



Telefónica, S.A.
Office of the General Secretary

***REPORT ON THE OPERATION OF THE
NOMINATING, COMPENSATION AND CORPORATE
GOVERNANCE COMMITTEE OF THE BOARD OF
DIRECTORS OF TELEFÓNICA, S.A. FOR FISCAL YEAR
2019***

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**REPORT ON THE OPERATION OF THE NOMINATING,
COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE
OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.
FISCAL YEAR 2019**

I. INTRODUCTION.

This Report on the Operation of the Committee for fiscal year 2019 has been prepared pursuant to the provisions of Recommendation 6 of the Good Governance Code of Listed Companies, of Section 11 of Technical Guide 1/2019 of the National Securities Market Commission (*Comisión Nacional de Mercados de Valores*) on Nomination and Remuneration Committees, and of Article 7 of the Regulations of the Nominating, Compensation and Corporate Governance Committee of Telefónica, S.A. (hereinafter, the Company).

II. REGULATION OF THE COMMITTEE.

The Nominating, Compensation and Corporate Governance Committee was created as the Selection and Remuneration Committee in 1997 by the Board of Directors of Telefónica, S.A., in order to analyze and examine issues relating to the proposed appointments and removals of Directors and Senior Executive Officers of the Telefónica Group, and its remuneration system.

Also, as a result of the amendment made to the Regulations of the Company's Board of Directors to adapt them to the Olivencia Report, on July 22, 1998 the Committee changed its name to the Appointments and Remuneration Committee, as well as changing its powers and duties.

Similarly, and pursuant to the resolution adopted by the Board of Directors at its meeting of June 26, 2002, the Committee was renamed the Nominating and Compensation and Corporate Governance Committee and was assigned new duties in the area of Good Corporate Governance practices and recommendations. The subsequent amendment of the Regulations of the Board of Directors pursuant to a resolution of the Board at its meeting of November 28, 2007 introduced a technical improvement to the name of the Committee, which became the Nominating, Compensation and Corporate Governance Committee.

After the resolution of the shareholders at the General Shareholders' Meeting of the Company held on May 31, 2013, the rules applicable to this Committee were set forth in Article 40 of the By-Laws, having previously only been included in the Regulations of the Board of Directors.

After the resolution of the shareholders at the General Shareholders' Meeting held on June 12, 2015 pursuant to which the By-Laws and the Regulations for the General Shareholders'



Meeting of the Company were amended, at its meeting of November 25, 2015 the Board of Directors approved the corresponding amendment of its Regulations primarily in order to adapt their content to the By-Laws and the Regulations for the General Shareholders' Meeting, and with particular regard to the Nominating, Compensation and Corporate Governance Committee, to adapt them to Section 529 *quindecies* of Law 31/2014 of December 3 amending the Companies Act to improve corporate governance and to Recommendations 48 and 50 of the Good Governance Code published by the National Securities Market Commission in February 2015.

The Nominating, Compensation and Corporate Governance Committee of Telefónica, S.A. is regulated by Article 40 of the Company's By-Laws and by Article 23 of the Regulations of the Board of Directors.

Additionally, and in order to comply with the Recommendations of Technical Guide 1/2019 on Nomination and Remuneration Committees, upon a proposal from the Nominating, Compensation and Corporate Governance Committee, the Board of Directors approved the Regulations of the Nominating, Compensation and Corporate Governance Committee of Telefónica, S.A. at its meeting held on June 26, 2019.

All the aforementioned internal regulations of Telefónica, S.A. (By-Laws, Regulations of the Board of Directors and Regulations of the Nominating, Compensation and Corporate Governance Committee) are available to the public on the Company's corporate website (<https://www.telefonica.com/en/web/shareholders-investors>).

III. COMPOSITION OF THE COMMITTEE.

As regards its composition and pursuant to the provisions of Article 40 of the Company's By-Laws, Article 23 of the Regulations of the Board of Directors and Article 1 of the Regulations of the Nominating, Compensation and Corporate Governance Committee, the Committee will consist of the number of Directors that the Board of Directors determines from time to time, which shall in no case be less than three, to be appointed by the Board of Directors. All members thereof must be External or Non-Executive Directors and the majority of them must be Independent Directors.

The Chairman of the Nominating, Compensation and Corporate Governance Committee, who shall in all events be an independent Director, shall be appointed from among its members. The Lead Independent Director (*Consejero Independiente Coordinador*) must also be a member of the Committee.

Pursuant to Article 2 of the Regulations of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors shall endeavor to ensure that the Members of the Nominating, Compensation and Corporate Governance Committee generally have knowledge and experience in the following areas: (a) corporate governance; (b) strategic analysis and evaluation of human resources; (c) selection of Directors and Officers, including

an evaluation of the suitability requirements that may apply pursuant to the rules applicable to the Company; (d) performance of the duties of Senior Management; and (e) design of compensation policies and plans for Directors and Senior Executive Officers. The Board of Directors shall also endeavor to ensure that the Chairman of the Committee has prior experience at companies similar in size or complexity as a member of the Nominating and Compensation Committee or as an executive Director or member of Senior Management.

All of the aforementioned standards as to the composition, expertise and training of the Nominating, Compensation and Corporate Governance Committee are intended to secure the utmost independence for the Committee.

The composition of the Nominating, Compensation and Corporate Governance Committee as of December 31, 2019 was as follows:

Director	Position	Class	Date of appointment	Knowledge and experience in Corporate Governance; Human Resources; Selection of Directors and Officers; Performance of Senior Management duties; and Remuneration Policies and Plans for Directors and Senior Executive Officers
Mr. José Javier Echenique Landiribar ¹	Chairman (12-18-2019)	Independent	04-08-2016	✓
Mr. Peter Erskine	Member	Other External	02-27-2008	✓
Ms. Sabina Fluxà Thienemann	Member	Independent	04-27-2016	✓
Ms. María Luisa García Blanco ²	Member	Independent	12-18-2019	✓
Mr. Francisco Javier de Paz Mancho	Member	Other External	04-08-2016	✓

1 On December 18, 2019, Mr. José Javier Echenique Landiribar was appointed Chairman of the Nominating, Compensation and Corporate Governance Committee, replacing Mr. Francisco Javier de Paz Mancho, who remains as a Member of such Committee.

2 On December 18, 2019, Ms. María Luisa García Blanco was appointed Member of the Nominating, Compensation and Corporate Governance Committee, replacing Mr. Luiz Fernando Furlán, who on such date tendered his voluntary resignation from the position of Director of Telefónica, S.A., and thus from his position as Member of such Committee.

It should also be noted that on December 18, 2019, the Chairman of the Committee, Mr. José Javier Echenique Landiribar, was appointed as Lead Independent Director, to replace Mr. Francisco Javier de Paz Mancho, by resolution of the Board of Directors.

The professional profiles of the Members comprising the Nominating, Compensation and Corporate Governance Committee are available to the public on the corporate website of Telefónica, S.A.

telefonica.com/en/web/shareholders-investors/corporate_governance/board-directors-board-committees

The Secretary of the Nominating, Compensation and Corporate Governance Committee is Mr. Pablo de Carvajal González, General Secretary and Secretary of the Board of Directors, and Global Director of Regulatory Affairs of Telefónica, S.A.

IV. FUNCTIONS AND DUTIES OF THE COMMITTEE.

The duties and functions assigned to the Nominating, Compensation and Corporate Governance Committee are set out in Article 40 of the Company's By-Laws and described in greater detail in Article 23 of the Regulations of the Board of Directors and in Article 4 of the Regulations of the Nominating, Compensation and Corporate Governance Committee.

Without prejudice to any other tasks that may be assigned to the Nominating, Compensation and Corporate Governance Committee, the primary duty of the Nominating, Compensation and Corporate Governance Committee shall be to support the Board of Directors in its supervisory duties. Specifically, it shall have at least the following powers and duties:

- 1) To evaluate the skills, knowledge and experience necessary within the Board of Directors. For such purposes, it shall determine the functions and aptitudes needed in the candidates who must fill each vacancy and shall evaluate the time and dedication required for them to effectively carry out their tasks.
- 2) To establish a goal for representation by the less represented gender on the Board of Directors and prepare guidance on how to achieve this objective.
- 3) To submit proposed appointments of independent Directors to the Board of Directors for their appointment on an interim basis to fill a vacancy or for submission of such proposals to a decision by the shareholders at the General Shareholders' Meeting, as well as proposals for re-election or removal of such Directors by the shareholders at the General Shareholders' Meeting.
- 4) To report on the proposed appointments of the other Directors of the Company for their appointment on an interim basis to fill a vacancy or for submission of such proposals to a decision by the shareholders at the General Shareholders'

Meeting, as well as proposals for the re-election or removal thereof by the shareholders at the General Shareholders' Meeting. To also report on proposals for the appointment and removal of the Secretary and any Deputy Secretary of the Board of Directors of the Company, as well as proposals for the appointment, re-election and removal of Directors from the subsidiaries thereof.

- 5) To report on the proposals for appointment and removal of Senior Executive 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 of the respective Secretary and, if applicable, the respective Deputy Secretary.
- 7) To propose to the Board of Directors the appointment of the Lead Director from among the independent Directors.
- 8) Together with the Chairman of the Board of Directors, to organize and coordinate a periodic assessment of the Board of Directors pursuant to 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 or organize the succession of the Chairman of the Board of Directors and, if applicable, to make proposals to the Board of Directors so that such succession occurs in an orderly and planned manner.
- 11) To propose to the Board of Directors, within the framework established in the By-Laws, the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them, as provided in Article 34 of the Regulations of the Board.
- 12) To propose to the Board of Directors, within the framework established in the By-Laws, the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman of the Board of Directors, of the Executive Directors and the Senior Executive Officers of the Company, as well as the basic terms of their contracts, for purposes of contractual implementation thereof.
- 13) To prepare and propose to the Board of Directors an annual report regarding the Director remuneration policy.
- 14) To verify the information regarding the compensation of the Directors and Senior Executive Officers set forth in the various corporate documents, including the annual report on the Director remuneration policy.
- 15) To supervise compliance with the Company's internal codes of conduct and the corporate governance rules thereof in effect from time to time.
- 16) To exercise such other powers and perform such other duties as are assigned to the Nominating, Compensation and Corporate Governance Committee in the Regulations of the Board of Directors.

Section VI of this Report describes the most significant activities carried out by the Committee during fiscal year 2019 in relation to the above-described duties and tasks.

V. MEETINGS OF THE COMMITTEE AND ATTENDEES AT MEETINGS.

Pursuant to the provisions of Article 23 of the Regulations of the Board of Directors and of Article 3 of the Regulations of the Nominating, Compensation and Corporate Governance Committee, the Committee shall meet at least once every quarter and as often as appropriate, when called by its Chairman.

In addition to the meetings provided for in the annual schedule, the Nominating, Compensation and Corporate Governance Committee shall meet whenever the Board of Directors of the Company or the Chairman of the Board of Directors requests the issuance of a report or the making of a proposal within the scope of their powers and duties, provided that, in the opinion of the Chairman of the Committee, it is appropriate for the proper implementation of its duties.

Attendance at formal meetings of the Committee is preceded by sufficient dedication of its Members to analyze and assess the information received.

Additionally, as stated above, the Committee has a Secretary and is provided with the necessary assistance for planning meetings and agendas, drafting documents and minutes of meetings, and compiling and distributing information, among other tasks.

In order to provide for adequate planning to ensure that the intended objectives are effectively fulfilled, the Committee approved its Annual Work Program for 2019 at its meeting held on December 11, 2018.

Meetings are planned by the Chairman of the Committee and communicated to the Secretary, so that its Members receive the documentation sufficiently in advance. All of the foregoing must have regard to the fact that the Members of the Committee play a primarily supervisory and advisory role and should not become involved in executive or management duties, which are within the purview of Management.

In particular, the Nominating, Compensation and Corporate Governance Committee shall consult the Chairman of the Board of Directors when dealing with matters regarding the executive Directors and Senior Executive Officers.

Pursuant to its Annual Work Program for 2019, during fiscal year 2019 the Nominating, Compensation and Corporate Governance Committee held a total of 11 meetings, which took place on the following dates:

- January 29, 2019
- February 19, 2019
- March 26, 2019
- April 23, 2019
- May 28, 2019
- June 25, 2019
- July 23, 2019
- September 24, 2019
- October 29, 2019
- November 25, 2019
- December 17, 2019

These meetings lasted for an average of approximately 2 to 2.5 hours each, with the Members dedicating an appropriate number of hours to the study and analysis of the matters to be addressed. The Members also held working or informational meetings when so required.

Attendance is monitored at the commencement of each meeting and recorded in the corresponding Minutes. During 2019, all Members of the Committee attended or were represented at all of its meetings.

Furthermore, in addition to its members, various members of the Telefónica Group's management team attend meetings of the Nominating, Compensation and Corporate Governance Committee, with duties to support and assist the Members of the Committee on the matters being analyzed at each meeting. Specifically, at the invitation of the Chairman of the Committee and when deemed necessary, meetings of the Committee are attended by the Global Director of Human Resources of Telefónica, S.A. and the Director of Compensation and Benefits of Telefónica, S.A.

Moreover, in relation to the preparation of the Agenda for the meetings, it should be noted that a preparatory meeting is held with the areas involved in order to propose and analyze the matters and issues to be addressed at each meeting, taking as a guide the aforementioned Annual Work Program, the Meetings Schedule, and the suggestions of the Directors who comprise the Committee, thereby supporting the Chairman of the Committee in the preparation of the Agenda for and the Call to each meeting.

The various matters submitted for deliberation and, where appropriate, decision-making, are addressed in due detail at all meetings of the Nominating, Compensation and Corporate Governance Committee. The Members thereof actively participate in the various debates and discussions, stating their opinions in such regard when they deem it appropriate.

The deliberations of the Committee and the resolutions and decisions that it adopts are recorded in the corresponding Minutes of each meeting.

As regards the rules governing the valid formation of meetings and the adoption of resolutions by the Nominating, Compensation and Corporate Governance Committee, a quorum for the Committee shall be validly established with the attendance, in person or by proxy, of at least one-half of the Members thereof; and the Committee adopts resolutions by a majority of those present. In the event of a tie, the Chairman casts the tie-breaking vote.

It should also be noted that all documentation relating to the items on the Agenda for the meetings is generally sent sufficiently in advance to the Directors and is also made available through the corresponding IT application. All of the foregoing allows the Directors to view the information and documentation presented in a timely and appropriate manner.

Finally, and as stated above, relations between the Nominating, Compensation and Corporate Governance Committee and the Company's Board of Directors are based on the principle of full transparency. In this regard, the Chairman of the Committee reports to the Board of Directors at each of its monthly meetings on the main issues discussed and the activities and work performed by the Committee and, when necessary, proposes to the Company's Board of Directors that any appropriate resolutions be adopted.

V. ISSUES EXAMINED BY THE COMMITTEE DURING 2019.

Among the issues that the Committee examined at its meetings held in 2019, some concern its established duties and others relate to the interest they garner in light of the powers assigned to the Committee.

In the examination and debate of the issues addressed by this Committee during fiscal year 2019, the speakers accompanied their statements with presentations and/or reports, with the following main issues having been analyzed, discussed and reviewed:

1. Proposed appointments relating to the Board and its Committees, and the Boards of Subsidiaries.

In accordance with the powers assigned thereto, the Committee has proposed or reported favorably, as applicable, on the proposed appointments of Directors of Telefónica, S.A. that were submitted to the Board of Directors. In general, the proposals were based on a prior analysis of the needs of the Company's Board of Directors and on favoring a diversity of expertise, training and professional experience, age and gender thereon, without any implicit bias that could entail any kind of discrimination, particularly on the grounds of gender, disability or any other personal condition; all of the foregoing is pursuant to the provisions of the Diversity and Director Selection Policy in relation to the Board of Directors of Telefónica, S.A. For such purpose, the reputation, competence, experience, professional merit and willingness of candidates to devote the time and effort required for the effective performance of their roles were taken into consideration, taking into account their personal and professional characteristics.

Thus, at its meeting held on March 26, 2019, the Committee favorably reported to the Board of Directors on the proposed appointment of Mr. Antonio García-Mon Marañés as Deputy General Counsel and Deputy Secretary of the Board, replacing Ms. María Luz Medrano Aranguren.

At its meeting held on December 17, 2019, the Committee proposed to the Company's Board of Directors the interim appointment (co-option) as Independent Directors of Ms. Verónica Pascual Boé and of Ms. Claudia Sender Ramírez, replacing Mr. Luiz Fernando Furlán and Mr. Wang Xiaochu.

At its meeting held on December 17, 2019, the Committee also favorably reported to the Board of Directors on the proposed appointment of Mr. José Javier Echenique Landiribar as Vice-Chairman of the Company. At this same meeting, the Committee also proposed the appointment of Mr. José Javier Echenique Landiribar as Lead Independent Director (*Consejero Independiente Coordinador*), replacing Mr. Francisco Javier de Paz Mancho.

At its meeting held on December 17, 2019, the Committee analyzed the proposal regarding the new configuration as to the organization, structure and composition of the Advisory or Control Committees that support the Company's Board of Directors.

In addition, over the course of its meetings the Committee reported on various proposals for appointment of Directors at decision-making bodies of Subsidiaries or Affiliates of the Telefónica Group.

2. Proposed appointments related to Senior Executive Officers and the organizational structure of the Telefónica Group.

The Committee also analyzed and made a favorable report on proposals related to the appointment of Senior Executive Officers of the Company and of its Subsidiaries, analyzing the proposed appointments and the suitability and professionalism of the candidates, together with their curricula and their career within and outside the Company.

The Committee also analyzed changes to the organizational structure of the Telefónica Group, as well as other workforce-related issues such as diversity and various policies applicable to Officers and employees.

3. Succession plan for Executive Directors and Senior Executive Officers

The Committee has analyzed the Company's talent review process, focusing on, among other aspects, the succession plans for Executive Directors and for Senior Executive Officers of the Group, in order to ensure that qualified personnel are available to implement the Company's strategic plans without interruptions, continuing with the business and avoiding the non-performance of significant duties.

4. Remuneration regime for the Directors, Senior Executive Officers and Employees of the Telefónica Group.

With respect to the remuneration regime for Directors and Senior Executive Officers, at its various meetings the Committee reviewed the current remuneration of the Board of Directors as well as the remuneration of the Company's Senior Executive Officers and other issues relating to the remuneration regime applicable thereto.

5. Telefónica, S.A. Share Plans.

The Committee reviewed and evaluated the proposal from the Human Resources Directorate of Telefónica, S.A. regarding the launch of the Global Employee Incentive Share Purchase Plan of Telefónica, S.A. (GESP) for the Employees of the Telefónica Group, approved by the shareholders at the General Shareholders' Meeting of Telefónica, S.A. held on June 8, 2018.

The Committee also reviewed and evaluated the proposal from the Human Resources Directorate of Telefónica, S.A. regarding the 2018-2023 Long-Term Incentive Plan for Officers of the Group and the Executive Directors of Telefónica, approved by the shareholders at the General Shareholders' Meeting of the Company held on June 8, 2018. The Plan has a total duration of five years and is divided into three mutually exclusive cycles of three years each (i.e., with delivery of the respective shares in each cycle once three years have passed from the commencement of each cycle). The first cycle began on January 1, 2018 and will end on December 31, 2020 (with delivery of the respective shares in 2021), the second cycle on January 1, 2019 (with delivery of the respective shares in 2022) and the third on January 1, 2020 (with delivery of the respective shares in 2023).

6. Amendment of the Regulations of the Board of Directors.

At its meeting of December 17, 2019, the Committee analyzed and favorably reported on the proposed amendment of the Regulations of the Board of Directors of Telefónica, S.A., with such amendment consisting of: i) issues regarding Reputation, Corporate Responsibility and Sustainability, until now within the purview of the Regulation and Institutional Affairs Committee, becoming the purview of the Service Quality and Customer Service Committee; and ii) changing the name of the Service Quality and Customer Service Committee, which will be called the Sustainability and Quality Committee.

7. Other issues analyzed:

➤ Process of Evaluation of the Board, its Committees and the General Meeting

In coordination with the Chairman of the Board, the Committee analyzed the results of the evaluation of the Company's Board of Directors for fiscal year 2018 regarding the operation of the Board of Directors and its Committees, the performance of the Chairman

and of the Directors, and the conduct of the General Shareholders' Meeting of the Company. The Committee concluded that in general terms, the Directors reported a high degree of satisfaction with the organization and activities of the governance bodies.

Furthermore, as a result of such evaluation, certain areas for improvement were identified, in view of which, and after a detailed examination and analysis of the results reached, the Committee submitted the proposed improvements to the Board in order to optimize the operation of the Company's governance bodies.

➤ *Annual Corporate Governance Report.*

The Committee reviewed and reported favorably on the content of the Annual Corporate Governance Report of Telefónica, S.A. for fiscal year 2018, which was subsequently approved by the Company's Board of Directors and then by the shareholders at the General Shareholders' Meeting.

Pursuant to the provisions of the Regulations of the Board of Directors, the Committee also verified the category of each of the Directors of the Company.

➤ *Annual Report on Remuneration of Directors.*

The Committee also analyzed and reported favorably on the Report on Remuneration of Directors for 2018, which was then approved by the Company's Board of Directors and subsequently by the shareholders at the General Shareholders' Meeting under a consultative vote.

Finally, as set forth in Article 5 of the Regulations of the Nominating, Compensation and Corporate Governance Committee, the Nominating, Compensation and Corporate Governance Committee is provided with the resources necessary for the Members of the Committee to obtain external advice on legal and other issues as required. In this regard, it is stated for the record that the Committee has hired external advisors to assist it in the performance of its duties.

VI. INFORMATION ON THE PRACTICAL GUIDES REGARDING NOMINATING AND COMPENSATION COMMITTEES FOLLOWED BY THE COMMITTEE.

The Nominating, Compensation and Corporate Governance Committee of Telefónica, S.A. follows Technical Guide 1/2019 on Nomination and Remuneration Committees approved by the National Securities Market Commission (CNMV) on February 20, 2019.



VII. SIGNIFICANT DEVIATIONS FROM PROCEDURES ADOPTED OR IMPROPRIETIES THAT HAVE BEEN COMMUNICATED IN WRITING TO THE BOARD ON MATTERS WITHIN THE PURVIEW OF THE COMMITTEE.

It is hereby stated for the record that there are no significant deviations from procedures adopted or improprieties that have been communicated in writing to the Board of Directors on matters within the purview of the Committee.

VIII. CONCLUSIONS AND FORECASTS FOR FISCAL YEAR 2020.

As reflected above, over the course of fiscal year 2019 the Nominating, Compensation and Corporate Governance Committee analyzed the main issues and aspects within its purview, regularly reporting to the Company's Board of Directors on the most significant issues.

In fiscal year 2020, this Committee expects to continue with the review and supervision of all matters within its purview, and particularly to analyze and examine the issues relating to Corporate Governance, remuneration policy and the organizational structure of the Senior Executive Officers of the Telefónica Group.

In this regard, the Committee has established an Activity Plan for 2020, which sets out on a monthly basis all the activities that the Committee must perform during the fiscal year, planning the actions thereof in its various fields of activity.

IX. DATE OF PREPARATION AND OF APPROVAL OF THE REPORT.

This Report was prepared by the Nominating, Compensation and Corporate Governance Committee on January 29, 2020 and approved by the Board of Directors of Telefónica, S.A. on February 19, 2020.

Madrid, February 2020

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