

Remuneration Policy of the Directors of Telefónica S.A.

Introduction

This Remuneration Policy for the Directors of Telefónica, S.A. (hereinafter, “Telefónica” or the “Company”) will be submitted for approval at the 2026 General Shareholders’ Meeting as a separate item on the agenda (hereinafter, the “**Policy**”) to replace the current Remuneration Policy for the Directors approved by the General Shareholders’ Meeting held on March 31, 2023. It will enter into force on the date of its approval by the General Shareholders’ Meeting and will remain in force until December 31, 2029, without prejudice to any amendments or updates that may be made by the Board of Directors in accordance with its terms, as well as any amendments that may be approved from time to time by Telefónica General Shareholders' Meeting.

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.

The Policy contains the following sections:

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1 Remuneration principles and practices

The Policy seeks to establish an alignment of the remuneration models applicable at Telefónica with the Strategic Plan in force at any given time, as well as with the interests of its stakeholders and the best corporate governance practices, based on remuneration principles and practices that are appropriate for such purposes.

The basic principles of the Policy, and the remuneration practices applied at Telefónica, are the following:

Telefónica's Remuneration Principles

Value creation	The Policy is aligned with the commitment to growth, efficiency and long-term sustainable value creation for Telefónica's stakeholders.
Pay for performance	A significant part of the total remuneration of Executive Directors is variable in nature and its receipt is linked to the achievement of financial, business, value creation and non-financial objectives, including ESG (Environmental, Social and Governance) objectives. These predetermined, specific and quantifiable objectives are aligned with the Company's Strategic Plan.
Compliance	Variable remuneration is not guaranteed and is sufficiently flexible so that this component may not be payable.
Competitiveness	The remuneration package, both in terms of its structure and its overall amount, must be competitive with respect to other comparable companies at an international level.
Corporate Governance	When determining the remuneration of Directors, the Company considers the evolution of regulations, best practices, recommendations and national and international trends regarding the remuneration of directors of listed companies.
'Fair Pay'	Professional worth, capabilities, experience, responsibility assumed and results achieved are adequately remunerated. The principles and criteria for action of the Policy applicable to Executive Directors are aligned with those of other Employees, incorporating the elements included in the remuneration package of Telefónica's executive group.
'Equal Pay'	The Policy is consistent with Telefónica's inclusive culture, where there is a commitment to incorporate the management of diversity and inclusion as a key element and guarantees non-discrimination on grounds of gender, age, origin, sexual orientation and identity, religion, or race when applying remuneration practices and policies.
Suitability	The amounts set have been established considering the qualifications, dedication and responsibility of the Directors, and due loyalty and connection to the Company, without compromising the independence of non-Executive Directors.
Transparency	The level of transparency in remuneration matters is in line with best practices in corporate governance with the aim of generating trust among stakeholders, including shareholders and investors.

Remuneration practices

Executive directors

- Link between remuneration and Company performance (pay for performance).
- The **weight of financial metrics** to which Variable Remuneration is linked represents **at least 80%**.
- Remuneration is aligned with the interests of stakeholders, so that variable remuneration is linked both to **financial objectives and shareholder return** as well as to non-financial objectives, including **ESG objectives** (Environmental, Social and Governance).
- **Long-Term Incentive Plans** (i) have a minimum objective **performance period of three (3) years**; (ii) are paid mainly in **shares**; (iii) are linked to **metrics** aligned with Telefónica's long-term **strategic objectives**; (iv) are subject to the obligation to **retain 100% of the shares** delivered for a **period of two (2) years**, which will increase to three (3) years in the event that the commitment to permanently hold shares with a value equivalent to two times the fixed remuneration is not met..
- Executive Directors do not receive the fixed remuneration established for the other Directors for their membership on the Board of Directors and/or the Executive Commission.
- Specific and uniform **malus** and **clawback** clauses have been established, which apply to any element of variable remuneration.
- The **quality of the company's long-term performance and any associated risk** is considered as part of the variable remuneration evaluation process.
- **Recurring external advice is sought** in order to consider market practices as an additional element to be taken into account in the decision-making process on the design of the Policy.
- The payment of any **variable remuneration** is **not guaranteed**, nor are **salary increases**. The possibility of granting **extraordinary remuneration** is **not provided for**.

Non-Executive Directors

- Remuneration is paid **in accordance with the responsibilities and functions assumed** by each Director for their membership on the Board of Directors and/or the Committees of the Board, but without compromising their independence.
- They **do not participate** in remuneration formulas or **systems linked to the Company's performance or personal performance**.
- They **do not receive their remuneration through the delivery of shares**, stock options, or remuneration rights linked to the value thereof.
- They **do not participate in long-term savings plans** such as pension plans, retirement systems or other long-term savings plans.

2 Process for the determination, review and application of the Policy

I. Governing bodies involved

The Nominating, Compensation and Corporate Governance Committee ("**NCCGC**") plays a main role in defining the Remuneration Policy of the Telefónica Group and in developing and specifying its elements, with the main decisions having to be approved by the Board of Directors.

The following details the functions that, in accordance with legal provisions, are performed by the Company's bodies involved in a particular manner in the review, determination, application and approval of the Policy:

General Shareholders' Meeting:

- Approves the Remuneration Policy at least every three (3) years as a separate item on the agenda.
- Approves the maximum amount of the annual remuneration for all Directors in their capacity as such.
- Approves the variable remuneration systems for Executive Directors that include the delivery of shares, stock options or remuneration rights linked to the value thereof.
- Issues an advisory vote on the Annual Report on Directors' Remuneration.

Board of Directors:

- Following a report from the NCCGC, approves the distribution and remuneration items for Directors in their capacity as such, within the maximum amount approved by the General Shareholders' Meeting.
- With respect to Executive Directors, upon proposal of the NCCGC: (i) approves the fixed remuneration and the main conditions of the short-term and long-term variable remuneration system; (ii) approves the contracts governing the performance of functions and responsibilities; and (iii) approves the design, target amounts, degree of achievement of objectives and incentive to be paid, of the short- and long-term variable remuneration.
- Approves the Annual Report on Directors' Remuneration to be submitted to the advisory vote of the Annual General Shareholders' Meeting.
- Approves the adaptations or updates to the Remuneration Policy.
- Evaluates whether the application of the malus and/or clawback clauses is appropriate.

Nominating, Compensation and Corporate Governance Committee:

- Proposes to the Board of Directors the approval of the Remuneration Policy and, where appropriate, its adaptations and modifications.
- Reviews the remuneration of Directors periodically to ensure its adequacy to the duties performed by them.
- With respect to the remuneration of Executive Directors: (i) proposes to the Board of Directors the fixed remuneration considering, among other factors, the level of responsibility and leadership within the organization; (ii) annually reviews the conditions of variable remuneration, taking into account the Company's strategy, needs and business situation; (iii) evaluates whether the objectives for the payment of variable remuneration have been met, based on the reports of internal and external auditors, reviewed by the Audit and Control Committee; (iv) proposes to the Board of Directors the variable remuneration to be paid; (v) proposes to the Board of Directors the contracts governing the performance of their functions and responsibilities; (vi) proposes to the Board of Directors the Annual Report on Directors' Remuneration; and (vii) submits a report to the Board, when appropriate, on whether or not the application of the malus and/or clawback clauses is appropriate.

When carrying out these actions, the NCCGC considers the vote of the shareholders at the General Shareholders' Meetings at which the Annual Reports on Directors' Remuneration for previous financial years were submitted to an advisory vote.

In addition, the Audit and Control Committee, the General Secretariat, the People Department, as well as the Strategy and Control Department and the Sustainability Department, play a relevant role in the determination, review and application of the Remuneration Policy.

II. Criteria adopted in the determination of the Policy

Consideration of Shareholder Opinions and Corporate Governance Recommendations

The NCCGC maintains an ongoing dialogue with investors and shareholders in order to, among other matters, learn their opinion about the remuneration policy and assess the modifications that may be appropriate to introduce. In addition, the NCCGC takes advantage of this interaction to provide investors and shareholders with greater context on the decisions adopted by the Board of Directors during the last financial year in this matter.

Likewise, in its constant exercise of evaluation and monitoring of the Policy, the NCCGC considers the results of the votes relating to the Annual Report on Directors' Remuneration.

At all times, both the NCCGC and the Board of Directors ensure that the Remuneration Policy is aligned with the recommendations of the Corporate Governance Code of the Spanish securities market regulator, the National Securities Market Commission (CNMV).

Considerations of Market Conditions

The NCCGC carries out a periodic review of Directors' remuneration and as part of this process, external competitiveness remuneration analyses and studies are conducted. For this purpose, a reference market is considered, established based on a series of objective criteria, which may include the following:

1. A sufficient number of companies to obtain representative and statistically reliable and solid results.
2. Size data (for example: revenues, assets, market capitalization and number of employees) and business complexity. For each of the selected companies, the size data for each of the aforementioned variables must be within certain ranges.
3. Geographic distribution: only companies in the Stoxx All Europe 100, Ibex-35 and European companies in the telecommunications sector have been considered.
4. Geographic scope: companies with an international presence.
5. Sectoral distribution: a multi-sector sample with a homogeneous distribution, avoiding the overweighting of sectors very different from Telefónica.

Likewise, the Company usually relies on the advice of external consultants, who are independent and experts in remuneration.

Consideration of Employee Remuneration Conditions

Telefónica's remuneration policy, applicable to all Employees and Executive Directors, is designed with a global approach, in order to be aligned with the Company's Strategic Plan, and taking into account the local particularities of the different markets in which Telefónica operates.

As a consequence, the Remuneration Policy applicable to Executive Directors connects with the following characteristics of the global guidelines applicable to Telefónica Employees.

- Fixed Remuneration rewards the performance of functions in a manner consistent with the level of responsibility, leadership and performance level within the organization.
- The Company offers benefits such as health insurance, long-term savings plans, life insurance, childcare assistance (including nursery) and meals, among others, which form part of the family assistance for Employees.
- Share Plans are key to aligning objectives with shareholders, fostering a shareholder culture and retention, and promoting a common entrepreneurial spirit in the Group.
- The long-term savings plans for Executive Directors are aligned with those established for Telefónica's Employees and executives.
- Executive Directors participate in the same Short-Term Variable Remuneration scheme as Telefónica Employees, linked to the business results of the 2026-2030 Strategic Plan ("Transform & Grow"), thus aligning the interests of this group with those of the shareholders.
- Participation in long-term incentive plans extends to organizational levels beyond Executive Directors and the Management Team. The design elements of these plans are aligned to promote consistent objectives throughout the Company.

3 Main changes

Factors Considered in the NCCGC's Reflection Process to Propose Changes to the Policy

Internal Factors

- New executive management of the Telefónica Group.
- The link to the 2026-2030 Strategic Plan ("Transform & Grow") and to sustainability.

External Factors

- The recommendations received in the engagement process with investors, shareholders or others.
- The market practices of competing companies.
- The regulations and general corporate governance recommendations.

Following the holding of each General Shareholders' Meeting, the NCCGC carries out a reflection process on the results achieved in the votes on the proposed resolutions. Specifically, and with regard to remuneration matters, in addition to internal and external factors, the results by a wide majority of the latest votes on the Annual Report on Directors' Remuneration and the Remuneration Policy approved on March 31, 2023 have been considered.

On the other hand, there have been changes in the executive management of Telefónica, with the appointment, in 2025, of Mr. Marc Thomas Murtra Millar as the new Executive Chairman and, subsequently, of Mr. Emilio Gayo Rodríguez as Chief Operating Officer (C.O.O.). Therefore, certain sections of the Policy are adapted with respect to the remuneration of the new Executive Directors. The Policy aims to align the directors' remuneration system with the 2026-2030 Strategic Plan ("Transform & Grow") which has, as part of its fundamental pillars, the simplification of the operating model and the development of talent, strengthening a culture focused on impact and execution.

In light of all of the above, the NCCGC has proposed to the Board of Directors this Remuneration Policy which has the following characteristics:

- The Policy is aligned with the principles of Telefónica's Strategic Plan for the 2026-2030 period and the spirit of "Transform & Grow".
- In relation to Executive Directors:
 - The possibility of granting extraordinary remuneration continues not to be provided for.
 - Executive Directors do not receive the fixed allocation established for membership on the Board and, where applicable, the Executive Commission.
 - The amount of compensation in the event of termination by unilateral decision of the company for the Executive Chairman is limited to two annual payments.

4 Remuneration of Executive Directors

4.1 Remuneration components



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

4.2 Remuneration mix

The remuneration package of Executive Directors is mainly based on variable remuneration, such that the majority of total remuneration is received only if the objectives established in short- and long-term variable remuneration are met. This remuneration structure is consistent with the "pay for performance" principle.

Consequently, Executive Directors may not receive any amount as variable remuneration in the event that the minimum achievement thresholds are not reached. The percentage of short- and long-term variable remuneration is significant in relation to total remuneration. In any case, such percentage with respect to maximum total remuneration (considering for these purposes as such the sum of Fixed Remuneration, the maximum amount of Short-Term Variable Remuneration and the maximum allocation level of Long-Term Variable Remuneration) may reach a maximum of 85%.

The remuneration mix of Telefónica's Executive Directors is presented below according to different scenarios. The charts indicate the weight of the different remuneration elements (Fixed Remuneration, Short-Term Variable Remuneration and Long-Term Variable Remuneration) on total remuneration (sum of these elements).

For illustrative purposes, to determine the relative weight of variable remuneration, the maximum amount of Short-Term Variable Remuneration corresponding to 2026 and the allocation made in the third cycle 2026-2028 of the 2024-2028 Long-Term Incentive Plan are indicated:

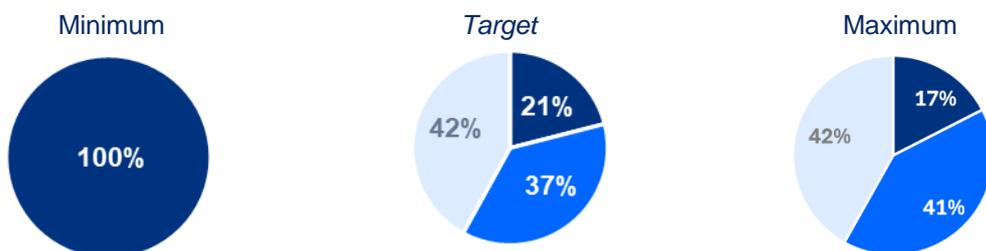
Fixed remuneration¹	Annual	<ul style="list-style-type: none"> Executive Chairman: 1,923,100 euros. Chief Operating Officer (C.O.O.): 1,450,000 euros.
Short-Term Variable Remuneration	“Minimum” Scenario	No Short-Term Variable Remuneration is paid.
	“Target” Scenario	<ul style="list-style-type: none"> Executive Chairman: 180% of Fixed Remuneration. Chief Operating Officer (C.O.O.): 150% of Fixed Remuneration.
	“Maximum” ² Scenario	<ul style="list-style-type: none"> Executive Chairman: 233.1% of Fixed Remuneration. Chief Operating Officer (C.O.O.): 194.25% of Fixed Remuneration.
Long-Term Variable Remuneration	“Minimum” Scenario	No Long-Term Variable Remuneration is paid.
	“Target” ³ Scenario	<ul style="list-style-type: none"> Executive Chairman: 200% of Fixed Remuneration. Chief Operating Officer (C.O.O.): 180% of Fixed Remuneration.
	“Maximum” Scenario	<ul style="list-style-type: none"> Executive Chairman: 240% of Fixed Remuneration. Chief Operating Officer (C.O.O.): 216% of Fixed Remuneration.

1 The amount of remuneration in kind and the contributions to long-term savings plans that may correspond to the Executive Directors are not included for these purposes.

2 The maximum amount of Short-Term Variable Remuneration may not exceed 129.5% of the target amount.

3 The allocations for future plan cycles may vary upward or downward. The "Target" allocation level of Long-Term Variable Remuneration for each cycle may not exceed 250% of Fixed Remuneration. In any case, the maximum allocation level for each cycle shall be 250% of Fixed Remuneration.

Executive Chairman



Chief Operating Officer (C.O.O.)



4.3 Detail of remuneration elements

The ordinary elements that make up the remuneration package of Executive Directors for the performance of their executive functions are described below:

Fixed Elements

Fixed Remuneration	
Purpose	To reward the performance of executive functions in a manner consistent with the level of responsibility, leadership and performance level within the organization.
Amount	<ul style="list-style-type: none">Executive Chairman: 1,923,100 euros.Chief Operating Officer (C.O.O.): 1,450,000 euros.
Operation	<p>The gross annual Fixed Remuneration is paid monthly in cash. This remuneration is established by the Board of Directors, upon proposal of the NCCGC.</p> <p>This remuneration may be reviewed annually based on the criteria approved at any given time by the NCCGC. The maximum increase for the period of validity of the Policy may not exceed 10% annualized of the gross annual salary. In certain situations such as, for example, a change in the size and complexity of the business, a change in responsibility, development in the position and/or special retention and motivation needs, the NCCGC could decide to apply higher increases. The underlying reasons would be explained, where appropriate, in the corresponding Annual Report on Directors' Remuneration.</p>
Remuneration in Kind	
Operation	<p>Executive Directors receive, as remuneration in kind, in addition to life insurance with death or disability coverage, a general health insurance and dental coverage and have a company vehicle assigned to them, all in line with the general Policy applicable to the Company's Executives.</p> <p>Likewise, Telefónica has taken out a civil liability policy (D&O) for directors, executives and personnel with similar functions of the Telefónica Group, with the conditions customary for this type of insurance. This policy also extends to its subsidiary companies in certain cases.</p> <p>On the other hand, Executive Directors may participate in the share plans of Telefónica, S.A. aimed at Employees of the Telefónica Group.</p>

Short-Term Variable Remuneration

Long-term savings plans		
Purpose	<p>The Long-term savings plan for Executive Directors replicates that applicable to Telefónica's Employees and executives, which consists of contributions (i) to a pension plan or similar instrument and to a collective life insurance policy in the unit link modality (to channel the excess contribution over the financial and tax limits applicable to pension plans) as well as (ii) to the Telefónica Executives Long-term Savings Plan, implemented through a collective life insurance policy in the unit link modality.</p> <p>In the case of the Executive Chairman, as he did not have a prior employment relationship before his appointment as Executive Chairman, contributions are implemented through a savings insurance policy that incorporates the main characteristics of said instruments, covering the same contingencies as the pension plan and the unit link insurance policies applicable to Telefónica's Employees and executives.</p>	
	Amount	<p>The amount of the annual contribution for the Executive Chairman is 4.51% of the Fixed Remuneration and for the Chief Operating Officer (C.O.O.) is 5% of the Fixed Remuneration, maintaining the contribution percentage provided for in his previous contract with the Telefónica Group.</p>
Pension Plan / Welfare Plan	Operation	<p>This is a defined contribution plan that covers the following contingencies: retirement; death of the participant; death of the beneficiary; total and permanent occupational disability for the usual profession, absolute and permanent disability for all work and severe disability; and severe dependency or major dependency of the participant.</p> <p>The benefit consists of the economic right corresponding to the beneficiaries as a consequence of the occurrence of any of the contingencies covered by this Pension Plan.</p> <p>Likewise, the participant may withdraw their accumulated funds, in whole or in part, on an exceptional basis, in cases of serious illness or long-term unemployment.</p> <p>In the case of the Chief Operating Officer (C.O.O.), the Pension Plan is integrated into the Pension Fund "Fonditel B, Fondo de Pensiones", managed by Fonditel Pensiones, EGFP, S.A.</p> <p>During the validity of the Policy, the Law may modify the financial and tax limits on contributions to pension plans. In this regard, and as has been done previously, a collective life insurance policy in the unit link modality has been taken out in which the excess contribution over the annual tax limits set forth in the legislation is channeled. This unit link insurance, arranged with Occident GCO, S.A.U. de Seguros y Reaseguros, covers the same contingencies as the Pension Plan and the same cases of exceptional liquidity in the event of serious illness or long-term unemployment.</p> <p>In the case of the Executive Chairman, as he did not have a prior employment relationship before his appointment as Executive Chairman, the contributions equivalent to the pension plan and the collective life insurance policy in the unit link modality are implemented through a savings insurance policy that replicates the main characteristics of said instruments.</p>
	Amount	<p>The annual contribution is equivalent to 35% of the Fixed Remuneration of Executive Directors, after deducting the contributions made to the Telefónica Employees Pension Plan or the equivalent instrument.</p>
Executives Long-term Savings Plan	Operation	<p>Executive Directors participate in an Executives Long-term Savings Plan that covers the contingencies of retirement, early retirement, permanent occupational disability in the degrees of total or absolute disability or severe disability, and death.</p> <p>The implementation vehicle for this Plan is a collective life insurance policy in the unit link modality arranged with one or more insurance entities or equivalent instrument, and the amount of the benefit under this guarantee shall be equivalent to the mathematical provision corresponding to the insured on the date on which the policyholder communicates and certifies to the insurer access to any of the</p>
	Amount	<p>The annual contribution is equivalent to 35% of the Fixed Remuneration of Executive Directors, after deducting the contributions made to the Telefónica Employees Pension Plan or the equivalent instrument.</p>

Short-Term Variable Remuneration

		<p>situations covered by the Plan.</p> <p>Until March 31, 2023, Telefónica's Directors' Remuneration Policies established only the incompatibility between the recognition of economic rights derived from this Plan and compensation for termination of an employment relationship, as reported in the successive previous Directors' Remuneration Reports. As of March 31, 2023, the date on which the previous Directors' Remuneration Policy was approved by the General Shareholders' Meeting, said incompatibility was extended to any termination compensation, whether from an employment or contractual relationship.</p> <p>However, although the Company understood that said modification introduced by the Directors' Remuneration Policy approved on March 31, 2023 was applicable to previous services agreements (by application of Article 529 novodecies.5 of the Spanish Companies Act), on the occasion of the termination of the former Executive Chairman and the former Chief Operating Officer (C.O.O.), in January and March 2025 respectively, the discrepancy that arose between the parties in this regard was resolved through an alternative dispute resolution mechanism (independent expert opinion) which, based on general principles of contracts, ruled in favor of the aforementioned executives and the maintenance of their economic rights derived from the Plan.</p> <p>In this way, said provision of the Directors' Remuneration Policy approved on March 31, 2023 regarding the incompatibility between the recognition of economic rights derived from this Plan and termination compensation in any type of relationship (employment or commercial), which is maintained in this Policy, would only be applicable to new services agreements subsequent to said date.</p> <p>As of the date of this policy, there is no Executive Director contract in force prior to March 31, 2023.</p> <p>In this way, any economic right derived from this Plan shall be incompatible with the receipt of compensation for termination of the contract of Executive Directors</p>
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Short-Term Variable Remuneration	
Purpose	To reward the achievement of a combination of predetermined, specific, quantifiable financial, business operating and non-financial objectives, including ESG objectives, aligned with Telefónica's strategic objectives.
Amount	<ul style="list-style-type: none"> • Target Amount (achieved in the event of 100% achievement of the pre-established objectives): <ul style="list-style-type: none"> • Executive Chairman: 180% of Fixed Remuneration. • Chief Operating Officer (C.O.O.): 150% of Fixed Remuneration. • Maximum Amount (achieved in the event of maximum achievement of the pre-established objectives): <ul style="list-style-type: none"> • Executive Chairman: 233.10% of Fixed Remuneration (129.5% of the Target Amount). • Chief Operating Officer (C.O.O.): 194.25% of Fixed Remuneration (129.5% of the Target Amount).
Metrics	It is linked to the achievement of a combination of specific, predetermined and quantifiable objectives, aligned with the corporate interest and Telefónica's strategy.

Short-Term Variable Remuneration

	<p>Non-financial objectives shall have a weight, at most, of 20% in aggregate.</p> <p>The objectives are approved by the Board of Directors at the beginning of each financial year, upon proposal of the NCCGC. Below are some examples of metrics that could be included in the Short-Term Variable Remuneration:</p> <ul style="list-style-type: none"> • Financial, business operating and value creation objectives, with the purpose of aligning the remuneration of Executive Directors with Telefónica's underlying financial results: <ul style="list-style-type: none"> • Revenues: For example, through indicators such as operating revenues, average revenue per user ("ARPU"), etc. • Results: Through indicators such as, for example, OIBDA, EBITDA, Operating Result or Net Profit. • Cash generation: Metrics such as Free Cash Flow, Operating Cash Flow, etc. could be used. • Return: Through indicators such as, for example, ROE, ROCE, ROA, ROI, etc. • Expense and debt control: Through 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: Through indicators such as, for example, Net Promoter Score (NPS) or GAP NPS. • Employees: Through indicators such as, for example, global diversity objectives, the gender pay gap, the percentage of female executives and/or in the Company's highest governing bodies, labor integration of people with disabilities, etc. • Society: In relation to the ecological transition, among other objectives, the reduction of CO2 emissions, percentage of energy consumed from renewable sources or waste reduction may be established. In relation to social development, objectives linked to digital inclusion, reduction of the digital divide, reputation (REP Trak), etc. may be set.
<p>Operation</p>	<p>Short-Term Variable Remuneration may be paid in cash and/or include the delivery of shares, stock options or remuneration rights linked to the value thereof (in which case an agreement by the General Shareholders' Meeting would be necessary), provided that the objectives established for this purpose are met.</p> <p>As a general rule, in order to calculate the payment coefficient achieved for each level of objective achievement, an achievement scale will be determined for each of the metrics that will include a minimum threshold below which the incentive will not be paid. In the event of 100% achievement of the pre-established objectives, the Target Amount of the Short-Term Variable Remuneration will be received and, in the event of maximum achievement of objectives, the Maximum Amount of the Short-Term Variable Remuneration will be received.</p> <p>For the calculation of the amount of Short-Term Variable Remuneration, the NCCGC will consider, firstly, the degree of achievement and the weighting of each of the objectives individually and, subsequently, the overall degree of achievement of the objectives as a whole.</p> <p>For this purpose, the internal rules and procedures for evaluating objectives established by the Company for its executives will be applied. In this evaluation task, the NCCGC has the support of the Audit and Control Committee, which provides information on the results audited by the Company's external auditor and by the internal auditor, which will have been, in the first instance, analyzed by the Audit and Control Committee itself. Both for the establishment of objectives and for the evaluation of their achievement, the NCCGC also considers any associated risk.</p> <p>In this regard, those economic effects, positive or negative, derived from extraordinary events that could introduce distortions in the evaluation results are eliminated and the quality of the long-term results and any associated risk are considered in the Short-Term Variable Remuneration proposal.</p> <p>Short-Term Variable Remuneration will not be paid until the NCCGC and the Audit and Control Committee have carried out the actions described above during the first quarter of the following year. The amount that, where applicable, is paid will be subject to the malus and clawback clauses described in section 4.5 of the Policy.</p>

Long-Term Variable Remuneration

Long-Term Variable Remuneration	
Purpose	To foster the commitment of Executive Directors and Executives to the Company and its strategy, linking remuneration to value creation for shareholders, as well as to the sustainable achievement of strategic objectives, so that it is aligned with best practices in remuneration matters. In turn, with the Long-Term Incentive Plans, the Company seeks to offer a competitive remuneration package that contributes to retaining the Executives who hold key positions in the organization.
Amount	Maximum allocation level for each cycle: 250% of Fixed Remuneration for each Executive Director.
Metrics	<p>The objectives established in the Long-Term Variable Remuneration will be aligned with value generation for stakeholders and will be approved by the Board of Directors at the beginning of each cycle of the Plan, upon proposal of the NCCGC. Below are some examples of metrics that could be included in the Long-Term Variable Remuneration:</p> <ul style="list-style-type: none"> • Shareholder value creation objectives: for example, Total Shareholder Return, share price appreciation or EPS. • Economic-financial objectives: <ul style="list-style-type: none"> • Results: Through indicators such as, for example, OIBDA, EBITDA, Operating Result or Net Profit. • Cash generation: Metrics such as Free Cash Flow, Operating Cash Flow, etc. could be used. • Return: Through indicators such as, for example, ROE, ROCE, ROA, ROI, etc. • Expense and debt control: Through indicators such as, for example, Net Financial Debt, CapEx, OpEx, etc. • Non-financial objectives, including ESG objectives: for example, Net Promoter Score (NPS), GAP NPS, gender pay gap, global diversity objectives, percentage of female executives and/or in the Company's highest governing bodies, labor 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 on a relative basis against a comparison group composed of competing companies.</p>
Operation	<p>Long-Term Variable Remuneration may be paid in cash and/or include the delivery of shares, stock options or remuneration rights linked to the value thereof, provided that the objectives established for this purpose are met. 100% of the shares that, where applicable, are delivered derived from the Plan will be subject to a retention period of two (2) years, which will increase to three (3) years in the event that the commitment to permanently hold shares is not met.</p> <p>The NCCGC carries out an annual monitoring of the objectives, and once each of the cycles of the Plan has ended, determines the degree of achievement. In this evaluation task, it has the support of the Audit and Control Committee, which provides information on the results audited by the Company's external auditor and internal auditor, which will have been, in the first instance, analyzed by the Audit and Control Committee itself. Both for the establishment of objectives and for the evaluation of their achievement, the NCCGC also considers any associated risk.</p> <p>When determining the level of achievement of the objectives, those economic effects, positive or negative, derived from extraordinary events that could introduce distortions in the evaluation results are eliminated and the quality of the long-term results will be considered in the Long-Term Variable Remuneration proposal.</p> <p>Long-Term Variable Remuneration will not be paid until the NCCGC and the Audit and Control Committee have carried out the actions described above. The amount that, where applicable, is paid will be subject to the malus and clawback clauses described in section 4.5 of the Policy</p>

4.4 Payments linked to termination

The contracts entered into with Executive Directors are of an indefinite nature and include a non-compete agreement. Said agreement means that, once the corresponding contract has been terminated and during the validity of the agreement (two (2) years after termination of the contract for any reason), Executive Directors may not provide services either directly or indirectly, either on their own account or on behalf of others, either by themselves or through third parties, to Spanish or foreign companies whose activity is identical or similar to that of Telefónica.

For the avoidance of doubt, the compensation associated with the non-compete agreement described in the preceding paragraph is already included within the remuneration contemplated in this Policy for Executive Directors, and does not, therefore, constitute additional remuneration to that described in the preceding sections.

The contracts of Executive Directors establish economic compensation for unilateral termination of the contract at the request of the Company that is not due to a serious or culpable breach of duties in the performance of the position as director or, where applicable, at the request of the Executive Director mainly arising from a serious breach of contractual obligations by the Company. The amount of said economic compensation for the Executive Chairman, Mr. Marc Thomas Murtra Millar, is two annual payments and, in the case of the Chief Operating Officer (C.O.O.), Mr. Emilio Gayo Rodríguez, is four annual payments, as he maintains the conditions of his previous contract, which provided for economic compensation for termination of the relationship that may reach said amount. Each annual payment comprises the last Fixed Remuneration and the arithmetic mean of the last two Annual Variable Remunerations received according to the contract.

The receipt of the compensation for termination of the contract described in the preceding paragraph is incompatible with the recognition of any economic right related to the Executives Long-term Savings Plan. Therefore, in the event of receiving the economic compensation referred to above, the corresponding Executive Director would not be recognized any economic right derived from this Plan.

4.5 Malus and clawback clauses

The Board of Directors will assess, following a report from the NCCGC, whether (i) the total or partial cancellation of variable remuneration pending payment (malus) is appropriate, and/or (ii) the total or partial recovery of any element of variable remuneration within thirty-six (36) months following payment thereof (clawback), when certain exceptional circumstances arise that affect the Company's results, or that derive from inappropriate conduct by the Executive Director in accordance with the Company's policies (among which is the "Executive Officer Compensation Recoupment Policy", approved by the Board of Directors in 2023. Additionally, the malus and clawback clauses provided for at any given time in the Long-Term Incentive Plans that, where applicable, have been approved by the General Shareholders' Meeting shall apply).

For these purposes, the following shall be considered as exceptional circumstances that will be subject to assessment by the Board of Directors, among others, and by way of example:

- Restatement of the Company's financial statements not due to the modification of applicable accounting standards.
- In the event that an Executive Director has been sanctioned for a serious breach of the code of conduct and other internal regulations applicable to them, or for a serious breach of the regulations that are equally applicable to them.
- In any case, when it becomes evident that the settlement of the variable remuneration element in question has occurred totally or partially based on information whose falsity or serious inaccuracy is manifestly demonstrated a posteriori, or other circumstances not foreseen or assumed by the Company, that have a material negative effect on the income statements.
- When the Company's external auditor introduces qualifications in its report that reduce the results taken into consideration to determine the amount of variable remuneration to be paid.

4.6 Permanent share ownership commitment

Executive Directors must maintain (directly or indirectly) a number of shares (including those delivered as remuneration) equivalent to two (2) annual payments of their gross Fixed Remuneration, while they continue to belong to the Board of Directors and perform executive functions.

To achieve said objective, a period of five (5) years is established from the date of appointment as Executive Directors. The Board of Directors/the NCCGC may approve a longer period in the event of exceptional circumstances.

While the number of shares subject to this commitment has not been reached, the shares that the Executive Director receives under any element of variable remuneration will be subject to a minimum retention period of three (3) years, thus increasing the degree of commitment of the Executive Director.

The verification of this commitment will be carried out by the NCCGC, which, among other matters, will consider aspects such as the share price to be taken into account or the frequency with which the ownership commitment will be reviewed.

4.7 Contractual conditions of Executive Directors

The contracts that currently govern the performance of the functions and responsibilities of Executive Directors are of a commercial nature and include the clauses that are customarily included in this type of contract in practice. Said contracts have been proposed by the NCCGC and approved by the Board of Directors.

In addition to the compensation conditions set out above, the main conditions of the contracts of Executive Directors are summarized below:

Executive Chairman and Chief Operating Officer (C.O.O.)

Duration	Indefinite
Notice	The obligation to give notice in the event of termination of the contract by unilateral decision of the Executive Director is included, providing that they must communicate their unilateral decision in writing and with a minimum notice of three (3) months. In the event of failure to comply with such obligation, they must pay the Company an amount equivalent to the Fixed Remuneration corresponding to the unfulfilled notice period.
Exclusivity	The contract establishes the prohibition, during its validity, of entering into - directly or through an intermediary - other employment, commercial or civil contracts with other companies or entities that carry out activities of a similar nature to those of Telefónica.
Non-Compete Agreement	<p>Declares compatible their relationship with the performance of other representative, administrative and management positions and with other professional situations that they may attend to in other entities within Telefónica, or in any other entities outside the Company with the prior consent of the Board of Directors.</p> <p>On the contrary, declares incompatible, during the validity of the agreement (two (2) years after termination of the contract for any reason), the provision of services directly and indirectly, on their own account or on behalf of others, by themselves, by third parties, to Spanish or foreign companies whose activity is identical or similar to that of Telefónica.</p>
Confidentiality	During the validity of the relationship and also after its termination, a duty of confidentiality is established with respect to information, data and any type of documents of a reserved and confidential nature that they know and to which they have had access, as a consequence of the exercise of their position.
Compliance with the Regulatory System	The obligation to observe the rules and obligations established in Telefónica's regulatory regime is included, which are found, among other regulations, in the Regulations of the Board of Directors and in Telefónica's Internal Code of Conduct on Matters Related to the Securities Markets.

4.8 Remuneration applicable to new Executive Directors

The remuneration system described above for Executive Directors shall be applicable to any Director who may join the Board of Directors during the validity of this Policy to perform executive functions.

The NCCGC and the Board of Directors will determine the elements and amounts of the remuneration system applicable to the new Executive Director taking into account the functions attributed, the responsibilities assumed, their professional experience, the market remuneration for that position and any others that it considers appropriate, which will be duly reflected in the corresponding contract to be signed between the Company and the new Executive Director.

Exceptionally, to facilitate the hiring of an external candidate, the NCCGC could propose to the Board of Directors the establishment of a special incentive that compensates for the loss of unvested incentives at the previous company due to the termination and consequent acceptance of Telefónica's offer.

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

In the event that the new appointment involves an international assignment, the Company's corresponding international assignment regulations will apply.

With regard to the conditions related to the termination of contracts, following best market practices, the Company's Policy applicable to new appointments of Executive Directors provides for compensation equivalent to two annual payments of remuneration. These conditions may not be applicable in the event that the Executive Director had maintained a previous relationship with a legal entity of the Telefónica Group and the conditions agreed upon for the event of termination were different.

5 Remuneration of Directors in their capacity as such

The remuneration corresponding to Directors in their capacity as such is structured, within the legal and statutory framework, in accordance with the criteria and remuneration items indicated below, within the maximum limit determined for this purpose by the General Shareholders' Meeting, in accordance with the provisions of Article 35 of the Bylaws.

In accordance with the foregoing, the Annual General Shareholders' Meeting held on April 11, 2003 set at 6 million euros the maximum gross annual amount of remuneration to be received by Directors in their capacity as members of the Board of Directors.

The foregoing remuneration is, in any case, of a maximum nature, with the Board of Directors being responsible for approving the distribution of its amount among the different items and Directors. For this purpose, the functions and responsibilities assigned to each Director, membership in Committees within the Board itself and any other objective circumstance considered relevant are taken into account.

In accordance with Article 35 of the Bylaws, the remuneration of Directors in their capacity as such, that is, as members of the Board of Directors and for the performance of the supervisory and collegiate decision-making function inherent to this body, shall consist of a fixed and determined monthly allocation, as well as attendance fees for meetings of the Board of Directors and its executive and advisory Committees.

The elements applicable to the Remuneration Policy for Directors in their capacity as such are detailed below:

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

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

(**) Executive Directors do not receive this remuneration.

The Lead Independent Director may receive additional annual remuneration of up to 80,000 euros for the exercise of said position, given the relevance of the function performed.

Executive Directors do not receive the remuneration that may correspond to them for their status as members of the Board of Directors (remuneration in their capacity as such), for their membership on the Executive Commission, nor for membership in other companies of the Group.

The NCCGC will periodically review that the remuneration of Directors is competitive with respect to the market practices of entities comparable to Telefónica, adequately compensates the effective dedication, qualifications and responsibility of the directors and takes into account the size and complexity of Telefónica's business. In any case, any modification of these amounts will be reported in the Annual Report on Directors' Remuneration that will be submitted annually for approval by the General Shareholders' Meeting.

In addition, non-Executive Directors receive the remuneration corresponding to them for belonging to certain administrative bodies or collegiate bodies of some of Telefónica's subsidiary and investee companies.

6 Coherence with strategy, interests and long-term sustainability

Telefónica's Policy has the following characteristics that ensure coherence with the Company's strategy, interests and long-term sustainability:

- Remuneration policy coherent with the Company's Strategic Plan and oriented towards obtaining long-term results:
 - a. The total remuneration of Executive Directors is composed of different remuneration elements that fundamentally consist of: (i) Fixed Remuneration, (ii) Short-Term Variable Remuneration and (iii) Long-Term Variable Remuneration. Under normal conditions, this long-term element has a weight of no less than 30% of total remuneration in a standard objective achievement scenario (fixed + short-term variable + long-term variable).
 - b. Variable remuneration is linked to the achievement of a combination of economic-financial, value creation and sustainability, environmental or corporate governance objectives, which are specific, predetermined and quantifiable, and aligned with Telefónica's interest and strategy.
 - c. Long-term variable remuneration plans are part of a multi-year framework, to ensure that the evaluation process is based on long-term results and takes into account the underlying economic cycle of the Company. This remuneration is granted and paid in the form of shares based on value creation, so that the interests of Executives are aligned with those of shareholders. In addition, they are overlapping cycles that, as a general rule, are chained indefinitely, maintaining a permanent focus on the concept of long-term in all decisions.
 - d. 100% of the shares delivered under the Long-Term Variable Remuneration to Executive Directors will be subject to a retention period of two (2) years. In addition, if an Executive Director has not reached the number of shares subject to the permanent share ownership commitment, the retention period of the shares that, where applicable, they receive derived from any variable remuneration system, would increase to three (3) years.
- Executive Directors have a variable remuneration system where the achievement of a certain threshold is required to be entitled to payment. The percentage of short- and long-term variable remuneration is significant in relation to total remuneration. Said proportion with respect to total remuneration (considered for these purposes as Fixed Remuneration, Short-Term Variable Remuneration and annualized Long-Term Variable Remuneration) shall reach a maximum of 85%.

In addition, the following measures make it possible to reduce exposure to excessive risks and adjust it to the Company's long-term objectives, values and interests:

- The payment of variable remuneration only occurs after the date of preparation and audit of the corresponding annual financial statements, and after the degree of achievement of operating and financial objectives has been determined.
- Long-Term Incentive Plans, with three (3) year cycles, interrelate annual results and favor alignment with long-term interests, promoting prudent decisions.
- The Board of Directors, upon proposal of the NCCGC, may agree to the re-evaluation or modification of remuneration linked to results in the event of significant internal or external changes that evidence the need to review them.
- Possibility that (i) variable remuneration pending payment is totally or partially cancelled (*malus*), and/or (ii) any element of variable remuneration is totally or partially recovered within thirty-six (36) months following its payment (*clawback*), when certain exceptional circumstances arise that affect the Company's results, or derive from inappropriate conduct by the Executive Director.
- The Audit and Control Committee participates in the decision-making process related to the short-term variable remuneration of Executive Directors, through the verification of economic-financial and non-financial data that may form part of the objectives established in said remuneration, since it is necessary that, in the first place, this Committee previously verifies the Company's results, as the basis for calculating the corresponding objectives.

7 Term

This Policy replaces the Directors' Remuneration Policy approved by the General Shareholders' Meeting held on March 31, 2023, shall enter into force on the date of its approval by the General Shareholders' Meeting and shall remain in force until December 31, 2029, without prejudice to the adaptations or updates that, where applicable, may be carried out by the Board of Directors in accordance with the provisions thereof, and the modifications that may be approved at any given time by the General Shareholders' Meeting of Telefónica.