

*Telefonica*

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**Remuneration Policy for the Directors of  
Telefónica, S.A.**

## **1. INTRODUCTION**

This document sets out the Remuneration Policy for the Directors of Telefónica, S.A. (hereinafter referred to as “Telefónica” or the “Company”), which shall be submitted for a binding vote at the 2018 General Shareholders’ Meeting as a separate item on the agenda to replace, as of 2019, the current Remuneration Policy for the Directors approved by the General Shareholders’ Meeting held on 12 June 2015, which is valid until 31 December 2018.

The Remuneration Policy for the Directors (hereinafter referred to as the “Policy”) contains the following sections:

- Principles of the Policy.
- Duties undertaken by the Nominating, Compensation and Corporate Governance Committee.
- Features of the remuneration system for the Executive Directors, including a description of the remuneration components, the remuneration package and the main contractual terms and conditions for the Executive Directors.
- Features of the remuneration system for the Directors in their position as such.
- Remuneration Policy applicable to new Directors.
- Consideration of the terms and conditions for the Company’s employees when drawing up the Policy.
- Maximum Amount of remuneration the Company may pay its Directors on an annual basis.
- Validity of the Policy.

## 2. PRINCIPLES OF THE REMUNERATION POLICY

The main focus of Telefónica’s Remuneration Policy is to attract, retain and motivate professionals for the Company, enabling the latter to meet its strategic targets within the highly competitive and globalised setting in which it performs its business, by setting out 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 interests of the shareholders and the aim of sustainably creating value over time.	●	
<b>Link between remuneration and profits</b>	A significant portion of the remuneration for the Executive Directors is variable and receiving it is subject to achieving financial, business and value creation targets that are pre-determined, specific, quantifiable and aligned with the Company’s corporate interests.	●	
<b>Flexibility</b>	The variable remuneration is not guaranteed and sufficiently flexible for the possibility of not paying out this component.	●	
<b>Competitiveness</b>	In order to have the best professionals on board, both in its structure and its overall amount the remuneration package must be competitive with respect to other comparable companies at the international level.	●	●
<b>Good Governance</b>	When determining the remuneration for the Directors, the Company takes into consideration developments 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>Fairness</b>	The professional merit, experience, time spent and responsibility undertaken by each Director will be appropriately remunerated.	●	●
<b>“Equal Pay”</b>	The remuneration policies and practices ensure there is no discrimination on the basis of gender, age, culture, religion 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 with remuneration is in line with the best corporate governance practices in order to create trust among shareholders and investors.	●	●

## WHAT WE DO

### Executive Directors

- Linking the payment of the remuneration to the Company's profits ("pay for performance").
- The weighting of the quantitative metrics to which the variable remuneration is linked is currently 80%.
- Long-Term Incentive Plans:
  - A minimum target measurement term of three years.
  - Paid in shares.
  - Linked to metrics aligned with Telefónica's long-term goals.
  - Retention of part of the shares for a certain term.
- Permanently holding shares valued at the equivalent of two times the fixed remuneration.
- As part of the process of assessing the variable remuneration, the Nominating, Remuneration and Corporate Governance Committee considers the long-term quality of profits and losses 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.

### Non-Executive Directors

- Remuneration is determined in accordance with the responsibilities and duties undertaken by each Director but without compromising the members' independence

## WHAT WE DO NOT DO

### Executive Directors

- There is no guaranteed variable remuneration.
- There is no discrimination in terms of remuneration on the basis of gender, age, culture, religion or race. Telefónica's staff are remunerated based on their professional merit, experience, time spent and the responsibility they undertake.

### Non-Executive Directors

- The Non-Executive Directors are not included in the remuneration formulae or systems linked to the personal 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.

### **3. DUTIES UNDERTAKEN BY THE NOMINATING, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE**

Apart from the responsibilities assigned to it by Article 23 of the Board of Directors' Regulations, the duties undertaken by the Nominating, Compensation and Corporate Governance Committee in relation with the Remuneration Policy are the following:

<p><b>Determining the items of remuneration</b></p>	<ul style="list-style-type: none"> <li>• In relation with the remuneration of the Directors in their positions as such, it proposes to the Board of Directors the allotment among the different items of the maximum amount approved by the General Shareholders' Meeting.</li> <li>• In relation with the remuneration of the Executive Directors:             <ul style="list-style-type: none"> <li>- It proposes to the Board of Directors the fixed remuneration for the Executive Directors considering, among other factors, the level of responsibility and leadership within the organisation, promoting the retention of key staff, attracting the top talent and creating sufficient economic independence to balance the significance of other items of remuneration.</li> <li>- It reviews, on an annual basis, the terms and conditions of 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 and submits them for the approval of the Board of Directors.</li> </ul> </li> </ul>
<p><b>Setting and applying the annual and multi-annual variable remuneration</b></p>	<ul style="list-style-type: none"> <li>• It proposes the targets to the Board of Directors at the beginning of each measurement period.</li> <li>• It assesses achievement of the targets after the end of the measurement period. This assessment is conducted on the basis of the audited profits or losses by the external auditors of the Company, which are analysed, first and foremost, by the Auditing and Control Committee, and 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 effects caused by extraordinary events that could distort the findings of the assessments are disregarded.</li> <li>• It proposes to the Board of Directors the variable remuneration payable to the Executive Directors. Such proposal will also consider the long-term profits and any associated risk in the proposed variable remuneration.</li> <li>• In the process of adopting these kinds of decisions, the Committee uses reports drawn up for such purpose by the Planning and Control Department, which will be duly audited by the external auditors of the Company and verified by the Auditing and Control Committee.</li> </ul>
<p><b>Reviewing and analysing external competitiveness</b></p>	<p>It regularly reviews whether the remuneration package for the Directors is competitive with respect to the market practices of companies comparable to Telefónica, requesting an external report when necessary.</p> <p>A reference market determined on the basis of the following objective criteria is considered when conducting the analyses on external competitiveness:</p> <ol style="list-style-type: none"> <li>1. A sufficient number of companies.</li> <li>2. Figures relating to their size.</li> <li>3. Geographical diversity.</li> <li>4. Distribution by sector.</li> </ol>
<p><b>Transparency</b></p>	<p>It submits to the Board of Directors the Annual Directors' Remuneration Report and, where appropriate, the Remuneration Policy.</p>

When performing the duties set out in the above box, the Nominating, Compensation and Corporate Governance Committee can obtain advice from independent external consultants specialising in remuneration.

#### 4. REMUNERATION FOR THE EXECUTIVE DIRECTORS

##### 4.1. Elements of the Remuneration Policy for the Executive Directors for the performance of their executive duties

Apart from the remuneration they could be paid in their positions as members of the Board of Directors, the elements included in the remuneration package for the Executive Directors for the performance of their executive duties are the following:

Fixed Remuneration
<b>Purpose</b>
Rewarding consistently with the level of responsibility, leadership and performance within the organisation, promoting the retention of key staff and attracting the top talent and creating sufficient economic independence to balance the significance of other items of remuneration.
<b>Amount</b>
<ul style="list-style-type: none"> <li>• Executive Chairman: €1,923,100</li> <li>• Chief Executive Officer: €1,600,000</li> </ul>
<b>Functioning</b>
<p>Executive Directors receive an annual fixed remuneration, payable monthly, for the performance of executive duties at the Company. This remuneration is set by the Board, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, in a manner consistent with the level of responsibility and leadership within the organization, promoting the retention of key professionals and attracting the best talent, and providing economic independence sufficient to balance the value of other remuneration items.</p> <p>Annual gross fixed remuneration may be reviewed annually on the basis of criteria approved at any time by the Nominating, Compensation and Corporate Governance Committee. The maximum annual increase shall not exceed 10% of the gross annual salary of the previous year.</p> <p>In certain situations, such as a change of responsibility, the development of the position and/ or special needs for retention and motivation, the Committee may propose higher increases. The underlying reasons shall be explained in the the Annual Directors' Remuneration Report.</p>

## Annual Variable Remuneration

### Purpose

Rewarding the achievement of a combination of economic-financial, operational and qualitative targets that are pre-determined, quantifiable, aligned with the Company's interests and in line with its Strategic Plan.

### Limits

#### Target

This is achieved when 100% of the pre-determined targets are met.

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

#### Maximum

This is achieved when the pre-determined targets are overfulfilled.

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

No significant changes are planned for the Policy's term of validity. In any case, the Annual Variable Remuneration for the Chief Executive Officer may be reviewed depending on his or her development and consolidation in the position, the development of the Company's profits and other factors deemed appropriate by the Nominating, Compensation and Corporate Governance Committee. Should this be the case, this adjustment must be approved by the Board of Directors. However, the maximum Annual Variable Remuneration shall not exceed 233,10% of the Fixed Remuneration.

Any updates taking place as described herein must always be proposed by the Nominating, Compensation and Corporate Governance Committee, and the reasons for such updates must be suitably reported in the Annual Directors' Remuneration Report.

### Metrics

This is linked to the achievement of a combination of quantitative targets (economic-financial, operational and/or value creation) and specific, pre-determined and quantifiable qualitative targets aligned with the Company's interests and in line with Telefónica's strategy.

The qualitative targets will have a maximum weighting of 20% as a whole.

### Functioning

The targets must be approved by the Board of Directors at the beginning of every financial year at the proposal of the Nominating, Compensation and Corporate Governance Committee.

For the purpose of calculating the payment coefficient obtained for each level of target achievement, an achievement scale is determined for each metric, which includes a minimum threshold below which no incentive is paid. In case of a 100% of achievement of the objective set, the target Annual Variable Remuneration will be paid (180% of the Fixed Remuneration for the Executive Chairman and 150% of the Fixed Remuneration for the Chief Executive Officer) and, in case of an overachievement of the objectives the maximum Annual Variable Remuneration will be paid (233.10% of the Fixed Remuneration for the Executive Chairman and 194.25% of the Fixed Remuneration for the Chief Executive Officer).

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 Auditing and Control Committee, which provides information about the audited results by the external auditor of the company. The Committee will also consider any associated risk for both setting the targets and assessing the achievement thereof.

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

The annual variable remuneration may be paid in cash and/or include awards of shares or share-based instruments, providing the targets set for such purpose are met.

Moreover, the Nominating, Compensation and Corporate Governance Committee has the power to propose to the Board of Directors to fully or partially cancel the payment of the annual variable remuneration if certain unforeseen circumstances arise.

## Long-Term Incentive Plan

### Purpose

To strengthen the Executive Directors' commitment to the Company and its strategic plan, linking their remuneration to the creation of value for shareholders and to sustainably achieving strategic targets, in a manner that is in line with the best remuneration practices. In turn, by means of its long-term incentive plans, the Company aims to offer a competitive remuneration package and to retain key positions within the organisation.

### Limits

#### Maximum Incentive for each cycle

- 250% of the fixed remuneration.

### Metrics

Economic-financial targets (for example, free cash flow) and targets related to creating value for shareholders (for example, total shareholder return).

In addition, targets related to sustainability, the environment or good governance may be included. These targets will have a maximum overall weight of 10%.

Some of the metrics may be measured relative to a comparison group consisting of competitor companies.

### Functioning

The measurement period for the targets will be at least three years long.

The targets must be approved by the Board of Directors at the beginning of each cycle of the Plan, at the proposal of the Nominating, Compensation and Corporate Governance Committee.

The Plan may be paid out in cash and/or include awards of shares, share options or remuneration rights linked to the value thereof, providing the targets set for such purpose are met. At least 25% of the shares awarded as a result of the Plan will be subject to a retention period no shorter than one year.

For the purpose of calculating the payment coefficient obtained for each level of target achievement, an achievement scale is determined for each metric at the beginning of each cycle, which includes a minimum threshold (below which no incentive is paid) and a maximum level (at which an incentive equivalent to 250% of the fixed remuneration will be paid).

The Committee conducts an assessment of the targets on an annual basis and once the Plan has ended, it determines the level of achievement. When conducting this assessment, the Committee is supported by the Auditing and Control Committee, which provides information about the audited results by the external auditor of the Company. The Committee will also consider any associated risk for both setting the targets and assessing the achievement thereof.

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

Moreover, the Nominating, Compensation and Corporate Governance Committee has the power to propose to the Board of Directors to fully or partially cancel the payment of the long-term incentive if certain unforeseen circumstances arise (reduction and clawback clauses).



## Shares delivery plans or shares purchase plans for employees of the Group

### Functioning

The Executive Directors could participate in shares delivery plans or shares purchase plans for employees of the Group approved by the General Shareholders' Meeting, such as the "Incentive Telefonica, S.A. Global Shares purchase Plan". These plans will establish a maximum amount of shares to be delivered to the Executive Directors.

## Long-term savings systems

### Purpose

Offering an overall remuneration package that is competitive with respect to the market practices of comparable companies.

## Telefónica Employee Pension Plan

### Contributions

- Executive Chairman: 6.87% of 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 provides at any given time.
- Chief Executive Officer: 4.51% of base salary, plus 2.2% as a mandatory contribution to be made by the Chief Executive Officer up to the maximum annual limit that the law provides at any given time.

### Functioning

As it is described in each of the Executive Directors contract, the Pension Plan is a defined-contribution plan which contingencies covered are: retirement; death of the participant; death of the beneficiary; total and permanent incapacity 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 benefit consists of the economic right accruing to the beneficiaries as a result of the occurrence of any of the contingencies covered by this Pension Plan. It shall be quantified according to the number of units of account that correspond to each participant based on the amounts contributed to the Pension Plan, and shall be valued for purposes of their payment according to the value of the unit of account as of the business day preceding the date on which the benefit becomes effective.

The participant may also exercise his or her 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 is noted that in 2015 applicable law reduced the financial and tax limits of the contributions to pension plans; for this reason, in order to compensate for the difference in favor of the beneficiaries, a unit-link type group insurance policy was arranged to channel such differences that occur during each fiscal year.

This unit-link type insurance is arranged with the entity Seguros de Vida y Pensiones Antares, S.A., covers the same contingencies as the Pension Plan and the same exceptional liquidity events in case of serious illness or long-term unemployment.

## Executive Benefits Plan

### Contributions

- 35% of Fixed Remuneration

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

**Functioning**

The Executive Directors also participate in an Executive Benefits Plan (Plan de Previsión Social de Directivos) (“PPSD”), approved in 2006 to supplement the current Pension Plan.

The implementation vehicle has been a unit-link type collective life insurance policy entered into with an insurance company.

The contingencies covered by the PPSD are retirement, early retirement, permanent loss of working capacity consisting of total or absolute incapacity or serious disability, and death.

The amount of the benefit of this guarantee will be equivalent to the mathematical provision accruing to the insured on the date on which the policyholder provides notice and authorizes the insurer access to this situation.

There is no vesting of economic rights in favor of the Executive Directors. In case of legislative change on this matter, upon a proposal of the Nominating, Compensation and Corporate Governance, the Board of Directors could introduce the appropriate adjustments.

Any adjustments to be introduced in the PPSD must be approved by the Board of Directors. These adjustments must be justified and proposed by the Nominating, Compensation and Corporate Governance. The reasons of the adjustments made shall be properly explained in the annual report on remuneration of the Directors.

Receipt of any compensation derived from termination of the employment relationship shall be inconsistent with the recognition of any economic entitlement to the accumulated mathematical benefit.

Even though there are no planned changes to the functioning of this Plan, it may be updated by the Board of Directors upon a proposal of the Nominating, Compensation and Corporate Governance to reflect changes made in applicable legislation.

**Remuneration in kind****Functioning**

The Executive Directors may receive remuneration in kind in line with the general policy applicable to the Company's Executives. Such remuneration may include life insurance, health and dental cover insurances and the use of a Company vehicle, *inter alia*.

Moreover, Telefónica has taken out a third-party liability insurance for its managers, executives and staff performing similar duties.

**4.2. Commitment to hold shares on a permanent basis**

The Executive Directors must hold (directly or indirectly) a number of shares (including those awarded as remuneration) equivalent to two 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 their appointment.

**4.3. The Executive Directors' remuneration mix**

The Executive Directors benefit from a fully flexible variable remuneration system that allows for no payment being made to them for this item if they do not meet the minimum achievement thresholds. The short-term and long-term variable remuneration percentage may become relevant in case there is maximum target achievement. In any case, such percentage out of the total remuneration (which, for such purpose, is deemed to mean the sum of Fixed Remuneration, the Annual Variable Remuneration and the annualised long-term incentive) shall not exceed 85%.

#### 4.4. Contractual terms and conditions for the Executive Directors

The contracts that currently regulate the performance of the Executive Directors' duties and responsibilities are of a commercial nature and include clauses that are included in these kinds of contracts in normal practice. These contracts have been proposed by the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors.

The main terms and conditions of the Executive Directors' contracts are summarised below:

Executive Chairman and Chief Executive Officer	
Term	Indefinite
Prior notice	There is an obligation for the Executive Directors to provide prior notice in the event of the contract being terminated due to a unilateral decision taken by them, it being stipulated that they must notify their unilateral decision in writing with at least three months' prior notice, except in cases of <i>force majeure</i> . In the event of failure to meet such obligation, they must pay the Company an amount equivalent to the Fixed Remuneration for the period of prior notice not observed.
Exclusivity	The contracts prohibit during the term thereof the signing (whether directly or through intermediaries) of any employment, commercial or civil contracts with other companies or institutions that engage in activities similar in nature to those of Telefónica.
Non-compete clause	The contract states the relationship is compatible with holding representative, administrative and management posts and other professional positions they may hold at other companies within Telefónica or at any other undertakings unrelated to the Company with the express knowledge of the Nominating, Compensation and Corporate Governance Committee and the Board of Directors.  In addition, it states the relationship is incompatible during the term of the clause (two years following 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.
Severance pay	The contracts include an agreed economic compensation in the event the relationship is terminated, when appropriate, which may amount to a maximum of four years' remuneration. A year's remuneration consists of the last Fixed Remuneration and the arithmetic mean of the sum of the last two instances of annual variable remuneration paid pursuant to the contracts.
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 they have knowledge of or to which they have had access as a result of holding their positions.
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.

## 5. REMUNERATION POLICY FOR THE DIRECTORS IN THEIR POSITIONS AS SUCH

Pursuant to Article 35 of the Articles of Association, the Directors' remuneration in their positions as such, in other words, as members of the Board of Directors and for performing the duties of supervision and joint decision-making inherent to this body, consists of a fixed and determined monthly amount and expenses for attending the meetings of the Board of Directors and the executive and advisory committees thereof.

The items in the Remuneration Policy for the Directors in their positions as such are detailed below:

	Board of Directors	Executive Commission	Advisory or Control Committee (*)
Chairman	240,000 €	80,000 €	22,400 €
Vice Chairman	200,000 €	80,000 €	-
Executive Member	-	-	-
Proprietary Member	120,000 €	80,000 €	11,200 €
Independent Member	120,000 €	80,000 €	11,200 €
Other External	120,000 €	80,000 €	11,200 €

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

Executive Directors may waive to receive the above amounts.

These amounts remain unchanged until the Board of Directors resolves to change them. In this respect, the Nominating, Compensation and Corporate Governance Committee regularly reviews that the Directors' remuneration is competitive with respect to the market practices of companies comparable to Telefónica.

In any case, any change to these amounts will be reported in the Annual Directors' Remuneration Report, which will be submitted for approval to the General Shareholders' Meeting on an annual basis.

Moreover, the Non-Executive Directors receive the remuneration payable to them due to being members of certain governing bodies of subsidiaries of and companies held by Telefónica.

## **6. REMUNERATION POLICY APPLICABLE TO NEW DIRECTORS**

The remuneration system described above for the Executive Directors shall be applicable to any Director that could become a member of the Board of Directors during the term of this policy for the performance of executive duties.

The Nominating, Compensation and Corporate Governance Committee and the Board of Directors will determine the elements and amounts of the remuneration system applicable to the new Executive Director bearing in mind the duties assigned thereto and the responsibilities undertaken thereby, his or her professional experience, the remuneration for this position on the market and any other factors considered appropriate, which will be duly included in the relevant contract to be signed by the Company and the new Executive Director.

As an exception, in order to assist with the recruitment of an external candidate, the Nominating, Compensation and Corporate Governance Committee may propose to the Board of Directors to provide an incentive to compensate for the loss of unvested incentives at the previous company due to his or her having resigned and subsequently accepted the offer made by Telefónica.

For internal promotions, the Committee may maintain, cancel and/or compensate any pre-existing incentives and other obligations that may be in force at the time of appointment.

If the new appointment implies international relocation, the Company's general policy for international relocations will apply.

In the event new non-executive members join the Board of Directors during the valid term of this Policy, the remuneration system set out in section 5 above shall be applicable to them.

## **7. RELATIONSHIP OF THE POLICY WITH THE TERMS AND CONDITIONS FOR THE COMPANY'S EMPLOYEES**

The Remuneration Policy for the Company's Employees has been taken into account in order to determine the terms and conditions of remuneration for the Executive Directors as set out in this Policy.

In this respect, the Remuneration Policy for the Executive Directors is in line with the policy for the other employees, who are remunerated for the value they contribute to Telefónica, which share the following principles:

- **Total remuneration:** The remuneration package offered by Telefónica may consist of fixed and short-term and long-term variable components, along with remuneration in kind and other company benefits. In any case, the fixed remuneration must be sufficient bearing in mind that, under certain circumstances, the variable remuneration may be zero. In addition, the amounts and relative weighting of the components of remuneration are adapted to local practices on the markets in which Telefónica operates.
- **"Equal pay":** The remuneration practices and policies are applied in a manner that guarantees non-discrimination on the basis of gender, age, culture, religion or race. In this respect, Telefónica's professionals receive remuneration that is consistent with the level of responsibility, leadership and performance within the organisation, promoting the retention of key staff and attracting the top talent
- **Meritocracy and "pay for performance":** In line with the Company's remuneration practices, a significant portion of the remuneration for the Executive Directors and Senior Executives is variable and receiving it is subject to achieving financial, business and value creation targets that are pre-determined, specific, quantifiable and aligned with Telefónica's corporate interests.
- **A balance between the overall strategy and local practices:** The remuneration policy is designed at the global level so that it is aligned with Telefónica's strategic plan. However, the policy is applied bearing in mind the local features of the different markets in which Telefónica operates.
- **Attracting the top talent, encouraging a high-performance culture and retaining key talent.**

In this respect, the items included in the Directors' remuneration for performing their executive duties are aligned with the items included in the remuneration package of Telefónica's senior management group.

## **8. MAXIMUM AMOUNT OF THE EXECUTIVE DIRECTORS REMUNERATION**

The amount of remuneration the Company may pay its Directors on an annual basis is the sum of the following:

- a) The items listed in section 4 above (Fixed Remuneration, Annual Variable Remuneration, Long-Term Incentive Plan, shares delivery plans or shares purchase plans for employees of the Group, long-term savings systems and remuneration in kind), which remunerate the Executive Directors for the performance of their executive duties;
- b) A total of €6,000,000 for all the Directors in their positions as such (this amount being the one set by the General Shareholders' Meeting held on 11 April 2003). The Board of Directors is responsible for determining the exact amount to be paid within the aforementioned limit of €6,000,000, taking into account the duties and responsibilities assigned to each Director, membership in the Board of Directors' Committees and any further objective circumstances it deems relevant.

Should any of the Executive Directors resign, the amount to which the Executive Director is entitled pursuant to the provisions in the terms and conditions of his or her contract, as specified in section 4.4 above, must be added to the amounts set out above.

The maximum amount determined in this section shall remain in force throughout the term of this Policy unless the General Shareholders' Meeting decides to change it in the future.

**9. VALIDITY**

This remuneration policy shall remain in force in 2019, 2020 and 2021, notwithstanding any amendments, adaptations or updates made by the Board of Directors according to its provisions when appropriate, and any replacements which could be approved by Telefónica's General Shareholders' Meeting.

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