

REGULATIONS OF THE BOARD OF DIRECTORS  
"TELEFÓNICA, S.A."

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## PRELIMINARY TITLE

### Article 1. Purpose.

1. The purpose of these Regulations is to determine the principles of action of the Board of Directors of Telefónica, S.A. and the Committees thereof, to govern the organization and operation thereof, and to establish rules of conduct for its members, in order to achieve the greatest possible level of efficiency and to optimize the management thereof.

2. The rules of conduct established in these Regulations for the Directors shall apply to the senior executive officers of the Company, to the extent that they are consistent with the specific nature thereof.

### Article 2. Interpretation.

These Regulations shall be interpreted in accordance with applicable statutory and bylaw provisions, primarily taking into account the spirit and purpose hereof. The Board of Directors shall have the power to resolve any questions of interpretation that may arise in the application hereof.

### Article 3. Amendment.

1. These Regulations may only be amended by the Board of Directors at the proposal of the Chairman, of five Directors, or of the Nominating, Compensation and Corporate Governance Committee.

2. Proposals for amendment must be accompanied by a substantiating report and must be reported on by the Nominating, Compensation and Corporate Governance Committee. This report shall not be required when the amendment is proposed by the Nominating, Compensation and Corporate Governance Committee.

3. The text of the proposal, the substantiating report from the authors thereof and, where appropriate, the report of the Nominating, Compensation and Corporate Governance Committee must be attached to the notice of the meeting of the Board wherein it is to be discussed, and shall be specifically set forth in the Agenda for the meeting.

**Article 4. Dissemination.**

1. The Directors and senior executive officers have the duty to know, comply with and enforce these Regulations. To that end, the Secretary of the Board shall provide all of them with a copy of these Regulations.

2. These Regulations, as well as any amendments hereof, shall be reported to the General Shareholders' Meeting, communicated to the National Securities Market Commission, registered with the Commercial Registry pursuant to current regulations and made available on the website of the Company and at the registered office thereof, thus ensuring widespread dissemination among shareholders and the investing public in general.

**TITLE I.  
GENERAL DUTIES AND PRINCIPLES OF ACTION OF THE  
BOARD OF DIRECTORS**

**Article 5. General duties of the Board of Directors.**

1. As provided by Law and the Bylaws, the Board of Directors is the highest management and representative body of the Company; it is therefore authorized to carry out, within the scope of the corporate purpose established in the By-Laws, any acts or legal transactions of administration and disposition of property, upon any legal title, except for those acts or transactions which are reserved by Law or the By-Laws exclusively to the shareholders acting at a General Shareholders' Meeting.

2. Notwithstanding the foregoing, the Board of Directors is basically configured as a supervising and controlling body, with the day-to-day management of the Company's affairs being entrusted to the management decision-making bodies and the management team.

3. The powers reserved by the Law or these By-Laws exclusively to the Board of Directors, or any other powers required for the responsible exercise of its basic supervisory and controlling duties, may not be delegated.

4. Specifically, the Board of Directors reserves the power to approve:

A) The general policies and strategies of the Company, particularly:

- (i) Strategic plans, management objectives and annual budget.
- (ii) Definition of the structure of the Group of Companies.
- (iii) Corporate governance policy.
- (iv) Corporate social responsibility policy.
- (v) Compensation policy for Directors and senior executive officers.
- (vi) Dividend and treasury stock policy.
- (vii) General risk policy.

**B) The following decisions:**

- (i) Upon the proposal of the Chairman of the Board of Directors, the appointment and possible removal of senior executive officers, as well as the basic terms of their employment agreements.
- (ii) Compensation of Directors and senior executive officers.
- (iii) Periodic evaluation of the performance of the Chairman of the Board of Directors.
- (iv) Periodic evaluation of the operation of the Board of Directors and of the Committees thereof.
- (v) Financial information that the Company must periodically make public.
- (vi) Strategic investments.
- (vii) The creation or acquisition of interests in special-purpose entities or entities domiciled in countries or territories considered to be tax havens.

**C) Transactions entered into by the company with related parties, pursuant to the provisions of Article 39 of these Regulations.**

The powers set forth under B) and C) above may be adopted by the Executive Commission in urgent cases and subsequently ratified by the Board.

**Article 6. Duties of the Board of Directors with respect to Group companies.**

With respect to the companies that make up Telefónica, S.A.'s Group of Companies, the Board of Directors, within legal limits, shall establish the basis for appropriate and efficient coordination between the Company and the companies making up such Group, respecting in all cases the decision-making autonomy of their board- and management-level decision-making bodies, in keeping with the corporate interests of the Company itself and of each of such companies.

For such purposes, and within the limits stated above, the Board of Directors of Telefónica, S.A. shall implement the instruments needed to establish appropriate relationships of coordination based on mutual interest, and therefore, as regards their respective corporate interests.

**Article 7. Principles of action of the Board of Directors.**

1. The Board of Directors shall carry out its duties in accordance with the corporate interest, meaning the interests of the Company, and, in that regard, shall act to ensure the long-term viability of the Company as a going concern and to maximize its value, while also weighing the various legitimate public or private interests that converge in the performance of all corporate activities.

2. The Board of Directors shall approve a policy of full disclosure and transparency with respect to the markets, ensuring the correct setting of the Company's share price.

**TITLE II. COMPOSITION OF THE BOARD****Article 8. Quantitative composition.**

1. The Board of Directors shall consist of the number of Directors determined by the shareholders acting at a General Shareholders' Meeting, within the limits set by the By-Laws of the Company.

2. The Board shall propose to the shareholders acting at the General Shareholders' Meeting the number of Directors that, according to the circumstances prevailing at the Company at any time, is most appropriate to ensure due representation and the effective operation of the Board.

## Article 9. Qualitative composition.

1. The Board of Directors, exercising the right to fill vacancies by interim appointment and to propose appointments to the shareholders at the General Shareholders' Meeting, shall ensure that, in the composition of the Board of Directors, external or non-executive Directors represent an ample majority over executive Directors.

In addition, the Board shall ensure that the total number of independent Directors represents at least one-third of the total number of members of the Board.

2. For the purposes of these Regulations, the following shall be deemed:

- Executive Directors: those who perform the duties of senior management or who are employed by the Company or the Group.
- External Directors: those who are not executive Directors, such category including proprietary Directors, independent Directors and those Directors who cannot be considered either proprietary or independent Directors.
- Proprietary Directors: (i) those who possess shareholdings greater than or equal to what is legally deemed to be significant or who have been so designated in their capacity as shareholders, even if their shareholdings do not reach such amount; (ii) those who represent and/or have been appointed upon the proposal of shareholders listed in (i) above.
- Independent Directors: those who, having been appointed in view of their personal and professional status, can carry out their duties without being conditioned by relationships with the Company, its significant shareholders or its officers.

3. The nature of each Director shall be explained by the Board of Directors to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified. Furthermore, such nature shall be reviewed annually by the Board after verification by the Nominating, Compensation and Corporate Governance Committee, and reported in the Annual Corporate Governance Report.

4. The provisions of this Article are without prejudice to the shareholders' legally recognized right to proportional representation, and the powers and duties of the shareholders acting at the General Shareholders' Meeting.



## **TITLE III. APPOINTMENT AND WITHDRAWAL OF DIRECTORS**

### **Article 10. Appointment, re-election and ratification of Directors.**

1. Directors shall be appointed, re-elected or ratified by the shareholders acting at a General Shareholders' Meeting, or, on an interim basis, by the Board of Directors, pursuant to the provisions of Law and the By-Laws.

2. The proposals for the appointment, re-election and ratification of Directors submitted by the Board of Directors for consideration at the General Shareholders' Meeting, and the resolutions appointing Directors adopted by the Board itself pursuant to the powers legally attributed thereto must be preceded by a corresponding report of the Nominating, Compensation and Corporate Governance Committee and, in the case of independent Directors, by a corresponding proposal.

In the case of re-election or ratification, such report or proposal of the Nominating, Compensation and Corporate Governance Committee shall contain an evaluation of the work and actual dedication to the position for the latest period of time during which the proposed Director held such position.

3. The Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

### **Article 11. Term of office.**

1. Directors shall hold office for a term of five years, and may be re-elected one or more times to equal terms of office.

2. Directors designated to fill vacancies by interim appointment shall hold office until the date of the next General Shareholders' Meeting.

3. Directors whose term of office has ended or who stop serving as such for any other reason may not serve at any other entity having a corporate purpose that is similar or analogous to that of the Company or to that of any of the Companies making up the Group, or that competes with the Company, for a period of two years.

The Board of Directors may, if it sees fit, release outgoing Directors from such obligation or shorten the period thereof.

## **Article 12. Withdrawal of Directors.**

1. Directors shall cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at the General Shareholders' Meeting in the exercise of the powers legally granted to them.

2. Directors must tender their resignation to the Board of Directors and formalize such resignation in the following cases:

- a) When they cease to hold the executive positions to which their appointment as Directors is linked, or when the reasons for which they were appointed no longer exist.
- b) When they are affected by any of the cases of incompatibility or prohibition established by statute.
- c) When they are severely reprimanded by the Nominating, Compensation and Corporate Governance Committee for having failed to fulfill any of their obligations as Directors.
- d) When their remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardizes its interests.

3. The Board of Directors shall not propose the removal of any independent Director prior to the end of the Bylaw-mandated period for which they have been appointed, unless there are due grounds therefore acknowledged by the Board after a report from the Nominating, Compensation and Corporate Governance Committee. Specifically, due grounds shall be deemed to exist when the Director has failed to perform the duties inherent to his position.

The removal of independent Directors may also be proposed as a result of Public Tender Offers, mergers or other similar corporate transactions that entail a change in the company's capital structure.

## TITLE IV. OPERATION OF THE BOARD

### CHAPTER I. DISTRIBUTION OF POSITIONS

#### Article 13. Chairman of the Board.

1. The Chairman of the Board of Directors shall be the Company's Chief Executive and, accordingly, his appointment or re-appointment, if so approved, shall entail the delegation of all the powers and duties of the Board that may legally be delegated. He shall be in charge of the effective management of the Company's business, always in accordance with the decisions and criteria established by the shareholders at the General Shareholders' Meeting and by the Board of Directors.

2. The Chairman of the Board shall chair all shareholder- and board-level decision-making bodies of the Company and shall carry out the resolutions of the Board itself and of the Executive Commission, both of which the Chairman permanently represents with the broadest powers, and may, in urgent cases, take such actions as he deems advisable for the interests of the Company.

3. Furthermore, pursuant to Article 22.B).3 of these Regulations, the Chairman of the Board of Directors, together with the Chairman of the Nominating, Compensation and Corporate Governance Committee, shall be responsible for organizing and coordinating a periodic assessment of the Board.

4. Without prejudice to the foregoing, whenever the Board of Directors resolves to appoint a new person to hold office as Chairman, it must determine the powers to be delegated thereto according to the characteristics of the person and the circumstances surrounding the appointment thereof.

5. The Board of Directors may resolve at any time to remove the Chairman by means of a resolution adopted by a majority of the members present.

#### Article 14. Vice Chairman of the Board.

1. The Board shall elect one or more Vice Chairmen – executive or otherwise – to stand in for the Chairman by delegation, due to his absence or illness or, in general, in all cases, duties or powers that that may be deemed proper by the Board, or by the Chairman himself.

2. The Chairman shall be replaced by one of the Vice Chairmen with executive duties in the Company and, failing that, by the Vice Chairman with the longest tenure in such position, and if the same tenure, the elder thereof.

### **Article 15. Secretary of the Board.**

1. The Board of Directors, upon the proposal of the Chairman, and after a report from the Nominating, Compensation and Corporate Governance Committee, shall appoint a Secretary of the Board, and shall follow the same procedure for approving the removal thereof.

The Secretary of the Board of Directors need not be a Director.

2. The Secretary shall assist the Chairman in the performance of his duties and shall ensure proper operation of the Board, and shall especially provide to Directors advice and information that may be required, maintain custody of the corporate documents, and duly record the proceedings of Board meetings in the minute books and certify the resolutions thereof.

3. The Secretary of the Board shall attend to the formal and substantive legality of the Board's actions, the conformance thereof to the By-Laws, the Regulations for the General Shareholders' Meeting and of the Board, and maintain in consideration the corporate governance recommendations assumed by the Company in effect from time to time.

4. The Secretary of the Board shall also be the General Secretary of the Company with the powers and duties attributed thereto under Article 33.1 of the By-Laws.

### **Article 16. Deputy Secretary of the Board.**

1. The Board of Directors, upon the proposal of the Chairman, and after a report from the Nominating, Compensation and Corporate Governance Committee, may appoint a Deputy Secretary to assist the Secretary or replace him in the performance of his duties in the event of absence or inability to act, and must follow the same procedure for approving the removal thereof.

The Deputy Secretary of the Board of Directors need not be a Director.

2. Unless otherwise decided by the Board of Directors, the Deputy Secretary may attend its meetings to assist the Secretary in drafting the minutes of the meeting.

## **CHAPTER II. RULES OF OPERATION**

### **Article 17. Meetings of the Board of Directors.**

1. The power to call meetings of the Board of Directors and to draft the Agenda for its meetings, as appropriate, lies with the Chairman, who nevertheless must call such meeting at the request of three Directors who specify the matters to be dealt with.

The Board of Directors shall normally meet once a month and, at the Chairman's initiative, shall meet as often as he deems fit for the proper operation of the Company.

The Board shall set the calendar of ordinary meetings before the beginning of each fiscal year. The calendar may be amended by resolution of the Board itself, or by decision of the Chairman, in which case the Directors shall be made aware of the amendment as soon as practicable.

2. Formal notice of regular meetings shall be given by letter, fax, telegram or e-mail, and shall be signed by the Chairman, or by the Secretary or Deputy Secretary at the direction of the Chairman. Such notice shall be given not less than three days prior to the date set for the meeting.

The notice shall include preliminary information on the expected Agenda for the meeting, and shall be accompanied by the relevant written information that is available. In any event, the Chairman shall always have the power to submit such matters as he deems appropriate to the Board of Directors, regardless of whether or not they are included in the Agenda for the meeting.

3. When circumstances so require, the Chairman may, exceptionally, call a Board of Directors meeting by telephone, fax or e-mail without complying with the prior notice period or other requirements set forth in the previous paragraph.

### **Article 18. Proceedings at meetings.**

1. A valid quorum of the Board shall exist with the presence, in person or by proxy, of one-half plus one of its members.

The Directors must attend meetings of the Board in person, and when unable to do so in exceptional cases, they shall endeavor to ensure that the proxy they grant to another member of the Board includes, to the extent practicable, appropriate instructions.

Such proxies may be granted by letter or by any other means that, in the Chairman's opinion, ensures the certainty and validity of the proxy granted.

2. The Chairman shall organize the debates, seeking and encouraging the participation of all Directors in the discussions.

3. At the proposal of the Chairman, the senior executive officers of the Company shall attend the meetings of the Board whenever their participation is required or appropriate, in order to report on matters within their purview.

4. Except in those cases in which another voting majority is specifically applicable, resolutions shall be passed by a majority of the Directors attending the meeting (in person or by proxy).

5. The Board may hold meetings in several rooms simultaneously, provided that audio-visual or telephonic means are used to ensure real-time interactivity or inter-communication among the members, and thus unified action. The Secretary of the Board shall attest to the identity of the attendees.

6. Exceptionally, when so required by the urgent nature of the matter, the Chairman may propose that resolutions be passed without a meeting and in writing (by fax, mail, e-mail, etc.), as long as no Director objects to the use of such procedure.

### ***CHAPTER III. BOARD COMMITTEES***

#### **Article 19. General provisions.**

##### **a) Executive Commission.**

Without prejudice to the delegation of powers to the Chairman or, if applicable, to the Chief Executive Officer or the Vice Chairman, the Board of Directors shall appoint an Executive Commission with general decision-making powers, and therefore, with an express delegation of all powers of the Board of Directors other than those that may not be delegated under the Law or the By-Laws.

##### **b) Other Committees.**

1. The Board of Directors may also establish one or more committees entrusted with the examination and permanent monitoring of some particularly relevant area for

the proper governance of the Company, or for the specific review of some aspect or issue whose significance or degree of importance makes this appropriate.

These Committees shall not have the status of Corporate Decision-Making Bodies [*Órganos Sociales*], but shall be established as instruments at the service of the Board of Directors, to which they shall report regarding the conclusions reached on the issues or matters whose specific review has been entrusted to them.

2. The Board of Directors shall determine the number of members of each Committee and shall appoint the Directors who are to be the members thereof, at the proposal of the Chairman.

In order to provide for an appropriate and fluid relationship with the Company, each Committee may be assigned a senior executive officer, who shall attend the various meetings held by the Committee, with the right to be heard but not to vote thereat, and who may be appointed to act as its secretary.

In all cases, such senior executive officer must leave the meeting whenever, owing to the nature of the matters to be dealt with, the Committee deems it appropriate.

3. The Committees shall regulate their own operation, shall appoint a Chairman and a Secretary from among their members – who need not be members of the respective Committee – and shall meet when called by their respective Chairman. Each Committee shall prepare an action plan every year, on which it shall report to the Board.

The schedule for ordinary meetings of the Committees shall be set for each of them prior to the commencement of each fiscal year. The schedule may be changed by resolution of the Committee itself or by decision of the Chairman thereof, in which case the change must be communicated to the members of the Committee as soon as possible.

A quorum for each Committee shall be validly established with the attendance, in person or by proxy, of at least one-half of the members thereof, and each Committee shall adopt resolutions by the affirmative vote of the majority of those present. In the event of a tie, the Chairman of the respective Committee shall cast the deciding vote.

The minutes of each meeting held by the Committees shall be drawn up by their respective Secretary, and shall be sent to the Secretary of the Board of Directors for filing and safekeeping. The minutes of the Board Committees shall be available in all cases to the members of the Board of Directors for examination.

Matters dealt with by the Committees shall be reported to the Board of Directors in order for it to be informed of such matters in the exercise of its powers.

In all matters not specifically provided for, the rules of operation established in these Regulations with respect to the Board of Directors shall apply to the Committees.

4. The Company's senior executive officers shall attend Committee meetings when, in the opinion of their respective Chairman, their participation is necessary or appropriate in order to report on matters within their purview.

5. Without prejudice to the power of the Board to appoint other Committees, with such powers as it deems fit to grant them, the following Committees shall be created in any event: an Audit and Control Committee, a Nominating, Compensation and Corporate Governance Committee, a Regulation Committee, a Human Resources and Corporate Reputation and Responsibility Committee, a Service Quality and Customer Service Committee, and an International Affairs Committee.

## **Article 20. Executive Commission.**

### **a) Composition.**

The Executive Commission shall consist of the Chairman of the Board, once appointed as a member thereof, and not less than three nor more than ten Directors appointed by the Board of Directors.

In the qualitative composition of the Executive Commission, the Board shall seek to have external or non-executive Directors constitute a majority over the executive Directors.

In all cases, the affirmative vote of at least two-thirds of the members of the Board of Directors shall be required in order for the appointment or re-appointment of the members of the Executive Commission to be valid.

### **b) Operation.**

The Executive Commission shall meet whenever called by the Chairman, and shall normally meet every fifteen days.

The Chairman and Secretary of the Board of Directors shall act as the Chairman and Secretary of the Executive Commission. One or more Vice Chairmen and a Deputy Secretary may also be appointed.

A quorum of the Executive Commission shall be validly established with the attendance, in person or by proxy, of one-half plus one of its members.



Resolutions shall be adopted by a majority of the Directors attending the meeting (in person or by proxy), and in the case of a tie, the Chairman shall cast the deciding vote.

**c) Relationship with the Board of Directors.**

The Executive Commission shall report to the Board in a timely manner on the matters dealt with and the decisions adopted at the meetings thereof, with a copy of the minutes of such meetings shall be made available to the members of the Board.

**Article 21. Audit and Control Committee.**

**a) Composition.**

The Audit and Control Committee shall consist of not less than three nor more than five Directors appointed by the Board of Directors. All Committee members shall be external or non-executive Directors, and at least one of them shall be an independent Director. When appointing such members, the Board of Directors shall take into account the appointees' knowledge and experience in matters of accounting, auditing or both, as well as in risk management.

The Chairman of the Audit and Control Committee, who shall in all events be an independent Director, shall be appointed from among its members, and shall be replaced every four years; he may be re-elected after the passage of one year from the date when he ceased to hold office.

**b) Powers and duties**

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Audit and Control Committee shall be to support the Board of Directors in its supervisory duties. Specifically, it shall have at least the following powers and duties:

- 1) To report, through its Chairman, at the General Shareholders' Meeting on matters raised thereat by the shareholders that are within the purview of the Committee;
- 2) To propose to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment of the Auditor mentioned in Section 264 of the Companies Act (Ley de Sociedades de Capital), as well as, where appropriate, terms for the hiring thereof, the

scope of its professional engagement and the revocation or renewal of its appointment.

- 3) To supervise internal audit and, in particular:
  - a) To ensure the independence and efficiency of the internal audit function;
  - b) To propose the selection, appointment and removal of the person responsible for internal audit;
  - c) To propose the budget for such service;
  - d) To review the internal audit work plan and its annual activities report;
  - e) To receive periodic information on its activities; and
  - f) To verify that the senior executive officers take into account the conclusions and recommendations of its reports.
- 4) To supervise the process of preparing and submitting regulated financial information. With respect thereto, it shall be responsible for supervising the process of preparation and the integrity of the financial information relating to the Company and the Group, reviewing compliance with regulatory requirements, the proper determination of the scope of consolidation, and the correct application of accounting standards, informing the Board of Directors thereof.
- 5) To supervise the effectiveness of the Company's internal control system and risk management systems, and to discuss with the auditors significant weaknesses in the internal control system detected during the audit. With respect thereto, it shall be responsible for proposing to the Board of Directors a risk control and management policy, which shall identify at least the following:
  - a) the types of risk (operational, technological, financial, legal and reputational) facing the company;
  - b) the setting of the risk level that the company considers acceptable;
  - c) the measures to mitigate the impact of the identified risks, should they materialize;
  - d) the control and information systems to be used to control and manage the above-mentioned risks.
- 6) To establish and supervise a mechanism to allow employees to confidentially and anonymously report potentially significant irregularities, particularly any financial or accounting irregularities detected within the Company.

- 7) To establish and maintain appropriate relations with the Auditor in order to receive, for review by the Committee, information on all matters that could jeopardize the independence thereof, as well as any other matters relating to the audit procedure, and such other communications as may be provided for in auditing legislation and in technical auditing regulations.

In any event, the Audit and Control Committee must receive, on an annual basis, written confirmation from the Auditor of its independence vis-à-vis the entity or entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the Auditor or by the persons or entities related thereto pursuant to the provisions of Law 19/1988, of July 12, on Auditing of Financial Statements.

- 8) To issue on an annual basis, prior to the issuance of the audit report, a report stating an opinion regarding the independence of the Auditor. This report must in all cases include an opinion on the provision of the additional services referred to in paragraph 7) above.

**c) Operation.**

The Audit and Control Committee shall meet at least once every quarter and as often as appropriate, when called by its Chairman.

In the performance of its duties, the Audit and Control Committee may require that the Company's Auditor and the person responsible for internal audit, and any employee or senior executive officer of the Company, attend its meetings.

**Article 22. Nominating, Compensation and Corporate Governance Committee.**

**a) Composition.**

The Nominating, Compensation and Corporate Governance Committee shall consist of not less than three nor more than five Directors appointed by the Board of Directors. All members of the Committee must be external Directors and the majority thereof must be independent Directors.

The Chairman of the Nominating, Compensation and Corporate Governance Committee, who shall in all events be an independent Director, shall be appointed from among its members.

**b) Powers and duties.**

Without prejudice to any other tasks that the Board of Directors may assign thereto, the Nominating, Compensation and Corporate Governance Committee shall have the following powers and duties:

- 1) To report, following standards of objectivity and conformity to the corporate interest, on the proposals for the appointment, re-election and removal of Directors and senior executive officers of the Company and its subsidiaries, and evaluate the qualifications, knowledge and experience required of candidates to fill vacancies.
- 2) To report on the proposals for appointment of the members of the Executive Commission and of the other Committees of the Board of Directors, as well as the Secretary and, if applicable, the Deputy Secretary.
- 3) To organize and coordinate, together with the Chairman of the Board of Directors, a periodic assessment of the Board, pursuant to the provisions of Article 13.3 of these Regulations.
- 4) To report on the periodic assessment of the performance of the Chairman of the Board of Directors.
- 5) To examine or organize the succession of the Chairman such that it is properly understood and, if applicable, to make proposals to the Board of Directors so that such succession occurs in an orderly and well-planned manner.
- 6) To propose to the Board of Directors, within the framework established in the By-Laws, the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them, as provided in Article 35 of these Regulations.
- 7) To propose to the Board of Directors, within the framework established in the By-Laws, the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of contractual implementation thereof.
- 8) To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

- 9) To supervise compliance with the Company's internal rules of conduct and the corporate governance rules thereof in effect from time to time.
- 10) To exercise such other powers and perform such other duties as are assigned to such Committee in these Regulations.

**c) Operation.**

In addition to the meetings provided for in the annual schedule, the Nominating, Compensation and Corporate Governance Committee shall meet whenever the Board of Directors of the Company or the Chairman thereof requests the issuance of a report or the approval of proposals within the scope of its powers and duties, provided that, in the opinion of the Chairman of the Committee, it is appropriate for the proper implementation of its duties.

**Article 23. Regulation Committee.**

**a) Composition.**

The Regulation Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Regulation Committee shall be appointed from among its members.

**b) Duties.**

Without prejudice to other duties that the Board of Directors may assign thereto, the Regulation Committee shall have at least the following duties:

- 1) To monitor on a permanent basis the principal regulatory matters and issues affecting the Telefónica Group at any time, through the study, review and discussion thereof.
- 2) To act as a communication and information channel between the Management Team and the Board of Directors in regulatory matters and, where appropriate, to advise the latter of those matters deemed important or significant to the Company or to any of the companies of its Group in respect of which it is necessary or appropriate to make a decision or adopt a particular strategy.

## **Article 24. Human Resources and Corporate Reputation and Responsibility Committee.**

### **a) Composition.**

The Human Resources and Corporate Reputation and Responsibility Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Human Resources and Corporate Reputation and Responsibility Committee shall be appointed from among its members.

### **b) Duties.**

Without prejudice to any other tasks that the Board of Directors may assign thereto, the Human Resources and Corporate Reputation and Responsibility Committee shall have at least the following duties:

- 1) To analyze, report on and propose to the Board of Directors the adoption of the appropriate resolutions on personnel policy matters.
- 2) To promote the development of the Telefónica Group's Corporate Reputation and Responsibility project and the implementation of the core values of such Group.

## **Article 25. Service Quality and Customer Service Committee.**

### **a) Composition.**

The Service Quality and Customer Service Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Service Quality and Customer Service Committee shall be appointed from among its members.

**b) Duties.**

Without prejudice to any other duties that the Board of Directors may assign thereto, the Service Quality and Customer Service Committee shall have at least the following duties:

- 1) To periodically examine, review and monitor the quality indices of the principal services provided by the companies of the Telefónica Group.
- 2) To evaluate levels of customer service provided by such companies.

**Article 26. International Affairs Committee.**

**a) Composition.**

The International Affairs Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the International Affairs Committee shall be appointed from among its members.

**b) Duties.**

Notwithstanding any other duties that the Board of Directors may assign thereto, the primary mission of the International Affairs Committee shall be to strengthen and bring relevant international issues to the attention of the Board of Directors for the proper development of the Telefónica Group. In that regard, it shall have the following duties, among others:

- 1) To pay special attention to institutional relations in the countries where companies of the Telefónica Group do business.
- 2) To review important issues affecting it at international or economic integration organizations and forums.
- 3) To review regulatory and competition issues and alliances.
- 4) To evaluate the programs and activities of the Company's various Foundations and the resources used to promote its image and international social presence.

## **TITLE V. RIGHTS AND OBLIGATIONS OF DIRECTORS**

### ***CHAPTER I. RIGHT TO RECEIVE AND DUTY TO PROVIDE INFORMATION***

#### **Article 27. Right to receive and duty to provide information.**

1. Directors shall diligently acquaint themselves with the operations of the Company, gathering to such end as much information as may be necessary or appropriate at any time for the proper and diligent performance of their duties.

To that end, the Directors have the broadest powers to obtain information on any aspect of the Company, to examine its books, records, documents and other background information on corporate transactions.

Such right to receive information also extends to the various companies of the Telefónica Group to the extent required to permit fulfillment of the duties to which Article 6 of these Regulations refers.

2. In order not to interfere with the ordinary management of the Company, the exercise of the right to receive information shall be channeled through the Chairman or the Secretary of the Board of Directors, who shall respond to the requests made by the Directors, providing them with the requested information directly or offering them the proper contacts at the appropriate level of the organization.

3. The Company shall provide the support required for new Directors to be able to acquire speedy and sufficient knowledge about the Company and its corporate governance regulations, and may establish orientation programs for such purpose. Whenever circumstances make it advisable, the Company may also establish continuing education programs for the Directors

#### **Article 28. Expert assistance.**

1. In order to receive assistance in the performance of their duties, the Directors or any of the Committees of the Board may request that legal, accounting, financial or other experts be retained at the Company's expense.

The engagement must necessarily be related to specific problems of a certain significance and complexity that arise in the performance of their duties.



2. The decision to retain such services must be communicated to the Chairman of the Company and shall be implemented through the Secretary of the Board, unless the Board of Directors does not consider such engagement to be necessary or appropriate.

## **CHAPTER II. OBLIGATIONS OF DIRECTORS**

### **Article 29. Duty of diligence.**

1. The Directors must act with the diligence of an ordinary businessman and a loyal representative, and are accordingly required to:

- a) Inform themselves and adequately prepare the meetings of the Board of Directors and of the Committees on which they serve.
- b) Attend the meetings of the decision-making bodies of which they are members and actively participate in deliberations, in order for their opinions to contribute effectively to the decision-making process, and take responsibility for them.
- c) Perform any specific duty assigned to them by the Board of Directors that reasonably falls within the scope of their commitments.
- d) Promote the investigation of any irregularity in the management of the Company which may have come to their knowledge and ensure the adoption of appropriate measures to control any situation of risk.
- e) Request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.
- f) Oppose resolutions that are contrary to Law, the By-Laws or the corporate interest, and request that their opposition be recorded in the Minutes.

2. The Directors must devote the time and efforts required to perform their duties and, to such end, shall report to the Nominating, Compensation and Corporate Governance Committee on their other professional obligations if they might interfere with the performance of their duties as Directors.

**Article 30. Duty of loyalty.**

The Directors shall serve in their position as loyal representatives in defense of the corporate interest, which is understood as the interest of the Company, and shall comply with the duties imposed by law and the By-Laws.

**Article 31. Duty of secrecy.**

1. Even after they cease to hold office, Directors must keep secret the confidential information, data, reports or records of which they have become aware as a result of the performance of their duties, and may not disclose them to third parties or disseminate them if such disclosure or dissemination might have consequences that are detrimental to the corporate interest.

An exception is made for instances in which the laws permit communication or disclosure thereof to third parties or where they are requested or required to send such information or data to the respective supervisory authorities, in which case, the release of information must comply with legal provisions.

2. All documentation and information that Directors acquire by reason of their office is confidential and may not be disclosed in any way, unless a resolution of the Board of Directors expressly establishes an exception from such confidential character.

3. If a Director is a legal entity, the duty of secrecy shall lie with its representative, without prejudice to compliance with the representative's obligation to report to such legal entity.

**Article 32. Specific applications of the duty of loyalty.**

In the performance of their duties, Directors shall act with absolute loyalty to the corporate interest of the Company.

To that end, Directors must comply with the following obligations and observe the following prohibitions:

- a) The Directors may not use the name of the Company or rely on their status as Directors to enter into transactions for their own account or for the account of related persons.
- b) The Directors may not, for their own benefit or for the benefit of related persons, make investments or transactions relating to the assets of the Company of which they have become aware through serving as Directors, when such transactions were offered to the Company, or the Company has an interest therein, provided the Company has not rejected them owing to the influence of the Directors.
- c) The Directors may not make use of the Company's assets, or use their position therein to obtain a financial advantage, unless they have paid appropriate consideration.

If the advantage is received in their capacity as shareholders, it shall only be proper if it respects the principle of equal treatment of shareholders.

- d) Directors must inform the Board of Directors of any situation of direct or indirect conflict they may have with the interest of the company. In the event of conflict, the Director affected shall refrain from participating in the transaction to which the conflict refers.
- e) Directors must refrain from participating in votes that affect matters in which they or persons related to them have a direct or indirect interest.
- f) No Director may directly or indirectly enter into professional or commercial transactions with the Company or with any of the companies of its Group, if such transactions are unrelated to the ordinary course of business of the Company or are not performed on an arm's length basis, unless the Board of Directors is informed thereof in advance and, with the prior report of the Nominating, Compensation and Corporate Governance Committee, it approves the transaction upon the affirmative vote of at least 90% of the Directors present in person or by proxy.
- g) Directors must also report, with respect to themselves as well as the persons related thereto, (a) the direct or indirect interests held by them; and (b) the offices held or duties performed at any company that is in a situation of actual competition with the Company.

For purposes of the provisions of this paragraph, the following shall not be deemed to be in a situation of actual competition with the Company, even if they have the same or a similar or complementary corporate purpose: (i) companies controlled thereby (within the meaning of Article 42 of the Commercial Code);

and (ii) companies with which Telefónica, S.A. has established a strategic alliance. Likewise, for purposes of the provisions hereof, proprietary Directors of competitor companies appointed at the request of the Company or in consideration of the Company's interest in the capital thereof shall not be deemed to be in a situation of competition.

- h) Directors must report to the Board any circumstances related to them that might damage the credit or reputation of the Company as soon as possible.

### **Article 33. Specific duties arising from the status of Telefónica, S.A. as a listed company**

1. Directors must at all times observe the rules of conduct set forth in legislation regarding the Securities Markets, and particularly those established in the Internal Rules of Conduct of Telefónica, S.A.

2. In particular, Directors may not enter into, or suggest that any person enter into, transactions regarding securities of the Company, or of the companies of the Group, in respect of which, by reason of their office, they have privileged.

3. Furthermore, Directors may not use non-public information of the Company for private purposes, except when the following conditions are met:

- a) the use of such information does not violate securities market regulations;
- b) the use thereof does not cause any prejudice to the Company; and
- c) the Company does not hold an exclusive right or a legal position of similar import with respect to the information they wish to use, unless the express prior authorization of the Board is obtained.

4. Likewise, Directors must abide by all obligations to provide information that are required of them, in their capacity as such, pursuant to applicable legislation.

### **Article 34. Liability of Directors.**

Directors shall be liable to Company, to the shareholders and to the creditors of the Company for the damage caused by acts or omissions contrary to Law or the By-

Laws, or by their acts or omissions in breach of the obligations inherent to the performance of their duties, on the terms and conditions established by law.

### ***CHAPTER III. COMPENSATION OF THE BOARD***

#### **Article 35. Compensation of Directors.**

1. Directors shall be entitled to receive the compensation set by the Board of Directors in accordance with the By-Laws and following a report of the Nominating, Compensation and Corporate Governance Committee.

2. The Board shall ensure that the compensation of a Director is in keeping with that paid on the market at companies of a similar size and activity, and that any variable compensation takes into account the professional performance of the beneficiaries and is not merely the result of the circumstances prevailing in the market.

3. Directors' compensation shall be fully transparent. For this purpose, the Nominating, Compensation and Corporate Governance Committee shall review the Directors' compensation policy on an annual basis.

4. The compensation received for serving on the Board of Directors shall be consistent with the other professional fees or compensation payable to the Director for any other executive or advisory duties performed at the Company.

#### **Article 36. Report on compensation policy**

1. Together with the Annual Corporate Governance Report, the Board of Directors shall annually approve, upon a proposal of the Nominating, Compensation and Corporate Governance Committee, a report regarding the compensation of its Directors, which shall include complete, clear and comprehensible information regarding the Company's compensation policy approved by the Board for the current year, as well as any policy approved for future years. It shall also include an overall summary of how the compensation policy was applied during the fiscal year, as well as a breakdown of the individual compensation accrued by each of the Directors.

2. The compensation policy report shall be made available to the shareholders on occasion of the call to the Annual General Meeting, and shall be submitted to a consultative vote of the shareholders as a separate item on the agenda.

## TITLE VI. BOARD RELATIONSHIPS

### Article 37. Relationships with shareholders.

1. The Board of Directors, acting as liaison between the owners and management, shall establish appropriate channels to receive the proposals that may be made by the shareholders in connection with the management of the Company.

In particular, the Board shall facilitate a regular exchange of information with committees or groups of shareholders, without that creating, in any case, any privilege for the shareholders grouped in such committees.

2. The Board may, through some of its Directors and with the cooperation of such senior executive officers as it considers appropriate, organize informational meetings on the operations of the Company and of its Group with shareholders residing in the most important financial markets in Spain and in other countries.

3. The Board of Directors shall guarantee equal treatment in its relations with shareholders.

4. The Board of Directors shall encourage informed participation by shareholders at General Shareholders' Meetings and shall take such measures as may be appropriate to ensure that the shareholders at the General Shareholders' Meeting effectively perform their duties under Law and the By-Laws.

### Article 38. Relationships with Institutional Shareholders.

1. The Board of Directors shall also establish appropriate mechanisms for a regular exchange of information with the institutional investors who are shareholders of the Company.

In particular, such information shall concern investment strategies, evaluation of results, the composition of the Board of Directors itself and management efficiency.

2. Under no circumstances shall relations between the Board of Directors and institutional shareholders lead to delivery to the latter of information that might give them an advantage over other shareholders.

### **Article 39. Related-Party Transactions.**

1. The Board shall know the transactions that the Companies enters into, either directly or indirectly, with Directors, with significant shareholders or shareholders represented on the Board, or with persons related thereto.

The performance of such transactions shall require the authorization of the Board, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, unless they are transactions or operations that form part of the customary or ordinary activity of the parties involved that are performed on customary market terms and in insignificant amounts for the Company.

2. The transactions referred to in the preceding sub-section shall be assessed from the point of view of equal treatment of shareholders and the arm's-length basis of the transaction, and shall be included in the Annual Corporate Governance Report and in the periodic information of the Company upon the terms set forth in applicable laws and regulations.

### **Article 40. Relationships with markets.**

1. The Board of Directors shall perform all duties imposed by the Company's status as an issuer of listed securities.

2. In particular, the Board shall perform the following specific duties with respect to the securities markets in the manner provided in these Regulations:

- a) The approval of periodic public information of a financial nature.
- b) The performance of all acts and adoption of as many measures as may be required to ensure the transparency of the Company with respect to financial markets, reporting to such markets, in particular, all events, decisions or circumstances that might be relevant for the listing of the shares.
- c) The performance of all acts and the adoption of as many measures as may be required to ensure the correct formation of prices for the Company's shares and, when appropriate, those of its subsidiaries, particularly avoiding manipulations and insider dealing.

3. The Board of Directors shall take the measures necessary to ensure that the public periodic financial information that prudence advises be made available to the markets is prepared in accordance with the same principles, standards and professional

practices as are used in the preparation of the Annual Financial Statements, and that it is as reliable as the latter. To that end, such information shall be reviewed by the Audit and Control Committee.

4. The Board of Directors shall at all times ensure the proper safeguard of data and information on the securities issued by the Company, without prejudice to its duty of communication and cooperation with judicial or administrative authorities, preventing such data or information from being used abusively or disloyally, reporting cases where that has occurred and promptly taking the necessary actions available to it to prevent, avoid and, where appropriate, correct the consequences that may arise therefrom.

5. In addition, the following information regarding Directors shall be posted and updated on the Company's website:

- a) Professional and biographical profile.
- b) Other Boards of Directors to which they belong.
- c) A statement of the category of the Director in question and, in the case of proprietary external directors, the shareholder they represent or to which they are related.
- d) Date of their first appointment as Director, as well as subsequent appointments.
- e) Company shares and stock options held by them.

#### **Article 41. Relationships with the Auditor.**

The Board of Directors shall, through the Audit and Control Committee, establish a stable and professional relation with the Company's Auditor, strictly respecting the independence thereof.

The Board of Directors shall endeavor to prepare the final financial statements in a manner that that will create no reason for qualifications from the Auditor. However, whenever the Board considers that it should maintain its standards, it shall publicly explain the contents and scope of the discrepancies.

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