Telefónica

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

2021 - 2022 - 2023

# INTRODUCTION

This document sets out the Remuneration Policy for the Directors of Telefónica, S.A. (hereinafter referred to as “Telefónica” or the “Company”) which will be submitted for a approval at the 2021 General Shareholders’ Meeting as a separate item on the agenda ((hereinafter referred to as the “Policy”) to replace the current Remuneration Policy for the Directors approved by the General Shareholders’ Meeting held on 8 June 2018. This new Policy will remain in force until 31 December 2023.

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:

# 01. PRINCIPLES

The main focus of Telefónica's remunerative strategy is to attract, retain and motivate professionals of the Company, enabling it to achieve its strategic targets within the highly competitive and globalised setting in which it performs its business, by applying the most appropriate measures and practices for such purpose.

Based on the foregoing, the following are the principles of the Policy:

| | | Executive Directors | Non-Executive Directors |
|---|---|---|---|
| **Value creation** | Alignment with the shareholders' interests and the aim of sustainably creating value over time. | ● | |
| **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 ESG objectives that are predetermined, specific, quantifiable and aligned with the Company's corporate plan. | ● | |
| **Flexibility** | The variable remuneration is not guaranteed and is sufficiently flexible so that there is a possibility of not paying this component. | ● | |
| **Competitiveness** | In order to ensure the Company has the best professionals on board, the remuneration package must be competitive, both in its structure and its overall amount, with respect to other comparable companies at an international level. | ● | ● |
| **Good Governance** | When determining the remuneration for the Directors, the Company takes into consideration the developments taking place in regulations, best practices and national and international recommendations and trends related to the remuneration of Directors of companies listed on the stock market. | ● | ● |
| **Fair Pay** | The professional value, experience, time spent and responsibility of each director is sufficiently remunerated, ensuring that the remuneration policies and practices guarantee there is no discrimination for any reason (among others, due to gender, age, culture, religion and/or race). | ● | ● |
| **Suitability** | The amounts are sufficient to remunerate the qualifications, time spent and responsibility of the Directors, guaranteeing their required loyalty and allegiance to the Company, without compromising the independence of the Non-Executive Directors. | | ● |
| **Transparency** | The level of transparency in relation to remuneration is in line with the best corporate governance practices in order to create trust among all the stakeholders, including shareholders and investors. | ● | ● |

# 02. WHAT WE DO

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

## EXECUTIVE DIRECTORS

- Linking the payment of the remuneration to the Company's results (**pay for performance**).
- **The weighting of the financial metrics** to which the variable remuneration is linked currently represents **at least 80%.**
- The remuneration is **aligned** with the **interests of the shareholders and society as a whole**, since a part of the variable remuneration is linked to **customer trust and ESG** (Environmental, Social and Governance) **objectives**.
- **Long-Term Incentive Plans**:
  - ✓ A minimum **performance period** of **three years** for measurement of the objectives.
  - ✓ Payment in **shares**.
  - ✓ Linked to **metrics** aligned with Telefónica's long-term **strategic objectives**.
  - ✓ Inclusion of **objectives** linked to **ESG.**
  - ✓ Obligation to **hold 100% of the awarded shares** for a term **of 24 months**. This term is extended to 3 years if the number of shares subject to the permanent shareholding commitment has not been reached.
- Standardisation of the **malus** and **clawback** clauses, which are applied to any variable remuneration component.
- Requirement to **permanently hold shares** for a value equivalent **to twice** the fixed remuneration.
- Consideration of the **quality of the results in the long-term and any associated risk** in the evaluation process of variable remuneration.
- **Recurrent external advice** for the purpose of considering market practices as an additional factor to be taken into account in the process of adopting decisions on the Policy's design.
- **There is no guaranteed variable remuneration**.
- **The is no discrimination for any reason** regarding remuneration (among others gender, age, culture, religion or race). Telefónica's staff are remunerated based on their professional merit, skills, experience, time spent and the responsibility they undertake.

## NON-EXECUTIVE DIRECTORS

- Remuneration is determined in **accordance with the responsibilities and duties undertaken** by each Director but without compromising the members' independence.
- The Non-Executive Directors are **not included** in the remuneration formulae or **systems linked to the individual or company's performance**.
- **The Non-Executive Directors are not paid in shares**, options, stock options or any share-linked instruments.
- **The Non-Executive Directors do not participate in any long-term savings systems**, such as retirement plans, pension plans and any other welfare systems.

# 03. THE EXECUTIVE DIRECTORS' REMUNERATION

## 03.1 REMUNERATION COMPONENTS:

**Fixed components**
Fixed Remuneration
Remuneration in kind
Pension plan

+

**Short-Term Variable Remuneration**
Cash and/or shares
Annual objectives

+

**Long-Term Variable Remuneration**
Shares
A minimum performance period of 3 years
Additional retention period

=

**Total Remuneration**

- On the other hand, the Executive Directors are included in an Executive Pension Plan. However, contributions to this Plan do not grant vested economic rights and the payment of any compensation related to the termination of the labour relationship is incompatible with recognition of any economic right related to this Plan.
- The Policy also includes the possibility to pay extraordinary remuneration to Executive Directors in certain circumstances.

## 03.2 SUMMARY OF THE MAIN CHANGES:

Telefónica regularly conducted a reflection process of the Remuneration Policy in force, in which it considers both internal and external factors:

**Internal factors**

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

**External factors**

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

The new Policy is a continuation of the policy in force (which was approved by a very high percentage, i.e. 88.45% of the votes cast at the General Shareholders' Meeting held on 8 June 2018), even though it includes, as mentioned above, some adjustments that enable the improvement of the alignment with the strategic priorities of Telefónica, the opinion of investors and the good governance recommendations. The contents required according to Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement has also been taken into consideration in the development of this Policy.

The main changes proposed in the new Policy regarding Executive Directors are summarised below:

**Fixed components**

No changes are proposed either to the amounts or characteristics of the fixed elements.

**Short-Term Variable Remuneration**

No changes are proposed to the Short-Term Variable Remuneration.

**Long-Term Variable Remuneration**

| | Política actual | Nueva Política | Racional |
|---|---|---|---|
| Retention period | At least 25% of the shares that are awarded will be subject to a retention period of no less than one year. | 100% of the shares that are delivered will be subject to a retention period of 2 years, which will be extended to 3 years until the number of shares subject to the permanent shareholding commitment has not been reached (see next page). | • To strengthen the Executive Directors' long-term commitment to the Company.<br>• Alignment with shareholder interests.<br>• Alignment with best corporate governance and market practices. |

## 03.02 SUMMARY OF THE MAIN CHANGES (CONT.):

**Other elements of the Policy**

| | Current Remuneration Policy | New Policy | Rational |
|---|---|---|---|
| Performance evaluation and extraordinary remuneration | In relation to the determination of the target achievement level linked to the variable remuneration, the current Policy set that any positive or negative economic effects caused by extraordinary events that could distort the results of the assessment are disregarded.<br>No provision was made for extraordinary remuneration. | According to a proposal made by the Nominating, Compensation and Corporate Governance Committee, the Board of Directors, when determining the target achievement level, will disregard any positive or negative economic impact caused by extraordinary events that could distort the results of the assessment. The Policy includes some examples of extraordinary events that could lead to an introduction of adjustments in the assessment of results.<br>Moreover, the possibility is included for the Board of Directors, according to a proposal made by the Committee, to be authorised to agree on granting extraordinary remuneration to the Executive Directors and/or Senior Management (non-Directors) as compensation for their effort and special dedication to achieving certain strategic targets of the company, such as, for example, success in certain corporate reorganisation transactions, providing they create considerable added value for the Company's shareholders and/or create a significant economic profit or equity increase that enhances Telefónica's long-term sustainability and growth.<br>The maximum amount of this extraordinary variable remuneration is limited to 100% of the annual fixed remuneration and in no case may increase the maximum total remuneration allocated to Executive Directors set in this Policy, that remains unchanged with respect to the Policy approved in 2018. | • To adjust the remuneration to the Company's actual performance, beyond the formula that determines the variable remuneration amount.<br>• Implementing Telefónica's strategy implies performing corporate transactions related to the various business activities of the Company. Such transactions are essential to create value for our shareholders and they involve tremendous effort and dedication from the team involved. We aim to have an opportunity where value creation across Telefónica's various business activities is rewarded. |
| Commitment to hold shares on a permanent basis | The Executive Directors must hold a number of shares equal to two years' gross fixed remuneration.<br>A term of five years counted from the entry into force of the Policy or, if later, from the date when the executive director is appointed, is set to achieve such target. | The same commitment is maintained; however, it is specified that, until this threshold is not reached, any shares received within the scope of any variable remuneration scheme must be held for at least 3 years.<br>It also states that this requirement will be monitored by the Nominating, Compensation and Corporate Governance Committee. | • Maintenance of the Executive Directors' long-term commitment specified in the previous Remuneration Policy.<br>• Alignment with the new recommendation 62 of the Good Governance Code, published in June 2020. |
| Malus and clawback clauses | The Nominating, Compensation and Corporate Governance Committee is authorised to propose full or partial cancellation of the payment of the Executive Directors' Short-Term Variable Remuneration to the Board of Directors under certain unexpected circumstances.<br>In relation to the Long-Term Variable Remuneration, in 2018, the Company included malus and clawback clauses in the Long-Term Incentive Plan 2018-2023. | Standardisation of the malus and clawback clauses, which are applicable to any variable remuneration component. In this respect, the possibility is included to (i) partially or fully cancel the variable remuneration pending payment (malus) and/or (ii) partially or fully recover any variable remuneration component within 24 months after payment thereof (clawback), when certain exceptional situations arise that affect the Company's results or are related to the Executive Director's inappropriate conduct.<br>Section 3.7 outlines some of the situations in which these clauses may be applicable. | • Commitment of Telefónica to designing a Remuneration Policy that is in line with prudent risk management.<br>• Alignment with best corporate governance and market practices. |

# 03. THE EXECUTIVE DIRECTORS' REMUNERATION (CONT.)

## 03.3 PAY MIX:

Executive Directors have a variable remuneration scheme that is fully flexible, which includes a minimum threshold below which no incentive is payable. The short-term and long-term variable remuneration percentage can be relevant in the event of maximum achievement of the targets. In any case, such percentage with respect to the total remuneration (considered, for such purpose, as the sum of the Fixed Remuneration, the maximum amount of the ordinary or extraordinary Short-Term Variable Remuneration and the maximum allocated level of the Long-Term Variable Remuneration) will not exceed 85%.

The Nominating, Compensation and Corporate Governance Committee has analysed the total remuneration level that would be paid according to the different target achievement situations and it deems that the remuneration is appropriate within the context of the performance required of the Executive Directors and is in line with shareholders' interests.

The pay mix for Telefónica's Executive Directors is shown below, bearing in mind various situations:

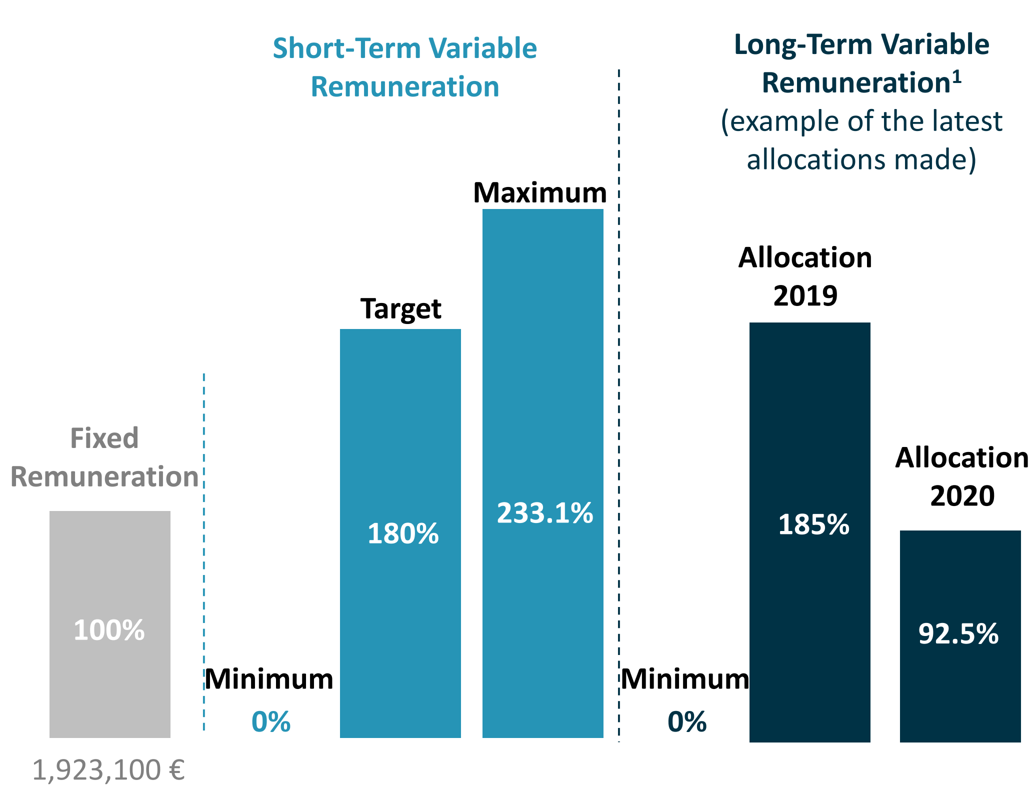
**Short-Term Variable Remuneration**

| | | |
|---|---|---|
| Minimum | The minimum level of target achievement has not been reached | No payment is provided |
| Target | 100% of the targets set out in the performance scale have been achieved | 100% of the Target Amount is paid |
| Maximum | Maximum achievement of the targets | 129.5% of the Target Amount is paid |

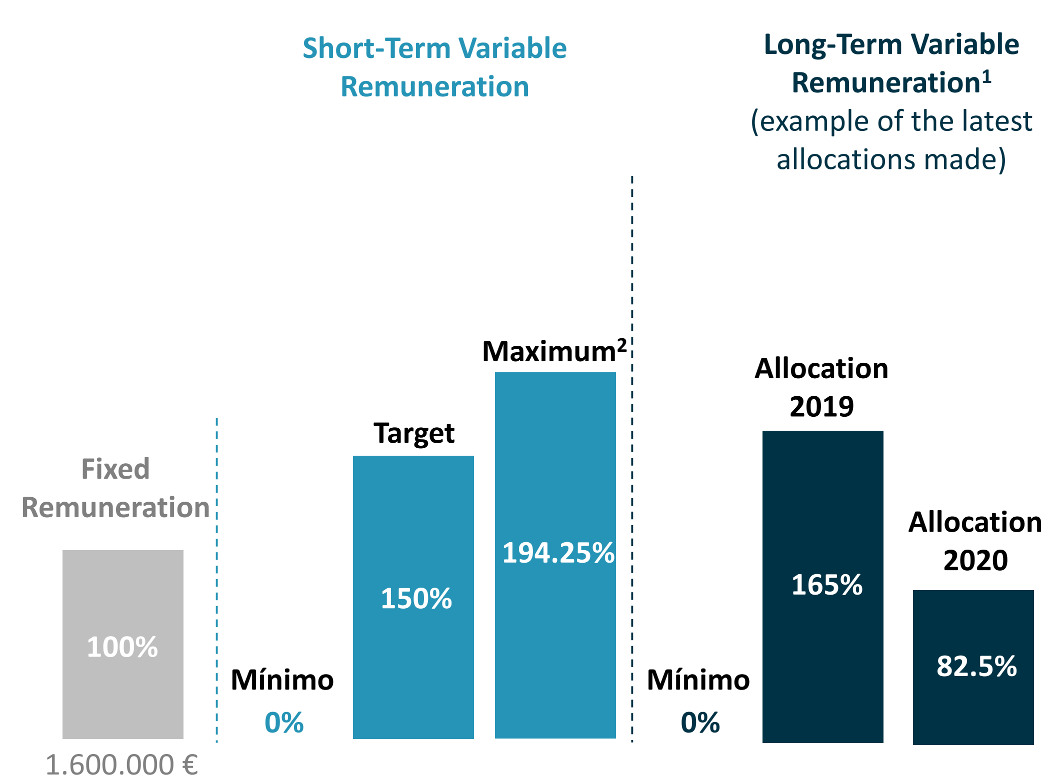
**Long-Term Variable Remuneration**

| | | |
|---|---|---|
| Minimum | The minimum level of target achievement has not been reached or no assignment has taken place | No payment is provided |
| Allocation | The economic value of the shares assigned at the start of a cycle may not exceed 250% of the Fixed Remuneration (hereinafter referred to as "Maximum Allocation Level"). However, it should be noted that in recent Long-Term Variable Remuneration cycles, fewer shares have been awarded than the maximum described above (see graph). | |

### EXECUTIVE CHAIRMAN




### CHIEF OPERATING OFFICER




*Percentages expressed as a percentage of the Fixed Remuneration of the Executive Chairman or Chief Operating Officer, as appropriate. In relation to the Long-Term Variable Remuneration, the reference value of the Telefónica shares allocated is represented as a percentage of the Fixed Remuneration. Reference value is understood to be the average weighted listing price of the shares of Telefónica, S.A. in the 30 trading days prior to January 1st of the first year of the corresponding cycle.*

1 For Long-Term Variable Remuneration cycles that begin during the valid term of this Remuneration Policy, the economic value of the shares assigned may be equivalent to, higher or lower than the percentages assigned in 2019 and 2020; however, in no case may the assignment level exceed 250% of the Fixed Remuneration (Maximum Allocated Level of the Long-Term Variable Remuneration).

2 The Short-Term Variable Remuneration of the Chief Operating Officer may be reviewed depending on several criteria described in section 03.4. In such case, the Board of Directors, on a proposal form the Nominating, Compensation and Corporate Governance Committee, must approve such change. However, the maximum Short-Term Variable Remuneration shall not exceed 233.10% of the Fixed Remuneration (Maximum Amount of the Short-Term Variable Remuneration).

# 03. THE EXECUTIVE DIRECTORS' REMUNERATION (CONT.)

Fixed components

## 03.4 DETAILS OF THE REMUNERATION COMPONENTS:

Notwithstanding the fact that, throughout the valid term of this Policy, all remuneration allocated and pending to be paid according to the previous Remuneration Policy approved on 8 June 2018 will remain in force, the ordinary components comprising the remuneration package of the Executive Directors for the performance of their executive duties are described below. Moreover, the Executive Directors may receive remuneration to which they may be entitled as members of the Board of Directors (remuneration of the Directors in their positions as such):

| Fixed Remuneration | |
|---|---|
| Purpose | Suitable reward for performing their executive duties according to the level of responsibility, leadership and performance within the organisation, promoting the retention of key professionals and attracting top talent and creating sufficient economic independence to balance the significance of other remuneration items. |
| Amount | • Executive Chairman: €1,923,100.<br>• Chief Operating Officer: €1,600,000. |
| Functioning | The annual gross fixed remuneration is paid on a monthly basis in cash. This remuneration is determined by the Board, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee.<br>This remuneration may be adjusted every year depending on the criteria approved from time to time by the Nominating, Compensation and Corporate Governance Committee. The maximum annualised increase during the term of the Policy may not exceed 10% of the gross annual salary. In certain situations, such as, for instance, Telefónica Group extraordinary results, change in the size and in the business complexity, a change in responsibility, development of the duties and/or special needs for retention and motivation, the Nominating, Compensation and Corporate Governance Committee may decide to apply higher increases. The underlying reasons will be explained in the relevant Annual Report on Remuneration of the Directors. |

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

| Telefónica Employee Pension Plan | |
|---|---|
| Amount | • Executive Chairman: 6.87% of his base salary, plus 2.2% as a mandatory contribution to be made by the Executive Chairman up to the maximum annual limit that the law stipulates from time to time.<br>• Chief Operating Officer: 4.51% of his base salary, plus 2.2% as a mandatory contribution to be made by the Chief Operating Officer up to the maximum annual limit that the law stipulates from time to time. |
| Functioning | As described in each of the Executive Directors contracts, the Pension Plan is a defined-contribution plan and the contingencies covered are as follows: retirement; the member's death; the beneficiary's death; total and permanent disability to work in one's usual profession, absolute and permanent incapacity for all work and serious disability; and severe or major dependency of the member.<br>The benefits consist of the economic right accrued by the beneficiaries as a result of the occurrence of any of the contingencies covered by this Pension Plan. It is quantified according to the number of account units that correspond to each member based on the amounts contributed to the Pension Plan and is assessed for the purpose of payment according to the value of the account unit from the business day before the date when the benefits become effective.<br>Furthermore, the members may also exercise their vested rights, in whole or in part, on an exceptional basis in the event of serious illness or long-term unemployment.<br>The Pension Plan is included within the "Fonditel B Pension Fund," managed by Fonditel Pensiones, EGFP, S.A.<br>As took place in 2015, in the financial year 2021 applicable law has modified the financial and tax limits for contributions to pension plans. In this respect, as has been taking place, in order to compensate the difference arising in favour of the beneficiaries, a unit-link group insurance policy has been taken out through which the aforementioned differences that could arise are channelled in each financial year.<br>The unit-link insurance policy has been taken out with the company Plus Ultra, Seguros Generales y Vida, S.A. de Seguros y Reaseguros (after the merger by take-over of Seguros de Vida y Pensiones Antares, S.A. by Plus Ultra, on 31 December 2019), and covers the same contingencies as those included in the Pension Plan with the same exceptional liquidity events in the case of serious illness or long-term unemployment. |

# 03. THE EXECUTIVE DIRECTORS' REMUNERATION (CONT.)



## 03.4 DETAILS OF THE REMUNERATION COMPONENTS (CONT.):

| Short-Term Variable Remuneration | |
|---|---|
| Purpose | To reward the achievement of a combination of financial, business operating, and ESG targets that are pre-determined, specific, quantifiable and aligned with the social interest and Telefónica's strategic targets. |
| Amount | • **Target Amount** (this is reached when 100% of the pre-determined targets have been achieved):<br>✓ The Executive Chairman: 180% of the Fixed Remuneration.<br>✓ The Chief Operating Officer: 150% of the Fixed Remuneration.<br>• **Maximum Amount** (this is reached when the pre-determined targets are achieved at the maximum level):<br>✓ The Executive Chairman: 233.1% of the Fixed Remuneration (129.5% of the Target Amount).<br>✓ The Chief Operating Officer: 194.25% of the Fixed Remuneration (129.5% of the Target Amount).<br>No significant variations are planned for the valid term of the Policy. In any case, the Short-Term Variable Remuneration of the Chief Operating Officer may be reviewed depending on his development and consolidation in the position, the development of the Company's profits, and other factors that the Nominating, Compensation and Corporate Governance Committee deems appropriate. In such case, the Board of Directors must approve such change, on a proposal form the Nominating, Compensation and Corporate Governance Committee. However, the maximum Short-Term Variable Remuneration shall not exceed 233.10% of the Fixed Remuneration.<br>Any updates that take place according to the terms described herein must always be proposed by the Nominating, Compensation and Corporate Governance Committee. The reasons for such updates must be suitably explained in the annual report on the directors' remuneration. |
| Metrics | This is related to the achievement of a combination of specific, pre-determined and quantifiable targets that are aligned with the social interest and Telefónica's strategy.<br>The non-financial targets will have a maximum weight of 20% overall.<br>The targets are approved by the Board of Directors at the beginning of each financial year, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee.  Some examples of metrics that could be included in the Short-Term Variable Remuneration are listed below:<br>• Financial targets and business transactions: Operating Revenue, OIBDA, EBITDA, Operating Result, Net Profit, Free Cash Flow, Operating Cash Flow, Net Financial Debt, CapEx, metrics linked to the return (ROE, ROCE, ROA, ROI), etc.<br>• Non-financial targets: ESG linked to the Customer trust - Net Promoter Score (NPS / GAP NPS), Society Trust (Rep. Track),  and responsibility for Gender Equality (% of women in executive positions) and for the Planet (GHG Emissions), etc. |
| Functioning | The Short-Term Variable Remuneration may be paid in cash and/or include the award of shares or share-based instruments (in which case a resolution is required by the General Shareholders' Meeting), providing the targets set for this purpose are achieved.<br>For the purpose of calculating the payment coefficient obtained for each level of target achievement, a performance scale is determined for each metric, which includes a minimum threshold below which no incentive is paid. In the case of 100% achievement of the targets set, the Target Amount of the Short-Term Variable Remuneration will be paid and, in the case of maximum achievement of the targets the Maximum Amount of the Short-Term Variable Remuneration will be received.<br>In order to calculate the amount of the Short-Term Variable Remuneration, the Nominating, Compensation and Corporate Governance Committee firstly considers the level of achievement and weighting of each target on an individual basis and then the overall level of achievement of the targets as a whole. For such purpose, it applies the internal target assessment rules and procedures set out by the Company for its executives. When conducting this assessment, the Nominating, Compensation and Corporate Governance Committee is supported by the Audit and Supervisory Committee, which provides information about the results audited by the Company's external auditor and by the internal audit, which will have been first analysed by the Audit and Control Committee itself. The Committee also considers any associated risk for both setting the targets and assessing their achievement.<br>In this respect, any positive or negative economic effects caused by extraordinary events that could distort the findings of the assessment are disregarded and the long-term quality of the results and any associated risk are considered in the proposed Short-Term Variable Remuneration.<br>The Short-Term Variable Remuneration will not be paid until the Nominating, Compensation and Corporate Governance Committee and the Audit and Supervisory Committee have carried out the actions described above. |

# 03. THE EXECUTIVE DIRECTORS' REMUNERATION (CONT.)



## 03.4 DETAILS OF THE REMUNERATION COMPONENTS (CONT.):

| Long-Term Variable Remuneration | |
|---|---|
| Purpose | To increase the Executive Directors' and management team's commitment to the Company and its Strategic Plan, linking their remuneration to creating value for the shareholders and sustainable achievement of the strategic targets, so that it is in line with the best remuneration practices. In turn, by means of its Long-Term Incentive Plan, the Company also aims at offering a competitive remuneration package that contributes to retaining the managers who hold key positions in the organisation. |
| Amount | Maximum Allocated Level for each cycle: 250% of the Fixed Remuneration for each Executive Director. |
| Metrics | The targets will be approved by the Board of Directors at the beginning of each cycle of the Plan, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee:<br>• Financial and economic targets: for example, Free Cash Flow, Operating Cash Flow, Net Financial Debt, EPS, metrics linked to the return (ROE, ROCE, ROA, ROI), etc.<br>• Shareholder value creation targets: for example, Total Shareholder Return.<br>• Targets related to sustainability, the environment or good governance, with a maximum weight of 10% overall: for example, neutralisation and reduction of CO2 emissions.<br>Some of the metrics may be measured relative to a comparison group of competing companies. |
| Functioning | The Long-Term Variable Remuneration may be paid in cash and/or include the award of shares, share options or remuneration rights linked to the value thereof, providing the targets set for such purpose have been achieved. 100% of the shares that are awarded in relation to the Plan shall be subject to a retention period of 24 months. This term is extended to 3 years until the permanent shareholding commitment is not reached. The foregoing is not applicable to the shares that the Executive Directors need to sell to pay the costs related to their acquisition or, with prior consideration of the Nominating, Compensation and Corporate Governance Committee, to cover extraordinary situations arising that require this.<br>For the purpose of calculating the payment coefficient obtained for each level of target achievement, at the start of each cycle a performance scale is determined for each metric, which includes a minimum threshold (below which no incentive is paid) and a maximum level.<br>The Nominating, Compensation and Corporate Governance Committee conducts an assessment of the targets on an annual basis and, once the Plan has ended, the level of achievement is determined. When conducting this assessment, the Committee is supported by the Audit and Supervisory Committee, which provides information about the results audited by the Company's external auditor. The Committee also takes into consideration any associated risk for both setting the targets and assessing their achievement.<br>Any positive or negative economic effects caused by extraordinary events that could distort the findings of the assessment are disregarded and the long-term quality of the results and any associated risk are considered in the proposed Long-Term Variable Remuneration.<br>The Long-Term Variable Remuneration will not be paid until the Nominating, Compensation and Corporate Governance Committee and the Audit and Supervisory Committee have carried out the actions described above. |

### Executive Pension Plan

(Payment of any compensation related to the termination of the labour relationship is incompatible with this remuneration component)

**Maximum contribution:**

35% of the Fixed Remuneration.

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

Payment of any compensation related to the termination of the labour relationship is incompatible with recognition of any economic right related to this Executive Pension Plan.

**Functioning:**

The implementation vehicle of this Plan approved in 2006 is a unit-link group life insurance policy taken out with an insurance company.

The contingencies covered by the Executive Pension Plan are retirement, early retirement, permanent loss of working capacity consisting of total or absolute disability or serious disability and death. However, as explained above, no economic right whatsoever is recognised if the Executive Director receives compensation due to the termination of his/ her labour relationship.

The amount of the benefits from this coverage is equivalent to the mathematical provision corresponding to the insured party on the date when the policyholder provides notice and proves to the insurance company that the relevant situation has arisen.

There is currently no vesting of economic rights in favour of the Executive Directors. The Board of Directors may make the appropriate adjustments in the case of legislative amendments on this matter, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee.

Even though there are no changes planned for the functioning of this Plan, any adjustments to be made to the Executive Pension Plan must be approved by the Board of Directors. These adjustments must be justified and proposed by the Nominating, Compensation and Corporate Governance Committee. The reasons for the adjustments must be duly explained in the Annual Report on Remuneration of the Directors.

## 03. THE EXECUTIVE DIRECTORS' REMUNERATION (CONT.)

### 03.5 ASSESSMENT OF THE RESULTS AND EXTRAORDINARY REMUNERATION:

According to a proposal made by the Nominating, Compensation and Corporate Governance Committee, the Board of Directors, when determining the achievement level of the targets to which any variable remuneration component is linked, will disregard any positive or negative economic impact caused by extraordinary events that could distort the results of the assessment. Extraordinary events may include the following:

- Any corporate reorganisation transaction due to purchase, sale, merger, spin-off, share swap, capital increase or reduction or reorganisation of any kind that leads to a significant change in the size, activity or type of business of Telefónica, as well as financial transactions that automatically change Telefónica's share price (e.g. payment of non-ordinary dividends, stock split or reverse stock split or capital increases with discount).
- Substantial changes in the companies that form part of the comparison group considered, if any, in the relative measurement of the metrics.
- Substantial changes in the macroeconomic environment that could significantly alter the current economic situation.

Moreover, the Board of Directors, according to a proposal made by the Committee, is authorised to agree on granting extraordinary remuneration to the Executive Directors and other Senior Executives of the Company as compensation for their effort and special dedication to achieving certain strategic objectives and the execution of certain significant corporate transactions. The criteria to be taken into will include the following:

- Extraordinary effort by the Executive Director and/or Senior Executive in a corporate transaction of high importance, complexity and uniqueness, which creates considerable value for the Company's shareholders and/or a relevant economic profit or equity increase that enhances Telefónica's long-term sustainability and growth.
- Extraordinary performance of the business to achieve strategic milestones.

According to a proposal made by the Nominating, Compensation and Corporate Governance Committee, the Board of Directors shall be responsible for agreeing, where appropriate, and setting for each of the Executive Directors and/or Senior Management (non-Directors), the amount and the settlement date of such extraordinary variable remuneration. In any case, the maximum amount of this extraordinary variable remuneration is limited to 100% of the annual fixed remuneration and in no case may it increase the maximum total remuneration allocated to the Executive Directors as provided for in this Policy, that remains unchanged with respect to the Policy approved in 2018.

In the event that the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, should resolve that the extraordinary variable remuneration be paid in shares, it would require a previous agreement by the Annual General Meeting, and the total number of Telefónica, S.A. shares that would be delivered as extraordinary variable remuneration would be the result of dividing the amount granted by the weighted average trading price of Telefónica, S.A. shares in the thirty (30) trading days prior to the date on which the Board of Directors resolves to pay the extraordinary variable remuneration.

In any event, the extraordinary variable remuneration shall be subject to the malus and clawback clauses and, if applicable, to the commitment to hold shares on a permanent basis, as provided in this Policy.

A detailed breakdown of this remuneration will be provided in the Annual Report on Directors' Remuneration for the relevant financial year.

### 03.6 SEVERANCE PAY:

The contracts signed with the Executive Directors are for an indefinite term and include a non-competition clause. This clause implies that, once the relevant contract has been terminated and during the valid term of the clause (two years after the termination of the contract for any reason), the Executive Directors may not indirectly or directly render their services themselves or through others, either on their own behalf or for third parties, to Spanish or foreign companies that engage in the same or similar business activities as Telefónica.

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

# 03. THE EXECUTIVE DIRECTORS' REMUNERATION (CONT.)

## 03.7 MALUS AND CLAWBACK CLAUSES:

The Board of Directors will decide, with a prior report issued by the Nominating, Compensation and Corporate Governance Committee, if necessary, on the following: (i) partial or full cancellation of the variable remuneration pending payment (malus) and/or (ii) partial or full recovery of any variable remuneration component within twenty-four (24) months after its payment (clawback), if certain exceptional situations arise that affect the Company's results or are related to the Executive Director's inappropriate conduct.

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

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

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

## 03.8 COMMITMENT TO HOLD SHARES ON A PERMANENT BASIS:

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

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

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

The foregoing is not applicable to the shares that the Executive Directors need to sell to pay the costs related to their acquisition or, with prior consideration of the Nominating, Compensation and Corporate Governance Committee, to deal with extraordinary situations that arise and require it.

This commitment will be verified by the Nominating, Compensation and Corporate Governance Committee that will consider, among other issues, the share price to be taken into account or the regularity in which the shareholding commitment will be reviewed.

## 03.9 CONTRACTUAL TERMS AND CONDITIONS FOR THE EXECUTIVE DIRECTORS:

The contracts that currently regulate the Executive Directors performing their duties and responsibilities are of a commercial nature and include clauses that are normally used for these kinds of contracts. These contracts have been proposed by the Nominating, Compensation and Corporate Governance Committee, approved by the Board of Directors.

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

| | Executive Chairman and Chief Operating Oficer |
|---|---|
| **Term** | Indefinite. |
| **Prior notice** | There is an obligation to provide prior notice in the event of the contract being terminated due to a unilateral decision adopted by the Chief Operating Officer, being stipulated that he must notify such unilateral decision in writing with at least three months' prior notice, except in cases of force majeure. If this obligation is not fulfilled, he must pay the Company an amount equivalent to the Fixed Remuneration for the period of prior notice he had failed to observe. |
| **Exclusivity** | During the term of the contracts, it is prohibited to sign (either directly or through intermediaries) any employment, commercial or civil contracts with other companies or institutions that engage in activities similar in nature to those of Telefónica. |
| **Non-competition clause** | The contract states the relationship is compatible with holding representative, administrative and management posts and other professional positions in other companies in the Telefónica Group or in any other undertakings unrelated to the Company when expressly notified to the Nominating, Compensation and Corporate Governance Committee and the Board of Directors.<br>In addition, it states that the relationship is incompatible, during the term of the clause (two (2) years after the termination of the contract for any reason) with directly or indirectly rendering services, as an employee or sel-femployed, by themselves or through third parties, to any Spanish or foreign companies that engage in activities identical or similar to those of Telefónica. |
| **Non-disclosure** | While the relationship remains in force and also after the termination thereof, there is a non-disclosure duty regarding any information, data and any kinds of reserved and confidential documents that they have knowledge of or to which they have had access as a result of performing their duties. |
| **Compliance with the regulatory system** | The contracts include the obligation to abide by the rules and obligations set out within Telefónica's regulatory system, which are contained, among other regulations, in the Board of Directors' Regulations and Telefónica's Internal Stock Market Conduct Regulations. |

### 03.10 APPLICABLE REMUNERATION FOR NEW EXECUTIVE DIRECTORS:

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

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

As an exception, in order to assist in the recruitment of an external candidate, the Nominating, Compensation and Corporate Governance Committee may propose to the Board of Directors to provide a special incentive to compensate for the loss of incentives not received from the previous company due to his/her resignation and subsequent acceptance of Telefónica's offer.

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

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

# 04. REMUNERATION OF THE DIRECTORS IN THEIR POSITIONS AS SUCH

The remuneration payable to the Directors in their positions as such is structured, within the legal and statutory framework, pursuant to the remunerative criteria and items specified below, up to the maximum limit determined for such purpose by the General Shareholders' Meeting, pursuant to the provisions in Article 35 of the Articles of Association.

According to the foregoing, the Ordinary General Shareholders' Meeting held on 11 April 2003 set the annual gross maximum amount for the remuneration at €6,000,000 payable to the Directors in their positions as members of the Board of Directors.

The aforementioned remuneration is, in all cases, the maximum amount payable and the Board of Directors is responsible for proposing the allotment of the amount among the various items and among the different Directors, taking into account the duties and responsibilities assigned to each Director, membership on Committees within the Board of Directors and other objective circumstances that would be considered relevant.

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

The aspects applicable to the remuneration of the Directors in their positions as such are detailed below :

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

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

The Executive Directors can waive payment of the aforementioned amounts.

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

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

Moreover, the Non-Executive Directors receive the remuneration payable to them due to being members of certain management bodies of Telefónica's subsidiaries and investee companies.

# 05. PROCESS FOR DETERMINING, REVIEWING AND IMPLEMENTING THE POLICY

The Nominating, Compensation and Corporate Governance Committee, the responsibilities and duties of which are stipulated in Article 40 of the Articles of Association, Article 23 of the Board of Directors' Regulations and Article 4 of the Nominating, Compensation and Corporate Governance Committee's Regulations, plays a crucial role in defining the Telefónica Group's Remuneration Policy and in developing and deciding on its components; however the most important decisions must be approved by the Board of Directors.

The Committee's mandate, within the scope of remuneration, consists of continuously reviewing and updating the remuneration system applicable to the Directors and Senior Executive Directors and designing new remuneration plans that enable the Company to attract, retain and motivate the most outstanding professionals, aligning their interests with the Company's strategic targets.

In addition, other bodies and external advisors take part in the process of determining the Remuneration Policy. The functions performed by the various company bodies involved in determining and approving the Remuneration Policy and its conditions are explained below, along with a reference to the involvement of external advisors in this matter.

| | Determining and designing the remuneration elements | Applying the variable remuneration | Analysis of the external competitiveness of the remuneration |
|---|---|---|---|
| **General Shareholders' Meeting** | It approves the Remuneration Policy at least every three years as a separate item on the agenda.<br>It approves the maximum amount of the annual remuneration for all the Directors in their positions as such.<br>It approves the variable remuneration systems for the Directors that include payment in shares or stock options or share-linked instruments.<br>It has an advisory vote on the Annual Report about the Directors' Remuneration, detailing the remuneration accrued during the last financial year. | Advisory vote on the Annual Report on Remuneration of the Directors, in which the remuneration accrued during the financial year is disclosed. | |
| **Board of Directors** | Directors in their positions as such: t approves the allocation of the maximum amount approved by the General Shareholders' Meeting among the various components.<br>Executive Directors: It approves the fixed remuneration and the main terms and conditions of the short- and long-term variable remuneration system.<br>The Board approves adaptations or updates to the Remuneration Policy.<br>It approves the contracts that regulate the duties and responsibilities of the Executive Directors.<br>It approves the Annual Report on Remuneration of the Directors to be submitted to the advisory vote at the General Shareholders' Meeting. | It approves the design, target amounts, the level the targets are achieved and the amounts of the incentive payable, if any, both for the short-term and long-term variable remuneration of the Executive Directors, based on a proposal made by the Nominating, Compensation and Corporate Governance Committee.<br>It approves the Annual Report on Remuneration of the Directors to be submitted to the advisory vote of the General Shareholders' Meeting.<br>It evaluates, if necessary, application of the malus and/or clawback clauses. | It is reported based on analysis and remuneration studies of the Directors' remuneration conducted by the Nominating, Compensation and Corporate Governance Committee. |
| **Nominating, Compensation and Corporate Governance Committee Nominating, Compensation and Corporate Governance Committee** | Directors in their positions as such: It proposes the allotment of the maximum amount to the Board of Directors approved by the General Shareholders' Meeting, among the various items.<br>The Committee reviews the Directors' remuneration on a regular basis to ensure that it is appropriate for the duties they perform.<br>Executive Directors:<br>• It proposes the fixed remuneration for the Executive Directors to the Board of Directors considering, among other factors, their level of responsibility and leadership within the organisation, promoting the retention of key staff, attracting top talent and creating sufficient economic independence to ensure a balance with the significance of other items included in the remuneration.<br>• It reviews, on an annual basis, the terms and conditions for the variable remuneration, including the structure and maximum levels of remuneration, the targets set and the weighting of each of them, taking into account the company's strategy, needs and business situation. These conditions are subject to the approval of the Board of Directors.<br>• It proposes the contracts to the Board of Directors that regulate the duties and responsibilities of the Executive Directors.<br>• It proposes the Annual Report on Remuneration of the Directors and the Remuneration Policy, when appropriate, to the Board of Directors<br>When carrying out these actions, the Nominating, Compensation and Corporate Governance Committee takes into account the votes of the shareholders at the General Shareholders' Meeting to which the Annual Report on Remuneration of the Directors for the previous year was submitted, in an advisory manner. | It proposes the targets at the beginning of each measurement period to the Board of Directors.<br>It assesses achievement of the targets at the end of the measurement period. Since payment of the variable remuneration is subject to sufficient verification that the stipulated targets have effectively been achieved, as determined in recommendation 59 of the Good Governance Code, this assessment is carried out on the basis of the results audited by the Company's external and internal auditors, which are first analysed by the Audit and Supervisory Committee, as well as the level of achievement of the targets. In this respect, for the purpose of ensuring that there is an effective relation between the variable remuneration and the professional performance of the recipients thereof, any positive or negative economic impact caused by extraordinary events that could distort the findings of the assessments are disregarded.<br>Submits a report to the Board, when appropriate, on whether or not application of the malus and/or clawback clauses is necessary.<br>It proposes to the Board of Directors the variable remuneration payable to the Executive Directors. Such proposal also considers the long-term results and any associated risk in the proposed variable remuneration.<br>It proposes Annual Report on Remuneration of the Directors and, when appropriate, the Remuneration Policy to the Board of Directors. | It regularly reviews the Directors' remuneration. This process includes an external competitive remuneration analysis and also takes into account the Remuneration Policy for the executives and other employees in the organisation. A reference market is considered when conducting the external competitiveness analysis based on, among other, the following criteria:<br>1. A sufficient number of companies are selected to obtain results that are representative and statistically reliable and sound.<br>2. Data on size (for example, revenues, assets, market capitalisation and number of employees) and complexity of the business.<br>3. Geographic scope and distribution: Companies are included that operate at an international level with their parent company located in Continental Europe and in the United Kingdom are included, as well as representative North American enterprises in the technology, media and entertainment sector or related to such sector that are benchmarks for the company.<br>4. Distribution by sector: It is a multi-sector sample, with homogeneous distribution among the business sectors. |

## 05. PROCESS FOR DETERMINING, REVIEWING AND IMPLEMENTING THE POLICY (Cont.)

| | Determining and designing the remuneration elements | Applying the variable remuneration | Analysis of the external competitiveness of the remuneration |
|---|---|---|---|
| **Audit and Supervisory Committee** | | It analyses the results audited by the external and internal auditor to evaluate achievement of the objectives for the variable remuneration. | |

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

| | Determining and designing the remuneration elements | Applying the variable remuneration | Analysis of the external competitiveness of the remuneration |
|---|---|---|---|
| **Planning and Control, Corporate Ethics and Sustainability and Human Resources** | | They prepare reports related to the achievement level of the operative, financial and non-financial targets based on the results audited by the Company's external and internal auditor. | |
| **Secretary General** | This person prepares the formal documents related to the Remuneration Policy to be submitted to the General Shareholders' Meeting, the Board of Directors, the Executive Committee and/or the Advisory or Supervisory Committees. Together with HR Management, he/she prepares the Annual Report on the Directors' Remuneration. | Together with HR Management, it prepares the Annual Report on Directors' Remuneration. | |
| **Human Resources** | It prepares the proposals related to the design of the Remuneration Policy applicable to the Executive Directors. Together with the General Secretary, it prepares the Annual Report on Remuneration of the Directors. | Together with General Secretary, it prepares the Annual Report on Remuneration of the Directors. | |

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

# 06. LINK BETWEEN THE POLICY AND THE TERMS AND CONDITIONS FOR THE COMPANY'S EMPLOYEES

Telefónica's long-term strategy is based on three fundamental pillars to which the variable remuneration of the entire Telefónica team is linked. Firstly, inclusive and sustainable growth, secondly, efficiency where digitalisation is key, and finally the trust of stakeholders, from the customers based on their satisfaction to the trust of shareholders, employees, suppliers, among others.

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

- Telefónica offers a competitive and fair remuneration package that may include fixed components, short and long-term variable components, as well as remuneration in kind and other benefits. This remuneration package is also adapted to the local practices of the markets in which it operates. In any case, the fixed remuneration must be sufficient bearing in mind that, in certain situations, the variable remuneration may be zero. In addition, the amounts and relative weighting of the remuneration components are adapted to local practices of the markets in which Telefónica operates.

  In this respect, the elements included in the Directors' remuneration for their executive duties are aligned with the components included in Telefónica's executive and management group remuneration package.
- Within the total remuneration, the Employee Share Plans play a crucial role in aligning the targets of all the employees with the shareholders. These plans promote shareholder culture and a sense of belonging, and they incentivise a common culture in the Group with a focus on an enterprising spirit.
- Through the variable remuneration of the whole Telefónica team, growth is incentivised through increased Operating Revenue and return on investment for shareholders, as well as efficiency through the improvement of our OIBDA margin and creation of Free Cash Flow. Similarly, Telefónica is a company that is fully committed to sustainability. Therefore, the variable remuneration of our whole team takes into account factors such as customer trust, society trust, gender equality and the contribution to the fight against climate change.
- Telefónica is a company that promotes meritocracy and equal opportunities. For such purpose, a significant part of the total remuneration for executive positions is variable and receiving it is subject to achieving financial, business, value creation and ESG objectives. In turn, these targets must be specific, quantifiable and aligned with the Company's corporate plan.
- In addition, Telefónica remunerates in an appropriate manner according to the professional value, experience, time spent and responsibility of each professional, ensuring that the remuneration policies and practices guarantee there is no discrimination for any reason (among others, due to gender, age, culture, religion and/or race), and promoting the retention and motivation of key staff and the attraction of the best talent.
- A balance between the global strategy and local practices: the Policy is designed at a global level so that it is aligned with Telefónica's corporate plan. However, the policy is applied bearing in mind the local features of the different markets in which Telefónica operates

# 07. CONSISTENCY WITH THE COMPANY'S STRATEGY, INTERESTS AND SUSTAINABILITY IN THE LONG-TERM

La Telefónica's Policy has the following features that ensure consistency with the Company's strategy, interests and sustainability of the company in the long term:

- The design of the remunerative policy, consistent with the company's strategy and aimed at obtaining long-term results, is as follows:
  a. The total remuneration for the Executive Directors and Senior Executives consists of various remunerative components, mainly composed of the following: (i) Fixed Remuneration, (ii) Short-term Variable Remuneration and (iii) Long-term Variable Remuneration. In the case of the Executive Directors, under normal conditions, this long-term component accounts for a weight of no less than 30% of their total remuneration in a scenario of standard achievement of targets (fixed + short-term variable + medium- and long-term variable).
  b. Regarding the metrics set for the variable remuneration, the Short-Term Variable Remuneration is related to the achievement of a combination of specific, pre-determined and quantifiable targets that are aligned with the social interest and Telefónica's strategy. The non-financial targets will have a maximum overall weight of 20%. Long-term Variable Remuneration is related to economic and financial targets (e.g. free cash flow) and targets related to value creation for shareholders (e.g. total shareholder return) and objectives related to sustainability, the environment or good governance may be included, with a maximum overall weight of 10% (e.g. neutralization and reduction of $CO_2$ emissions).
  c. Long-term variable remuneration plans are part of a multi-annual framework in order to ensure that the assessment process is based on long-term profits and that the company's underlying economic cycle is taken into account. This remuneration is allocated and paid in the form of shares based on the creation of value, so that the Executives' interests are in line with those of the shareholders. In addition, they are overlapping cycles that generally follow one another indefinitely over time, with a permanent focus on the long-term in all decision-making.
  d. At least 100% of the shares provided within the scope of the Plan to the Executive Directors and other members determined by the Board of Directors are subject to a retention period of two years. In addition, if an Executive Director has not reached the number of shares subject to the permanent shareholding commitment, the retention period of the shares that, if any, they receive due to any variable remuneration scheme will be increased up to 3 years.
- A suitable balance between the fixed and variable components of the remuneration: Executive Directors have a variable remuneration scheme that is fully flexible, which includes a minimum threshold below which no incentive is payable. The short-term and long-term variable remuneration percentage can be relevant in the event of maximum achievement of the targets. In any case, such percentage with respect to the total remuneration (considered as the Fixed Remuneration, ordinary and extraordinary Short-Term Variable Remuneration and annualised Long-Term Incentive) will not exceed 85%.

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

- The Nominating, Compensation and Corporate Governance Committee supervises the examination, analysis and application of the remunerative policy of the professionals whose work could have a significant impact on the Company's risk profile.
- There is no guaranteed variable remuneration.
- The variable remuneration is only payable after the date the relevant annual accounts have been drawn up and audited, once the achievement level of the operating and financial targets can be determined.
- The Nominating, Compensation and Corporate Governance Committee considers, as part of the process to evaluate the variable remuneration, the quality of the long-term results and any other related risk.
- The design of the Long-Term Incentive Plans, each one with three-year cycles, implies an interrelation with the results in each year, therefore acting as an alignment catalyser with the company's long-term interests and cautious decision-making.
- The possibility to (i) partially or fully cancel the variable remuneration pending payment (malus) and/or (ii) partially or fully recover any variable remuneration component within twenty-four months after payment thereof (clawback), when certain exceptional situations arise that affect the Company's results or are related to the Executive Director's inappropriate conduct.
- The Company's Audit and Supervisory Committee takes part in the decision-making process related to the short-term variable remuneration (bonus) of Executive Directors by verifying the economic-financial and non-financial information that may be part of the targets set for the purpose of such remuneration, as this Committee must first verify the company's results as the basis for calculating the relevant targets.
- The Nominating, Compensation and Corporate Governance Committee is composed of five members, two of whom are also members on the Audit and Supervisory Committee. The fact that some Directors are members of these two Committees ensures that the risks related to remuneration are taken into account in the discussions held by both Committees and in their proposals submitted to the Board, both in the determination and assessment process of the annual and multiannual incentives.
- The Board of Directors, based on a proposal made by the Nominating, Compensation and Corporate Governance Committee, is authorised to agree on the possible revaluation or modification of the remuneration linked to the results if there are significant internal or external changes that mean they need to be reviewed.
- Regarding the measures required to avoid conflicts of interest by the directors, according to the provisions in the Spanish Capital Companies Act, the Regulations of Telefónica's Board of Directors includes a series of obligations related to its duties of loyalty and to avoid situations of conflict of interest. Moreover, the Nominating, Compensation and Corporate Governance Committee's Regulations determine that one of its duties is to ensure that possible conflicts of interest do not harm the independence of the external advice provided to the Committee.

# 08. TERM

This Policy will enter into force on the date it is approved by the General Shareholders’ Meeting and remain in force until 31 December 2023, notwithstanding any amendments or updates that, where appropriate, the Board of Directors carries out in accordance with the provisions thereof, and any amendments that may be approved by the General Shareholders' Meeting of Telefónica from time to time.