

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



Introduction

This document sets out the Remuneration Policy for the Directors of Telefónica, S.A. (hereinafter referred to as “Telefónica” or the “Company”) which will be submitted for approval at the 2023 General Shareholders’ Meeting as a separate item on the agenda (hereinafter referred to as the “Policy”) to replace the current Remuneration Policy for the Directors approved by the General Shareholders’ Meeting held on April 23, 2021. This Policy will enter into force on the date it is approved by the General Shareholders’ Meeting and remain in force until December 31, 2026, notwithstanding any amendments or updates that, where appropriate, the Board of Directors carries out in accordance with the provisions thereof, and any amendments that may be approved by the General Shareholders’ Meeting of Telefónica from time to time.

The Policy, along with the date and result of the vote, will be available for free on Telefónica’s website from the time it is approved and at least for as long as it remains in force.

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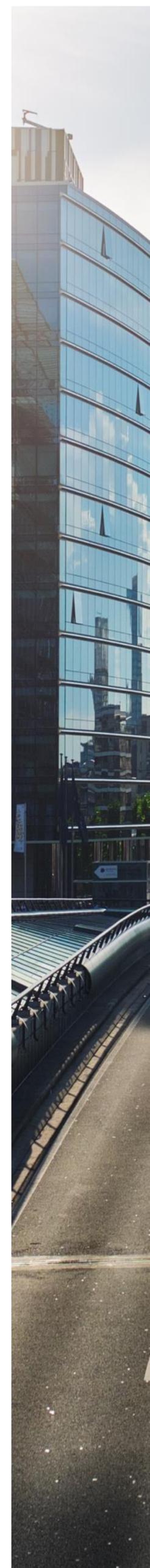
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01. Principles

The main focus of Telefónica's remunerative strategy is to attract, retain and motivate professionals of the Company, enabling it to achieve its strategic objectives within the highly competitive and globalized 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 Policy:

		Executive Directors	Non-Executive Directors
Value creation	The Policy is consistent with Telefónica's commitment to growth, efficiency and sustainable long-term value creation for its stakeholders.	●	
Pay for Performance	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 non-financial objectives, including ESG objectives that are predetermined, specific, quantifiable and aligned with the Company's corporate plan.	●	
Flexibility	The variable remuneration is not guaranteed and is sufficiently flexible so that there is a possibility of not paying this component.	●	
Competitiveness	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.	●	●
Good Governance	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.	●	●
'Fair Pay'	Fair remuneration is provided for professional value, skills, experience, responsibility undertaken and results achieved. The Remuneration Policy for the Executive Directors is aligned with the policy for the other employees and shares the same principles and criteria for action and incorporating the components included in the remuneration package for Telefónica's management group. The Policy is consistent with Telefónica's inclusive culture, which includes a commitment to diversity and inclusion management as a key element in connecting talent and growth as a company.	●	●
Suitability	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.		●
Transparency	The level of transparency in relation to remuneration is in line with the best corporate governance practices in order to create trust among all stakeholders, including shareholders and investors.	●	●

02. Our remuneration practices

The aforementioned principles are expressed in a remuneration policy that fulfills the best practices in good governance, in accordance with Telefónica's long-term strategy and the interests of its stakeholders:

Executive Directors

- Linking the payment of the remuneration to the Company's results (**pay for performance**).
- The **weighting of the financial metrics** to which the variable remuneration is linked currently represents **at least 80%**.
- Remuneration is **aligned** with the interests of **our stakeholders**, such that variable remuneration is linked to both **financial and shareholder return objectives** and **non-financial objectives**, including **ESG** (Environmental, Social and Governance) **objectives**.
- **Long-Term Incentive Plans:**
 - ✓ A minimum **performance period** of **three years** for measurement of the objectives.
 - ✓ Mainly in **shares**.
 - ✓ Linked to **metrics** aligned with Telefónica's **long-term strategic objectives**.
 - ✓ Inclusion of **objectives** linked to **ESG**.
 - ✓ **Obligation to hold 100% of the awarded shares** for a **term of 24 months**. This term is extended to 3 years if the number of shares subject to the permanent shareholding commitment has not been reached.
- Specific and uniform **malus** and **clawback** clauses, which are applied to any variable remuneration component.
- Commitment to **permanently hold shares** for a value equivalent to twice the fixed remuneration.
- Consideration of the **quality of the results in the long-term and any associated risk** in the evaluation process of variable remuneration.
- **Recurrent 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.
- **No variable remuneration** is guaranteed and the possibility of awarding **extraordinary remuneration** is not included.
- The Policy is consistent with Telefónica's commitment to **diversity and inclusion** management as a key element in connecting talent and growth as a company. Accordingly, Telefónica's staff is remunerated on the basis of their professional value, skills, experience, responsibility undertaken and results achieved.

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**, stock options or remuneration rights linked to the share value.
- **The Non-Executive Directors do not participate in any long-term savings systems**, such as retirement plans, pension plans and any other welfare systems.



03. Summary of the main changes

After the General Shareholders' Meeting is held each fiscal year, the Nominating, Compensation and Corporate Governance Committee ("NCCGC") conducts a reflection process where it considers the internal and external factors listed on the right.

Among these factors in this reflection process, special consideration is given to the comments, recommendations and suggestions received from shareholders. As part of its commitment to ongoing listening to its shareholders, the NCCGC maintains a constant and transparent dialog with shareholders to learn, inter alia, their opinion on the remuneration policy and to assess any changes that may be appropriate. The NCCGC also takes advantage of this interaction to provide shareholders with more context on the decisions taken by the Board of Directors over the past fiscal year.

The reflection process also took into account the results of the votes on the annual report on directors' remuneration in the last two fiscal years and those relating to the directors' remuneration policy approved on April 23, 2021 (88.97% of the votes cast at the General Shareholders' Meeting).

Based on the findings of the reflection process, the NCCGC has proposed to the Board of Directors this Remuneration Policy with the following features:

- The proposed new policy continues along the lines of the policy approved at the General Shareholders' Meeting held on April 23, 2021.
- In relation to the Executive Directors:
 - The possibility of granting extraordinary remuneration is removed.
 - The period in which it is possible to recover all or part of any of the Executive Directors' variable remuneration components after they have been paid (clawback) is extended by twelve (12) additional months, up to thirty-six (36) months.
- There is no change with respect to the remuneration of the Directors in their position as such.

Factors considered in the NCCGC's reflection process for proposing changes to the Policy

Internal factors

- The short- and long-term objectives.
- The results achieved by the Group.
- The link to the Strategic Plan and sustainability.
- The alignment with the general remuneration policy for the Company's employees.

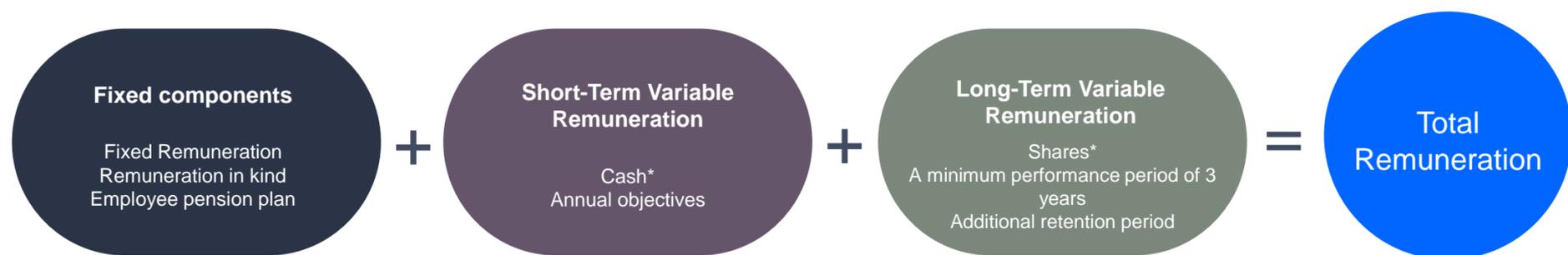
External factors

- The recommendations received in the engagement process that Telefónica regularly conducts with investors, shareholders and proxy advisors.
- Market practices of relevant companies for Telefónica due to being competitors for business or talent and companies considered high performers.
- General corporate governance regulations and recommendations at a national and international level.



04. The Executive Directors' remuneration

04.1 Remuneration components



* Both the Short-Term and Long-Term Variable Remuneration may be paid in cash and/or include the award of shares, stock options or remuneration rights linked to the value thereof.

04.2 Pay Mix

El The Executive Directors' pay package is leveraged mainly on variable remuneration, with most of the total remuneration being received only if the objectives set out for the short- and long-term variable remuneration are met. This pay structure is consistent with the “pay for performance” principle.

As a result, Executive Directors may not receive any amount of variable compensation if the minimum performance thresholds are not met. The short-term and long-term variable remuneration percentage can be relevant in the event of maximum objective performance. In any case, such percentage with respect to the total remuneration (considered, for such purpose, as the sum of the Fixed Remuneration, the maximum amount of the Short-Term Variable Remuneration and the maximum allocated level of the Long-Term Variable Remuneration) will not exceed 85%.

The NCCGC has analyzed the total remuneration level that would be paid according to the different objective performance situations and it deems that the remuneration is appropriate within the context of the performance required of the Executive Directors and is in line with shareholders' interests.

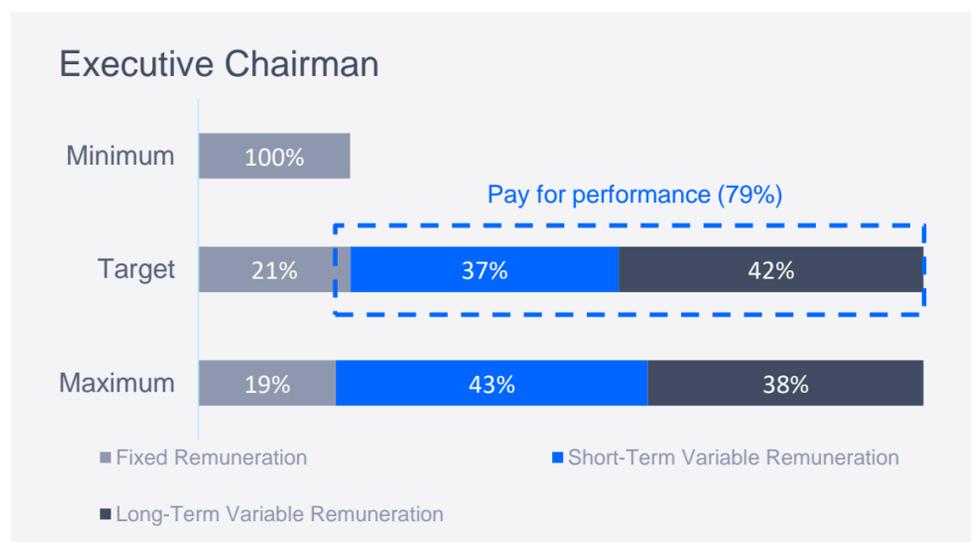
The pay mix for Telefónica's Executive Directors is shown below, bearing in mind various situations. The charts show the weighting of the different remuneration components (fixed remuneration, short-term variable remuneration and long-term variable remuneration) in relation to total remuneration (the sum of these components). For illustrative purposes, to determine the relative weight of variable remuneration, the maximum amount of the Short-Term Variable Remuneration for 2023 and the grant made in the third cycle (2023-2026) of the Long-Term Incentive Plan 2021-2026 are shown below:

Fixed remuneration

- All scenarios
- Fixed remuneration:
 - Executive Chairman: €1,923,100.
 - Chief Operating Officer: €1,600,000.
- For these purposes, the amount of remuneration in kind and contributions to the employee pension plan that may be payable to Executive Directors are not included.

Short-Term Variable Remuneration / Long-Term Variable Remuneration

- “Minimum” Scenario
- No Short-Term Variable Remuneration is paid.
 - No Long-Term Variable Remuneration is paid.
- “Target” Scenario
- 100% of the Short-Term Variable Remuneration target amount is paid:
 - Executive Chairman: 180% of the Fixed Remuneration.
 - The Chief Operating Officer: 150% of the Fixed Remuneration.
 - 100% of the allocated amount of Long-Term Variable Remuneration is paid¹:
 - Executive Chairman: 200% of the Fixed Remuneration.
 - Chief Operating Officer: 180% of the Fixed Remuneration.
- “Maximum” Scenario
- 125% of the Short-Term Variable Remuneration target amount is paid²:
 - Executive Chairman: 225% of the Fixed Remuneration.
 - Chief Operating Officer: 187.5% of the Fixed Remuneration.
 - Abono del 100% del importe asignado de Retribución Variable a Largo Plazo.



1 Allocations in future cycles may increase or decrease. The level of Long-Term Variable Remuneration allocated for each cycle may not exceed 250% of the Fixed Remuneration.

2 The maximum amount of Short-Term Variable Remuneration may vary upwards or downwards. In any case, it will not exceed 129.5% of the target amount.

04. The Executive Directors' remuneration (cont.)

04.3 Details of the remuneration components: Fixed components

Notwithstanding the fact that, throughout the valid term of this Policy, all remuneration allocated and pending to be paid according to the previous Remuneration Policy approved on April 23, 2021 will remain in force, the ordinary components comprising the remuneration package of the Executive Directors for the performance of their executive duties are described below. Moreover, the Executive Directors may receive remuneration to which they may be entitled as members of the Board of Directors (remuneration of the Directors in their positions as such):

Fixed Remuneration	
Purpose	Suitable compensation for performing their executive duties according to the level of responsibility, leadership and performance within the organization, promoting the retention of key staff and attracting top talent and creating sufficient economic independence to balance the significance of other remunerative items.
Amount	<ul style="list-style-type: none"> Executive Chairman: €1,923,100. Chief Operating Officer: €1,600,000.
Functioning	<p>The annual gross fixed remuneration is paid on a monthly basis in cash. This remuneration is determined by the Board of Directors according to a proposal made by the NCCGC.</p> <p>This remuneration may be adjusted every year depending on the criteria approved from time to time by the NCCGC. The maximum annualized increase during the term of the Policy may not exceed 10% of the gross annual salary. In certain situations, such as, for instance change in the size and in the business complexity, a change in responsibility, development of the duties and/or special needs for retention and motivation, the NCCGC may decide to apply higher increases. The underlying reasons will be explained in the relevant Annual Report on Remuneration of the Directors.</p>

Remuneration in kind	
Functioning	<p>In addition to the life insurance policy covering death or disability described above, the Executive Directors are provided with a general health insurance policy 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.</p> <p>Moreover, Telefónica has taken out a third-party liability insurance policy (D&O) for its managers, executives and staff performing similar duties in the Telefónica Group, with the usual terms and conditions for these kinds of insurance policies. This policy also includes the company's subsidiaries in certain cases.</p> <p>In addition, the Executive Directors may take part in the share plans of Telefónica, S.A. aimed at Telefónica Group employees.</p>

Telefónica Employee Pension Plan	
Amount	<p>Both the determination of the amounts and the conditions described below are identical to those applied to the rest of Telefónica's staff in Spain:</p> <ul style="list-style-type: none"> 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: 4.51% of his base salary, plus 2.2% as a mandatory contribution to be made by the Chief Operating Officer up to the maximum annual limit that the law stipulates from time to time.
Functioning	<p>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; the member's death; the beneficiary's death; 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 member.</p> <p>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 member 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 benefits become effective.</p> <p>The members 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.</p> <p>The Pension Plan is included within the "Fonditel B Pension Fund," managed by Fonditel Pensiones, EGFP, S.A.</p> <p>During the Policy's term of validity, the law may change the financial and tax limits for contributions to pension plans. In this respect, as has been the case in the past, a collective unit-link insurance policy has been taken out to cover any differences that may arise in favor of the beneficiaries in each year.</p> <p>The unit-link insurance policy has been taken out with the company Plus Ultra, Seguros Generales y Vida, S.A. de Seguros y Reaseguros and covers the same contingencies as those included in the Pension Plan with the same exceptional liquidity events in the case of serious illness or long-term unemployment.</p>

04. The Executive Directors' remuneration (cont.)

04.3 Details of the remuneration components (cont.):

Short-Term Variable Remuneration

Short-Term Variable Remuneration	
Purpose	To reward the performance of a combination of financial, operational, business and non-financial objectives, including ESG objectives, that are predetermined, specific, measurable and aligned with Telefónica's strategic objectives.
Amount	<ul style="list-style-type: none"> • Target Amount (this is reached when 100% of the pre-determined objectives have been achieved): <ul style="list-style-type: none"> ✓ Executive Chairman: 180% of the Fixed Remuneration. ✓ The Chief Operating Officer: 150% of the Fixed Remuneration. • Maximum Amount (this is reached when the pre-determined objectives are achieved at the maximum level): <ul style="list-style-type: none"> ✓ Executive Chairman: 233.1% of the Fixed Remuneration (129.5% of the Target Amount). ✓ The Chief Operating Officer: 194.25% of the Fixed Remuneration (129.5% of the Target Amount). <p>No significant variations are planned for the valid term of the Policy. In any case, the Short-Term Variable Remuneration of the Chief Operating Officer may be reviewed depending on his development and consolidation in the position, the development of the Company's profits, and other factors that the NCCGC deems appropriate. In such case, the Board of Directors must approve such change, on a proposal from the NCCGC. However, the Maximum Amount of Short-Term Variable Remuneration shall not exceed 233.10% of the Fixed Remuneration.</p> <p>Any updates that take place according to the terms described herein must always be proposed by the NCCGC. The reasons for such updates must be suitably explained in the annual report on the directors' remuneration.</p>
Metrics	<p>This is related to the achievement of a combination of specific, pre-determined and quantifiable objectives that are aligned with the social interest and Telefónica's strategy.</p> <p>The non-financial objectives will have a maximum weight of 20% overall.</p> <p>The objectives are approved by the Board of Directors at the beginning of each fiscal year, according to a proposal made by the NCCGC. Some examples of metrics that could be included in the Short-Term Variable Remuneration are listed below:</p> <ul style="list-style-type: none"> • Financial, operational, business and value creation objectives, with the purpose of aligning the Executive Directors' remuneration with Telefónica's underlying financial results: <ul style="list-style-type: none"> • Revenue: For example, through indicators such as operating revenue, average revenue per user ("ARPU"), etc. • Results: Through indicators such as, for example, OIBDA, EBITDA, Operating Income or Net Profit. • Cash flow generation: Metrics such as Free Cash Flow, Operating Cash Flow, etc. • Return: Using indicators such as, for example, ROE, ROCE, ROA, ROI, etc. • Expenditure and debt control: Using indicators such as, for example, Net Financial Debt, CapEx, OpEx, etc. • Non-financial objectives, including ESG objectives, in line with Telefónica's commitment to provide long-term value to stakeholders: <ul style="list-style-type: none"> • Customers: Using indicators such as, for example, Net Promoter Score (NPS) or GAP NPS. • Employees: Using indicators such as global diversity objectives, the gender pay gap, the percentage of women in executive positions and/or in the Company's top governing bodies, integration of people with disabilities in the workplace, etc. • Society: With regard to the ecological transition, objectives may include, inter alia, the reduction of CO₂ emissions, the percentage of energy used from renewable sources and waste reduction. Regarding social development, the objectives may be related to digital inclusion, reduction of the digital divide, reputation (REP Trak), etc.
Functioning	<p>The Short-Term Variable Remuneration may be paid in cash and/or include the award of shares, stock options or remuneration rights linked to the share price (in which case a resolution by the General Shareholders' Meeting is required), providing the objectives set for this purpose are achieved.</p> <p>As a general rule, for the purpose of calculating the payment coefficient obtained for each level of objective performance, a performance scale is determined for each metric, which includes a minimum threshold below which no incentive is paid. In the case of 100% objective performance, the Target Amount of the Short-Term Variable Remuneration will be paid and, in the case of maximum objective performance the Maximum Amount of the Short-Term Variable Remuneration will be received.</p> <p>In order to calculate the amount of the Short-Term Variable Remuneration, the NCCGC firstly considers the level of performance and weighting of each objective on an individual basis and then the overall level of objective performance as a whole.</p> <p>For such purpose, it applies the internal objective assessment rules and procedures set out by the Company for its executives. When conducting this assessment, the NCCGC is supported by the Audit and Supervisory Committee, which provides information about the results audited by the Company's external auditor and by the internal audit, which will have been first analyzed by the Audit and Supervisory Committee itself. The NCCGC also considers any associated risk for both setting the objectives and assessing their achievement.</p> <p>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 Short-Term Variable Remuneration.</p> <p>The Short-Term Variable Remuneration will not be paid until the NCCGC and the Audit and Supervisory Committee have carried out the actions described above. The amount paid, if any, will be subject to the malus and clawback clauses described in section 04.5 of the Policy.</p>

04. The Executive Directors' remuneration (cont.)

04.3 Details of the remuneration components (cont.):

Long-Term Variable Remuneration

Long-Term Variable Remuneration	
Purpose	To increase the Executive Directors' and management team's commitment to the company and its corporate plan, linking their remuneration to creating value for the shareholders and sustainable strategic objective performance, 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 at offering a competitive remuneration package that contributes to retaining the managers who hold key positions in the organization.
Amount	Maximum Allocated Level for each cycle: 250% of the Fixed Remuneration for each Executive Director.
Metrics	<p>The objectives defined for the Long-Term Variable Remuneration are aligned with value creation for stakeholders and will be approved by the Board of Directors at the beginning of each Plan cycle, at the proposal of the NCCGC. Some examples of metrics that could be included in the Long-Term Variable Remuneration are listed below:</p> <ul style="list-style-type: none"> • Shareholder value creation objectives: for example, Total Shareholder Return, share appreciation or EPS. • Economic-financial objectives: <ul style="list-style-type: none"> • Results: Through indicators such as, for example, OIBDA, EBITDA, Operating Income or Net Profit. • Cash flow generation: Metrics such as Free Cash Flow, Operating Cash Flow, etc. • Return: Using indicators such as, for example, ROE, ROCE, ROA, ROI, etc. • Expenditure and debt control: Using indicators such as Net Financial Debt, CapEx, OpEx, etc. • Non-financial objectives, including ESG objectives: e.g. Net Promoter Score (NPS), GAP NPS, gender pay gap, global diversity objectives, percentage of women in executive positions and/or on the Company's top governing bodies, workplace integration of people with disabilities, reduction of CO₂ emissions, percentage of energy consumed from renewable sources, waste reduction, etc. <p>Some of the metrics may be measured relative to a comparison group of competing companies.</p>
Functioning	<p>The Long-Term Variable Remuneration may be paid in cash and/or include the award of shares, share options or remuneration rights linked to the value thereof, providing the objectives set for such purpose have been achieved. 100% of the shares that, if any, are awarded in relation to the Plan shall be subject to a retention period of 24 months. This term is extended to 3 years until the permanent shareholding commitment is not reached. The foregoing is not applicable to the shares that the Executive Directors need to sell to pay the costs related to their acquisition or, with prior consideration of the NCCGC, to cover extraordinary situations where this is required.</p> <p>The NCCGC conducts an assessment of the objectives on an annual basis and, once the Plan has ended, determines the level of performance. When conducting this assessment, it is supported by the Audit and Supervisory Committee, which provides information on the results audited by the external auditor and the Company's internal auditor, which will have been analyzed first by the Audit and Supervisory Committee itself. The NCCGC also considers any associated risk for both setting the objectives and assessing their achievement.</p> <p>When determining the objective performance level, any positive or negative economic effects caused by extraordinary events that may distort the findings of the assessment are disregarded and the long-term quality of the results are considered in the proposed Long-Term Variable Remuneration.</p> <p>The Long-Term Variable Remuneration will not be paid until the NCCGC and the Audit and Supervisory Committee have carried out the actions described above. The amount paid, if any, will be subject to the malus and clawback clauses described in section 04.5 of the Policy.</p>

04. The Executive Directors' remuneration (cont.)

04.4 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. Jose María Álvarez-Pallete López, and the Chief Operating Officer, Mr. Ángel Vilá Boix, have the same terms and conditions as in their previous contracts, which specify agreed severance pay for termination of the relationship, when appropriate, which could amount to a maximum of four annual payments. Each annual payment consists of the last fixed remuneration and the arithmetic mean of the sum of the last two amounts of annual variable remuneration paid pursuant to the contracts.

In addition, the Executive Directors are members of an Executive Pension Plan that covers the contingencies of retirement, early retirement, permanent total or absolute disability or severe disability and death, the annual contribution to which is equivalent to 35% of the Fixed Remuneration, after deducting the contributions made to the Pension Plan for Telefónica employees described in section 04.3. However, the receipt of the remuneration described in the previous paragraph is incompatible with the awarding of any financial rights related to this Executive Pension Plan. Therefore, if an Executive Director receives the aforementioned financial remuneration, he/she would not be entitled to any financial rights under this Plan.

The implementation vehicle of this Plan approved in 2006 is a unit-linked group life insurance policy taken out with an insurance company, and the amount of the benefit under this guarantee will be equivalent to the mathematical provision applicable to the insured on the date on which the policyholder notifies and proves to the insurance company that he/she is in one of the situations covered by the Plan.

There is currently no vesting of economic rights in favor of the Executive Directors. In the case of legislative amendments on this matter, according to a proposal made by the NCCGC, the Board of Directors could make the appropriate adjustments.

Even though there are no changes planned for the functioning of this Plan, any adjustments to be made to the Executive Pension Plan must be approved by the Board of Directors. These adjustments must be justified and proposed by the NCCGC. The reasons for the adjustments must be duly explained in the annual report on the directors' remuneration.

04.5 Malus and clawback clauses

The Board of Directors will decide, with a prior report issued by the NCCGC, if necessary, on the following: (i) partial or full cancellation of the variable remuneration pending payment (malus) and/or (ii) partial or full recovery of any variable remuneration component within thirty-six (36) months after its payment (clawback), if certain exceptional situations arise that affect the Company's results or are related to the Executive Director's inappropriate conduct.

For these purposes, exceptional situations shall be deemed as those that will be subject to assessment by the Board of Directors, among others, as examples but not limited thereto, the following:

- Reformulating the company's financial statements without being based on an amendment of the applicable accounting standards.
- If an Executive Director has been sanctioned for a serious infringement of the code of conduct and other internal regulations or serious infringement of the regulations that are also applicable thereto.
- In any case, when it is shown that the variable remuneration component in question has been partially or fully assessed based on information that is clearly proven to be false or inaccurate a posteriori, or other unforeseen circumstances not accepted by the Company that have a serious negative impact on the profit and loss accounts.
- If the company's external auditor includes exceptions in its report that reduce the results taken into consideration to determine the amount of the variable remuneration payable.

Adicionalmente, seguirán vigentes las cláusulas de reducción y de recuperación. In addition, the malus and clawback clauses set in the Long-Term Incentive Plan 2018-2023, approved by the General Shareholders' Meeting held in 2018, the characteristics of which are set out in the Annual Report on Directors' Remuneration for the years 2018, 2019 and 2020, will remain in force.

Furthermore, the variable remuneration set out in this Policy shall be subject to any other clawback clauses or commitments established in the Company's Variable Remuneration Clawback Policy, if any, approved by the Board of Directors, at the proposal of the NCCGC, in order to, among other purposes, comply with the applicable regulations and/or listing requirements at any given time in the markets in which Telefónica's securities are listed and, in particular, with the U.S. *Dodd-Frank Wall Street Reform and Consumer Protection Act*.

04.6 Shareholding commitment

The Executive Directors must hold (directly or indirectly) a number of shares (including those provided as remuneration) equivalent to two years of their gross Fixed Remuneration as long as they are members on the Board of Directors and perform executive duties.

The term set for achieving this objective is five years, counted from 1 January 2019 or, in the case of Executive Directors appointed at a later time, counted from the date of their appointment, unless the Board of Directors/NCCGC approve a longer term when exceptional situations arise.

As long as the number of shares subject to this commitment has not been reached, the shares that the Executive Director receives within the scope of any variable remuneration component will be subject to a minimum retention period of 3 years; therefore raising the Executive Director's level of commitment.

The foregoing is not applicable to the shares that the Executive Directors need to sell to pay the costs related to their acquisition or, with prior consideration of the NCCGC, to cover extraordinary situations where this is required.

This commitment will be verified by the NCCGC, which, among other issues, will consider aspects such as the share price to be taken into account or the regularity with which the holding commitment will be reviewed.



04. The Executive Directors' remuneration (cont.)

04.7 Contractual terms and conditions for the Executive Directors

The contracts that currently regulate the Executive Directors performing their 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 NCCGC and approved by the Board of Directors.

In addition to the severance pay terms and conditions explained above, a summary is provided below of the main terms and conditions of the Executive Directors' contracts:

	Executive Chairman and Chief Operating Officer
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 (either 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 NCCGC and the Board of Directors. On the other hand, 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, as an employee or self-employed, by themselves or through third parties, to any Spanish or foreign companies that engage in activities identical or similar to those of Telefónica.
Non-disclosure	While the relationship remains in force and also after the termination thereof, there is a non-disclosure duty 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.

04.8 Applicable remuneration for new Executive Directors

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

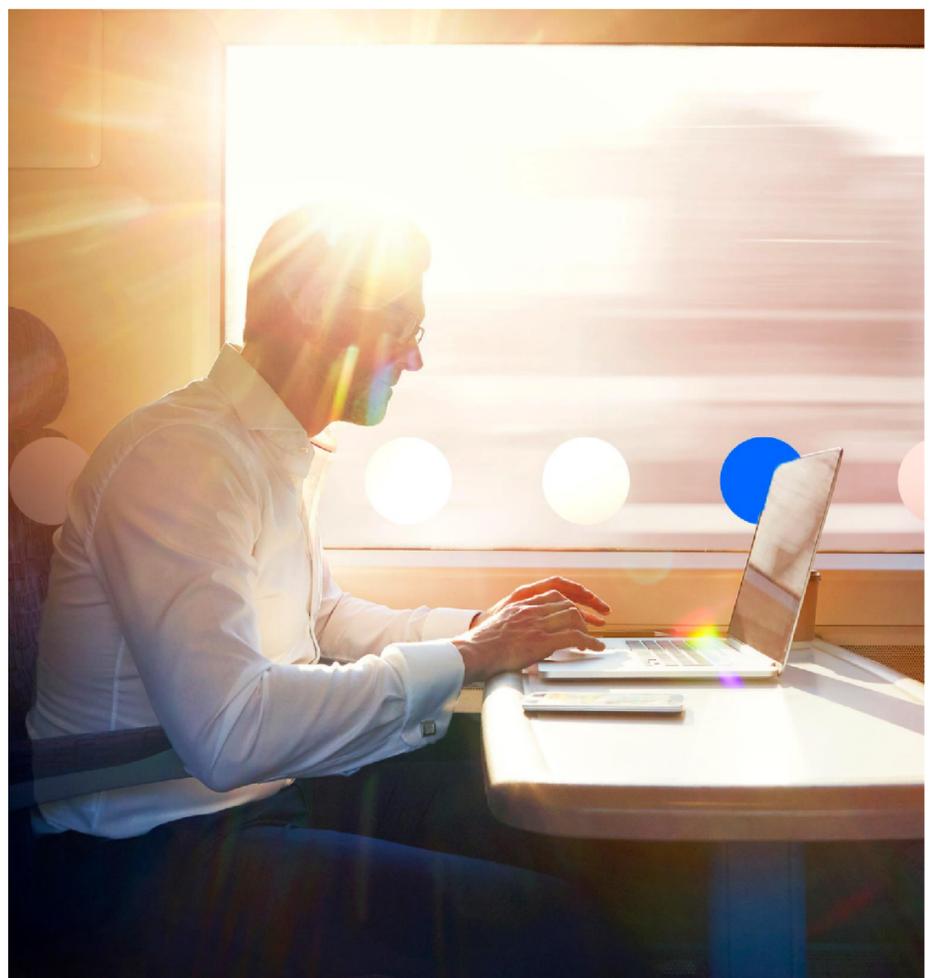
The NCCGC and the Board of Directors will determine the components and amounts of the remuneration system applicable to the new Executive Director, bearing in mind the duties assigned thereto and the responsibilities undertaken thereby, his or her professional experience, the remuneration for this position 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 in the recruitment of an external candidate, the NCCGC may propose to the Board of Directors to provide a special incentive to compensate for the loss of incentives not received from the previous company due to his/her resignation and subsequent acceptance of Telefónica's offer.

For internal promotions, the NCCGC may propose to the Board of Directors the maintenance, cancellation and/or compensation of any pre-existing incentives and other obligations that may be in force at the time of the appointment.

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

As regards the terms and conditions for contract termination, in line with standard market practice, since 2006 the Company's policy applicable to newly appointed Executive Directors provides for a severance payment equivalent to two years' remuneration. These terms may not apply where the Executive Director has a prior employment or business relationship with a legal entity of the Telefónica Group and the terms agreed in the event of contract termination are different.



05. Remuneration of the Directors in their positions as such

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 April 11, 2003, set the annual gross maximum amount for the remuneration at €6,000,000 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 on Committees within the Board of Directors and other objective circumstances that would be considered relevant.

Pursuant to Article 35 of the Articles of Association, the remuneration payable to directors in their positions as such, in other words, as members of the Board of Directors and for performing the supervision and joint decision-making duties inherent to this body, will consist 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 aspects applicable to the remuneration of the Directors in their positions as such are detailed below:

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

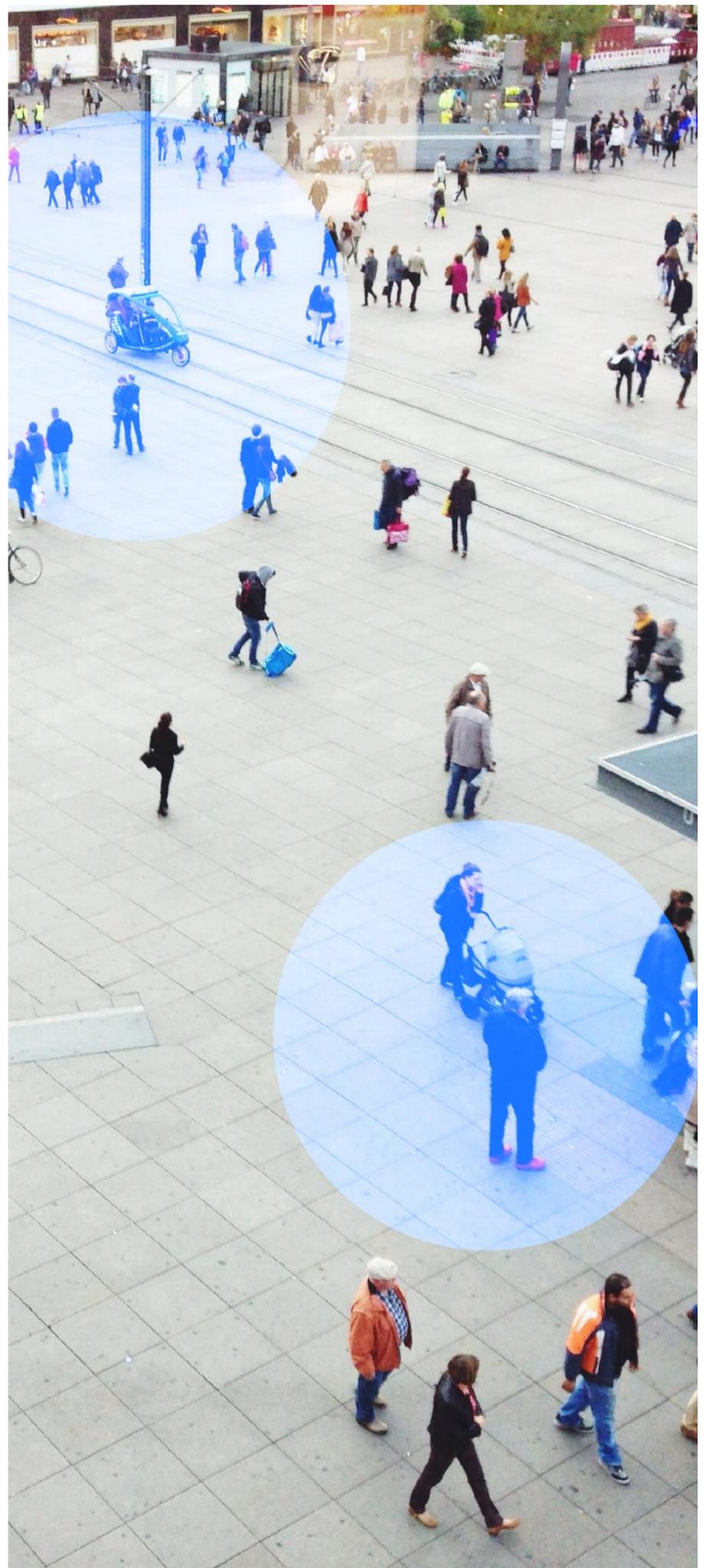
(*) In addition, the amount of the attendance fee for each of the meeting of the Advisory or Supervisory Committees is €1,000.

The Executive Directors can waive payment of the aforementioned amounts.

The NCCGC must regularly review that the Directors' remuneration is competitive with respect to the market practices of companies comparable to Telefónica, adequately compensates the effective dedication, qualifications and responsibilities of the Directors and takes into account the size and complexity of Telefónica's business.

In any case, any change to these amounts will be outlined in the Annual Report on Directors' Remuneration, which will be submitted for the approval of 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 management bodies of Telefónica's subsidiaries and investee companies.



06. Process for determining, reviewing and implementing the Policy

The NCCGC, the responsibilities and 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 NCCGC's Regulations, plays a crucial role in defining the Telefónica Group's Remuneration Policy and in developing and deciding on its components; however the most important decisions must be approved by the Board of Directors.

The NCCGC's mandate, within the scope of remuneration, consists of continuously reviewing and updating the remuneration system applicable to the Directors and Senior Executive Directors 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 objectives.

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, along with a reference to the involvement of external advisors in this matter:

	Determining, reviewing and designing the remuneration components	Applying the variable remuneration	Analysis of the external competitiveness of the remuneration
General Shareholders' Meeting	<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 in their positions as such.</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 on Remuneration of the Directors, in which the remuneration accrued during the fiscal year is disclosed.</p>	<p>It has an advisory vote on the Annual Report on Remuneration of the Directors, in which the remuneration accrued during the fiscal year is disclosed.</p>	
Board of Directors	<p>Directors in their positions as such: it approves the allocation of the maximum amount approved by the General Shareholders' Meeting among the various components.</p> <p>Executive Directors: It approves 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 duties and responsibilities of the Executive Directors.</p> <p>It approves the Annual Report on Remuneration of the Directors to be submitted to the advisory vote at the General Shareholders' Meeting.</p>	<p>It approves the design, target amounts, objective performance 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 NCCGC.</p> <p>It approves the Annual Report on Remuneration of the Directors to be submitted to the advisory vote at the General Shareholders' Meeting.</p> <p>It evaluates, if necessary, application of the malus and/or clawback clauses.</p>	<p>It receives information on the analyses and studies on Directors' remuneration carried out by the NCCGC.</p>
Nominating, Compensation and Corporate Governance Committee	<p>Directors in their positions 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. The Committee reviews the Directors' remuneration 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"> It proposes the fixed remuneration for the Executive Directors to the Board of Directors considering, among other factors, their level of responsibility and leadership within the organization, promoting the retention of key staff, attracting top talent and creating sufficient economic independence to ensure a balance with the significance of other items included in the remuneration. It reviews, on an annual basis, the terms and conditions for the variable remuneration, including the structure and maximum levels of remuneration, the objectives 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. It proposes the contracts to the Board of Directors that regulate the duties and responsibilities of the Executive Directors. It proposes the Annual Report on Remuneration of the Directors and the Remuneration Policy, when appropriate, to the Board of Directors <p>When carrying out these actions, the NCCGC takes into account the votes of the shareholders at the General Shareholders' Meetings to which the Annual Reports on the Directors' Remuneration for the previous years were submitted, in an advisory manner.</p>	<p>It proposes the objectives at the beginning of each measurement period to the Board of Directors.</p> <p>It assesses objective performance at the end of the measurement period. Since payment of the variable remuneration is subject to sufficient verification that the stipulated objectives have effectively been achieved, as determined in recommendation 59 of the Good Governance Code, this assessment is carried out on the basis of the results audited by the Company's external and internal auditors, which are first analyzed by the Audit and Supervisory Committee, as well as the level of objective performance. 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>Submits a report to the Board, when appropriate, on whether or not application of the malus and/or clawback clauses is necessary.</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.</p> <p>This process includes an external competitive remuneration analysis and also takes into account the Remuneration Policy for the executives and other employees in the organization.</p> <p>A reference market is considered when conducting the external competitiveness analysis based on, among other, the following criteria:</p> <ol style="list-style-type: none"> 1. A sufficient number of companies are selected to obtain results that are representative and statistically reliable and sound. 2. Data on size (for example, revenues, assets, market capitalization and number of employees) and complexity of the business. 3. 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 sector or related to such sector that are benchmarks for the company. 4. Geographic scope: Companies are included that operate at an international level. 5. Distribution by sector: It is a multi-sector sample, with homogeneous distribution among the business sectors.

06. Process for determining, reviewing and implementing the Policy (Cont.)

Determining, reviewing and designing the remuneration components	Applying the variable remuneration	Analysis of the external competitiveness of the remuneration
Audit and Supervisory Committee	It analyzes the results audited by the external and internal auditor to evaluate objective performance for the variable remuneration.	

In addition, the following departments of the Company are also involved in determining, reviewing and implementing the Policy:

Determining, reviewing and designing the remuneration components	Applying the variable remuneration	Analysis of the external competitiveness of the remuneration
Planning and Control, Corporate Ethics and Sustainability and Human Resources	They prepare reports related to the performance level of the operative, financial and non-financial objectives based on the results audited by the Company's external and internal auditor.	
Secretary General	It prepares the 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. Together with HR Management, it prepares the Annual Report on the Directors' Remuneration.	Together with HR Management, it prepares up the Directors' Remuneration Policy and the Annual Report on Directors' Remuneration.
Human Resources	It prepares the proposals related to the design of the Remuneration Policy applicable to the Executive Directors. Together with the Secretary General, it prepares the Annual Report on Remuneration of the Directors.	Together with the Secretary General, it draws up the Directors' Remuneration Policy and the Annual Report on Remuneration of the Directors.

When performing the duties described in the table above, the NCCGC and other bodies and departments of the Company may receive advice from independent external consultants and remuneration specialists.



07. Link between the Policy and the pay and employment conditions for the Company's employees

The remuneration policy of all Telefónica employees, including that of Executive Directors, is fully aligned and focused on meeting the Company's long-term strategic objectives and the Company becoming a driver for attracting, retaining and motivating the talent that Telefónica requires to continue its transformation.

This remuneration policy is designed at a global level so that it is aligned with the Company's Corporate Plan. However, this policy is applied bearing in mind the local features of the different markets in which Telefónica operates. Specifically, the amounts and relative weighting of the remuneration components are adapted to local practices of the markets in which Telefónica operates.

Following is a summary of the general features of the remuneration policy for all Telefónica employees:

- Telefónica offers a competitive and fair remuneration package that may include fixed components, short and long-term variable components, as well as remuneration in kind and other benefits. This remuneration package is also adapted to the local practices of the markets in which it operates. In this respect, the elements included in the Directors' remuneration for their executive duties are aligned with the components included in Telefónica's executive and management group remuneration package.
- The variable remuneration of all Telefónica staff is linked to the three fundamental pillars on which Telefónica's long-term strategy is based. Firstly, inclusive and sustainable growth, secondly, efficiency where digitalization is key, and finally the trust of stakeholders, from the customers based on their satisfaction to the trust of shareholders, employees, suppliers, among others.
- At Telefónica, remuneration is consistent with the level of responsibility, leadership and performance within the organization. Under this premise, we guarantee non-discrimination on the basis of gender, age, origin, sexual orientation and identity, religion or race in the application of remuneration practices and policies.
- In order to promote the retention and motivation of key employees and the attraction of top talent, emotional pay is also relevant, expressed through new ways of working, work-life balance, a firm commitment to learning and professional development, and a culture of commitment and recognition of our employees.
- Telefónica is also committed to ensuring that the salaries of all its employees exceed, in any case, what is considered a "living wage" that not only covers basic needs but also guarantees a good quality of life in each of the countries in which the Group operates, and is committed to maintaining decent remuneration packages that exceed this threshold.

The remuneration policy for the Executive Directors shares the same features as the remuneration policy for all Telefónica employees. The table on the right-hand side provides a summary, for each of the remuneration components, of the terms and conditions that Executive Directors share with the rest of the staff and of any specific features that may exist.

Fixed Remuneration

- Fixed Remuneration rewards the performance of duties according to the level of responsibility, leadership and performance within the organization, promoting the retention of key staff and attracting top talent and creating sufficient economic independence to balance the significance of other remunerative items.
- When reviewing the Fixed Remuneration of the Executive Directors and Executive Team, the Board of Directors, at the proposal of the NCCGC, considers the annual salary increase budgets for employees, as well as the remuneration of the rest of the management team.

Remuneration in kind and pensión plan

- As part of the benefits offered by the Company, and by way of example, it is worth mentioning benefits such as health insurance, pension systems, life insurance, childcare support (including daycare services) or food assistance, inter alia. All these benefits are also part of the family planning assistance that the Company makes available to employees.
- Within the total remuneration, the Employee Share Plans play a crucial role in aligning the objectives of all the employees with the shareholders. These plans promote shareholder culture and a sense of belonging, and they incentivize a common culture in the Group with a focus on an enterprising spirit.
- The benefits and pension plan for the Executive Directors and Executive Team are aligned with the benefits and pension plan in place for Telefónica's employees in the country where their relationship with the Company has been established.

Short-Term Variable Remuneration

- Telefónica is a company that promotes meritocracy and equal opportunities. For such purpose, a significant part of the total remuneration for staff is variable and receiving it is subject to achieving financial, business, value creation and sustainability objectives. In turn, these objectives must be specific, quantifiable and aligned with the Company's corporate plan.
- Through the variable remuneration of the whole Telefónica team, growth is incentivized through increased the Company's key financial indicators. Similarly, Telefónica is a company that is fully committed to sustainability. Therefore, the variable remuneration of our whole team takes into account factors such as society trust, diversity and the contribution to the fight against climate change.
- The Executive Directors and the Executive Team take part in the same Short-Term Variable Remuneration scheme as Telefónica's employees, but the amount is a much higher proportion of total remuneration compared to the rest of the employees. In this respect, the remuneration of the Executive Directors and the Executive Team will increase or decrease to a greater or lesser extent depending on the results of the business, thus aligning the interests of this group with the interests of the shareholders.

Long-Term Variable Remuneration

- Incentive plans are a key factor in fostering the commitment of the Executive Directors and Executive Team to the Company and its Corporate Plan by linking remuneration to the creation of shareholder value, as well as to the sustainable performance of strategic objectives.
- Eligibility for long-term incentive plans covers organizational levels beyond Executive Directors and the Executive Team. The design elements of these plans are coordinated to promote consistent objectives throughout the Company.

08. Consistency with the Company's strategy, interests and sustainability in the long-term

Telefónica's Policy has the following features that ensure consistency with the Company's strategy, interests and sustainability 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 components, mainly composed of the following: (i) Fixed Remuneration, (ii) Short-term Variable Remuneration and (iii) Long-term Variable Remuneration. In the case of the Executive Directors, under normal conditions, this long-term component accounts for a weight of no less than 30% of their total remuneration in a scenario of standard objective performance (fixed + short-term variable + long-term variable).
 - b. Regarding the metrics set for the variable remuneration, the Short-Term Variable Remuneration is related to the achievement of a combination of specific, pre-determined and quantifiable objectives that are aligned with the social interest and Telefónica's strategy. The non-financial objectives will have a maximum weight of 20% overall. Long-term Variable Remuneration is related to economic and financial objectives (e.g. free cash flow) and objectives related to value creation for shareholders (e.g. total shareholder return) and objectives related to sustainability, the environment or good governance may be included, with a maximum overall weight of 20% (e.g. neutralization and reduction of CO₂ emissions).
 - c. 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.
 - d. At least 100% of the shares provided within the scope of the Plan to the Executive Directors and other members determined by the Board of Directors are subject to a retention period of two years. In addition, if an Executive Director has not reached the number of shares subject to the permanent shareholding commitment, the retention period of the shares that, if any, they receive due to any variable remuneration scheme will be increased up to 3 years.
- A suitable balance between the fixed and variable components of the remuneration: Executive Directors have a variable remuneration scheme 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 objective performance. In any case, such percentage with respect to the total remuneration (considered as the Fixed Remuneration, Short-Term Variable Remuneration and annualized Long-Term Variable Remuneration) will not exceed 85%.

Moreover, the following measures enable the exposure to excessive risks to be reduced and adjustment to the Company's long-term objectives, values and interests

- The NCCGC 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.
- No guaranteed variable remuneration.
- The variable remuneration is only payable after the date the relevant annual accounts have been drawn up and audited, once the performance level of the operating and financial objectives can be determined.
- The NCCGC considers the quality of the results in the long-term and any associated risk in the evaluation process of variable remuneration.
- The design of the Long-Term Incentive Plans, each one with three-year cycles, implies an interrelation with the results in each year, therefore acting as an alignment catalyst with the company's long-term interests and cautious decision-making.
- The possibility to (i) partially or fully cancel the variable remuneration pending payment (malus) and/or (ii) partially or fully recover any variable remuneration component within twenty-four months after payment thereof (clawback), when certain exceptional situations arise that affect the Company's results or are related to the Executive Director's inappropriate conduct.
- 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 objectives set for the purpose of such remuneration, as this Committee must first verify the company's results as the basis for calculating the relevant objectives.
- The NCCGC is composed of five members, one of whom is also a member on the Audit and Supervisory Committee. The fact that some Directors are members of these two Committees ensures that the risks related to remuneration are taken into account in the discussions held by both Committees and in their proposals submitted to the Board, both in the determination and assessment process of the annual and multiannual incentives.
- At the proposal of the NCCGC, the Board of Directors is authorized to agree on the possible revaluation or modification of the remuneration linked to the results if there are significant internal or external changes that mean they need to be reviewed.
- Regarding the measures required to avoid conflicts of interest by directors, in line with the provisions of the Spanish Corporate Enterprises Act, the Regulations of Telefónica's Board of Directors include a set of obligations arising from their duties of loyalty and to avoid conflicts of interest. Moreover, the NCCGC's Regulations determine that one of its duties is to ensure that possible conflicts of interest do not harm the independence of the external advice provided to the Committee.

09. Term

This Policy will replace the Directors' Remuneration Policy approved by the General Shareholders' Meeting held on April 23, 2021, it will enter into force on the date it is approved by the General Shareholders' Meeting and it will remain in force until December 31, 2026, notwithstanding any amendments or updates that, where appropriate, the Board of Directors carries out in accordance with the provisions thereof, and any amendments that may be approved by the General Shareholders' Meeting of Telefónica from time to time.

