

Telefónica, S. A.

2021 Year



# ANNUAL REPORT ON REMUNERATION OF DIRECTORS

Included in the Chapter 5  
of the 2021 Consolidated  
Management Report on  
Telefónica, S.A. and its Group  
of Companies

## 5.1. Annual Report on Remuneration GRI 102-37

### Introduction to the report

This section and section 5.2. below constitute the Annual Report on Remuneration for the Directors of Telefónica, S.A. (hereinafter referred to as "Telefónica" or the "Company"), which must be drawn up and submitted to an advisory ballot at the General Shareholders' Meeting. Pursuant to the provisions in Act 5 of 12 April 2021 amending the redrafted text of the Corporate Enterprises Act, this report forms part of the Company's Management Report. This report will remain accessible on the websites of the Company and the Spanish National Securities Market Commission (CNMV) for the legally stipulated term.

This report is essentially composed of two sections:

- First, a summary of our Directors' Remuneration Policy (hereinafter referred to as the "Remuneration Policy") applicable in 2022, which was approved with 88.97% of the votes cast at the Company's General Shareholders' Meeting held on 23 April 2021, and which will remain in force until 31 December 2023 (this Policy can be accessed at the following link: <https://www.telefonica.com/en/wp-content/uploads/sites/5/2021/10/remunerations-policy-directors-telefonica.pdf>).

It should be noted that Telefónica pre-empted the new requirements set out in Act 5 of 12 April 2021 amending the redrafted text of the Spanish Corporate Enterprises Act, and that the aforementioned Remuneration Policy already includes the new provisions introduced in Article 529 Novodecies of such Act, which relate to the content and procedure for the approval of the directors' remuneration policy. Therefore, there will be no need for the approval of a new policy at the next General Shareholders' Meeting.

- Secondly, it provides a description of how the Directors' Remuneration Policy has been applied throughout 2021. Two remuneration policies were applicable in this financial year:
  - From 1 January to 22 April, the directors' remuneration policy approved at the Company's General Shareholders' Meeting held on 8 June 2018, with 88.45% of the votes cast (this Policy can be accessed at the following link: <https://www.telefonica.com/es/wp-content/uploads/sites/4/2021/08/politica-remuneracionesconsejeros-2018.pdf>).
  - From 23 April to 31 December, the Remuneration Policy approved on 23 April 2021. Section 03.2 of the aforementioned Policy outlines the main changes introduced, which were limited to the remuneration of Executive Directors.

Provided below is the background against which certain remuneration-related decisions have been made, in particular the extraordinary corporate transactions that have been performed or carried out in 2021 and which have been considered by the Nominating, Compensation and Corporate Governance Committee, when applying the Remuneration Policy.

### Telefónica's results in 2021

The strength of Telefónica's performance in 2021 signalled a turning point in its transition to sustainable and profitable growth. Since the second quarter of the year, Telefónica has returned to solid organic year-on-year growth in terms of turnover and OIBDA and has taken two of the most significant steps in its long-term strategy with the creation of the VMED O2 joint venture and the sale of the Telxius telecommunications' towers division.

The VMED O2 joint venture has further strengthened the Telefónica Group's presence in one of its key markets through its exposure to the UK's largest converged operator, complementing its leadership position in Spain, Brazil and Germany. Combined with the sale of towers in Europe and Latin America, this contributed to a net profit of EUR 8.1 billion in 2021 (five times the net profit in 2020), while also bringing down net financial debt by a further EUR 9.2 billion or 26.1% year-on-year to EUR 26 billion and strengthening the balance sheet with a significant increase in equity attributable to Telefónica shareholders, which doubled compared to December 2020.

Simultaneously, there has been further investment in long-term growth and profitability, with CapEx from growth in the next generation networks accounting for roughly 45% of total CapEx (excluding spectrum) in 2021. The focus on lowering capital intensity and increasing operational efficiency and digitalisation has made it possible to deliver this increased investment together with solid free cash flow generation of €3.8 billion, excluding spectrum payments, 25% year-on-year affected by the deconsolidation of the Telxius and T. UK towers, and by the recovery of pre-COVID-19 investment levels.

The foregoing has meant that Telefónica has had its best year on the stock market since 2009 with a share price increase of close to 18.7% and a Total Shareholder Return (hereinafter referred to as "TSR") of 29.6%. The Company's total increase in 2021 has outperformed the Ibex 35 (7.9%) and its TSR (10.5%). It has also outperformed the share price rise of 11.8% and the RTA (16.5%) of the European telecommunications sector in 2021.

## Extraordinary corporate transactions in 2021

Throughout 2021, Telefónica announced, carried out or completed some of the most important corporate transactions in the history of the Telefónica Group, which will allow it to continue to gain strategic and financial flexibility. These transactions notably include the following:

- As outlined above, in the UK, an agreement was reached with Liberty Global to combine O2 and Virgin Media to form a company owned 50/50 by the two companies (VMED O2).
- The sale of the telecommunications tower division of the subsidiary Telxius to American Tower Corporation was completed (roughly 34,000 sites in Spain, Germany, Brazil, Peru, Chile and Argentina).
- In Brazil, Telefónica won the auction of Oi's mobile assets together with partners TIM Brasil and Claro.
- In Germany, a vehicle (UGG) jointly owned by Telefónica Infra and Allianz has been created for the deployment of 50,000 km of fibre to cover more than two million households in rural and semi-rural areas with less than 10,000 inhabitants.
- In Hispanic America, the Costa Rica and El Salvador operator has been sold.

These transactions, most of which were completed in 2021, have helped generate around €9.5 billion to bring down the group's net financial debt, a reduction of 27% compared to December 2020, and to pursue new opportunities for growth.

## Remuneration accrued in 2021 by the Executive Directors

The impact on the variable remuneration components was as follows:

- **Short-Term Variable Remuneration:** The relative metrics and weights determined for 2021 were OIBDA (30%), Operative Income (30%), Free Cash Flow (20%) and non-financial targets - ESG (20%).

Bearing in mind the foregoing, the weighted payment coefficient has risen to 85% of the maximum amount. This percentage is mainly explained by the fact that the degree of achievement of the financial objectives as a whole was above 100%. In addition, the degree of achievement of the non-financial - ESG objectives as a whole has also exceeded the target levels.

- **Long-Term Variable Remuneration:** The performance period for the second cycle (2019-2022) of the 2018-2023 Long Term Incentive Plan ended on 31 December 2021. 50% of the incentive was subject to the relative TSR and 50% to the Free Cash Flow generated in each of the years in the performance period. No amount whatsoever was accrued regarding the relative TSR due to the behaviour of Telefónica's shares related to the comparison group, notwithstanding the improved

performance of the stock. However, the Free Cash Flow target has been achieved. The incentive shall be paid during March 2022.

Taking into account the Telefónica's share price as at 31 December 2021, the economic value of the incentive to be received in shares by the Executive Directors would be limited to approximately 25% of the incentive originally awarded.

- **Extraordinary Variable Remuneration:** The Directors' Remuneration Policy approved at the last General Shareholders' Meeting in 2021 gives the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, would be authorised to decide to grant extraordinary remuneration to Executive Directors and other Senior Executives of the Company as a recognition of the effort and special dedication in relation to the achievement of certain strategic milestones and the execution of certain corporate transactions of exceptional relevance, considering criteria such as the extraordinary effort of the Executive Directors in corporate transactions of high relevance, complexity and singularity, which generate significant value for the Company's shareholders and/or an economic benefit or a significant increase in equity, and the extraordinary performance of the business that allows the Company's strategic milestones to be achieved.

Following an in-depth review of the design and execution process of the aforementioned extraordinary corporate transactions, which also had a very significant impact on the Company's financial statements, the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, approved the allotment of an extraordinary cash remuneration to the Executive Chairman and the Chief Operating Officer, whose efforts and dedication were crucial to the development of the business and the success of the corporate transactions. Specifically, the amount of this Extraordinary Variable Remuneration amounted to one year of its Fixed Remuneration. This amount is within the limits established by the Remuneration Policy, both in absolute terms and in relation to the maximum amount of total remuneration to be allocated to executive directors. Section 5.1.6.D of the report sets out in detail the criteria taken into account by the Board of Directors in awarding such remuneration.

The sections below set out all the information on the applicable guidelines for the Directors' remuneration, along with a breakdown of the remuneration for the 2021 financial year and forecasts for the 2022 financial year.

### 5.1.1. Principles of the Remuneration Policy

At the General Shareholders' Meeting held on 23 April 2021 Telefónica submitted the Remuneration Policy, which will remain in force until 31 December 2023. The Remuneration Policy maintains the essential principles applied in the previous financial years and was approved

by the General Shareholders' Meeting with 88.97% of the votes cast.

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 principles of the Remuneration Policy are the following:

		Executive Directors	Non- Executive Directors
<b>Value creation</b>	Alignment with the shareholders' interests and the aim of sustainably creating value over time.	•	
<b>Pay for Performance</b>	A significant part of the total remuneration for Executive Directors is variable and receiving it is subject to achieving financial, business, value creation and ESG targets that are predetermined, specific, quantifiable, and aligned with the Company's corporate plan.	•	
<b>Flexibility</b>	The variable remuneration is not guaranteed and is sufficiently flexible so that there is a possibility of not paying this component.	•	
<b>Competitiveness</b>	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.	•	•
<b>Good Governance</b>	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.	•	•
<b>Fair Pay</b>	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).	•	•
<b>Suitability</b>	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.		•
<b>Transparency</b>	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.	•	•

In addition, in order to determine the remuneration terms and conditions for the Executive Directors, the remuneration scheme applicable to the Company's employees has been taken into account, as follows:

Specifically the following:

- The Remuneration Policy for the Executive Directors is aligned with the policy for the other employees and shares the same principles and criteria for action.
- In addition, the elements included in the Directors' remuneration for their executive duties are aligned with the components included in Telefónica's executive group remuneration package.

Notwithstanding the foregoing, as detailed in the following section 5.1.5, it is planned to propose for the decision of the next General Shareholders' Meeting, a new Remuneration Policy that is along the same lines that the current, even though some new items have been added to develop certain components and issues that have been considered appropriate regarding corporate governance and remuneration trends. However, these new items have no impact on the aforementioned principles. The new Remuneration Policy, provided that it is approved at the General Shareholders' Meeting, will come into force since the date that such meeting is held.

## 5.1.2. What we do

### 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 Short-Term Variable Remuneration is linked represents at least 80%.
- The remuneration is aligned with the interests of all the shareholders and society as a whole, since a part of the variable remuneration is linked to sustainability (ESG<sup>6</sup>) objectives.
- Long-Term Incentive Plans:
  - A minimum performance period of three years for measurement of the objectives.
  - Delivery in shares.
  - Linked to metrics aligned with Telefónica's long-term strategic objectives, sustainability (ESG) objectives included.
  - Holding 100% of the awarded shares for a term of two years. This term is extended to 3 years extension in case of non-compliance with the permanent shareholding commitment.
- Standard 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 Remuneration Policy's design.
- No guaranteed variable remuneration.
- Non-discrimination for any reason is guaranteed 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.

### 5.1.3. The Remuneration Policy of Telefónica applicable in 2022 [GRI 102-35, 102-36](#)

Telefónica regularly conducts 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 targets set, the results obtained by the Group, the link to the Strategic Plan and to sustainability, as well as their alignment with the Company's general employee remuneration policy.
- External factors: The recommendations received in the involvement process that Telefónica regularly conducts with investors, shareholders and proxy advisors, market practices of relevant companies for Telefónica due to being competitors or because of their business or talent and companies considered high performers and general corporate governance recommendations at an international level.

Upon completion of this analysis, the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, submitted the current Remuneration Policy for approval at the General Shareholders' Meeting in 2021, effective from the date of the Meeting (23 April 2021) and shall remain in force until 31 December 2023, notwithstanding any adaptations or updates that may be made by the Board of Directors in accordance with the provisions therein, and any amendments that may be approved by the General Shareholders' Meeting of Telefónica at the time.

### 5.1.4. The Executive Directors' remuneration in 2022 [GRI 102-35, 102-36](#)

As specified above, on the date of this Report, the Executive Directors of Telefónica, S.A. are Mr. José María Álvarez-Pallete López, Executive Chairman, and Mr. Ángel Vilá Boix, Chief Operating Officer/COO.

#### Pay for performance and pay mix

The remunerative system for Telefónica's Executive Directors is characterised by its competitiveness and high demands. The variable remuneration, which is designed to incentivise achievement of the company's short- and long-term targets, is one of the fundamental pillars of this system.

<sup>6</sup> Environmental, Social and Governance

In this respect, Telefónica's long-term strategy is based on the following three basic pillars, which are linked to the variable remuneration of Telefónica's whole human team:

- i. Growth, in the form of Operative Revenue and Total Shareholders Return;
- ii. Efficiency, through improving the OIBDA, generating Free Cash Flow and efficient consumption of natural resources or the circular economy;
- iii. Trust. Telefónica is a company that is fully committed to sustainability. For such purpose, factors such as customer trust, society trust, gender equality or the contribution to the reduction of climate change are weighted.

Therefore, receiving both Short-Term and Long-Term Variable Remuneration are linked to achieving certain financial and business operational and sustainability (ESG) objectives.

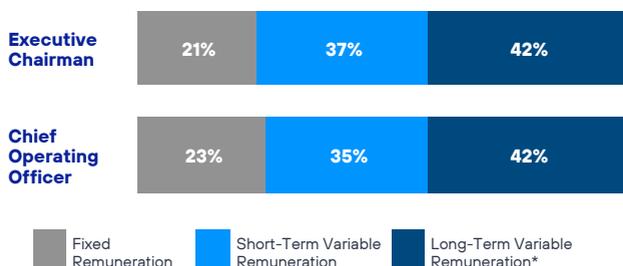
All the objectives are predetermined, specific, quantifiable and aligned with Telefónica's strategic goals, strictly determined and assessed by the Nominating, Compensation and Corporate Governance Committee, which monitors them, so that their alignment with Telefónica's social interests is ensured.

Executive Directors have a variable remuneration scheme that is fully flexible, which includes a minimum threshold below which no incentive is payable. The short- and long-term variable remuneration percentage may become relevant if the maximum level is achieved. In any case, such percentage of their total remuneration (considering, for such purpose, the sum of the Fixed Remuneration, Short-Term Variable Remuneration and the annualised long-term incentive) may not exceed 85%.

The pay mix for Telefónica's Executive Directors is shown below, bearing in mind a situation in which the stipulated targets are achieved:

#### Executive Directors' remuneration structure for 2022

At Telefónica, results-based remuneration has a significant weighting in total remuneration (remuneration structure for 100% or target level achievement of targets)



\*The remuneration mix is shown in accordance with an allocation equivalent to 200% of the Fixed Remuneration for the Executive Chairman and 180% for the Chief Operating Officer. For such purpose, remuneration in kind, contributions to pension plans for Telefónica employees, contributions to the retirement plan for executives and possible extraordinary remuneration have not been taken into account.

	Type of objective	Metric	Weighting
Short-Term Variable Remuneration	Operating and financial objectives (80%)	OIBDA	30%
		Operating Revenue	30%
		Free Cash Flow	20%
	Sustainability - ESG Objectives (20%)	NPS	5%
		NPS GAP	4%
		Climate Change - GHG Emissions	5%
		Gender Equality - % of women in executive positions	3%
	Society Trust - REP Trak	3%	
Long-Term Variable Remuneration	Shareholders' value creation and financial objectives (90%)	Relative TSR*	50%
		Free Cash Flow	40%
	Sustainability - ESG Objectives (10%)	Neutralisation of CO <sub>2</sub> Emissions	10%

\*The peer group consists of companies belonging to the telecommunications sector, weighted according to their relevance for Telefónica.

## Components of the remuneration package in 2022:

The elements included in the remuneration package for executive directors for the performance of their executive duties are similar to those of the 2021 financial year:

### A. FIXED REMUNERATION

#### Purpose:

Suitable compensation for performing their executive duties according to the level of responsibility, leadership and performance within the organisation, promoting the retention of key staff and attracting top talent and creating sufficient economic independence to balance the significance of other remunerative items.

#### Amount:

No increases in the Executive Directors' fixed remuneration are expected during 2022.

*Executive Chairman: €1,923,100.*

This remuneration is the same as the amount paid since 2013 and it was determined for his position as Chief Operating Officer and remained the same after his appointment as Chairman in 2016. This remuneration is 13.8% lower than the one determined for the position of Executive Chairman prior to his appointment as such.

*Chief Operating Officer: €1,600,000.*

This remuneration is the same as the amount paid when Mr. Vilá was appointed as a Chief Operating Officer of the company on 26 July 2017.

#### Functioning:

The annual gross fixed remuneration is paid on a monthly basis in cash. This remuneration is determined by the Board of Directors according to a proposal made by the Nominating, Compensation and Corporate Governance Committee.

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 increase for the term of the Policy may not exceed 10% of the gross annual salary on an annualised basis. In certain situations, such as the achievement of extraordinary results by the Telefónica Group, 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 Nominating, Compensation and Corporate Governance Committee may decide to apply higher increases. The underlying reasons will be explained in the relevant Annual Report on the Directors' Remuneration.

### B. SHORT-TERM VARIABLE REMUNERATION

#### Purpose:

To reward the achievement of a combination of financial objectives, business transactions and ESG targets that are pre-determined, specific, quantifiable and aligned with the social interest and Telefónica's strategic objectives.

#### Amount:

Target Amount (this is reached when 100% of the pre-determined targets have been achieved):

- i. The Executive Chairman: 180% of the Fixed Remuneration.
- ii. Chief Operating Officer: 150% of the Fixed Remuneration.

Maximum Amount (this is reached when the pre-determined targets are achieved at the maximum level):

- i. Executive Chairman: 233.10% of the Fixed Remuneration (129.5% of the target).
- ii. Chief Operating Officer: 194.25% of the Fixed Remuneration (129.5% of the target).

The target and maximum amounts are the same as in 2018, as set out in the 2021 Remuneration Policy.

#### Metrics:

For the financial year 2022, the Nominating, Compensation and Corporate Governance Committee has reviewed the objectives, metrics and performance scales to be applied in order to ensure fulfilment of the Telefónica Group's Strategic Plan. As a result, the Board of Directors has selected the quantifiable and measurable metrics that best reflect the Telefónica Group's value creation levers, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee:

- 80% of the objectives are operational and financial:
  - 30% of the objectives are linked to the OIBDA, which reflects both the Group's growth and development in operational execution.
  - 30% of the objectives are linked to the Operative Income, which enables the Telefónica Group's growth to be measured.
  - 20% of the objectives is linked to the Free Cash Flow, which is key to meeting the Company's financial commitments.
- The remaining 20% is linked to sustainability (ESG) objectives, aligned with the company's Strategic Plan:

- 9% of the objectives is linked to Customer Trust, not only related to Telefónica but also in relative terms compared with our competitors:
- NPS (5%).
- NPS GAP (4%).
- 11% of the objectives is linked to other sustainability (ESG) targets:
  - Climate Change (GHG Emissions - 5%).
  - Gender Equality - % of Women in executive positions (3%).
  - Society's Trust (REP Trak - 3%).

### Functioning:

The aforementioned objectives 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. The maximum level of the Short-Term Variable Remuneration target in 2022 remains at 129.5% in the case of the maximum achievement of the pre-determined targets.

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 case of 100% achievement of the targets set, the target Short-Term Variable Remuneration will be paid and, in case of maximum achievement of the targets the maximum Short-Term Variable Remuneration will be received.

Information in greater detail is provided below about the scales for achieving each of the targets and how the stipulated maximum is achieved:

Metrics	Weighting (%)	Payments levels (% of target)			% of maximum weighted payment
		Min.	Target	Max.	
<b>Financial Objectives (80%)</b>					
OIBDA	30%	50%	100%	140%	42.00%
Operating Revenue	30%	50%	100%	125%	37.50%
Free Cash Flow	20%	50%	100%	125%	25.00%
<b>ESG Objectives (20%)</b>					
NPS	5%	50%	100%	125%	6.25%
NPS GAP	4%	50%	100%	125%	5.00%
Climate Change - GHG Emissions	5%	50%	100%	125%	6.25%
Gender Equality - % of women in executive positions	3%	50%	100%	125%	3.75%
Society's Trust - REP Trak	3%	50%	100%	125%	3.75%
		<b>100%</b>			<b>129.50%</b>

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 objectives as a whole. For such purpose, it applies the internal objective assessment rules and procedures set out by the Company for its executives. When conducting this assessment, the 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 (PRICEWATERHOUSECOOPERS AUDITORES, S.L.) and by the internal audit. The Committee also considers any associated risk for both setting the targets and assessing their achievement.

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.

The Short-Term Variable Remuneration is fully paid in cash providing the targets set for this purpose have been achieved. This 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 in the first quarter of the following year.

Moreover, the Nominating, Compensation and Corporate Governance Committee is authorised make a proposal to the Board of Directors to fully or partially cancel payment of the short-term variable remuneration if certain unforeseen circumstances arise, as described in this Report, as well as its partial or full clawback within twenty-four (24) months after the payment thereof.

## C. 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 they are in line with the best remuneration practices. In turn, by means of its Long-Term Incentive Plan, the company also aims at offering a competitive remuneration package that contributes to retaining the managers who hold key positions in the organisation.

### Description:

A new Long-Term Incentive Plan 2021-2026 was approved by the General Shareholders' Meeting held in 2021, consisting of payment with Telefónica, S.A.'s shares. The Executives of the Telefónica Group, including the Executive Directors of Telefónica, S.A., who meet the requirements stipulated for such purpose from time to time, are invited to take part in such Plan.

The total term of the Plan is five (5) years divided into three (3) cycles, which are independent from each other, of three (3) years each (in other words, by delivering the shares corresponding to each cycle once three years have elapsed counted from the start of each cycle).

1. The first cycle 2021-2024: The target measurement period began on 1 January 2021 and will end on 31 December 2023. If the targets are achieved, the shares will be settled in 2024, once the annual accounts for the financial year 2023 have been drawn up and audited. The number of shares granted represented, at their grant value, 200% of the Fixed Remuneration for the Executive Chairman and 180% of the Fixed Remuneration for the Chief Operating Officer.
2. The second cycle 2022-2025: The performance period began on 1 January 2022 and will end on 31 December 2024. If the targets are achieved, the shares will be settled in 2025, once the annual accounts for the year 2024 have been drawn up and audited.

The number of shares granted represented, at their assignment value, 200% of the Fixed Remuneration for the Executive Chairman and 180% of the Fixed Remuneration for the Chief Operating Officer.

3. The third and last cycle 2023-2026: The performance period will begin on 1 January 2023 and will end on 31 December 2025. If the targets are achieved, the shares will be settled in 2026, once the annual accounts for the year 2025 have been drawn up and audited. The assignment of the actions of this third cycle will take place in 2023.

Moreover, the performance period for the third cycle of the Long-Term Incentive Plan 2018-2023 will remain in force in 2022, as approved at the General Shareholders' Meeting in 2018, to determine, when appropriate, the shares that the members will eventually receive. The features and terms of this Plan can be seen in the Annual

Remuneration Reports for the financial years 2019 and 2020.

### Metrics and functioning of the second cycle of the Long-Term Incentive Plan 2021-2026:

The metrics determined for the Second Cycle of the Long-Term Incentive Plan 2021-2026 are the Relative TSR (50%), Free Cash Flow (40%) and Neutralisation of CO<sub>2</sub> Emissions (10%).

Metrics	Weighting (%)	Company results	Incentive to be accrued (%)
Relative TSR <sup>1</sup>	50%	75th percentile or above	100%
		Median	30%
		Below median	0%
Free Cash Flow	40%	100% achievement	100%
		90% achievement	50%
		Lower than 90% achievement	0%
Neutralisation of CO <sub>2</sub> emissions to achieve net zero emissions in 2025 <sup>2</sup>	10%	100% achievement	100%
		90% achievement	50%
		Lower than 90% achievement	0%

<sup>1</sup>Comparison group: Vodafone Group, America Movil, Deutsche Telekom, BT Group, Orange, Telecom Italia, Telenor, TeliaSonera, Swisscom, Koninklijke KPN, TIM Brasil, Proximus, Millicom, Liberty Global.

<sup>2</sup>In addition, in order for the incentive to be paid, a minimum level of emission reductions must be achieved.

Each of these metrics is explained below:

### Relative TSR (50%)

**Definition:** Share profitability taking into account the sum of the cumulative variation of Telefónica's share value, plus the dividends and other similar items received by shareholders during the cycle in question.

**Determining the level of achievement:** The evolution of TSR from Telefónica's shares is measured from the beginning of the cycle (2022) until the end of such cycle (2024), in relation to the TSR from other companies pertaining to the telecommunication sector, weighted depending on their relevance to Telefónica S.A. that, for the purpose of the Plan, will be used as the comparison group. The companies included in the comparison group are the following: Vodafone Group, America Movil, Deutsche Telekom, BT Group, Orange, Telecom Italia, Telenor, TeliaSonera, Swisscom, Koninklijke KPN, TIM Brasil, Proximus, Millicom y Liberty Global.

**Performance Scale:** The number of shares to be delivered associated with the achievement of this target will be between 15% of the number of theoretical shares granted, in the case the evolution of the TSR of Telefónica S.A.'s shares is, at least, the median of the Comparison Group (below this threshold no incentive will be payable) and 50% if the evolution is in the third or higher quartile of the comparison group. The percentage by linear

interpolation is calculated for those that are between the median and the third quartile.

## Free Cash Flow (40%)

**Definition:** Free cash flow generation (FCF).

**Determining the level of achievement:** The level of FCF generated by the Telefónica Group is measured during each year, in comparison with the value set in the budgets approved by the Board of Directors for each year, considering the final level of achievement of FCF, the average of the annual partial results obtained and approved by the Nominating, Compensation and Corporate Governance Committee.

**Performance Scale:** For each cycle, the Board of Directors, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee, determines a performance scale that includes a minimum threshold of 90% achievement, below which no incentive is paid and the achievement of which implies 20% of the theoretical shares assigned being provided, and a maximum level of 100% achievement, which implies 40% of the theoretical shares granted being settled.

## Neutralisation of CO<sub>2</sub> Emissions (10%)

**Definition:** Neutralisation of the Telefónica Group's CO<sub>2</sub> emissions level by 31 December 2024, with the additional requirement for the incentive to be paid being to achieve a minimum level of scope 1 + 2 emissions reduction, in line with the 1.5 °C scenario of the Paris Agreement (SBTi) and with the Company's target of net zero emissions by 2025 in its main markets for scopes 1 + 2.

Emissions neutralisation refers to the purchase of carbon credits to absorb CO<sub>2</sub> from the atmosphere. To become a net zero company, CO<sub>2</sub> emissions must be reduced (scopes 1+2) in line with the 1.5 °C scenario and all remaining emissions, i.e. those that could not be avoided, must be neutralised.

Carbon credits involve the purchase of CO<sub>2</sub> certificates on the voluntary market. These credits are generated from projects that absorb CO<sub>2</sub> from the atmosphere, which must be certified to international standards of the highest quality and where possible have social benefits associated with them. This is verified on an annual basis by an external auditor.

Scope 1 and 2 emissions consist of direct and indirect CO<sub>2</sub> emissions from daily activity caused by fuel consumption, leakage of refrigerant gases and electricity use.

**Determining the level of achievement:** Net emissions are calculated as the difference between Scope 1+2 emissions and the purchase of carbon credits.

The level of direct and indirect CO<sub>2</sub> emissions from Telefónica's daily activity is calculated in accordance with the following formulation:

$$\text{CO}_2 \text{ emission} = \text{Activity} \times \text{Emission Factor}$$

Where:

- Activity: The amount of energy, fuel, gas, etc. consumed by the company.
- Emission Factor: The amount of CO<sub>2</sub> emitted into the atmosphere by the consumption of each activity unit.

For electricity, the emission factor provided by official sources (European Union, Ministries, CNMC, etc.) is used and for fuels the GHG Protocol emission factors are used.

**Performance Scale:** At the beginning of each cycle, the Board of Directors, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee, determines a performance scale that includes a minimum threshold of 90% achievement, below which no incentive is paid and the achievement of which implies 5% of the theoretical shares granted being settled, and a maximum level of 100% achievement, which implies 10% of the theoretical shares assigned being provided. In addition, achieving a minimum level of emission reductions of Scope 1 + 2, in line with the 1.5°C scenario of the Paris Agreement (SBTi), will be necessary for the incentive to be paid.

### Operation of the second cycle of the Long-Term Incentive Plan 2021-2026:

The Nominating, Compensation and Corporate Governance Committee conducts an assessment of the targets on an annual basis and, once each cycle has ended, the level of achievement is determined. When conducting this assessment, the Nominating, Compensation and Corporate Governance Committee is supported by the Audit and Supervisory Committee, which provides information on the results audited by the external auditor and the Company's internal auditor, which will have been analysed first by the Audit and Supervisory Committee itself. The Committee also takes into consideration any associated risk for both setting the targets and assessing their achievement.

When determining the achievement level, any positive or negative economic effects caused by extraordinary events that may distort the findings of the assessment are disregarded and the long-term quality of the results are considered in the proposed Long-Term Variable Remuneration.

In order for each of the members to be entitled to receive the corresponding shares, they must have held an employment or commercial relationship with the Telefónica Group on the date the shares of each cycle are provided (subject to the exceptions considered appropriate) and they must have been associated with the Telefónica Group for at least one year.

The Members will not receive the shares to which they may be entitled until the Nominating, Compensation and Corporate Governance Committee and the Audit and Supervisory Committee have carried out the actions described above.

In any case, 100% of the shares settled within the scope of the Plan to the Executive Directors are subject to a retention period of two years. In addition, as stipulated in Remuneration Policy the Executive Directors must hold (directly or indirectly) a number of shares (including those provided as remuneration) equivalent to two years' gross fixed remuneration as long as they are members on the Board of Directors and perform executive duties.

Until this requirement is met, the retention period for any shares given to Executive Directors under the Plan, if any, of three years.

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.

#### Incentives assigned to the Long-Term Variable Remuneration in force in 2022:

As mentioned above, the cycles in force in 2022 related to the long-term incentive plans are as follows:

Performance Period	Year shares are delivered	Number of granted shares (Value of shares assigned as percentage of Fixed Remuneration)		
		Executive Chairman	Chief Operating Officer	
<b>Long-Term Incentive Plan 2018-2023</b>				
<b>Third Cycle<sup>1</sup> (50% reduction)</b>	2020-2022	2023	267,000 (92.5%) <sup>1</sup>	198,000 (82.5%) <sup>1</sup>
<b>Long-Term Incentive Plan 2021-2026</b>				
<b>First Cycle<sup>2</sup></b>	2021-2023	2024	1,094,000 (200)%	819,000 (180)%
<b>Second Cycle<sup>2</sup></b>	2022-2024	2025	995,000 (200)%	745,000 (180)%

#### <sup>1</sup>Long-Term Incentive Plan 2018-2023:

- Third cycle 2020-2023: In 2020, as a gesture of responsibility towards the company, customers, shareholders and employees of Telefónica due to the economic impact caused by COVID-19, it was decided that the grant value in this cycle would be 50% lower than in previous cycles.

Therefore, the maximum number of shares represented, according to their grant value, 92.5% of the Fixed Remuneration for the Executive Chairman (267,000 shares) and 82.5% for the Chief Operating Officer (198,000 shares).

#### <sup>2</sup>Long-Term Incentive Plan 2021-2026:

The value of the maximum shares granted in the first and second cycle of the Plan is lower than the upper limit set in the Remuneration Policy (250% of the Fixed

Remuneration) and in the resolution of the General Shareholders' Meeting of 23 April 2021.

- First cycle 2021-2024: The maximum number of shares represented, according to their grant value, 200% of the Fixed Remuneration for the Executive Chairman (1,093,664 shares) and 180% for the Chief Operating Officer (818,926 shares). In case of over-achievement of targets, no additional shares will be awarded. The number of shares stated above is the maximum number of shares that Executive Directors may receive if they meet or exceed 100% of the targets.

As mentioned above, this maximum number of shares is significantly lower than the upper limit approved by the General Shareholders' Meeting in 2021 (1,367,081 shares for the Executive Chairman and 1,137,398 shares for the Chief Operating Officer).

- Second cycle 2022-2025: The grant value of the first cycle (200% of the Fixed Remuneration for the Executive Chairman and 180% for the Chief Operating Officer) has been maintained, with a maximum number of 995,000 shares granted to the Executive Chairman and 745,000 shares granted to the Chief Operating Officer. In case of over-achievement of targets, no additional shares will be awarded. In this regard, the number of shares indicated above is the maximum number of shares that Executive Directors may receive in the event of meeting or exceeding 100% of the targets.

The number of shares to be settled at the end of each cycle of the Plan will depend on the maximum number of assigned shares and the level at which the targets of the Plan are achieved.

#### Impact of a change in control on Long-Term Variable Remuneration:

In the event of a change in control in Telefónica, the cycles in progress in 2022 will be subject to early settlement on a pro rata basis, delivering to the Members, where appropriate, the shares, or the equivalent amount in cash, taking into account for such purpose the Closing Price of the last stock exchange session of the month immediately prior to the date on which the Change of Control occurs.

The incentive to be paid is pro-rated for the time elapsed since the start date of the relevant cycle, and adjusted according to the achievement of targets on the date of the change of control.

## D. PENSION PLAN FOR TELEFÓNICA'S EMPLOYEES

### Contributions

The Pension Plan for the Executive Directors is in accordance with the same 2021 scheme and is aligned with the Pension Plan for Telefónica's employees regarding its terms and conditions and the following contribution percentages:

- The Executive Chairman: 6.87% of his base salary, plus 2.2% as a mandatory contribution to be made by the

Executive Chairman up to the maximum annual limit that the law stipulates from time to time.

- Chief Operating Officer: 4.51% of his base salary, plus 2.2% as a mandatory contribution to be made by the Chief Operating Officer up to the maximum annual limit that the law stipulates from time to time.

#### Functioning:

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.

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.

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.

The Pension Plan is included within the "Fonditel B Fondo de Pensiones," managed by Fonditel Pensiones, EGFP, S.A.

In the financial years 2015 and 2021 the applicable law in this area lowered 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.

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.

#### E. REMUNERATION IN KIND

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.

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.

#### F. EXECUTIVE PENSION PLAN

##### 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.

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 the directors' remuneration.

Even though there are no changes planned for the functioning of this Plan, it may be updated by the Board of Directors according to a proposal made by the Nominating, Compensation and Corporate Governance Committee to adapt it to amendments made to applicable legislation.

## Malus and clawback clauses for the variable remuneration

Regarding clawback formulae or clauses in order to claim the return of the variable remuneration components based on the results, the following should be taken into account if such components have been paid based on data that is later clearly shown to be inaccurate, and in order to adopt measures to avoid any conflict of interest:

- The Nominating, Compensation and Corporate Governance Committee is authorised to propose cancellation of payment of the variable remuneration to the Board of Directors under circumstances of this kind.
- Furthermore, the Nominating, Compensation and Corporate Governance Committee must assess whether exceptional circumstances of this kind could even lead to termination of the relationship with the respective party or parties responsible, proposing to the Board of Directors that such measures should be adopted as may be appropriate.

In addition, in 2018, the company included malus and clawback clauses in the Long-Term Incentive Plan 2018-2023, approved by the General Shareholders' Meeting held in 2018. According to these clauses, in the years 2022 and 2023, each time shares are provided, it must be assessed whether or not to partially or fully confirm or cancel the relevant settlement in each financial year and, if need be, to claim partial or full return of the shares already provided (or reimbursement of their value in cash) if the number of shares delivered was not in accordance with the terms and conditions stipulated by the Board of Directors or when they had been provided bearing in mind data that have later been proven to be inaccurate.

Moreover, in 2024, when drawing up the annual accounts for the previous financial year, it will be assessed whether or not the return of the shares previously provided should be partially or fully claimed (or reimbursement of their value in cash) if the aforementioned situations have arisen. Moreover, the company may partially or fully cancel payment of the Plan to the Executive Directors if the company's external auditor includes exceptions in its report that reduce the results taken into consideration to determine the number of shares to be provided.

The Remuneration Policy approved by the 2021 Annual General Meeting, which standardised the malus and clawback clauses for all variable remuneration, stipulates that 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 the Executive Officer has been sanctioned for a serious breach of the code of conduct and other internal regulations or serious breach 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.

## Possible 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 (4) annual payments. Each annual payment consists of the last fixed remuneration and the arithmetic mean of the sum of the last two (2) amounts of annual variable remuneration paid pursuant to the contracts.

## 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 and have not suffered any significant modifications in 2021.

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

- Term: Indefinite
- Notice period: There is an obligation to provide prior notice in the event of the contract being terminated due to a unilateral decision adopted by the Executive Director, 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 notice period 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.  
  
On the other hand, it states that the relationship is incompatible, during the term of the clause (two (2) years after the termination of the contract for any reason) with directly or indirectly rendering services, as an employee or self-employed, by themselves or through third parties, to any Spanish or foreign companies that engage in activities identical or similar to those of Telefónica.
- Non-disclosure: While the relationship remains in force and also after the termination thereof, there is a non-disclosure duty regarding any information, data and any kinds of reserved and confidential documents that they have knowledge of or to which they have had access as a result of performing their duties.
- Compliance with the regulatory system: The contracts include the obligation to abide by the rules and obligations set out within Telefónica's regulatory system, which are contained, among other regulations, in the Board of Directors' Regulations and Telefónica's Internal Stock Market Conduct Regulations.

### Shareholding commitment

As stipulated in section 3.8 of the current Remuneration Policy, the Executive Directors must hold (directly or indirectly) a number of shares (including those provided as remuneration) equivalent to two (2) years' 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.

	Shareholding Requirement
Executive Chairman	200% Gross Fixed Remuneration
Chief Operating Officer	200% Gross Fixed Remuneration

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

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

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

Although this requirement came into force on 1 January 2019, the Executive Directors are allowed until 31 December 2023 to comply with it

As of 31 December 2021, the Executive Chairman of the Company, Mr José María Álvarez-Pallete López, held 1,976,343 shares in Telefónica, S.A.

The Chief Operating Officer (COO), Mr. Ángel Vilá Boix, held 508,112 Telefónica shares.

The price at which the Executive Directors acquired their shares represents an amount that far exceeds twice their Fixed Remuneration.

### 5.1.5. The Directors' remuneration in their positions as such in 2022

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.

Regarding the financial year 2022, according to the market information available, the Committee has proposed to the Board not to increase the Directors' fixed remuneration, both in their positions as such and for performing their executive duties. This remuneration has remained the same since 2012.

	Board of Directors	Executive Committee	Advisory or Supervisory Committee (*)
<b>Chairman (**)</b>	€240,000	€80,000	€22,400
<b>Vicepresident</b>	€200,000	€80,000	-
<b>Proprietary Member</b>	€120,000	€80,000	€11,200
<b>Independent Member</b>	€120,000	€80,000	€11,200
<b>Other External Member</b>	€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.

(\*\*) In this regard, the Executive Chairman has waived payment of the aforementioned amounts (i.e. €240,000 as Chairman of the Board of Directors and €80,000 as Chairman of the Executive Committee), as he has done in previous years.

The Executive Directors can waive payment of the aforementioned amounts.

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.

## 5.1.6. Application of the Remuneration Policy in 2021

### Summary of the Remuneration Policy applied in 2021 and the results of the ballot on the Annual Report on Remuneration of the Directors for 2020

The remuneration payable in the financial year 2021 was in line with the terms of the Remuneration Policy approved on a binding basis at the General Shareholders' Meeting held on 23 April 2021, pursuant to the provisions in the Transitional Provision of Article 529 Novodecies of the Spanish Corporate Enterprises Act.

For further details, you may consult the current Remuneration Policy by clicking on the following link: <https://www.telefonica.com/en/wp-content/uploads/sites/5/2021/10/remunerations-policy-directors-telefonica.pdf>

There have been no deviations from the procedure for the application of the remuneration policy, nor have any temporary exceptions been applied.

In this respect, the remuneration payable in 2021 to the Executive Directors and the Directors in their positions as such consists of the same components as those described for the current Remuneration Policy in force in 2022.

In addition, the two Executive Directors have accrued an extraordinary remuneration package in 2021. This remuneration was approved by the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, following the extraordinary efforts made by the Directors in two corporate transactions of particular significance, namely the transaction between O2 and Virgin Media and the sale of Telxius' telecommunications towers division. The Remuneration Policy approved at the General Shareholders' Meeting in 2021 included, in section 03.5, the possibility to grant such remuneration.

The detailed description of the Directors' remunerative system for 2021 was included in section 4.6.5 of the Annual Report on the Directors' Remuneration for 2020. This report was approved by 88.84% of the votes cast, with a 7.59% of votes against and a 3.57% abstentions. Therefore, taking into account the high level of approval of this Report, the Company has considered it appropriate to draw up the Annual Report on Directors' Remuneration for the financial year 2021 in similar terms, incorporating the new features introduced in Circular 3/2021 of 28 September of the CNMV.

## The Executive Directors' remuneration structure

The pay mix for Telefónica's Executive Directors in the last three years is shown below:



<sup>1</sup>In 2021, the Executive Chairman and the Chief Operating Officer, as a gesture of their commitment to responsibility in the wake of COVID-19, informed the Nomination, Remuneration and Corporate Governance Committee that they considered it appropriate to propose their waiver of the share incentive corresponding to them from the first cycle (2018-2020) of the Long-Term Incentive Plan 2018-2023. The value of the incentive waived by the Executive Directors (€683,000 for the Executive Chairman and €506,000 for the Chief Operating Officer) is included in the graph for information purposes.

<sup>2</sup>In order to determine the incentive value of the second cycle (2019-2021) of the 2018-2023 Long-Term Incentive Plan, the number of accrued shares by each Executive Director has been multiplied by the Telefónica's share price as at 31 december 2021.

The table above does not include the amounts accrued in 2021 as Extraordinary Variable Remuneration, which amounted to one times the Fixed Remuneration for each Executive Director (see section 5.1.6.D).

## The Executive Directors' remuneration in 2021

### A. FIXED REMUNERATION

The Executive Chairman: €1,923,100.

In case of the Executive Chairman, the amount of his Fixed Remuneration in 2021 was the same as that paid since 2013, which was determined in his position as Chief Operating Officer, which remained the same after his appointment as Chairman in 2016.

The Chief Operating Officer: €1,600,000.

This remuneration is the same as the amount paid when Mr. Vilá was appointed as the company's Chief Operating Officer on 26 July 2017.

### B. SHORT-TERM VARIABLE REMUNERATION

The Executive Chairman: €3,807,738.

Calculated as the fixed remuneration (€1,923,100) multiplied by the Target Amount (180%) multiplied by the Overall Target Achievement Level (110%).

The Chief Operating Officer: €2,640,000

Calculated as the fixed remuneration (€1,600,000) multiplied by the Target Amount (150%) multiplied by the Overall Target Achievement Level (110%).

For the financial year 2021, the Board of Directors approved, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee, the quantifiable and measurable metrics that best reflected the levers for creating value for the Telefónica Group with the aim of guaranteeing fulfilment of its Strategic Plan. These metrics and their relative weightings are the following:

(see next page)

METRIC	DEFINITION AND MEASURING METHOD	WEIGHTING
<b>FINANCIAL OBJECTIVES</b>		<b>80%</b>
<b>OIBDA</b>	This is the Operative Income Before Depreciations and Amortizations. The Operating Result includes the Operative Income minus all costs (direct, commercial, customer management, network, systems, support and employees, among others).	<b>30%</b>
<b>OPERATING REVENUE</b>	This corresponds to service revenues, revenues generated from the company's core business, revenues for terminal sales and other Operating Revenue.	<b>30%</b>
<b>FREE CASH FLOW</b>	This means the amount of funds generated from transactions throughout the year and it is calculated as funds collected from customers minus the payments required to carry out transactions and investment in assets, therefore including payments to suppliers, employees, as well as spectrum, fees, taxes and interest on debt.	<b>20%</b>
<b>NON-FINANCIAL AND ESG OBJECTIVES</b>		<b>20%</b>
<b>CUSTOMER TRUST</b> (NPS / GAP NPS)	NPS and GAP NPS are the metrics used to measure our customers' experience. It calculates their willingness to recommend our products and services; as well as the difference in the value obtained compared with our main competitor in the same survey.  It is built through the answer to the following question: How likely are you to recommend the services of Movistar/O2/Vivo to a family member, friend or colleague? (On a scale of 1 to 10, 1 means, I would not recommend; and 10 means I would recommend it). Ratings between 9 and 10 are considered promoters, and between 1 and 6 are considered detractors.  NPS = % Promoters - % Detractors	<b>11%</b>
<b>SOCIETY TRUST</b> (REP Trak @)	RepTrak® Pulse is the metric used to measure the reputation (society's perception for Telefónica). It measures the emotional appeal of our brands according to 4 fundamental elements: admiration and respect, esteem, confidence and good impression.	<b>3%</b>
<b>CLIMATE CHANGE</b> (greenhouse gas emissions)	Greenhouse gas (GHG) emissions is the metric used to measure our environmental impact. It is measured through direct and indirect CO2 emissions from our daily activity due to fuel consumption, refrigerant gas leaks and electricity use.  CO2 emission = Activity x Emission Factor - Activity data: Amount of energy, fuel, gas, etc. consumed by the Company - Emission Factor: Amount of CO2 emitted to the atmosphere by the consumption of each activity unit.  For electricity, the emission factor provided by the supplier of this electricity is used and for fuels, the emission factors of the GHG Protocol are used. The electricity emission factor is considered a constant, in order to avoid external influences.	<b>5%</b>
<b>GENDER EQUALITY</b> (% of Women in executive positions)	The percentage of women among the managers in the Telefónica Group is the metric used to measure the objective related to Gender Equality. It is measured on the total of the Telefónica Group Managers in the workforce at the end of December. The managers group is defined according to the criteria and processes determined by the People area at a corporate level. Prior to the validation by the Nominating, Compensation and Good Governance Committee, there is a Transparency and Diversity Committee, made up of the Chairman and four members of the Executive Committee, which validates, on a monthly basis, the proposals for appointments from this group to ensure compliance with the measures and policies established in the area of transparency and gender equality.	<b>1%</b>

Throughout the year, the Nominating, Compensation and Corporate Governance Committee monitored such objectives set for the Short-Term Variable Remuneration in 2021, payable in 2022.

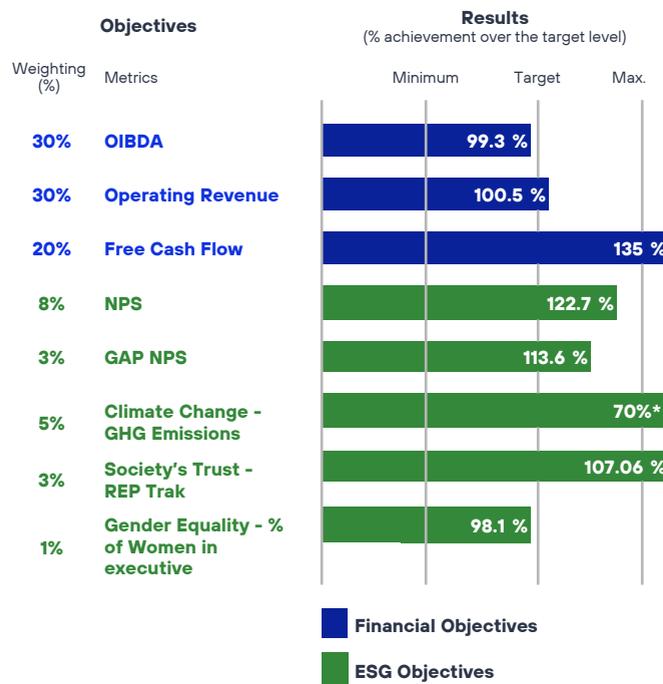
The aforementioned objectives were finally assessed based on the audited accounts for the financial year 2021, according to the following process:

1. The results for the financial year 2021 and the level of achievement of the targets were firstly examined by the Audit and Supervisory Committee, based on the results audited by PRICEWATERHOUSECOOPERS AUDITORES, S.L.

After this examination, the Nominating, Compensation and Corporate Governance Committee determined a proposal for the Short-Term Variable Remuneration that was

submitted to the Board of Directors. The Committee also considered the quality of the long-term results and any associated risk in the proposal for variable remuneration.

2. Lastly, the Board of Directors approved the proposal for the Short-term Variable Remuneration submitted by the Nominating, Compensation and Corporate Governance Committee. As a result of the foregoing, and according to that stipulated in recommendation 59 of the Good Governance Code, the Board agreed that the amount to be received by the Executive Directors during the first quarter of 2021, as detailed in the following table and based on the following level of achievement of the targets, would be as follows:



\*The performance scale associated to Climate Change - GHG Emissions metric is inverse, so that achievements levels below 100% (GHG emissions below the target level) are positive and results in payout levels over 100%.

The overall achievement level of the targets corresponds to 110% of the weighted payment coefficient that corresponds to €3,807,738 for the Executive Chairman and €2,640,000 for the Chief Operating Officer. The Short-Term Variable Remuneration target was 180% of the Annual Fixed Remuneration for the Executive Chairman and 150% of the Annual Fixed Remuneration for the Chief Operating Officer.

### C. THE LONG-TERM INCENTIVE PLAN 2018-2023

#### Long-Term Incentive Plan 2018-2023. Accrual of the First Cycle 2018-2021

As explained in section 5.14.C above, the General Shareholders' Meeting held in 2018 approved a Long-Term Incentive Plan consisting of providing Telefónica, S.A.'s shares, aimed at Executives of Telefónica that, meeting the requirements stipulated for such purpose from time to time, are invited to participate therein, including the Executive Directors de Telefónica.

The performance period ended on 31 December 2021 for the objectives of the second cycle of the 2018-2023 Plan. The theoretical number of shares granted, corresponding to the Executive Directors, if 100% of the TSR and Free Cash Flow targets are achieved, was as follows:

- The Executive Chairman: 468,000 shares.
- The Chief Operating Officer: 347,000 shares.

In order to determine the specific number of shares to be delivered at the end of the aforementioned cycle, the Nominating, Compensation and Corporate Governance

Committee analysed the level of achievement of each of the two objectives.

Metrics	Weighting (%)	Company Results	Incentive Accrued
Relative TSR*	50%	75th percentile or above	100%
		Median	30%
		Below median	—%
Free Cash Flow	50%	100% of achievement	100%
		90% of achievement	50%
		Below 90% of achievement	—%

\* Peer group: America Movil, BT Group, Deutsche Telekom, Orange, Telecom Italia, Vodafone Group, Proximus, Koninklijke KPN, Millicom, Swisscom, Telenor, TeliaSonera and Tim Brasil.

Regarding the Relative TSR, the weighting of which is 50%, Kepler provided the Nominating, Compensation and Corporate Governance Committee with the calculation of Telefónica's Relative TSR since the beginning of the cycle (2019) until its end (2021), related to the TSR obtained by certain companies belonging to the telecommunications sector, weighted according to their relevance for Telefónica which are included in the comparison group for the purpose of the Plan.

Telefónica's TSR ended up being below the median according to the achievement scale used. Therefore, no right whatsoever was generated to receive shares linked to achieving the Relative TSR target.

Regarding the Free Cash Flow, the weighting of which is the remaining 50%, the Planning and Supervision Department drew up a report related to the Free Cash Flow generated by the Telefónica Group in each year in the target measurement period (2019, 2020 and 2021), based on the results audited by the company's internal and external auditors, comparing it with the value set in the budgets approved by the Board of Directors for each financial year.

The final achievement was considered as the average of the partial annual results obtained and approved by the Nominating, Compensation and Corporate Governance Committee.

The Nominating, Compensation and Corporate Governance Committee has been conducting annual monitoring of the Free Cash Flow and the level of achievement is determined once the report issued by the Planning and Supervision Department has been analysed. When conducting this assessment, the Nominating, Compensation and Corporate Governance Committee was supported by the Audit and Supervisory Committee,

which provides information about the results audited by the Company's external auditor.

Considering all the foregoing, the payment coefficient linked to the Free Cash Flow was 100%:

Financial Year	% achievement	% payout
2021	135%	100%
2020	113%	100%
2019	101%	100%
<b>% Incentive linked to Free Cash Flow</b>		<b>100%</b>

Bearing in mind the results of the Relative TSR and the Free Cash Flow, the weighted payment coefficient amounted to 50%. (234,000 shares for the Executive Chairman and 173,500 shares for the Chief Operating Officer). The value of these shares at 31 December 2021 was roughly 25% of the value of the maximum incentive initially granted in 2019.

#### D. EXTRAORDINARY VARIABLE REMUNERATION

Section 03.5 of the Remuneration Policy stipulates that the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, is authorised to approve the granting of extraordinary remuneration to Executive Directors and other Senior Executives of the Company as a reward for their efforts and special dedication in relation to the achievement of certain strategic milestones and the execution of certain corporate transactions of particular relevance. The criteria taken into account 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 creates a significant economic profit or equity increase that enhances Telefónica's long-term sustainability and growth.
- Extraordinary business performance leading to the achievement of strategic milestones.

In this respect, a series of corporate transactions took place in financial year 2021 which, in the opinion of the Board of Directors, upon proposal of the Nominating, Compensation and Corporate Governance Committee, meet the aforementioned criteria of the Remuneration Policy, and which are analysed below:

#### Development of the Joint Venture between O2 and Virgin Media

The transaction between O2 and Virgin Media was without doubt one of the most significant transactions in the history of the Telefónica Group for the following reasons:

After reaching an agreement with Liberty Global on 7 May 2020 to merge the respective UK businesses into a 50/50 joint venture (JV), the transaction was finalised on 1 June

2021, following regulatory approvals, the necessary recapitalisations and the fulfilment of the remaining conditions to close the transaction.

The formation of this JV has brought significant value to Telefónica for the following reasons (inter alia):

- From a business standpoint, this transaction is fully aligned with Telefónica's strategy to improve its positioning in its core markets, and allows it to strengthen its presence and continuity in this market through the formation of the leading integrated service provider offering a convergent value proposition to the customer.
- In addition, the new JV will be able to drive value through the capture of substantial synergies estimated at around £6.25 billion in net present value terms, of which around 80% are related to cost and CapEx savings.
- £5.4 billion in cash was received, of which £2.6 billion was Liberty Global's cash payment to Telefónica as compensation for the JV stake and £2.8 billion was gross proceeds from the recapitalisations. The transaction contributed to reducing Telefónica's net debt by €4.9 billion (this represented a 14% reduction in the Group's debt).
- This transaction has significantly strengthened the Company's equity. The capital gains from this transaction increased Telefónica's equity (equity attributable to Telefónica, S.A., excluding minority interests) by 61%.

Regarding the extraordinary effort made by the Executive Directors, it is important to recall the difficulties surrounding this transaction. The bulk of the negotiations with the counterparty were conducted remotely, in the midst of the COVID-19 lockdown between March and May 2020, with this transaction being one of the first major global M&A deals announced during the onset of the pandemic. The Telefónica teams involved in the negotiations, led by the Executive Chairman and Chief Operating Officer, worked in record time given the size of the transaction to reach highly complex agreements with the maximum levels of confidentiality to prevent Telefónica's other competitors from trying to interfere in the process. Specifically, both the Executive Chairman and the Chief Operating Officer played a key role in the success of these operations. The Executive Chairman architected and implemented a strategic relationship with Liberty Global, taking personal ownership of negotiations on key issues so that negotiations were not deadlocked at certain points in time. The Chief Operating Officer managed and coordinated the Telefónica teams that had to close deals on a daily basis.

#### Telxius' Telecommunications Towers Division Sale

The sale of Telxius' Telecommunications Towers Division on 13 January 2021 was another very significant transaction for the Telefónica Group, with the following highlights:

- The transaction price was an industry record valuation of €7,865 million. This represents an FV/EBITDA multiple of 30.5x well above recent comparable transactions (average FV/EBITDA < 21.0x in 2020).
- A 33% increase in Telefónica's equity (equity attributable to Telefónica, S.A., excluding minority interests) and a €4.7 billion reduction in the Telefónica Group's debt (this represented a 13% reduction in the Group's debt).
- The favourable terms of the industrial agreements allow for future use of the infrastructures, maintaining optionality and flexibility for future renewal (no all or nothing renewal clauses), as well as rates for future use of these infrastructures below European market standards (as noted by credit rating agencies).
- Diversification of telecommunications tower infrastructure providers in two of the key markets, Spain and Germany.
- A commitment to keep the entire workforce employed for two years in the European subsidiaries and one year in the Latin American subsidiaries.
- A transaction agreement with a liability system limited to fundamental guarantees other basic representations and tax matters.
- This transaction was carried out in a highly confidential, competitive and expedited manner. The process was carried out in record time, in just two months from November 2020 to the signing of the agreements on 13 January 2021. This required the direct and ongoing involvement of the Executive Directors.

### **Favourable development of Telefónica's share price and excellent financial results**

Telefónica posted its best year on the stock market since 2009 with a share price increase of almost 18.7% and a Total Shareholder Return (TSR) of 29.6%. The Company's total increase in 2021 has outperformed the Ibex 35 (7.9%) and its TSR (10.5%). It has also outperformed the share price rise of 11.8% and the RTA (16.5%) of the European telecommunications sector in 2021.

### **Amount paid for Extraordinary Variable Remuneration**

At the proposal of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors approved the award of an extraordinary variable remuneration to the company's Executive Chairman and Chief Operating Officer, whose efforts and dedication have been crucial to the development of the business and the success of corporate transactions. The incentive amounted to one year's Fixed Remuneration. This amount is within the limits established in the Remuneration Policy, both in absolute terms and in relation to the maximum amount of total remuneration to be allocated to Executive Directors.

In any case, the extraordinary variable remuneration is subject to the malus and clawback clauses set under the Remuneration Policy.

### **E. PENSION PLAN FOR TELEFÓNICA'S EMPLOYEES**

The contributions made in 2021 to the "Fonditel B, Fondo de Pensiones" Pension Plan:

- The Executive Chairman: € 8,000
- The Chief Operating Officer: € 8,000

The contributions made in 2021 to the unit link insurance policy, related to the Pension Plan, taken out with the company Plus Ultra, Seguros Generales y Vida, S.A. de Seguros y Reaseguros (after merger by take-over of Seguros de Vida y Pensiones Antares, S.A. by Plus Ultra on 31 December 2020), were as follows:

- The Executive Chairman: €124,117.
- The Chief Operating Officer: €64,160.

The Pension Plan for the Executive Directors follows the same scheme and is aligned with the Pension Plan for Telefónica's employees regarding its terms and conditions and the contribution percentages.

	Contribution (% regulatory salary)	Fonditel Pension Plan	+	Unit-Link insurance policy	Total
<b>Executive Chairman</b>	6.87%	€8,000	+	€124,117	<b>€132,117</b>
<b>Chief Operating Officer</b>	4.51%	€8,000	+	€64,160	<b>€72,160</b>

The contribution percentages are aligned with Telefónica's employee pension plan.

The amount of the vested rights on 31 December 2021 was as follows:

- Mr. José María Álvarez-Pallete López: €345,791 (of which the amount of €178,015 corresponds to the rights generated by the Pension Plan of Telefónica Internacional and the rest Telefónica's Pension Plan).
- Mr. Ángel Vilá Boix: €369,190 (of which the amount of €23,950 corresponds to the rights generated by the Pension Plan of Telefónica España and the rest Telefónica's Pension Plan).

The mathematical provision of the unit-link insurance policy on 31 December 2020 was as follows:

- Mr. José María Álvarez- Pallete López: €965,289.
- Mr. Ángel Vilá Boix: €457,058.

It is recorded that the development of the accumulated funds is related to both the contributions and their revaluation.

Additional information can be found about the features of the Pension Plan for employees in section 5.1.4.D of this report.

## F. REMUNERATION IN KIND

In this respect, the Executive Directors receive the following benefits:

- An insurance policy for general health and dental coverage.
- A life insurance policy with coverage for death and disability.

The cost of this remuneration in kind amounted to €36,869 in 2021 for the Executive Chairman and €30,200 for the Chief Operating Officer. Additionally, in the statistic annex shows the remuneration in kind corresponding to the vehicle in use (€14,597).

Moreover, in July 2021, the Global Incentive Telefónica, S.A. Stock Option Plan for Employees of the Telefónica Group (hereinafter referred to as the "Global Plan"), approved at the 2018 General Shareholders' Meeting, came to an end. As an example of their commitment to the Company and in order to provide an incentive to other employees to take part in the Global Plan, the Executive Directors contributed the maximum allowed according to the applicable Plan of €1,800.

Regarding this Plan, each Executive Director has received 167 additional shares (equivalent to one additional share for each two shares acquired) as they have met the holding and retention condition (one year after the end of the purchase period, i.e. until 31 July 2021).

In addition, the Executive Directors are provided with a company vehicle, in line with the general policy applicable to the Company's Senior Executives.

Telefónica has also taken out a third party liability policy (D&O) for directors, executives and other staff with similar duties in the Telefónica Group, with the customary terms and conditions for this type of insurance.

## G. EXECUTIVE BENEFITS PLAN

As explained in section 5.1.4.F above, there is currently no vesting of economic rights in favour of the Executive Directors. In the case of legislative amendments on this matter, according to a proposal made by the Nominating, Compensation and Corporate Governance Committee, the Board of Directors could make the appropriate adjustments.

In addition, if any severance pay is received due to the termination of the employment relationship, this will be incompatible with the being granted any economic right whatsoever linked to this Plan.

The contributions in 2021 to the benefits plan were as follows:

- The Executive Chairman: €540,968.
- The Chief Operating Officer: €487,840.

The expected rights on 31 December 2020 were as follows:

- Mr. José María Álvarez-Pallete López: €10,635,925.
- Mr. Ángel Vilá Boix: €8,198,143.

### Further information:

- Malus and clawback clauses: These clauses were not applicable in the financial year 2021.
- During the financial year 2021, the Executive Directors did not receive nor accrue any payment for early termination or termination of their contracts, or advances, loans or guarantees, remuneration from other companies in the Group or payments made by Telefónica to a third party to which the Directors provide services, or any other remuneration item apart from the ones already mentioned.
- The terms and conditions of the Executive Directors' contracts in 2021 were the same as those described in section 5.1.6 of this report.

## Remuneration of the directors in their positions as such

The remuneration payable to the Directors in their positions as such is according to the same scheme as the

one described in section 5.1.5 of this report and the one applied in previous financial years.

In this respect, as explained in section 4.6.5 of the Annual Directors' Remuneration Report for 2020, in the year 2021 the Executive Chairman waived payment of €240,000 as Chairman of the Board of Directors, and €80,000 as Chairman of the Executive Committee.

External Directors also receive the remuneration to which they are entitled for belonging to certain Management Decision-Making Bodies of some Subsidiaries and affiliates of Telefónica.

According to the foregoing, the aggregate remuneration for the items in 2021 was as follows:

	2021	2020
Fixed amount due to being a member on the Board, Executive Commission and Advisory or Supervisory Committees	€2,841,100	€2,754,534
Fees for attending the meetings of the Advisory or Supervisory Committees	€260,000	€248,000
Remuneration for being a member on certain Management Decision-Making Bodies of some subsidiaries of Telefónica	€704,912	€547,645

During the financial year 2021, the Directors in their positions as such did not accrue payments for early termination or termination of their contracts, or advances, loans or guarantees, or payments made by Telefónica to a third party to which the Directors provide services, or any other remuneration item apart from the ones already mentioned.

The individual amounts per director are provided in the statistical annex attached to this Report.

### 5.1.7. The process for determining the Remuneration Policy and the Company's bodies involved

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 objectives.

In addition, other bodies and external advisors take part in the process of determining the Remuneration Policy.

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

	Determining and designing the remuneration elements	Applying the variable remuneration	Analysis of the external competitiveness of the remuneration
<b>General Shareholders' Meeting</b>	<p>It approves the Remuneration Policy at least every three years as a separate item on the agenda.</p> <p>It approves the maximum amount of the annual remuneration for all the Directors in their positions as such.</p> <p>It approves the variable remuneration systems for the Directors that include payment in shares or stock options or share-linked instruments.</p> <p>It has an advisory vote on the Annual Report about the Directors' Remuneration, detailing the remuneration accrued during the last financial year.</p>	<p>Advisory vote on the Annual Report on Remuneration of the Directors, in which the remuneration accrued during the financial year is disclosed.</p>	

	<b>Determining and designing the remuneration elements</b>	<b>Applying the variable remuneration</b>	<b>Analysis of the external competitiveness of the remuneration</b>
<b>Board of Directors</b>	<p>Directors in their positions as such: It approves the allocation of the maximum amount approved by the General Shareholders' Meeting among the various components.</p> <p>Executive Directors: It approves the fixed remuneration and the main terms and conditions of the short- and long-term variable remuneration system.</p> <p>The Board approves adaptations or updates to the Remuneration Policy.</p> <p>It approves the contracts that regulate the duties and responsibilities of the Executive Directors.</p> <p>It approves the Annual Report on Remuneration of the Directors to be submitted to the advisory vote at the General Shareholders' Meeting</p>	<p>It approves the design, target amounts, 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.</p> <p>It approves the Annual Report on Remuneration of the Directors to be submitted to the advisory vote of the General Shareholders' Meeting.</p> <p>It evaluates, if necessary, application of the malus and/or clawback clauses.</p>	<p>It is reported based on analysis and remuneration studies of the Directors' remuneration conducted by the Nominating, Compensation and Corporate Governance Committee.</p>
<b>Nominating, Compensation and Corporate Governance Committee</b>	<p>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.</p> <p>The Committee reviews the Directors' remuneration on a regular basis to ensure that it is appropriate for the duties they perform.</p> <p>Executive Directors:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>It proposes the contracts to the Board of Directors that regulate the duties and responsibilities of the Executive Directors.</li> <li>It proposes the Annual Report on Remuneration of the Directors and the Remuneration Policy, when appropriate, to the Board of Directors.</li> </ul> <p>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.</p>	<p>It proposes the targets at the beginning of each measurement period to the Board of Directors.</p> <p>It assesses achievement of the targets at the end of the measurement period.</p> <p>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.</p> <p>Submits a report to the Board, when appropriate, on whether or not application of the malus and/or clawback clauses is necessary.</p> <p>It proposes to the Board of Directors the variable remuneration payable to the Executive Directors. Such proposal also considers the long-term results and any associated risk in the proposed variable remuneration.</p> <p>It proposes Annual Report on Remuneration of the Directors and, when appropriate, the Remuneration Policy to the Board of Directors.</p>	<p>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.</p> <p>A reference market, selected based on a series of objective standards, is considered when conducting the external competitiveness analysis, according to the terms set out below:</p> <ol style="list-style-type: none"> <li>1. A sufficient number of companies are selected to obtain results that are representative and statistically reliable and sound.</li> <li>2. Data on size (revenues, assets, market capitalisation and number of employees) are considered so that Telefónica is positioned at the median of the comparison group.</li> <li>3. Geographic distribution: Mainly companies with their parent company located in Continental Europe and in the United Kingdom are included, as well as representative North American enterprises in the technology, media and entertainment sector or related to such sector that are benchmarks for the company.</li> <li>4. Geographic scope: Companies are included that operate at an international level.</li> </ol> <p>Distribution by sector: It is a multi-sector sample, with homogeneous distribution among the business sectors.</p>
<b>Audit and Supervisory Committee</b>		<p>It analyses the results audited by the external and internal auditor to evaluate achievement of the objectives for the variable remuneration.</p>	
<b>Planning and Control, Corporate Ethics and Sustainability Human Resources</b>		<p>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.</p>	
<b>Secretary General</b>	<p>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.</p> <p>Together with HR Management, he/she prepares the Annual Report on the Directors' Remuneration.</p>	<p>Together with HR Management, it prepares the Annual Report on Directors' Remuneration.</p>	

	<b>Determining and designing the remuneration elements</b>	<b>Applying the variable remuneration</b>	<b>Analysis of the external competitiveness of the remuneration</b>
<b>Human Resources</b>	<p>It prepares the proposals related to the design of the Remuneration Policy applicable to the Executive Directors.</p> <p>Together with the General Secretary, it prepares the Annual Report on Remuneration of the Directors.</p>	<p>Together with General Secretary, it prepares the Annual Report on Remuneration of the Directors..</p>	
<b>External Advisors in 2021</b>	<p>Willis Towers Watson provided advice on preparing the Annual Report on Remuneration of the Directors for 2021.</p> <p>The law firm Garrigues also took part in the review of the aforementioned report.</p>	<p>Mercer-Kepler analyses the level of achievement of the Total Shareholder Return (TSR) of Telefónica for each of lifecycles of the share plan on a quarterly basis.</p>	<p>Willis Towers Watson provides advice on the comparative analysis of the Directors' and the Senior Executives' remuneration package against the market.</p>

## 5.1.8. The work performed by the Nominating, Compensation and Corporate Governance Committee

Pursuant to Article 40 of the Articles of Association, Article 23 of the Board of Directors' Regulations and Article 1 of the Nominating, Compensation and Corporate Governance Committee's Regulations, the Committee must be composed of no fewer than three Directors appointed by the Board of Directors; they must be external or Non-Executive Directors and the majority of them must be independent Directors. The Independent Coordinating Director must be a member on the Committee. Lastly, it is also stated that the Chairperson of this Committee must be an independent Director in all cases. In this respect, the Committee is composed of the following directors:

Name	Position	Type	Date of Appointment
Mr. José Javier Echenique Landiribar	Chairman	Independent	4 May 2017 (as a Member) 18 December 2019 (the date he was appointed as Chairman)
Mr. Peter Erskine	Member	Other External Director	27 February 2008
Mr. Peter Löscher	Member	Independent	17 April 2020
Ms. María Luisa García Blanco	Member	Independent	18 December 2019
Mr. Francisco Javier de Paz Mancho	Member	Other External Director	8 April 2016

The Nominating, Compensation and Corporate Governance Committee applies the Technical Guide 1/2019 on Appointment and Remuneration Committees, approved by the National Securities Market Commission on 20 February 2019, as well as the CNMV's Good Governance Code for Listed Companies reviewed 20 June 2020.

During the financial year 2021 and up to the date this report was approved, the most significant activities carried out by the Nominating, Compensation and Corporate Governance Committee have been the following:

### Year 2021:

- Drawing up an Annual Work Plan for 2021, in order to ensure suitable planning to guarantee the targets sought are effectively achieved by the Committee.
- Proposals for appointments related to the Board of Directors and its Committees, and to the Boards of Subsidiary Companies.
- Analysis of the organisational structure of the Telefónica Group and other issues related to the staff.
- Evaluation of achievement of targets linked to the short-term variable remuneration of Executive Directors for the financial year 2020 (payable in 2021).
- Assessment of fulfilment of the targets linked to the first cycle of the 2018-2023 Long-Term Incentive Plan for the Executive Directors and a favourable report on and acceptance of the waiver of this incentive by the Executive Directors.
- Analysis of the Executive Directors' total remuneration for 2021.
- Analysis of the total remuneration for the members of the Executive Committee in 2021.
- Proposal for the Principles of the Directors' Remuneration Policy to be submitted to the Board of Directors and subsequently to the Ordinary General Shareholders' Meeting held in 2021.
- Proposal for determining and monitoring the targets linked to the short-term variable remuneration of Executive Directors for the financial year 2021.
- Proposal for the Long-Term Incentive Plan consisting of providing Telefónica, S.A. shares, earmarked for the Executives of the Telefónica Group, including the Executive Directors of Telefónica, S.A., to be submitted to the Board of Directors and subsequently to the Ordinary General Shareholders' Meeting held in 2021.
- Proposal to grant the Extraordinary Variable Remuneration to the Executive Directors, as a reward for the effort and special dedication undertaken for the achievement of certain strategic milestones of the Company, in accordance with the provisions of the Remuneration Policy.
- Proposal regarding the 2020 Annual Report on the Directors' Remuneration to be submitted to the Board of Directors and subsequently submitted to the Ordinary General Shareholders' Meeting held in 2021.
- Proposal to amend the Regulations of the Board of Directors to adapt them to the new provisions introduced by Act 5 of 12 April 2021 amending the text of the Spanish Corporate Enterprises Act and other financial regulations, as regards the encouragement of long-term shareholder engagement at listed companies.

## Year 2022:

- Analysis of the Executive Directors' total remuneration for 2022.
- Evaluation of achievement of targets linked to the short-term variable remuneration of Executive Directors for the financial year 2021 (payable in 2022).
- Assessment of the achievement of the targets linked to the second cycle 2019-2022 of the Long-Term Incentive Plan 2018-2023 (to be paid out in 2022).
- Proposal for determining the objectives linked to the short-term variable remuneration of the Executive Directors for the financial year 2022.
- Proposal for determining the objectives linked to the second cycle 2022-2025 of the Long-Term Incentive Plan 2021- 2026.
- Proposal for the 2021 Annual Report on the Directors' Remuneration to be submitted to the Board of Directors and subsequently to the Ordinary General Shareholders' Meeting to be held in 2022.

Moreover, it should be pointed out that the Nominating, Compensation and Corporate Governance Committee can request the Board of Directors to hire legal, accounting and financial advisors and other experts at the company's expense. In this respect, WTW provided advice on drawing up this Annual Report on the Directors' Remuneration. Likewise, the law firm Garrigues took part in the review thereof.

### 5.1.9. Alignment of the remuneration system with the risk profile

Telefónica's Remuneration Policy has the following features that enable its exposure to excessive risks to be reduced and adjustment to the Company's long-term targets, values and interests:

#### Adopting measures related to the staff categories whose professional work has a significant impact on the Company's risk profile

- The Nominating, Compensation and Corporate Governance Committee supervises the examination, analysis and application of the remuneration 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, once the achievement level of the operating and financial targets can be determined.
- As part of the process to evaluate the variable remuneration, the Nominating, Compensation and Corporate Governance Committee considers 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, means that the results of each year are interrelated. It therefore acts as a catalyst for alignment with the Company's long-term interests and cautious decision-making.
- The Nominating, Compensation and Corporate Governance Committee is authorised to propose cancellation of payment of the variable remuneration to the Board of Directors under certain circumstances. In addition, the company has included some malus and clawback clauses in the Long-Term Incentive Plan 2018-2023, approved by the General Shareholders' Meeting held in 2018. In this regard, the detailed information can be found in section 5.1.6 of this Report.

The new Remuneration Policy approved by the General Shareholders' Meeting in 2021 will propose standardising the malus and clawback clauses so that they are applicable to any variable remuneration component. In this respect, the possibility will be 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 twenty-four (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. Additionally, the Long-Term Incentive Plan 2021-2026 approved by the General Shareholders' Meeting in 2021 envisages the aforementioned malus and clawback provisions.

- 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 5 members, two of them are also members on the Audit and Supervisory Committee. The fact that these 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.
- According to the new Remuneration Policy that will be proposed, 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 Corporate Enterprises 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.

### Consistency with the Company's strategy and focus on achieving results in the long-term

- The design of the remuneration 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, at the date of the grant this long-term component accounts for a weight of on the date such General no less than 30% of their total remuneration in a scenario of standard achievement of targets (fixed + short-term variable + long-term variable). The long-term remuneration accrued in 2021 has had a lower weighting due to the relative TSR target not being met and due to the decrease in the share value compared to the price at which the shares were granted in 2019.
  - b. The 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.
  - c. Under the Remuneration Policy, 100% of the shares provided within the scope of the Long-Term Incentive Plan 2021-2026 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 does not fulfil the commitment to permanently hold the shares, the retention period of the shares that, if any, they receive due to any variable remuneration component 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- 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, Short-Term Variable Remuneration and annualised Long-Term Incentive) will not exceed 85%.

- Receiving 20% of the short-term variable remuneration is linked to the following ESG metrics: NPS (8%), NPS GAP (3%), Climate Change - GHG Emissions (5%), Society's Trust - REP Trak (3%), Gender Equality - % of women in executive positions (1%).

Additionally, the payment of 10% of the incentives corresponding to the first and second cycles of the Long-Term Incentive Plan 2021-2026 are linked to the Neutralisation of CO<sub>2</sub> Emissions.

### 5.1.10. Remuneration of members of Senior Management (non-Directors)

See Annex II (Remuneration to the Board and Senior Management) of the Consolidated Annual Accounts of Telefónica corresponding to fiscal year 2021.

## 5.2. Annual Report Corporate Governance Report Statistical Annex

Annual Report on Remuneration of Directors of listed companies Statistical Annex (established by Circular 3/2021, of September 28, of the National Securities Market Commission, which modifies Circular 4/2013, of June 12, which establishes the annual remuneration report models of the Directors of listed public limited companies)

Unless otherwise indicated all data as of December 31, 2021.

### **B. Overall summary of how remuneration policy has been applied during the year ended**

**B.4 Report on the result of the consultative vote at the General Shareholders' Meeting on remuneration in the previous year, indicating the number of abstentions and negative, blank and in favor votes that have been issued**

	Number	% of total
<b>Votes cast</b>	3,038,958,272	54.99 %
	Number	% cast
<b>Votes against</b>	230,627,308	7.59 %
<b>Votes in favour</b>	2,699,923,154	88.84 %
<b>Blank ballots</b>	–	– %
<b>Abstentions</b>	108,407,810	3.57 %

## C Itemised individual remuneration accrued by each Director

Name	Type	Period of accrual in 2020
<b>Mr. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ</b>	Executive Chairman	From 01/01/2021 to 31/12/2021
<b>Mr. ISIDRO FAINÉ CASAS</b>	Proprietary Vice Chairman	From 01/01/2021 to 31/12/2021
<b>Mr. JOSÉ MARÍA ABRIL PÉREZ</b>	Proprietary Vice Chairman	From 01/01/2021 to 31/12/2021
<b>MR. JOSÉ JAVIER ECHENIQUE LANDIRÍBAR</b>	Independent Vice Chairman	From 01/01/2021 to 31/12/2021
<b>Mr. ÁNGEL VILÁ BOIX</b>	Chief Operating Officer	From 01/01/2021 to 31/12/2021
<b>Mr. JUAN IGNACIO CIRAC SASTURAIN</b>	Independent Director	From 01/01/2021 to 31/12/2021
<b>Mr. PETER ERSKINE</b>	Other External Director	From 01/01/2021 to 31/12/2021
<b>Ms. CARMEN GARCÍA DE ANDRÉS</b>	Independent Director	From 01/01/2021 to 31/12/2021
<b>Ms. MARÍA LUISA GARCÍA BLANCO</b>	Independent Director	From 01/01/2021 to 31/12/2021
<b>Mr. PETER LÖSCHER</b>	Independent Director	From 01/01/2021 to 31/12/2021
<b>Ms. VERÓNICA PASCUAL BOÉ</b>	Independent Director	From 01/01/2021 to 31/12/2021
<b>Mr. FRANCISCO JAVIER DE PAZ MANCHO</b>	Other External Director	From 01/01/2021 to 31/12/2021
<b>Mr. FRANCISCO JOSÉ RIBERAS MERA</b>	Independent Director	From 01/01/2021 to 31/12/2021
<b>Ms. MARÍA ROTONDO URCOLA</b>	Independent Director	From 29/09/2021 to 31/12/2021
<b>Ms. CLAUDIA SENDER RAMÍREZ</b>	Independent Director	From 01/01/2021 to 31/12/2021
<b>Ms. SABINA FLUXÀ THIENEMANN</b>	Independent Director	From 01/01/2021 to 29/09/2021
<b>Mr. JORDI GUAL SOLÉ</b>	Proprietary Director	From 01/01/2021 to 15/12/2021
<b>Mr. IGNACIO MORENO MARTÍNEZ</b>	Proprietary Director	From 01/01/2021 to 15/12/2021

**C.1 Complete the following tables regarding the individual remuneration of each director (including the salary received for performing executive duties) accrued during the year.**

a) Remuneration from the reporting company:

i) Remuneration in cash (thousand euros)

Name	Fixed Remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total in 2021	Total in 2020
MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ	0	0	0	1,923	3,808	0	0	1,923	7,654	5,035
MR. ISIDRO FAINÉ CASAS	200	0	80	0	0	0	0	0	280	280
MR. JOSÉ MARÍA ABRIL PÉREZ	200	11	91	0	0	0	0	0	302	300
MR. JOSÉ JAVIER ECHENIQUE LANDIRÍBAR	200	23	114	0	0	0	0	0	337	340
MR. ÁNGEL VILÁ BOIX	0	0	0	1,600	2,640	0	0	1,600	5,840	3,758
MR. JUAN IGNACIO CIRAC SASTURAIN	120	21	22	0	0	0	0	0	163	142
MR. PETER ERSKINE	120	23	114	0	0	0	0	0	257	253
MS. CARMEN GARCÍA DE ANDRÉS	120	21	22	0	0	0	0	0	163	166
MS. MARÍA LUISA GARCÍA BLANCO	120	23	22	0	0	0	0	0	165	164
MR. PETER LÖSCHER	120	22	109	0	0	0	0	0	251	189
MS. VERÓNICA PASCUAL BOÉ	120	10	11	0	0	0	0	0	141	140
MR. FRANCISCO JAVIER DE PAZ MANCHO	120	32	125	0	0	0	0	0	277	276
MR. FRANCISCO JOSÉ RIBERAS MERA	120	0	0	0	0	0	0	0	120	120
MS. MARÍA ROTONDO URCOLA	30	2	3	0	0	0	0	0	35	0
MS. CLAUDIA SENDER RAMÍREZ	120	19	21	0	0	0	0	0	160	141

<b>MS. SABINA FLUXÀ THIENEMANN</b>	90	0	0	0	0	0	0	0	90	128
<b>MS. JORDI GUAL SOLÉ</b>	120	22	22	0	0	0	0	0	164	162
<b>MS. IGNACIO MORENO MARTÍNEZ</b>	120	31	45	0	0	0	0	0	196	200

## ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

Name	Name of Plan	Financial instruments at start of 2021		Financial instruments granted at start of 2021		Financial instruments consolidated during the year				Instruments matured but not exercised	Financial instruments at end of 2021	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares/handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (thousand €)	No. of instruments	No. of instruments	No. of equivalent shares
<b>MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ</b>	Performance Share Plan ("PSP") 2019-2022 (Second Cycle)	468,000	468,000	0	0	234,000	234,000	3.8520	901	234,000	0	0
	Performance Share Plan ("PSP") 2020-2023 (Third Cycle)	267,000	267,000	0	0	0	0	0	0	0	267,000	267,000
	Performance Share Plan ("PSP") 2021-2024 (First Cycle)	0	0	1,094,000	1,094,000	0	0	0	0	0	1,094,000	1,094,000
	Global Employee Share Plan ("GESP") 2019-2021	167	167	0	0	167	167	3.9315	1	0	0	0
<b>MR. ÁNGEL VILÁ BOIX</b>	Performance Share Plan ("PSP") 2019-2022 (Second Cycle)	347,000	347,000	0	0	173,500	173,500	3.8520	668	173,500	0	0
	Performance Share Plan ("PSP") 2020-2023 (Third Cycle)	198,000	198,000	0	0	0	0	0	0	0	198,000	198,000
	Performance Share Plan ("PSP") 2021-2024 (First Cycle)	0	0	819,000	819,000	0	0	0	0	0	819,000	819,000
	Global Employee Share Plan ("GESP") 2019-2021	167	167	0	0	167	167	3.9315	1	0	0	0

### iii) Long-term saving systems

Name	Remuneration from consolidation of rights to savings system (thousand €)
Mr. José María Álvarez-Pallete López	132
Mr. Ángel Vilá Boix	72

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with consolidated economic rights		Savings systems with consolidated economic rights		Systems with consolidated economic rights		Systems with unconsolidated economic rights	
	2021 Year	2020 Year	2021 Year	2020 Year	2021 Year	2020 Year	2021 Year	2020 Year
Mr. José María Álvarez-Pallete López	132	132	541	541	1,133	927	10,636	9,389
Mr. Ángel Vilá Boix	72	72	488	488	802	675	8,198	7,170

### iv) Details of other items

Name	Item	Remuneration Amount
Mr. José María Álvarez-Pallete López	Health insurance premium	6
Mr. José María Álvarez-Pallete López	Life insurance premium	31
Mr. Ángel Vilá Boix	Health insurance premium	6
Mr. Ángel Vilá Boix	Life insurance premium	24
Mr. Ángel Vilá Boix	Company vehicle	15

**b) Remuneration of directors of the listed company for seats on the boards of other subsidiary companies:**

**i) Remuneration in cash (thousand euros)**

Name	Fixed Remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total in 2021	Total in 2020
MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ	0	0	0	0	0	0	0	0	0	0
MR. ISIDRO FAINÉ CASAS	0	0	0	0	0	0	0	0	0	0
MR. JOSÉ MARÍA ABRIL PÉREZ	0	0	0	0	0	0	0	0	0	0
MR. JOSÉ JAVIER ECHENIQUE LANDIRÍBAR	107	0	0	0	0	0	0	51	158	158
MR. ÁNGEL VILÁ BOIX	0	0	0	0	0	0	0	0	0	0
MR. JUAN IGNACIO CIRAC SASTURAIN	0	0	0	0	0	0	0	0	0	0
MR. PETER ERSKINE	63	0	0	0	0	0	0	0	63	30
MS. CARMEN GARCÍA DE ANDRÉS	0	0	0	0	0	0	0	0	0	0
MS. MARÍA LUISA GARCÍA BLANCO	0	0	0	0	0	0	0	51	51	0
MR. PETER LÖSCHER	100	0	0	0	0	0	0	0	100	74
MS. VERÓNICA PASCUAL BOÉ	0	0	0	0	0	0	0	0	0	0
MR. FRANCISCO JAVIER DE PAZ MANCHO	206	0	0	0	0	0	0	89	295	286
MR. FRANCISCO JOSÉ RIBERAS MERA	0	0	0	0	0	0	0	0	0	0
MS. MARÍA ROTONDO URCOLA	0	0	0	0	0	0	0	0	0	0
MS. CLAUDIA SENDER RAMÍREZ	0	0	0	0	0	0	0	38	38	0
MS. SABINA FLUXÀ THIENEMANN	0	0	0	0	0	0	0	0	0	0
MS. JORDI GUAL SOLÉ	0	0	0	0	0	0	0	0	0	0
MS. IGNACIO MORENO MARTÍNEZ	0	0	0	0	0	0	0	0	0	0

## ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

Name	Name of Plan	Financial instruments at start of 2021		Financial instruments granted at start of 2021		Financial instruments consolidated during the year			Instruments matured but not exercised	Financial instruments at end of 2021		
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares/handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (thousand €)	No. of instruments	No. of instruments	No. of equivalent shares
No data												

## iii) Long-term saving systems

Name	Remuneration from consolidation of rights to savings system
No data	

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with consolidated economic rights		Savings systems with consolidated economic rights		Systems with Consolidated economic rights		Systems with unconsolidated economic rights	
	Year 2021	Year 2020	Year 2021	Year 2020	Year 2021	Year 2020	Year 2021	Year 2019
Mr. José María Álvarez-Pallete López	0	0	0	0	178	165	0	0
Mr. Ángel Vilá Boix	0	0	0	0	24	22	0	0

## iv) Details of other items

Name	Item	Remuneration Amount
No data		

### c) Summary of remunerations (thousand €):

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to each director (thousand €).

Name	Remuneration accrued in the company					Remuneration accrued in group companies					
	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2021 company	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2021 group	Total 2021 company + group
MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ	7,654	902	132	37	8,725	0	0	0	0	0	8,725
MR. ISIDRO FAINÉ CASAS	280	0	0	0	280	0	0	0	0	0	280
MR. JOSÉ MARÍA ABRIL PÉREZ	302	0	0	0	302	0	0	0	0	0	302
MR. JOSÉ JAVIER ECHENIQUE LANDIRÍBAR	337	0	0	0	337	158	0	0	0	158	495
MR. ÁNGEL VILÁ BOIX	5,840	669	72	45	6,626	0	0	0	0	0	6,626
MR. JUAN IGNACIO CIRAC SASTURAIN	163	0	0	0	163	0	0	0	0	0	163
MR. PETER ERSKINE	257	0	0	0	257	63	0	0	0	63	320
MS. CARMEN GARCÍA DE ANDRÉS	163	0	0	0	163	0	0	0	0	0	163
MS. MARÍA LUISA GARCÍA BLANCO	165	0	0	0	165	51	0	0	0	51	216
MR. PETER LÖSCHER	251	0	0	0	251	100	0	0	0	100	351
MS. VERÓNICA PASCUAL BOÉ	141	0	0	0	141	0	0	0	0	0	141
MR. FRANCISCO JAVIER DE PAZ MANCHO	277	0	0	0	277	295	0	0	0	295	572
MR. FRANCISCO JOSÉ RIBERAS MERA	120	0	0	0	120	0	0	0	0	0	120
MS. MARÍA ROTONDO URCOLA	35	0	0	0	35	0	0	0	0	0	35
MS. CLAUDIA SENDER RAMÍREZ	160	0	0	0	160	38	0	0	0	38	198
MS. SABINA FLUXÀ THIENEMANN	90	0	0	0	90	0	0	0	0	0	90

<b>MR. JORDI GUAL SOLÉ</b>	164	0	0	0	164	0	0	0	0	0	164
<b>MR. IGNACIO MORENO MARTÍNEZ</b>	196	0	0	0	196	0	0	0	0	0	196
<b>TOTAL</b>	16,595	1,571	204	82	18,452	705	0	0	0	705	19,157

**C.2 Indicate the evolution in the last five years of the amount and percentage variation of the remuneration accrued by each of the directors of the listed company who have held this position during the year, the consolidated results of the company and the average remuneration on an equivalent basis with regard to full-time employees of the company and its subsidiaries that are not directors of the listed company.**

	Total amounts accrued and % annual variation									
	Year 2021	% variation 2021/2020	Year 2020	% variation 2020/2019	Year 2019	% variation 2019/2018	Year 2018	% variation 2018/2017	Year 2017	
<b>Executive directors</b>										
<b>MR. JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ</b>	8,725	68.01	5,193	-6.21	5,537	-0.29	5,553	0.89	5,504	
<b>MR. ÁNGEL VILÁ BOIX</b>	6,626	71.17	3,871	-5.45	4,094	-0.51	4,115	132.88	1,767	
<b>External directors</b>										
<b>MR. ISIDRO FAINÉ CASAS</b>	280	0.00	280	0.00	280	0.00	280	0.00	280	
<b>MR. JOSÉ MARÍA ABRIL PÉREZ</b>	302	0.67	300	0.00	300	0.00	300	0.67	298	
<b>MR. JOSÉ JAVIER ECHENIQUE LANDIRÍBAR</b>	495	-0.60	498	20.00	415	14.64	362	45.97	248	
<b>MR. JUAN IGNACIO CIRAC SASTURAIN</b>	163	14.79	142	1.43	140	-0.71	141	0.71	140	
<b>MR. PETER ERSKINE</b>	320	13.07	283	4.43	271	1.88	266	-1.85	271	
<b>MS. CARMEN GARCÍA DE ANDRÉS</b>	163	-1.81	166	3.11	161	1.90	158	59.60	99	
<b>MS. MARÍA LUISA GARCÍA BLANCO</b>	216	31.71	164	3.80	158	54.90	102	-	0	
<b>MR. PETER LÖSCHER</b>	351	33.46	263	56.55	168	7.01	157	12.14	140	
<b>MS. VERÓNICA PASCUAL BOÉ</b>	141	0.71	140	-	0	-	0	-	0	

<b>MR. FRANCISCO JAVIER DE PAZ MANCHO</b>	572	1.78	562	-3.93	585	8.33	540	-4.26	564
<b>MR. FRANCISCO JOSÉ RIBERAS MERA</b>	120	0.00	120	0.00	120	0.00	120	51.90	79
<b>MS. MARÍA ROTONDO URCOLA</b>	35	-	0	-	0	-	0	-	0
<b>MS. CLAUDIA SENDER RAMÍREZ</b>	198	40.43	141	-	0	-	0	-	0
<b>MS. SABINA FLUXÀ THIENEMANN</b>	90	-29.69	128	-7.91	139	-0.71	140	-0.71	141
<b>MR. JORDI GUAL SOLÉ</b>	164	1.23	162	0.62	161	9.52	147	-	0
<b>MR. IGNACIO MORENO MARTÍNEZ</b>	196	-2.00	200	2.56	195	2.63	190	2.15	186
<b>CONSOLIDATED RESULTS OF THE COMPANY</b>	12,095	368.25	2,583	-4.97	2,718	-51.21	5,571	21.19	4,597
<b>AVERAGE EMPLOYEE REMUNERATION</b>	62	31.91	47	-30.88	68	33.33	51	-7.27	55

#### **OBSERVATIONS:**

- Mr. José María Álvarez-Pallete López:

(i) The year-on-year variation in remuneration in 2020 compared to 2021 considering ordinary remuneration (i.e. not including extraordinary variable remuneration and without taking into account what is described in point (ii) below), is 16%, derived from the YoY performance variation associated with the Director's variable remuneration. The consolidated result of the company has increased by 368% in 2021 in comparison to 2020.

(ii) The variation shown in the grid is determined by the Executive Chairman's proposal to waive the first cycle of the 2018-2023 Long-Term Incentive Plan, which the Board of Directors agreed not to pay in 2020 as a gesture of responsibility following the effects of COVID-19, and the extraordinary variable remuneration paid to the Executive Chairman in 2021 (see section 5.1.6.D).

(iii) It should be noted that the remuneration accrued in 2021 by the Executive Chairman represents 95.8% of his annual target remuneration, in line with the provisions of the Remuneration Policy approved at the 2021 General Shareholders' Meeting, and his fixed remuneration is the same as the amount paid since 2013 and it was determined for his position as Chief Operating Officer and remained the same after his appointment as Chairman in 2016.

(iv) The remuneration corresponding to 2017 includes the amount of the column "Total year 2017" in section D.1.C of the 2017 Annual Report on Remuneration (€5,358 thousand), plus the amount of contributions to long-term savings schemes with vested economic rights (€146 thousand).

- Mr. Ángel Vila Boix:

(i) The year-on-year variation in remuneration in 2020 compared to 2021 considering ordinary remuneration (i.e. not including extraordinary variable remuneration and without taking into account what is described in point (ii) below), is 15%, derived from the YoY performance variation associated with the director's variable remuneration.

(ii) The variation shown in the grid is determined by the Chief Operating Officer proposal to waive the first cycle of the 2018-2023 Long-Term Incentive Plan, which the Board of Directors agreed not to pay in 2020 as a gesture of responsibility following the effects of COVID-19, and the extraordinary variable remuneration paid to the Chief Operating Officer in 2021 (see section 5.1.6.D).

(iii) It should be noted that the remuneration accrued in 2021 by the Chief Operating Officer represents 98.1% of his annual target remuneration, in line with the provisions of the Remuneration Policy approved at the 2021 General Shareholders' Meeting.

(iv) The 2017 and 2018 figures are not comparable as the Director was appointed on July 26, 2017 and therefore the remuneration relates to the period from July 26 to December 31, 2017. As of 2018 he was a member of the Board for the full financial year.

- Mr José Javier Echenique Landiribar: In 2018, he started to receive additional remuneration for joining the Boards of Directors of other Telefónica Group companies.

On December 18, 2019, he was appointed Vice-Chairman of the Board of Directors, which increased his fixed remuneration by €80 thousand per annum.

- Ms Carmen García de Andrés and Mr Francisco José Riberas Mera (% variation 2017/2018): The figures provided show the variation between the remuneration actually accrued in 2016 and in 2017. These figures are not comparable as the Directors were appointed on May 4, 2017, and therefore the remuneration relates to the period from May 4 to December 31, 2017. From 2018 onwards they were members of the Board for the full financial year.

- Ms María Luisa García Blanco: The 2018/2019 variation figure shows the difference between the remuneration actually accrued in 2018 and 2019. These figures are not comparable as the Director was appointed on April 25, 2018, and therefore the remuneration relates to the period from April 25 to December 31, 2018. As of 2019 she was a member of the Board for the full financial year.

Regarding the 2020/2021 variation, the increase in remuneration is attributable mainly to Ms. María Luisa Garcia Blanco joining the Advisory Board of Telefónica España in 2021.

- Mr Peter Löscher: In mid-2020, Mr. Löscher started to receive additional remuneration for joining the boards of directors of other companies of the Telefónica Group. As of 2021, he has already received the full remuneration for the entire financial year for belonging to these administrative bodies.

- Ms Claudia Sender Ramírez (% variation 2020/2021): On February 24, 2021, the Director joined the Strategy and Innovation Committee, receiving the corresponding fixed remuneration.

- Ms Sabina Fluxá Thienemann (% variation 2020/2021): The reduction in remuneration is mainly a consequence of Ms. Sabina Fluxá Thienemann's resignation from her position as Director on September 29, 2021.

- Average employee remuneration of Telefónica, S.A. and all of its subsidiaries: In financial year 2019, the average employee remuneration has been calculated on the basis of the personnel expenses included in the consolidated annual accounts for that year, where the cost of the Individual Suspension Plan is included. In this regard, on September 27, 2019,

Telefónica España signed the 2nd Collective Bargaining Agreement for Related Companies (CEV). The present value of the Plan's payment flows, together with the updating of the estimates of the previous plan and the provision associated with the training plan, resulted in a pre-tax expense of EUR 1,732 million.

In 2021, the average remuneration has been calculated on the basis of the personnel expenses included in the consolidated financial statements for that year, which include the cost of the Telefónica España Voluntary Redundancy Plan. The impact of this Plan on personnel expenses amounts to 1,382 million euros before tax.

#### **D. Other Information of Interest**

This annual remuneration report has been approved by the Board of Directors of the company on February 23, 2022.

State whether any director has voted against or abstained from approving this report

No