260
MR. FRANCISCO JOSÉ RIBERAS MERA	0	0	0	0	0	0	0	0	0	0
MS. CLAUDIA SENDER RAMÍREZ	0	0	0	0	0	0	0	0	0	0
MR. LUIZ FERNANDO FURLÁN	86	0	0	0	0	0	0	0	86	85
MR. WANG XIAOCHU	0	0	0	0	0	0	0	0	0	0

**ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments**

Name	Name of Plan	Financial instruments at start of 2019		Financial instruments granted at start of 2019		Financial instruments consolidated during the year				Instruments matured but not exercised	Financial instruments at end of 2019	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares/handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (thousand €)	No. of instruments	No. of instruments	No. of equivalent shares
No data												

**iii) Long-term saving systems**

Name	Remuneration from consolidation of rights to savings system
No data	

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with consolidated economic rights		Savings systems with consolidated economic rights		Systems with Consolidated economic rights		Systems with unconsolidated economic rights	
	Year 2019	Year 2018	Year 2019	Year 2018	Year 2019	Year 2018	Year 2019	Year 2018
Mr. José María Álvarez-Pallete López	0	0	0	0	165	152	0	0
Mr. Ángel Vilá Boix	0	0	0	0	22	21	0	0

**iv) Details of other items**

Name	Item	Remuneration Amount
No data		

## c) Summary of remunerations (thousand €):

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to each director (thousand €).

Name	Retribución devengada en la Sociedad					Retribución devengada en sociedades del grupo				
	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2019 company	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2019 group
MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ	5,371	0	132	34	5,537	0	0	0	0	0
MR. ISIDRO FAINÉ CASAS	280	0	0	0	280	0	0	0	0	0
MR. JOSÉ MARÍA ABRIL PÉREZ	300	0	0	0	300	0	0	0	0	0
MR. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	259	0	0	0	259	156	0	0	0	156
MR. ÁNGEL VILÁ BOIX	3,990	0	72	32	4,094	0	0	0	0	0
MR. JUAN IGNACIO CIRAC SASTURAIN	140	0	0	0	140	0	0	0	0	0
MR. PETER ERSKINE	251	0	0	0	251	20	0	0	0	20
MS. SABINA FLUXÀ THIENEMANN	139	0	0	0	139	0	0	0	0	0
MS. CARMEN GARCÍA DE ANDRÉS	161	0	0	0	161	0	0	0	0	0
MS. MARÍA LUISA GARCÍA BLANCO	158	0	0	0	158	0	0	0	0	0
MR. JORDI GUAL SOLÉ	161	0	0	0	161	0	0	0	0	0
MR. PETER LÖSCHER	168	0	0	0	168	0	0	0	0	0
MR. IGNACIO MORENO MARTÍNEZ	195	0	0	0	195	0	0	0	0	0
MS. VERÓNICA PASCUAL BOÉ	0	0	0	0	0	0	0	0	0	0
MR. FRANCISCO JAVIER DE PAZ MANCHO	280	0	0	0	280	305	0	0	0	305
MR. FRANCISCO JOSÉ RIBERAS MERA	120	0	0	0	120	0	0	0	0	0
MS. CLAUDIA SENDER RAMÍREZ	0	0	0	0	0	0	0	0	0	0
MR. LUIZ FERNANDO FURLÁN	142	0	0	0	142	86	0	0	0	86
MR. WANG XIAOCHU	120	0	0	0	120	0	0	0	0	0
<b>TOTAL</b>	<b>12,235</b>	<b>0</b>	<b>204</b>	<b>66</b>	<b>12,505</b>	<b>567</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>567</b>

**D. Other Information of Interest**

This annual remuneration report has been approved by the Board of Directors of the company on 19 February 2020.

State whether any director has voted against or abstained from approving this report

No

### 4.9.3. Further information of interest

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.

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2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010

#### - Note 1 to Section 4.2.2. of Annual Corporate Governance Report and Section A.2. of Annual Corporate Governance Report Statistical Annex

On February 6, 2020, BlackRock, Inc. informed to the Securities Exchange Commission that its shareholding on the share capital of Telefónica, S.A. was 5.7%.

In accordance with the submitted communication by BlackRock, Inc. to the Spanish National Securities Market Commission (CNMV) on January 23, 2019, on February 1, 2019, on March 5, 2019, on June 17, 18 and 19, 2019, on July 24, 2019, and on December 27, 2019, the details of the control chain through this entity owns the voting right and/or the financial instruments is the following:

1.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock International Holdings, Inc., BR Jersey International Holdings, L.P., BlackRock (Singapore) Holdco Pte. Ltd., BlackRock HK Holdco Limited, BlackRock Lux Finco S.a.r.l., BlackRock Japan Holdings GK, BlackRock Japan Co., Ltd.

2.- BlackRock, Inc, Trident Merger, LLC, BlackRock Investment Management, LLC.

3.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock International Holdings, Inc, BR Jersey International Holdings, L.P., BlackRock Holdco 3, LLC, BlackRock Cayman 1 LP, BlackRock Cayman West Bay Finco

Limited, BlackRock Cayman West Bay IV Limited, BlackRock Group Limited, BlackRock Finance Europe Limited, BlackRock Investment Management (UK) Limited.

4.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock International Holdings, Inc, BR Jersey International Holdings, L.P., BlackRock Australia Holdco Pty. Ltd., BlackRock Investment Management (Australia) Limited.

5.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock International Holdings, Inc, BR Jersey International Holdings, L.P., BlackRock Holdco 3, LLC, BlackRock Cayman 1 LP, BlackRock Cayman West Bay Finco Limited, BlackRock Cayman West Bay IV Limited, BlackRock Group Limited, BlackRock International Limited.

6.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock Holdco 4, LLC, BlackRock Holdco 6, LLC, BlackRock Delaware Holdings Inc, BlackRock Institutional Trust Company, National Association.

7.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock Holdco 4, LLC, BlackRock Holdco 6, LLC, BlackRock Delaware Holdings Inc., BlackRock Fund Advisors.

8.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc.

9.- BlackRock, Inc, BlackRock Holdco 2, Inc., BlackRock Financial Management, Inc., BlackRock International Holdings, Inc., BR Jersey International Holdings, L.P., BlackRock (Singapore) Holdco Pte. Ltd., BlackRock HK Holdco Limited, BlackRock Asset Management North Asia Limited.

10.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock International Holdings, Inc, BR Jersey International Holdings, L.P., BlackRock Holdco 3, LLC, BlackRock Cayman 1 LP, BlackRock Cayman West Bay Finco Limited, BlackRock Cayman West Bay IV Limited, BlackRock Group Limited, BlackRock Finance Europe Limited, BlackRock Investment Management (UK) Limited, BlackRock Asset Management Deutschland AG.

11.- BlackRock, Inc, BlackRock Holdco 2, Inc., BlackRock Financial Management, Inc., BlackRock International Holdings, Inc., BR Jersey International Holdings, L.P., BlackRock Holdco 3, LLC, BlackRock Canada Holdings LP, BlackRock Canada Holdings ULC, BlackRock Asset Management Canada Limited.

12.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock Capital Holdings, Inc, BlackRock Advisors, LLC.

13.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock International Holdings, Inc, BR Jersey International Holdings, L.P., BlackRock Holdco 3, LLC, BlackRock Cayman 1 LP, BlackRock Cayman West Bay Finco Limited, BlackRock Cayman West Bay IV Limited, BlackRock Group Limited, BlackRock Finance Europe Limited, BlackRock Advisors (UK) Limited.

14.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock International Holdings, Inc, BR Jersey International Holdings, L.P., BlackRock (Singapore) Holdco Pte. Ltd, BlackRock (Singapore) Limited.

15.- BlackRock, Inc, BlackRock Holdco 2, Inc, BlackRock Financial Management, Inc, BlackRock International Holdings, Inc, BR Jersey International Holdings, L.P., BlackRock Holdco 3, LLC, BlackRock Cayman 1 LP, BlackRock Cayman West Bay Finco Limited, BlackRock Cayman West Bay IV Limited, BlackRock Group Limited, BlackRock Finance Europe Limited, BlackRock (Netherlands) B.V.

**- Note 2 to Section C.1.11 of Annual Corporate Governance Report Statistical Annex**

Mr. Isidro Fainé Casas is Chairman of Honorary Chairman of Naturgy Energy Group, S.A.

Mr. Jordi Gual Solé is member of the Supervisory Board of Erste Group Bank, AG.

Even though on 31 December 2019 they no longer held these positions, for part of the 2019 financial year: (i) Mr Peter Löscher was Chairman of the Supervisory Board of OMV Aktiengesellschaft; and (ii) Mr Francisco José Riberas Mera was a Director of Global Dominion Access, S.A.

**- Note 3 to Section C.1.14 of Annual Corporate Governance Report Statistical Annex**

Mr Guillermo Ansaldo Lutz held the position of Chief Global Resources Officer at Telefónica, S.A. until 27 November 2019, being appointed on that date CEO of Telefónica Infra.

Mr Mariano de Beer held the position of Chief Commercial Digital Officer (CCDO) of Telefónica, S.A. until 27 November, 2019, and the amounts recorded in this section include the remuneration he received up to that date.

**- Note 4 to Section D.2 of Annual Corporate Governance Report Statistical Annex**

Transactions included in this section under 'Other', amounting to 11,481 with Banco Bilbao Vizcaya Argentaria, S.A. refer to Dividends received.

Transactions included in this section under 'Other', for the sum of 904.772 with Banco Bilbao Vizcaya Argentaria, S.A. refer to Other Revenues (501), to Other Expenses (255), to Gains from derecognition or disposal of assets (8), and to Outstanding factoring operations (904,008).

Transactions included in this section under 'Other', for the sum of 11 with CaixaBank, S.A., refer to Other Expenses.

See complementary information in Note 11 ("Related Parties") to Telefónica, S.A.'s 2019 Consolidated Financial Statements.

**- Note 5: Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.**

1. On April 29, 2013, Telefónica, S.A. and TLK Investment, CV (which belongs to Corporación Multi-Inversiones, or "CMI", a Business Group domiciled in Guatemala) signed an agreement whereby Telefónica and CMI incorporated a joint business venture called Telefónica Centroamérica Inversiones, S.L.U. ("TCI"), in which Telefónica contributed its assets in Central America (except for its Costa Rica assets) and CMI made a monetary contribution of USD 500,000,000. As a result of these contributions, Telefónica owns a 60% interest in the share capital of TCI, while CMI's stake is 40%. This arrangement was completed on August 2, 2013.

Telefónica and CMI also entered into a Shareholders' Pact in TCI, which includes a change of control clause stipulating that if there was a change of control of CMI or Telefónica, the other party would be fully entitled to: (i) exercise the right to acquire (call option) the entire stake held in TCI by the shareholder over which control has changed at the date control changed; or (ii) exercise the right to sell (put option) the entire stake the former held in TCI to the latter. In both cases, the purchase price of the stake shall be TCI's market value calculated by an independent expert.

For the purposes of the Shareholders' Pact, a change of control shall be: (i) in the case of CMI, when the last natural person or corporate body controlling CMI ceases to do so; and (ii) for Telefónica, when a natural person or corporate body not controlling Telefónica assumes control. In both instances, "control" shall be as specified in the International Financial Reporting Standards (IFRS).

2. - Financing agreements:

On May 14, 2019, Telefónica, S.A., as borrower, and Bank of China, as lender, entered into a facilities agreement amounting up to EUR 300 million.

Likewise, on March 15, 2018, Telefónica, S.A., as borrower, and a group of credit entities, as original lenders, with National Westminster Bank plc as the agent bank, entered into a syndicated loan amounting up to EUR 5,500 million.

On December 11, 2015, Telefónica, S.A., as borrower, and Banco Bilbao Vizcaya Argentaria, S.A. Niederlassung Deutschland, the Bank of Tokyo-Mitsubishi UFJ, Ltd., sucursal in Spain, Mizuho Bank Ltd, AB Svensk Exportkredit and Société Générale S.A., as original lenders, and with the support of Exportkreditnämnden, signed a financing agreement amounting up to USD 750 million. Also on that same date, Telefónica, S.A., as borrower, and Banco Santander, S.A. and Crédit Agricole Corporate and Investment Bank as original lenders, with the support of Finnvera Plc, entered into a financing agreement amounting up to EUR 500 million.

As provided for in all of the aforementioned contracts, in the event of a change of control in Telefónica, S.A., lenders may, under certain circumstances, require the early termination of these financing agreements.

The financing contracts consider the usual criteria in these types of agreement to determine if there has effectively been a change of control, such as obtaining control of the majority

of voting rights, on the appointment of the majority of members of the board of directors, or on the Company's financial and operational policies.

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Finally, it should be said that as of the year 2010, Telefónica, S.A. adheres to the Code of Good Fiscal Practices, as approved by the Large Companies' Forum - a body in which major Spanish companies and the Spanish tax authorities participate -, and complies with the content of the same.

Similarly, Telefónica Group is committed to the application of other international regulations and initiatives in the area of sustainability as well as, among others, the Universal Declaration of Human Rights, the United Nations Global Compact, and other conventions and treaties agreed by international bodies such as the Organization for Economic Cooperation and Development and the International Labor Organization.

**This annual corporate governance report was approved by the company's Board of Directors at its meeting held on February 19, 2020.**