

***FUNCTIONING AND REPORT OF ACTIVITIES OF THE  
NOMINATING, COMPENSATION AND CORPORATE  
GOVERNANCE COMMITTEE OF THE BOARD OF  
DIRECTORS OF TELEFÓNICA, S.A.***

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# ***NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.***

## **I. INTRODUCTION**

The purpose of the present document is to describe the functioning of the Nominating, Compensation and Corporate Governance Committee of Telefónica, S.A. (henceforth, the Company), sketching out, likewise, aspects related to its duties, remit and membership.

The Nominating, Compensation and Corporate Governance Committee was created in 1997 by the Board of Directors of Telefónica, S.A., under the title of Selection and Compensation Committee, for the purpose of analyzing and examining questions relating to proposed appointments and removals of Directors and Senior Managers of Telefónica Group, and their Compensation scheme.

Similarly, and as a consequence of the modifications to the Regulations of the Board of Directors of the Company to adapt them to the Olivencia Report, the Committee changed its name to the Nominating and Compensation Committee on 22 July 1998, in addition to changing its duties and remit.

Likewise, and pursuant to the resolution adopted by the Board of Directors on 26 June 2002, the Committee came to be called the Nominating and Compensation and Corporate Governance Committee, with new duties relating to practices and recommendations for Corporate Governance being assigned. Again, in the modifications to the Regulations of the Board of Directors approved by the same at its meeting on 28 November 2007, there was a minor improvement in the name, which became the Nominating, Compensation and Corporate Governance Committee.

Finally, after the resolution by the General Shareholders' Meeting of the Company held on 31 May 2013, the regime applicable to this Committee was set out in article 40 of the Company Bylaws (previously it was established in the Regulations of the Board of Directors).

## **II. DUTIES AND POWERS OF THE COMMITTEE**

The duties and remit of the Nominating, Compensation and Corporate Governance Committee are laid down in the cited article 40 of the Company Bylaws and article 23 of the Regulations of the Board of Directors.

Thus, and pursuant to the cited article 23, the Nominating, Compensation and Corporate Governance Committee of Telefónica S.A. has the following remit assigned, notwithstanding any other matter that may be entrusted to it by the Board of Directors:

- 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, as well as the Secretary and, if applicable, the Deputy Secretary of the respective Board of Directors, 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 respective Secretary and, if applicable, the respective Deputy Secretary.
- 3) To propose to the Board of Directors the appointment of the Lead Director from among the independent Directors.
- 4) Together with the Chairman of the Board of Directors, to organize and coordinate a periodic assessment of the Board of Directors pursuant to Article 13.3 of these Regulations.
- 5) To report on the periodic evaluation of the performance of the Chairman of the Board of Directors.
- 6) To examine or organize, in such manner as is deemed fit, the succession of the Chairman of the Board of Directors and, if applicable, to make proposals to the Board of Directors so that such succession occurs in an orderly and well-planned manner.
- 7) 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 34 of these Regulations.
- 8) 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 of the Board of Directors, the executive Directors and the senior executive officers of the Company, as well as the basic terms of their contracts, for purposes of contractual implementation thereof.
- 9) To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.
- 10) To supervise compliance with the Company's internal rules of conduct and the corporate governance rules thereof in effect from time to time.

11) To exercise such other powers and perform such other duties as are assigned to the Nominating, Compensation and Corporate Governance Committee in these Regulations.

It should be stated that, among the proposals submitted for approval by the Ordinary General Shareholders' Meeting of the Company, called for 11 and 12 June 2015, on first and second calls, respectively, there is included a modification of article 40 of the Company Bylaws relating to the Nominating, Compensation and Corporate Governance Committee, with a dual purpose: first, it seeks to include in the By-Laws the idea that the Nominating, Compensation and Good Governance Committee, whose existence now prescribes as mandatory by law, will be assigned in all cases a list of minimum legal duties. Such list, which will be subject to development in the Regulations of the Board of Directors, is currently under LSC Section 529 quinquedecies, as mandatory.

Furthermore, the second purpose of the amendment is to include a provision required to enable the Board to comply with Recommendation number 48 of the Good Governance Code for listed companies of February 2015, whereby it is advised that "companies with high capitalization have a separate nominating committee and a separate compensation committee." To such end, the proposal authorizes the Board to split the Nominating, Compensation and Corporate Governance Committee into two separate Committees, namely, a nominating committee and a compensation committee, with the power to assign corporate governance duties to either of them.

To facilitate comparison between the current wording of Article 40 of the Bylaws and the resultant of the proposed modifications, it is included at the end of this document, as an Annex, and two columns, a literal transcription of both texts.

### **III. COMPOSITION OF THE COMMITTEE**

With respect to its composition, and in accordance with article 23 of the Regulations of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee must be made up of a minimum of three Directors, designated by the Board of Directors. All members of the Committee must be External Directors, and the majority must be Independent Directors.

The said article also sets out that the Chairman of this Committee shall always be an Independent Director.

The current composition of the Nominating, Compensation and Corporate Governance Committee and the date of appointment of each member, is as follows:

- Mr. Alfonso Ferrari Herrero  
(Chairman)

- Mr. Carlos Colomer Casellas
- Mr. Peter Erskine
- Mr. Gonzalo Hinojosa Fernández de Angulo
- Mr. Pablo Isla Álvarez de Tejera

The professional profiles of the members of the Nominating, Compensation and Corporate Governance Committee are publicly available at the Corporate website of Telefónica, S.A.

[http://www.telefonica.com/es/shareholdersinvestors/html/corporate\\_governance/comconsejo.shtml](http://www.telefonica.com/es/shareholdersinvestors/html/corporate_governance/comconsejo.shtml)

Similarly, it should be said that on 31 May 2013, the Chairman of the Committee, Mr. Alfonso Ferrari Herrero, was designated Lead Independent Director of the Company, by resolution of the Board of Directors.

The Secretary to this Committee is the General and Board Secretary of Telefónica, S.A., Mr. Ramiro Sánchez de Lerín García-Ovies, who advises on all juridical matters related to this Committee, supported by the Group Vice General Counsel and Chief Legal Officer of the Group, Ms. María Luz Medrano Aranguren, and the Corporate Governance and Securities Market Director, Ms. Consuelo Barbé Capdevila.

#### **IV. FUNCTIONING OF THE COMMITTEE**

The Nominating, Compensation and Corporate Governance Committee meets as often as is deemed fit to analyze the issues which fall within its purview (in most cases, before the meetings of the Board of Directors of Telefónica), subject to prior convocation by the Chairman of the Committee.

These meetings last around two hours on average, dedicating its members an appropriate numbers of hours to the study and analysis of the issues to be discussed.

In the matter of attendance, each member of the Committee is subject to attendance control, a record being taken at the start of each session, and recorded in the corresponding Minutes.

All meetings of the Committee discuss the different questions submitted for deliberation, or for decision where appropriate, in the due depth. The members intervene actively in the different debates and discussions, giving their opinion whenever they should see fit.

Finally, and as is the case with the other Committees of the Board, the relations between this Committee and the Board of Directors are based on a principle of full transparency. In fact, the Chairman of the Committee gives an account to the Board, at each of its monthly meetings, and at the start of the Board session, of the main issues discussed and the activities and work carried out by the Nominating, Compensation and Corporate Governance Committee, even putting the corresponding documentation at its disposal, so that the Board is aware of these actions for the exercise of its competences.

The sessions of the Nominating, Compensation and Corporate Governance Committee are quorate when at least half of the members are present, directly or by proxy, and resolutions are adopted by simple majority of those present. In the event of a tie, the Chairman holds a casting vote.

## **V. ATTENDANCE AT MEETINGS**

Regarding those who attend the meetings of this Committee apart from its own members, the sessions are generally attended by different members of the management team of Telefónica S.A. who, because of their duties and remit, can engage in support and assistance to Committee members in the matters to be analyzed at the meeting. Principally, the Corporate Human Resources Director of Telefónica, S.A., and the Compensation Director of Telefónica, S.A.

## **VI. MATTERS DISCUSSED BY THE NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE IN 2014.**

Among the matters which the Committee analyzed in 2014, some corresponded to its duties and others prompted the interest of the Committee because of their relation to its competences.

In the examination and debate of the issues discussed by the Committee during the financial year 2014, the speakers accompanied their points with presentations and/or reports, analyzing and discussing, among other matters, the following:

### *1. Proposed appointments relating to the Board and its Committees, and the Boards of Affiliate Companies.*

In accordance with the remit assigned, the Committee, throughout the sessions held in 2014, analyzed various proposals to appoint Directors at the most significant Affiliate Companies.

### *2. Proposed appointments related to Senior Managers and organizational changes.*

Similarly, the Committee analyzed and was informed about those proposals related to senior management of the Company and its Affiliate Companies,

appraising the proposed appointments and the fit and professionalism of the candidates, together with their curricula and their career within and beyond the Company.

*3. Remunerative regime for the Boards, senior managers and employees of Telefónica Group.*

With respect to Compensation for Directors and senior managers, the Nominating, Compensation and Corporate Governance Committee studied the regime currently in place for the same at the Company.

*4. Self-assessment of the Board, its Committees and the General Meeting.*

Similarly, the Committee examined and analyzed the results of the self-assessment carried out by the Directors of the Company of the operation of the Board of Directors, its Committees and the General Shareholders' Meeting, and reported to the Board on its conclusions.

*5. Annual Corporate Governance Report.*

On another matter entirely, the Committee reviewed and reported on the content of the Annual Corporate Governance Report 2014 of Telefónica, S.A.

*6. Report on the Compensation Policy for the Board of Directors.*

Likewise, and in accordance with the provisions of article 23 of the Regulations of the Board of Directors, the Committee analyzed and reported favorably on the report on the Compensation Policy for the Board of Directors, which describes in complete detail the bases and parameters used to determine the Compensation of the Board of Directors and the Directors themselves, at the Company.

\* \* \* \* \*



## ANNEX

CURRENT TEXT	PROPOSED AMENDMENT
<p><b>Article 40.- Nominating, Compensation and Corporate Governance Committee</b></p> <p>1. A Nominating, Compensation and Corporate Governance Committee shall be created within the Board of Directors, which shall be composed of such number of Directors as may be determined by the Board of Directors from time to time, although in no case may there be fewer than three Directors, to be appointed by the Board of Directors. All of the members of such Committee must be external or non-executive Directors and the majority of them must be independent Directors.</p> <p>2. The Chairman of the Nominating, Compensation and Corporate Governance Committee, which position shall be held by an independent Director in all cases, shall be appointed by the Committee itself from among its members.</p> <p>3. The Nominating, Compensation and Corporate Governance Committee shall be entrusted with general powers to propose and report on the compensation and appointments of, and the vacation of office by, Directors and senior executives, as well as any others entrusted to it by the Board of Directors.</p>	<p><b>Article 40.- Nominating, Compensation and Corporate Governance Committee</b></p> <p>1. A Nominating, Compensation and Corporate Governance Committee shall be created within the Board of Directors, which shall be composed of such number of Directors as may be determined by the Board of Directors from time to time, although in no case may there be fewer than three Directors, to be appointed by the Board of Directors. All of the members of such Committee must be external or non-executive Directors and the majority of them must be independent Directors.</p> <p>2. The Chairman of the Nominating, Compensation and Corporate Governance Committee, which position shall be held by an independent Director in all cases, shall be appointed by the Committee itself from among its members.</p> <p>3. The Nominating, Compensation and Corporate Governance Committee shall <del>be entrusted with general powers to propose and report on the compensation and appointments of, and the vacation of office by, Directors and senior executives, as well as any others entrusted to it by the Board of</del> <u>Directors have the duties, provided for under the applicable legislation at a minimum.</u></p> <p><u>4. The Board may approve the creation of two Committees, separately assigning duties in connection with appointments to one of them and</u></p>

CURRENT TEXT	PROPOSED AMENDMENT
	<u>duties in connection with compensation to the other, with the power to assign corporate governance duties to either of them.</u>