REPORT PREPARED BY THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. REGARDING THE PROPOSED RESOLUTION TO COMPENSATE THE SHAREHOLDERS BY MEANS OF A SCRIP DIVIDEND TO BE SUBMITTED TO THE SHAREHOLDERS FOR APPROVAL AT THE ORDINARY GENERAL SHAREHOLDERS' MEETING (ITEM VII.1 ON THE AGENDA)

1. PURPOSE OF THE REPORT

The proposal to compensate the shareholders by means of a scrip dividend is submitted for the approval of the shareholders at the General Shareholders' Meeting under item VII.1 on the agenda for the Ordinary General Shareholders' Meeting of Telefónica, S.A. ("**Telefónica**" or the "**Company**") called to be held on April 7 and 8, 2022 on first and second call, respectively.

The proposal to compensate the shareholders by means of a scrip dividend will be structured through an increase in share capital with a charge to reserves by an amount to be determined according to the terms of the resolution, by issuing new ordinary shares, each with a par value of one euro, without a share premium, of the same class and series as those currently outstanding, and the assumption by the Company or by another entity of its Group of an undertaking to purchase the corresponding free allotment rights that are granted to the shareholders.

Pursuant to the provisions of Sections 286 and 296 of the Companies Act (*Ley de Sociedades de Capital*), the Board of Directors must prepare a report providing a rationale for the proposal in order for the aforementioned capital increase and the resulting amendment of the Company's By-Laws to be submitted for the approval of the shareholders at the General Shareholders' Meeting.

In order to facilitate an understanding of the proposed resolution being submitted for the approval of the shareholders at the General Shareholders' Meeting to implement the compensation of shareholders by means of a scrip dividend, a description is first provided of the purpose and rationale, followed by a description of the main terms and conditions thereof. Lastly, a full verbatim transcription is provided of the proposed scrip dividend resolution.

2. PURPOSE OF AND RATIONALE FOR THE PROPOSAL

2.1. Purpose of the proposal

In recent years, the Company has been compensating its shareholders through the payment of cash dividends, share buybacks and, for the first time in May 2012, a scrip dividend. Other scrip dividends were implemented after that date, in November 2014, November 2015, November 2016, June 2020, December 2020, June 2021 and December 2021.

Through the voluntary scrip dividend known as the "**Telefónica Scrip Dividend**" ("*Telefónica Dividendo Flexible"*), shareholders are allowed to choose to receive the compensation provided through the dividend in shares or cash.

The proposed scrip dividend resolution that is submitted to the shareholders for approval at the Ordinary General Shareholders' Meeting 2022 will therefore allow the implementation of a new Telefónica Scrip Dividend program in fiscal year 2022 in relation to the second payment of €0.15 per share corresponding to the compensation policy for fiscal year 2021, which would be paid in June 2022.

2.2. Structure of the scrip dividend and options available for shareholders

The Telefónica Scrip Dividend program, which allows shareholders to choose to receive their compensation in paid-up shares or in cash, would be structured through a share capital increase with a charge to reserves, through the issuance of new fully paid-up shares on the terms described in the proposed resolution submitted under item VII.1 on the Agenda for the Ordinary General Shareholders' Meeting 2022.

At the time the Board of Directors decides to carry out the capital increase (without prejudice to the fact that in accordance with the delegation of powers proposed to the shareholders at the General Shareholders' Meeting, it may refrain from doing so if it deems it appropriate in view of the conditions affecting the market or the Company or those arising from any circumstance or event of social or financial significance to the Company):

(i) The shareholders will receive one free allotment right for each share they own. These rights will be tradable on the Spanish continuous market for a period of at least 14 calendar days, at the end of which the rights will be automatically converted into newly-issued shares of the Company that will be vested in the holders thereof. The exact number of shares to be issued as a result of the increase and, accordingly, the number of rights needed to receive a new share, will depend on the market price of the Company's share taken as a reference at the time of implementation of the increase ("**ListPri**", as defined in the proposed resolution), in accordance with the procedure described in this report.

(ii) The Company or an entity within the Telefónica group will assume an irrevocable undertaking to acquire the free allotment rights at a fixed price vis-à-vis the shareholders who have received them free of charge (the "**Purchase Undertaking**"). This fixed price will be calculated prior to the beginning of the trading period for the free allotment rights, based on ListPri (such that the price of each right would be the result of dividing the ListPri by the number of rights needed to receive a new share plus one). Thus, the Company will guarantee all its shareholders the ability to monetize the rights received for free, thereby allowing them to receive their compensation in cash.

The Purchase Undertaking for the free allotment rights will be assumed exclusively in favor of the shareholders who were originally allotted the rights and solely in relation to the initially allotted rights, and the purchase undertaking may not be enforced with respect to free allotment rights that are acquired on or outside of the market.

Therefore, upon the implementation of the capital increase that is being submitted to the shareholders for approval at the General Shareholders' Meeting, the shareholders will be allowed to choose any of the following options:[1]

(a) not to transfer their free allotment rights. In this case, the shareholders will receive the number of new fully paid-up shares to which they are entitled at the end of the trading period;

(b) to transfer all or part of their free allotment rights to the Company or, if applicable, to the corresponding entity of its Group, pursuant to the Purchase Undertaking. Through this option the shareholders would be choosing to monetize their rights and receive their compensation in cash instead of receiving paid-up shares;

(c) to transfer all or part of their free allotment rights on the market. In this case, the shareholders would also be choosing to monetize their rights, albeit not at a guaranteed fixed price, unlike in option (b) above.

The gross value received by the shareholder under options (a) and (b) would be the same, given that ListPri will be used to determine both the fixed price of the Purchase Undertaking and the number of free allotment rights needed to subscribe for one new share.

However, the tax treatment of each of the alternatives is currently different (see section 3.6 below for a summary of the tax regime applicable in Spain).

2.3. Coordination with the compensation policy announced by Telefónica

As stated, the proposed scrip dividend resolution (under item VII.1 on the agenda) will permit the application of the Telefónica Scrip Dividend program to the part of shareholder compensation relating to the second payment (€0.15 per share) of the dividend provided for in the compensation policy for fiscal year 2021, with the payment of said amount (subject to any rounding differences resulting from the formulas that are set forth below) to those who choose the cash option.

2.4. Cash amount of the capital increase and price of the Purchase Undertaking

Pursuant to the Telefónica Scrip Dividend program, the Company will offer the shareholders paid-up shares with a market value (the Reference Amount) that would be the amount set by the Board of Directors, with the limit of 950 million euros, with the Reference Amount being calculated as the number of shares of the Company at the time it is resolved to carry out the capital increase multiplied by €0.15 and multiplied by the ListPri factor, all of the above divided by (ListPri-0.15)

Given that, as stated above, the purpose of the Purchase Undertaking is to allow the shareholders to receive their equivalent compensation in cash, and considering that

[1] The options available to holders of shares of the Company that are admitted to trading outside Spain (including those traded in the form of American Depositary Shares (ADSs)) may have certain differences with respect to those described herein based on the nature of each market and on the terms and conditions applicable to the programs in which such holders participate.

under the capital increase each outstanding share would give the holder thereof one free allotment right, the gross price at which the Purchase Undertaking will be made will be equivalent to the amount per share of the Reference Amount (subject to any rounding differences resulting from the formulas that are set out below).

The Reference Amount and the purchase price of free allotment rights will be established and made public pursuant to section 3.3 below.

3. *MAIN TERMS AND CONDITIONS OF THE CAPITAL INCREASE*

The main terms and conditions of the scrip dividend resolution are described below.

3.1. Amount of the capital increase, number of shares to be issued and number of free allotment rights needed to receive one new share

As described in the calculation formulas and in the definitions included in this section, if and when the Board of Directors decides to implement the capital increase that introduces the scrip dividend, it will determine the maximum number of shares to be issued in the transaction, which will be the result of applying the following formula, rounded down to the nearest whole number:

NNS = TNShrs / Number of rights

Where:

"**NNS**" is the maximum number of new shares to be issued;

"**TNShrs**" is the number of shares of the company on the date it is resolved to implement the capital increase; and

"**Number of rights**" is the number of free allotment rights required for the allotment of one new share, which will be the result of applying the following formula, rounded up to the nearest whole number:

Number of rights = [TNShrs x ListPri] / Reference Amount

Where:

"**Reference Amount**" will be the market reference value of the capital increase, which will be the result of applying the following formula:

Reference Amount = TNShrs x 0.15 x ListPri / (ListPri - 0.15).

This amount may not exceed the sum of 950 million euros.

"**ListPri**" is the arithmetic mean of the average weighted prices of the shares of the Company on the Spanish Automated Quotation System (*Sistema de Interconexión Bursátil Español*) (Continuous Market) during the 5 trading sessions closed prior to the decision of the Board of Directors to carry out the capital increase, rounded to the nearest one-thousandth of a euro and, in the case of one-half of one-thousandth of a euro, rounded up to the nearest one-thousandth. ListPri may never be lower than the par value of the shares in Telefónica, such that if that calculation results in a lower figure, ListPri will be equal to one euro.

In order to obtain a full subscription ratio, the Company (or an entity of its Group) will waive the corresponding free allotment rights for the capital increase.

Once the number of newly allotted shares to be issued in the capital increase has been determined, the amount thereof will be the result of multiplying said number by the par value of the Company's shares (1 euro per share). The capital increase will be made at par value without a share premium.

An example of calculation of the formulas included in this section is provided below, solely for the purpose of facilitating comprehension of how the formulas are to be applied. The results of these calculations are provided as examples only, since actual figures will depend on the circumstances prevailing at the time of implementation of the proposed scrip dividend resolution.

This example assumes a ListPri of 4.2760 euros (taking as ListPri the closing price on February 28, 2022), a TNShrs of 5,779,048,020 (number of shares into which the capital of Telefónica is divided as at the date of this report), and the setting of the corresponding Reference Amount at 898,371,643 euros. Applying the aforementioned formulas, it therefore follows that:

- Number of rights = [TNShrs xListPri] / Reference Amount = 5,779,048,020 x 4.2760 / 898,371,643 = 28 (rounded up)

- NNS = TNShrs / Number of rights = 5,779,048,020 / 28 = 206,394,572 (rounded down)

Consequently, in this example, (i) the number of new shares to be issued would be 206,394,572, (ii) the nominal amount of the capital increase would be 206,394,572.00 euros, (iii) 28 free allotment rights (or existing shares) would be needed for the allotment of one new share, and (iv) the Company, or another entity within its Group, would have to waive 4 free allotment rights to fit the subscription ratio.

3.2. Free allotment rights

Each share of the Company will give the holder thereof one free allotment right in the capital increase.

The number of free allotment rights required to receive one new share will be automatically determined according to the ratio existing between the number of new shares and the number of existing shares, calculated in accordance with the formula set forth in section 3.1 above.

In the event that the number of free allotment rights required for the allotment of one new share (28 in the above example) multiplied by the number of new shares (206,394,572 in the same example) results in a number that is lower than the number of shares of the Company at that time (5,779,048,020 in our example), the Company, or an entity within its Group, will waive a number of free allotment rights equal to the difference between both figures (i.e., 4 rights in the above example), solely for the purpose of the number of new shares to be issued being a whole number and not a fraction.

The free allotment rights will be allotted to the shareholders who appear as entitled thereto in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR) on the corresponding date in accordance with applicable rules governing the clearing and settlement of securities.

The free allotment rights will be transferable on the same conditions as the shares from which they derive. The free allotment rights may be traded on the Spanish continuous market during the term determined by the Board of Directors, subject to a minimum of 14 calendar days. Sufficient free allotment rights in the proportion required to subscribe for new shares may be acquired on the market during that trading period.

Once the period for trading the free allotment rights has ended, the new shares that it has not been possible to allot will be held on deposit for those who provide evidence that they are the lawful holders of the corresponding free allotment rights. Upon the passage of three years from the end of the aforementioned period for trading the free allotment rights, any new shares that have not been allotted may be sold, for the account and risk of the interested parties, in accordance with the provisions of Section 117 of the Companies Act. The net proceeds from such sale will be kept available for the interested parties as provided by applicable law.

3.3. Purchase Undertaking for the free allotment rights

As explained above, upon implementation of the capital increase, the Company, or such entity in its Group as may be determined, will assume an irrevocable undertaking to purchase the free allotment rights from the increase so that the shareholders will have a guaranteed ability to sell the rights received free of charge, receiving part or all of their compensation in cash at their discretion.

The Purchase Undertaking will be assumed exclusively in favor of the shareholders who were originally allotted the free allotment rights and solely in relation to the initially allotted rights, and the Purchase Undertaking may not be enforced with respect to free allotment rights that are acquired on or outside of the market.

The Purchase Undertaking will be effective during such term as is established by the Board of Directors, within the period for trading the free allotment rights.

For such purpose, the proposed scrip dividend resolution includes the corresponding authorization to acquire such free allotment rights up to the maximum limit of the total number of rights issued, subject to compliance with legal limitations in all cases. The purchase price under the Purchase Undertaking will be fixed and will be calculated prior to the commencement of the period for trading the free allotment rights according to the following formula (in which the definitions set forth in section 3.1 above would apply), rounded to the nearest one-thousandth of a euro and, in the case of one-half of one-thousandth of a euro, rounded up to the nearest one-thousandth of a euro (the "**Purchase Price**"):

Purchase Price = ListPri / (Number of rights +1).

The final Purchase Price so calculated will be fixed and made public upon the implementation of the capital increase.

Provision is made for the Company to waive the exercise of the free allotment rights acquired pursuant to the Purchase Undertaking and, as a result of the foregoing, it will waive the new shares that would correspond to such rights, such that the share capital will be increased only by the amount corresponding to the free allotment rights that have not been waived.

By decision of the Board of Directors, the Company may acquire the free allotment rights as a result of the Purchase Undertaking in part or in full, with a charge to results for the fiscal year or one of the reserves provided for in Section 303.1 of the Companies Act.

3.4. Rights carried by the new shares

Any new shares that are issued in the capital increase will be ordinary shares, each with a par value of one euro, of the same class and series as those currently outstanding, represented by book entries, the records of which will be kept by IBERCLEAR and its participating entities.

Holders of the new shares will have the same dividend and voting rights as the holders of the ordinary shares of the Company that are currently outstanding, as from the date of implementation of the capital increase.

3.5. Balance sheet and reserves to which the increase would be charged

The balance sheet used as the basis for the capital increase is the balance sheet as of December 31, 2021, which forms part of the Company's individual annual accounts for fiscal year 2021, which were audited by PricewaterhouseCoopers Auditores, S.L. on February 25, 2022, and which is submitted for the approval of the shareholders at this General Shareholders' Meeting under item I on the agenda therefor.

Any capital increase that is implemented will be made in its entirety with a charge to one of the reserves provided for in Section 303.1 of the Companies Act. When implementing the capital increase, the Board of Directors will determine the reserve to be used and the amount thereof in accordance with the balance sheet used as the basis for the transaction.

3.6. Tax regime

The tax regime applicable to shareholders in Spain will generally be as follows (without prejudice to the particularities that apply to shareholders who are non-residents or subject to taxation in the regional (*foral*) territories of the Basque Country or the Foral Community of Navarre, as well as potential future changes to regulations or to administrative or case-law doctrine that could affect the applicable tax regime):

(i) Receipt of paid-up shares

The delivery of paid-up shares as a result of the capital increase will be treated as the delivery of paid-up shares for tax purposes, and will therefore not be treated as income for the purposes of Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) ("**IRPF**") or Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*) ("**IRNR**") if they do not act through a permanent establishment in Spain, and as a result, the delivery of new shares is not subject to any obligation to withhold tax on payments in cash or in kind.

The acquisition cost, both of the new shares received as a result of the capital increase and of the shares from which they arise, will be the result of dividing the total cost by the applicable number of shares, both old and new. The acquisition date of such paid-up shares will be that of the shares from which they arise. Consequently, in the event of a subsequent transfer of any shares (old or new), the amount of taxable income obtained thereon will be calculated by reference to this new acquisition cost.

To the extent that a full business cycle has been completed, taxpayers subject to corporate income tax (*Impuesto sobre Sociedades*) ("**IS**") or non-resident income tax (IRNR) where the recipient taxpayer has a permanent establishment in Spain will determine their tax base in line with the accounting rules (for which regard must be had, if applicable, to ICAC Resolution of March 5, 2019[2] –and, in particular article 35.4 thereof relating to the treatment for shareholders of shareholder compensation programs that can be used to acquire new fully paid-up shares, dispose of the free allotment rights on the market or sell them to the issuing company, which treatment is applicable for fiscal years that commenced on or after January 1, 2020-) and with any available special regimes for the above-mentioned taxes. All of the above without prejudice to the applicable rules, if any, on determining the tax base for these taxes.

However, according to a recent binding principle determined by the Directorate General for Taxation[3], there is no obligation for the Company to withhold tax in the event of delivery of paid-up shares or free-allotment rights in this context.

(ii) Sale of free allotment rights on the market

If the shareholders sell their free allotment rights on the market, the amount obtained from the transfer of such rights will be taxed as follows:

- For the purposes of IRPF and IRNR without a permanent establishment, the amount obtained on the market for the free allotment rights will be treated as a capital gain for the transferor, all of the above without prejudice to the

[2] Resolution of March 5, 2019 by the Spanish Accounting and Audit Institute (*Instituto de Contabilidad y Auditoría de Cuentas*) implementing the presentation standards for financial instruments and other accounting matters related to corporate law provisions on capital companies (the "**ICAC Resolution"**).

[3] Among others, binding resolutions numbers V1357-20, V1358-20, V2468-20 and V2469-20.

potential application of international conventions to IRNR taxpayers without a permanent establishment, including the income tax conventions entered into by Spain to avoid double taxation and prevent tax evasion, and to the exemptions established in the IRNR legislation. For shareholders who are IRPF taxpayers, that capital gain will be subject to withholdings in respect of IRPF at the corresponding tax rate. This withholding will be made by the corresponding depositary entity or, in the absence thereof, by the financial broker or notary public who participates in the transfer.

- For the purposes of IS and IRNR with a permanent establishment in Spain, provided that a full business cycle has been completed, the tax treatment will be in line with the applicable accounting rules (having regard, if applicable, to the ICAC Resolution and, in particular, the above-mentioned article 35.4 which is applicable for fiscal years that commenced on or after January 1, 2020) and with any available special regimes for those taxes. All of the above without prejudice to the applicable rules, if any, on determining the tax base for these taxes.

  However, according to a recent binding principle determined by the Directorate General for Taxation[4], there is no obligation for the Company to withhold tax in the event of delivery of paid-up shares or free-allotment rights in this context.

(iii) Sale of free allotment rights pursuant to the Purchase Undertaking

In the event that the holders of free allotment rights accept the Purchase Undertaking, the tax regime applicable to the amount obtained in the transfer of the free allotment rights to the Company, or to the relevant entity of its Group, will be that applicable to dividends distributed directly in cash and, accordingly, will be subject to the related withholding tax. Shareholders who are taxpayers for the purposes of IS or IRNR with a permanent establishment in Spain, provided that a full business cycle has been completed, will have to take the applicable accounting rules into account (including the ICAC Resolution) and any available special regimes for those taxes. All of the above without prejudice to the applicable rules, if any, on determining the tax base for these taxes.

3.7. Other considerations related to the tax regime

It should be taken into account that this summary does not describe all the potential tax consequences of the various options relating to the Telefónica Scrip Dividend program or to the implementation of the scrip dividend resolution. In particular, it does not describe the consequences that may arise in the countries of residence of shareholders who are not resident in Spain for tax purposes. Shareholders are therefore advised to consult their tax advisors regarding the specific tax impact of the proposed compensation system, taking into account the particular circumstances of each holder of shares or free allotment rights, and that they pay close attention to any changes in the law applicable on the date of this report or to the standards for interpretation thereof.

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[4] Among others, binding resolutions numbers V1357-20, V1358-20, V2468-20 and V2469-20.

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Holders of American Depositary Shares (ADSs) are advised to consult their tax advisors before making a decision relating to the Telefónica Scrip Dividend program.

Nevertheless, it is stated for the record that on January 16, 2021 the Financial Transaction Tax Law (referred to below as "**FTTL**," and the tax, as "**FTT**") came into force.

Pursuant to the terms of the FTTL, the FTT is chargeable at a 0.2% fixed rate on acquisitions for consideration of shares in Spanish companies admitted to trading on a Spanish market, a regulated market in the European Union or a market deemed to be equivalent in a third country, provided that the capitalization value of the company as of December 1 in the year preceding the acquisition is higher than €1,000 million. The taxable event for the purposes of the ITF also includes, among other transactions and agreements, the acquisition of shares through the receipt of depositary certificates representing those shares (ADSs, for example).

According to the provisions of the FTTL, the Spanish Tax Agency has published the list of Spanish companies whose shares, as of December 1, 2021, have a market capitalization value higher than €1,000 million. That list includes Telefónica, and therefore any acquisitions for consideration of its shares (or of depositary certificates representing those shares) throughout 2022 fall within the scope of the FTT (although they may be eligible for exemption).

The Spanish Tax Agency has published a document on Frequently Asked Questions about Taxes on Financial Transactions (the latest update so far was made on July 9, 2021), according to which any acquisitions of shares under shareholder compensation programs known as "scrip dividend" (provided the delivered shares are new shares created in a fully paid-up capital increase) are not subject to the FTT.

By contrast, other acquisitions for consideration involving Telefónica shares (or ADSs) are subject to the FTT (at a fixed rate of 0.2%), regardless of where the participants in the transaction have their residence.

In all cases, shareholders and the holders of free allotment rights are advised to consult their tax advisors regarding the impact of these tax measures (in particular the application of the FTT), from the standpoint of the specific circumstances of every shareholder or holder of free allotment rights.

3.8. Delegation of powers

A proposal is made to delegate to the Board of Directors, with express powers of sub-delegation, the power to set the date on which the scrip dividend resolution and increase in paid-up capital should be implemented, if applicable, as well as to set the terms and conditions thereof to the extent not provided for by the shareholders at the General Shareholders' Meeting, all of the above pursuant to Section 297.1.a) of the Companies Act. Without prejudice to the foregoing, if the Board of Directors does not consider it advisable to implement the scrip dividend resolution in view of the conditions affecting the market or the Company or those arising from any circumstance or event of social or financial significance to the Company, it must report its decision to the shareholders at the next General Shareholders' Meeting. In any event, the scrip dividend resolution and the corresponding capital increase will be cancelled if the Board of Directors does not exercise the powers delegated to it within the one-year period established by the shareholders at the General Shareholders' Meeting for the implementation thereof.

If and when the Board of Directors decides to implement the scrip dividend resolution and increase in paid-up capital, establishing all its final terms to the extent not already established by the shareholders at the General Shareholders' Meeting, the Company will make those terms public. In particular, prior to the beginning of any period for trading the free allotment rights, the Company will make available to the public a document containing information on the number and nature of the shares and the reasons for the capital increase, all in accordance with Article 1.5.g) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

At the end of the period for trading the free allotment rights:

(a) The new shares will be allotted to the holders of free allotment rights according to the records of IBERCLEAR and its participating entities, in the required proportion.

(b) The Board of Directors will close the period for trading the free allotment rights and will record the use of reserves in an amount equal to the increase, whereupon the increase will be fully paid up.

Lastly, the Board of Directors will adopt the resolution required to amend the By-Laws in order to reflect the new amount of share capital resulting from the increase and to apply for admission of the new shares to trading.

It is stated for the record that it is proposed that all the powers be delegated to the Board of Directors of Telefónica, with express powers of sub-delegation.

3.9. Admission of the new shares to trading

The Company would apply for the new shares ultimately issued under the scrip dividend resolution that is implemented to be admitted to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Spanish Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market), would take such steps and actions as are needed and would submit the required documents to the appropriate bodies of the foreign Stock Exchanges on which the shares of the Company are listed (currently, through American Depositary Shares (ADSs), in New York and Lima) in order for any new shares that are issued to be admitted to trading.

4. ***PROPOSED RESOLUTION SUBMITTED FOR APPROVAL BY THE SHAREHOLDERS AT THE ORDINARY GENERAL SHAREHOLDERS' MEETING***

The full text of the proposed resolution in connection with item VII.1 on the agenda that is submitted for the approval of the shareholders at the Ordinary General Shareholders' Meeting 2022 is as follows:

Proposal relating to Item VII on the Agenda: Shareholder compensation.

VII.1.- Shareholder compensation by means of a scrip dividend. Approval of an increase in share capital with a charge to reserves by such amount as may be determined pursuant to the terms and conditions of the resolution, through the issuance of new ordinary shares having a par value of one euro each, and with a provision for incomplete allotment. Offer to the shareholders to purchase their free allotment rights at a guaranteed price.

1.- Capital increase with a charge to reserves

Approval of an increase in share capital in the amount resulting from multiplying (a) the par value of one euro per share of Telefónica, S.A. ("**Telefónica**" or the "**Company**") by (b) the number of new shares of the Company to be determined using the formula indicated under section 2 below. The capital increase will be carried out by means of the issuance and offering of new ordinary shares, having a par value of one euro each, of the same class and series as those that are currently outstanding, represented by book entries.

The capital increase will be carried out in its entirety with a charge to one of the reserves provided for in Section 303.1 of the Companies Act (*Ley de Sociedades de Capital*).

The new shares will be issued at par, i.e., at their nominal value of one euro, without a share premium, and will be allotted without charge to those shareholders who exercise their free allotment rights.

Pursuant to the provisions of Section 311 of the Companies Act, provision is made for the possibility of an incomplete allotment of the capital increase in the event that the Company, a company within its Group or a third party waives part or all of the free allotment rights to which they are entitled at the time of implementation of the increase. In the event of such incomplete allotment, the share capital will be increased by the corresponding amount.

2.- New shares to be issued

The maximum number of new shares to be issued will be the number resulting from the application of the following formula, rounded down to the nearest whole number:

NNS = TNShrs / Number of rights

Where:

"**NNS**" is the maximum number of new shares to be issued;

"**TNShrs**" is the number of shares of the Company on the date it is resolved to implement the capital increase; and

"**Number of rights**" is the number of free allotment rights required for the allotment of one new share, which will be the number resulting from applying the following formula, rounded up to the nearest whole number:

Number of rights = [TNShrs x ListPri] / Reference Amount

Where:

“**Reference Amount**” will be the reference market value of the capital increase, which will be the result of applying the following formula:

Reference Amount = TNShrs x 0.15 x ListPri / (ListPri - 0.15),

provided that this amount may not exceed the sum of 950,000,000 euros.

“**ListPri**” is the arithmetic mean of the average weighted prices of the shares of the Company on the Spanish Automated Quotation System (*Sistema de Interconexión Bursátil Español*) during the 5 trading sessions closed prior to the resolution of the Board of Directors to carry out the capital increase, rounded to the nearest one-thousandth of a euro and, in the case of one-half of one-thousandth of a euro, rounded up to the nearest one-thousandth. ListPri may never be lower than the par value of the shares in Telefónica, such that if the result of that calculation results in a lower figure, ListPri will be equal to one euro.

The maximum number of new shares to be issued thus calculated will be rounded off as required to obtain a whole number of shares (by rounding the result down to the nearest whole number) and a rights-to-shares conversion ratio that is also a whole number (by rounding the result up to the nearest whole number). Additionally, and for the same purposes, the Company (or any entity within its group that holds shares of the Company) will waive the free allotment rights corresponding thereto as provided in section 3 below.

3.- Free allotment rights

Each share of the Company will grant one free allotment right.

The number of free allotment rights required to receive one new share will be automatically determined according to the ratio existing between the maximum number of shares to be issued (NNS) and the number of shares of the Company at the date it is resolved to carry out the capital increase (TNShrs), calculated in accordance with the formula set forth in section 2 above. Specifically, the shareholders will be entitled to receive one new share for every so many free allotment rights, determined as provided in section 2 above (Number of rights), that they hold.

In the event that the number of free allotment rights required for the allotment of one new share (Number of rights) multiplied by the maximum number of new shares to be issued (NNS) results in a number that is lower than the number of shares of the Company on the date it is resolved to carry out the capital increase (TNShrs), the Company (or any entity within its Group that holds shares of the Company) will waive a number of free allotment rights equal to the difference between both figures, solely for the purpose of the number of new shares being a whole number and not a fraction.

The free allotment rights will be allotted to the shareholders who appear as being entitled thereto in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR) on the relevant date in accordance with applicable rules governing the clearing and settlement of securities.

The free allotment rights will be transferable subject to the same conditions as the shares from which they derive. The free allotment rights may be traded on the Spanish continuous market during the term determined by the Board of Directors, subject to a minimum of 14 calendar days. Sufficient free allotment rights in the proportion required to subscribe for new shares may be acquired on the market during that trading period.

Once the period for trading the free allotment rights has ended, the new shares that it has not been possible to allot will be held on deposit for those who provide evidence that they are the lawful holders of the corresponding free allotment rights. Upon the passage of three years from the end of the aforementioned period for trading the free allotment rights, any new shares that have not been allotted may be sold, for the account and risk of the interested parties, in accordance with the provisions of Section 117 of the Companies Act. The net proceeds from such sale will be kept available for the interested parties as provided by applicable law.

4.- Irrevocable undertaking to purchase the free allotment rights

The Company, or such company in its group as may be determined, will assume an irrevocable undertaking to purchase the free allotment rights at the price set forth below, exclusively in favor of the shareholders who were originally allotted the rights and solely in relation to the initially allotted rights, and the purchase undertaking may not be enforced with respect to free allotment rights that are acquired on or outside of the market.

The purchase undertaking will be effective and may be accepted during such term as is established by the Board of Directors, within the period for trading the rights. For such purpose, the Company, or the corresponding company in its group, is authorized to acquire such free allotment rights (as well as the shares corresponding to them) up to the maximum limit of the total number of rights issued, subject to compliance with legal limitations in all cases.

The purchase price of each free allotment right under the purchase undertaking (Purchase Price) will be equal to the amount resulting from the following formula, rounded to the nearest one-thousandth of a euro, and in the case of one-half of one-thousandth of a euro, rounded up to the nearest one-thousandth of a euro:

Purchase Price = ListPri / (Number of rights + 1)

By decision of the Board of Directors, the Company may acquire the free allotment rights as a result of the purchase undertaking in part or in full, with a charge to results for the fiscal year or one of the reserves provided for in Section 303.1 of the Companies Act.

Provision is made for the Company to waive the exercise of the free allotment rights acquired pursuant to the aforementioned purchase undertaking, such that the share capital will be increased only by the amount corresponding to the free allotment rights that have not been waived.

5.- Balance sheet for the transaction and reserve to which the increase will be charged

The balance sheet used as the basis for the transaction is the balance sheet as of

December 31, 2021, duly audited and approved by the shareholders at this General Shareholders' Meeting.

As noted above, the capital increase will be made in its entirety with a charge to one of the reserves provided for in Section 303.1 of the Companies Act. When implementing the increase, the Board of Directors will determine the reserve or reserves to be used and the amount thereof in accordance with the balance sheet used as the basis for the transaction.

6.- Representation and rights of the new shares

The new shares that are issued will be represented by book entries, the book-entry recording of which is entrusted to Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR) and its participating entities.

The new shares that are issued will give their holders the same rights as the currently outstanding ordinary shares of the Company as from the date on which the increase is declared to be subscribed and paid up.

7.- Application for admission to official trading

An application will be made for admission of the issued new shares to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Spanish Automated Quotation System (*Sistema de Interconexión Bursátil*) (Continuous Market), by taking such steps and carrying out actions as are necessary or appropriate and submitting the required documents to the competent bodies of the foreign Stock Exchanges on which the shares of the Company are listed (currently, through ADSs and ADRs, in New York and Lima) in order for the new shares that are issued to be admitted to trading. It is expressly stated for the record that the Company will be subject to the Stock Exchange rules that may now or hereafter exist, and especially regarding trading, continued listing on and delisting from official markets.

It is expressly stated for the record and for appropriate legal purposes that in the event of a subsequent request for delisting of the Company's shares, such delisting will be carried out with such formalities as apply thereto and, in such event, the interests of the shareholders opposing or not voting on the resolution to delist will be safeguarded, in compliance with the requirements set out in applicable legal provisions.

8.- Implementation of the increase

Within a period of one year from the date of this resolution, the Board of Directors may resolve, if it so deems appropriate, to implement the increase and set the date of implementation and terms and conditions thereof to the extent not provided for in this resolution.

If the Board of Directors does not consider it advisable to implement the increase from the perspective of the corporate interest in view of the conditions affecting the market or the Company or those arising from any circumstance or event of social or economic significance to the Company, it may refrain from implementing such increase and must report such decision to the shareholders at the next General Shareholders' Meeting.

At the end of the period for trading the free allotment rights:

(a) The new shares will be allotted to the holders of free allotment rights, according to the records of IBERCLEAR and its participating entities, in the required proportion resulting from section 3 above.

(b) The Board of Directors will close the period for trading the free allotment rights and will record the use of an amount of reserves equal to the capital increase, whereupon the increase will be fully paid up.

Additionally, at the end of the period for trading the free allotment rights, the Board of Directors will adopt the resolution required to amend the By-Laws in order to reflect the new amount of share capital and the new number of shares resulting from the capital increase and to apply for admission of the new shares that are issued to trading on the Spanish Stock Exchanges, as well as on any other stock exchanges or markets where the Company's shares are listed.

9.- Delegation of powers for implementation of the increase

Pursuant to the provisions of Section 297.1.a) of the Companies Act and within a period of one year as from the date of approval of this resolution, the Board of Directors (with express powers of sub-delegation) is authorized to implement the capital increase, setting the date for implementation and the terms and conditions thereof to the extent not provided for in this resolution.

By way of example and without limitation, the following powers are delegated to the Board of Directors, with express powers of sub-delegation, to execute and implement the capital increase:

(i) To set the date on which the capital increase is to be carried out, which in all cases will be within a period of one year from the approval of this resolution, and to determine the specific implementation schedule as well as the reserves from among those provided for in Section 303.1 of the Companies Act with a charge to which such increase will be implemented.

(ii) To determine the amount of the capital increase, the number of new shares, the Reference Amount within the limit set forth in section 2 above and the number of free allotment rights required for the allotment of a new share, all in accordance with the provisions in the foregoing sections of this resolution.

(iii) To establish the duration of the period for trading the free allotment rights, subject to a minimum of 14 calendar days, as well as to determine such other date, term or period as is required or appropriate to carry out the capital increase.

(iv) To set, within the period that is established for trading the free allotment rights, the term during which the undertaking to purchase the free allotment rights will be effective and may be exercised, on the aforementioned terms and setting the terms and conditions thereof to the extent not provided for in this resolution.

(v) To set the period during which the purchase undertaking will be in effect and to comply therewith, paying the corresponding sums to the holders of free allotment rights who have accepted said undertaking.

(vi) To waive such number of free allotment rights as is necessary to adjust the proportion of allotment of new shares to the free allotment rights that are acquired pursuant to the purchase undertaking and any other free allotment rights that it is necessary or appropriate to waive.

(vii) To waive the free allotment rights that are acquired from enforcement of the purchase undertaking and, therefore, the new shares corresponding to such rights.

(viii) To declare the capital increase implemented and closed after the end of the period for trading the free allotment rights, determining incomplete subscription where applicable and executing such public and private documents as are necessary or appropriate to implement the capital increase in part or in full; and to amend the text of Article 6 of the By-Laws relating to share capital.

(ix) To draw up, execute and submit all necessary or appropriate documentation and to take all necessary or appropriate actions in order for the new shares to be included in the book-entry records of IBERCLEAR and admitted to listing on the Spanish and foreign Stock Exchanges on which the Company's shares are listed, in accordance with the procedures established at each of such Stock Exchanges, assuming responsibility for the content of said documentation, as well as to draw up, execute and submit such additional, supplementary or complementary information or documentation as is required or appropriate, with the power to request the verification and registration thereof.

(x) To carry out any action, take any step or make any declaration before the National Stock Market Commission (*Comisión Nacional del Mercado de Valores*), the Exchange Management Companies (*Sociedades Rectoras de las Bolsas*), the Spanish Stock Exchange Company (*Sociedad de Bolsas*), IBERCLEAR and any other public or private body, entity or registry, whether Spanish or foreign, to secure the authorization, verification and implementation of the issuance whenever necessary or appropriate, as well as the admission to trading of the new shares and the free allotment rights.

(xi) To draw up and publish such notices as are necessary or appropriate for such purpose.

(xii) To draw up, sign, execute and, if applicable, certify any kind of document relating to the capital increase, including but not limited to such public and private documents as are required.

(xiii) To carry out the necessary or appropriate actions and establish the necessary or appropriate mechanisms and processes for compliance with all tax obligations arising from the implementation of the scrip dividend resolution, including any withholdings from payments (in cash or in kind) that are required by law at any time.

(xiv) To take all such actions as are necessary or appropriate to implement and formalize the capital increase with any public or private entities or agencies, whether Spanish or foreign, including acts for purposes of representation or supplementation or to cure defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.

The Board of Directors is expressly authorized to in turn delegate to the Executive Commission or the Executive Chairman of the Board of Directors the powers to which this resolution refers, all without prejudice to the powers of attorney that may be granted to any person for specific acts of execution.

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March 4, 2022