

**REPORT OF THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE
COMMITTEE OF TELEFÓNICA, S.A.**

IN RELATION WITH

**THE PROPOSED APPROVAL OF THE DIRECTORS'
REMUNERATION POLICY (SECTION 529 *NOVODECIAS* OF THE SPANISH COMPANIES
ACT)**

1. INTRODUCTION

This report contains the reasoned proposal of the Nominating, Compensation and Corporate Governance Committee (“**NCCGC**”) for the proposed Directors’ Remuneration Policy (the “**Policy**”) of Telefónica, S.A. (“**Telefónica**” or the “**Company**”) to be submitted to the shareholders at the General Shareholders’ Meeting for approval as a separate item on the agenda, and which will be effective as from the date of approval and for the next three years, i.e., until December 31, 2026.

This report will be made available to shareholders on Telefónica’s website, pursuant to the provisions of Section 529 *novodecias* of the Spanish Companies Act (*Ley de Sociedades de Capital*) (“LSC”). This section requires that all listed companies have in place a remuneration policy approved by the shareholders and that any remuneration received by the directors must be consistent with such remuneration policy.

At the General Shareholders’ Meeting held on April 23, 2021, Telefónica submitted for shareholder approval a Directors’ Remuneration Policy for a term to last from the date of such General Shareholders’ Meeting until December 31, 2023, depriving of effect the 2019-2021 Remuneration Policy in force at that time.

Bearing in mind the foregoing, the NCCGC proposes a new Policy which, if approved by the shareholders at the General Shareholders’ Meeting, will be applicable from the date of approval by the shareholders at the General Shareholders’ Meeting until December 31, 2026, depriving of effect the 2021-2023 Remuneration Policy currently in force.

2. PRINCIPLES OF THE POLICY

The general principles underpinning the new Policy are a natural extension of the contents of the 2021-2023 Remuneration Policy:

		Executive Directors	Non-Executive Directors
Value creation	The Policy is consistent with Telefónica's commitment to growth, efficiency and creating long-term value for its stakeholders in a sustainable manner.	•	
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 targets, including ESG targets. These targets 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	Professional value, skills, experience, responsibilities assumed and results achieved are appropriately remunerated. The Remuneration Policy for Executive Directors is aligned with that of other employees, as it has the same principles and standards of conduct and includes the elements of Telefónica's executive remuneration package. The Policy is consistent with Telefónica's inclusive culture, where there is a commitment to including the management of diversity and inclusion as a key element for connecting talent and growing 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.		•

3. SUMMARY OF THE NEW ITEMS INCLUDED IN THE NEW POLICY COMPARED TO THE 2021-2023 REMUNERATION POLICY

As part of its commitment to always listen to shareholders, the NCCGC maintains an ongoing and transparent dialog with shareholders to, among other things, obtain their views on the remuneration policy and assess any changes that may be appropriate.

The NCCGC also uses this interaction to provide shareholders with more context regarding the decisions made by the Board of Directors during the last year.

This new Policy is the result of a process of reflection carried out by the NCCGC, which took into account a number of factors:

- **Internal factors:** Short and long-term objectives, the results achieved by the Group, the link to the Strategic Plan and sustainability, and its alignment with the general remuneration policy for the Company's employees.
- **External factors:** Recommendations received in Telefónica's regular process of engagement with investors, shareholders and proxy advisors, market practices of relevant companies for Telefónica due to being competitors for business or talent and companies considered to be high performers, and general corporate governance recommendations at the domestic and international levels.

Particular consideration was given to the comments, recommendations and suggestions made by shareholders regarding these factors in this process of reflection.

The deliberations also took into account the results of the votes on the Annual Report on Directors' Remuneration in the last two years and the results of the votes on the Directors' Remuneration Policy approved on April 23, 2021 (88.97% of the votes cast at the General Shareholders' Meeting).

As a result of the conclusions reached in the process of reflection, the NCCGC presents a new Policy to the Board of Directors for submission to the shareholders at the General Shareholders' Meeting, consistent with the policy approved by the shareholders at the General Shareholders' Meeting of April 23, 2021, which includes the following two improvements regarding the remuneration of the Executive Directors, aimed at strengthening Telefónica's leadership position in the application of international best remuneration practices: first, the new policy eliminates the ability to grant extraordinary remuneration, and second, it extends by twelve (12) months, until



thirty six (36) months, the duration of the period during which it is possible to recover all or part of the elements of the Executive Directors' variable remuneration after they have been paid (clawback).

No changes have been made to the remuneration of the Board of Directors in their capacity as such, with a remuneration system identical to that provided for in the 2021-2023 Remuneration Policy being proposed.

4. **TERM**

The Policy will be submitted for approval by the shareholders at the next Ordinary General Shareholders' Meeting of Telefónica and, if approved, will apply from the date it is approved until December 31, 2026, without prejudice to any amendments or updates made by the Board of Directors in accordance with the provisions thereof, and any amendments that may be approved from time to time by the shareholders at a General Shareholders' Meeting of Telefónica.

February 21st, 2023