

## **DIVERSITY POLICY IN RELATION TO THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. AND THE SELECTION OF DIRECTORS**

### **Introduction.**

On February 18, 2015, the Board of Directors of the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (“CNMV”) approved a Good Governance Code for Listed Companies (*Código de Buen Gobierno de las Sociedades Cotizadas*) (“CBG 2015”).

Recommendation 14 of the aforementioned Good Governance Code provides that *“the Board of Directors shall approve a Director selection policy that: is concrete and verifiable; b) ensures that appointment or re-election proposals are based on a prior analysis of the board’s needs; and c) favors a diversity of knowledge, experience and gender.”*

Furthermore, Royal Decree-law 18/2017 of November 24, amending the Commercial Code, the restated text of the Companies Act approved by Royal Legislative Decree 1/2010 of July 2, and Law 22/2015 of July 20 on the Auditing of Financial Statements in regard to non-financial information and diversity was published in the Official Gazette (*Boletín Oficial del Estado*) on November 25, 2017.

In this regard, pursuant to the new text of section 540.4.c, sub-section 6, of the Companies Act, listed companies must include in their Annual Corporate Governance Report *“a description of the diversity policy applied in relation to the Board of Directors, including the objectives of such diversity policy, the measures adopted, how they have been implemented and the results in the reporting period, as well as any measures approved by the Appointments Committee along these lines.”*

In this context, at its meeting held on December 13, 2017, the Board of Directors of Telefónica, S.A. (hereinafter, “Telefónica” or the “Company”) approved this update of its Director Selection Policy (the first version of which was approved on November 25, 2015), including therein the Diversity Policy applicable to the Board of Directors, which thus became the “Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors.”

### **I. Purpose.**

The Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors is intended to ensure that proposals for appointment or re-election of Directors are based on a prior analysis of the needs of the Company’s Board of

Directors and favor a diversity of knowledge, training and professional experience, age and gender, ensuring that such proposals are free from any implicit bias entailing any kind of discrimination, particularly by reason of gender, disability or any other personal condition.

For such purpose, this Director Selection Policy shall be applied to the election of candidates for Director who are natural persons, and if the candidates for Director are legal persons, the provisions of this Policy shall apply to the natural persons who act in representation thereof.

## **II. Diversity Process in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors.**

The selection of candidates for Director of Telefónica shall adhere to the following principles:

1. Efforts will be made for the Board of Directors to have a balanced composition, with a large majority of non-Executive Directors and an appropriate mix of Proprietary and Independent Directors.
2. The Board of Directors shall endeavor to ensure that the Director selection procedures favor diversity of knowledge, training, professional experience, age and gender, and are free from any implicit bias entailing any kind of discrimination. All of the foregoing is in order for the Board of Directors to have a diverse and balanced composition overall, which i) enriches analysis and debate, ii) contributes to multiple viewpoints and positions, iii) favors decision-making, and iv) gives it maximum independence.

It shall also ensure that the candidates for non-Executive Director have sufficient available time to properly perform their duties.

3. The process for selecting candidates for Director shall also be based on a prior analysis of the needs of the Company and of its Group. Such analysis must be performed by the Company's Board of Directors, with the advice and with the required prior justifying report of the Nominating, Compensation and Corporate Governance Committee.
4. Such report of the Nominating, Compensation and Corporate Governance Committee shall be published upon occasion of the call to the General Shareholders' Meeting at which the ratification, appointment or re-election of each Director is submitted.
5. The Nominating, Compensation and Corporate Governance Committee shall verify compliance with the Diversity Policy in relation to the Board of Directors of Telefónica, S.A. and the Selection of Directors on an annual basis, and information thereon shall be

included in the Annual Corporate Governance Report and in such other documents as are deemed appropriate.

### **III. Candidates for Director.**

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 for the position of Director are persons of recognized caliber, qualifications, training and professional experience, who are willing to devote a sufficient portion of their time and the required effort to the performance of their duties, and shall take extreme care in the selection of the persons to be appointed as Independent Directors.

In this regard, candidates for Director shall be persons of recognized prestige, caliber, training and professional experience, especially in the telecommunications, economic/financial, accounting, auditing, risk management and/or business management fields, with the ability to lead teams made up of persons belonging to various fields of activity, and extensive knowledge about large companies.

They may not be Directors, and 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 as Directors no longer exist.

b) When they are affected by any of the cases of disqualification or prohibition established by law.

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 of Directors might affect the Company's credit or reputation in the market or otherwise jeopardize the Company's interests.

### **IV. Performance Evaluation.**

The Board of Directors must undertake an annual evaluation of its operations and that of its Committees, particularly evaluating the application of the various aspects of diversity contained in this Policy in the composition and powers of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, of the Company's Chief Executive Officer, and of the various Directors, paying special attention to the heads of

the various Committees of the Board, and shall adopt appropriate measures for the improvement thereof.

The results of the evaluation shall be recorded in the minutes of the meeting or included therein as an attachment.

The evaluation of the various Committees shall be based on the report that they submit to the Board of Directors, and that of the Board of Directors shall be based on the report submitted thereto by the Nominating, Compensation and Corporate Governance Committee.

Every three years, the Board of Directors shall be assisted in performing the evaluation by an external consultant, the independence of which shall be verified by the Nominating, Compensation and Corporate Governance Committee.

The business relationships of the consultant or any company of its group with the Company or with any company of its Group must be disclosed in the Annual Corporate Governance Report.

The process and areas evaluated shall be described in such Annual Corporate Governance Report.

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