

Fundación Telefónica's Good Governance Code

March 2015

PREAMBLE

This **Code of Good Corporate Governance** of Fundación Telefónica was approved by its **Board of Trustees** at its meeting held on **25 March 2015**. This Good Governance Code includes the main domestic and international recommendations on the good governance of non-profit organisations and the principles of foundational social responsibility.

In accordance with the foregoing, the **Fundación Telefónica's system of governance** is established in accordance with the following regulations:

1. The Fundación Telefónica's **Articles of Association** which, together with the Law, form the basis for the responsible management of its projects and interaction with society in general.
2. The Telefónica Group's **Principles of Action**, that inspire and define the way in which it carries out its activity, and whose general principles are honesty and trust, respect for the law and for integrity, and respect for human rights.
3. The **Good Governance Code** which interprets and implements the Fundación Telefónica's Articles of Association in order to guarantee the fulfilment of the foundational aims, the transparency of its bodies, the members of the Board of Trustees and the employees of Fundación Telefónica.

CHAPTER I: VALUES AND BEST PRACTICES

1. Nature and purpose

1. Fundación Telefónica is a private, permanent, non-profit cultural foundation with full legal personality and full legal capacity to act.
2. The **purpose** of Fundación Telefónica is specified in its foundational aims and activities set out in its Articles of Association.
3. The **objective** of Fundación Telefónica will be to promote activities of general interest, and in particular:
 1. To promote the development of education and equal opportunities among people, through innovative methods and/or the application of new technologies.
 2. To contribute to the improvement of the living conditions of society in general, and in particular of children, young people, the elderly, people at risk of social exclusion or with disabilities, supporting, promoting and collaborating in the development and promotion of actions and activities that result in an improvement of their conditions and visibility.
 3. To develop social action programmes on its own and with third parties, carried out by non-profit organisations of recognised prestige.
 4. To manage, promote, foster, disseminate, protect and defend the artistic, cultural and historical-technological heritage of Telefónica, S.A. and its own. It will also deal with the promotion and dissemination of science and technology and their impact on society, culture, contemporary art and new technologies in any of their expressions.
 5. To promote the research, the training -of faculty included- and the teaching with the intention of the disseminating and improving digital skills, as well as technologies related to them and their applications of all kinds, insofar as they may contribute to the improvement of societal conditions, science and culture development, medicine, education and teaching perfection, and any other application of general and social usefulness.

6. To promote Corporate Volunteering within and outside the Telefónica Group, offering all participants the necessary means to ensure that these activities are useful and have a positive effect on society.
7. To provide emergency support and relief in those countries that require it as a result of natural disasters or similar catastrophes.

2. Non-profit motive

Fundación Telefónica will not distribute any surplus nor profit to its founding entity, even in the event of dissolution, and will use any surpluses it may obtain to achieve its foundational aims, in accordance with the provisions of its Articles of Association and current legislation.

3. Fundación Telefónica's actions publicity

1. The aims, activities and beneficiaries of Fundación Telefónica's actions will be made known to the beneficiaries of its activity and to society in general, by the means available to them.
2. The Foundation shall make public its Articles of Association and any internal operating rules, as well as the composition of its Board of Trustees and the person of its Executive Vice-Chairman.

4. Accountability and transparency

1. Fundación Telefónica, without prejudice to compliance with its legal obligations, will undergo an annual **external audit**.
2. The Foundation shall make public its **annual accounts** and its **activity report**, as well as any other **relevant information** regarding its activity, through its channels of access to information.
3. The Foundation shall provide its **Board of Trustees** and **Protectorate** with information on the projects it develops, the destination of its contributions and the results and indicators obtained.

5. Public-Private partnership

1. Fundación Telefónica will collaborate with other entities, organisations,

institutions and companies in the public and private sectors and with the third sector, to develop strategies that reinforce collaboration with those groups related to the fulfilment of its objectives.

2. The Foundation will seek, with other entities, synergies of scale that multiply the social impact of its initiatives, without compromising its identity and essential values set out in its Articles of Association.

6. Independence

1. Fundación Telefónica will have the appropriate structures to guarantee its **autonomy** and **independence**.
2. The Foundation will not accept financial contributions that condition the fulfilment of its objectives, values or principles or that jeopardise the achievement of its aims.
3. Trustees and employees shall always observe the **Principles of Action** in the performance of their responsibilities, irrespective of their own or others interests.

7. Resource planning and optimisation

1. Fundación Telefónica will administer its resources efficiently, seeking to optimise their application, and will adopt the necessary management control measures to ensure that this is the case, always in accordance with the principles of **transparency**, **competition** and **objectivity** defined for the development of its activity.
2. The Foundation's employees shall at all times observe the planning mechanisms, monitoring of objectives and indicators, and control of resources established for the development of the projects, approved by Fundación Telefónica's **Steering Committee** and submitted to the **Board of Trustees**.

8. Social Responsibility

1. Fundación Telefónica will attend to the **general interest** of society, taking into account the socio-economic situation of the societies where it develops its projects.

2. The Foundation shall, as far as possible, promote the social, economic and environmental progress of the above-mentioned societies. The beneficiaries of its activity may be any non-profit-making natural or legal person, without any discrimination whatsoever.

9. Planning and monitoring of the activity

1. Fundación Telefónica will strengthen its **stability, flexibility** and **organisational culture**, through long-term planning and the monitoring of objectives and indicators established for each particular project.
2. The Board of Trustees shall approve the **global action** plans that guide the activity of the Foundation, for the most effective achievement of its objectives.

10. Principles of action

Fundación Telefónica's Principles of action are assumed and abided by its Board of Trustees and employees, form an integral part of its collaboration agreements and contracts with third parties and are disseminated to society via the Foundation's own channels of access to information.

CHAPTER II: BODIES OF THE FOUNDATION

11. Ethical behaviour

1. Respect for ethics shall inspire the actions of the Foundation's bodies.
2. Ethical behaviour entails **diligence, good faith** and putting the **interests** of the **Foundation** first.

12. Respect for legal principles

1. All Fundación Telefónica's bodies shall comply with the **applicable regulations**.
2. The bodies shall **treat fairly and equally** all those who may be affected by their actions, without distinction as to birth, race, sex, religion, disability,

opinion or any other personal or social condition or circumstance.

Section One: THE BOARD OF TRUSTEES

13. Character, composition and competence

1. The representation, governance and administration of Fundación Telefónica corresponds to the Board of Trustees appointed in accordance with its Articles of Association, which shall act in accordance with the rules contained therein and with the provisions of the Law, and may be assisted by an Advisory Committee, which shall assist it in its decision-making.
2. The **competence** of the Board of Trustees extends to all legal acts and business concerning the representation and governance of the Foundation, as well as to the free administration and disposal of all the assets that make up its patrimony, income and products; to the exercise of all its rights and actions; to the interpretation of the Articles of Association of Fundación Telefónica and to the resolution of all legal incidents that may occur and, in particular, to the fulfilment of the foundational purpose, always without prejudice to the powers attributed to the Protectorate by the legislation in force.

Section Two: THE TRUSTEES

14. Composition

1. The Board of Trustees of the Foundation is composed of **Ex officio Trustees** and **Elective Trustees**, in the event that the Board of Trustees approves the designation of a person as such.
2. By virtue of their position, the persons holding the highest executive responsibility in Telefónica, S.A. and in the subsidiaries of Telefónica that are the head of the group in accordance with the organisation approved from time to time by the Board of Directors of Telefónica, S.A., as well as the highest executive responsible for the patronage and social projection activities of Telefónica, S.A., shall be Ex officio Trustees of the Foundation.
3. The Foundation's Ex officio Trustees, at the proposal of any of them, and with a 2/3 majority of said Trustees, may appoint as Elective Trustees, in the number to be determined, relevant persons who are distinguished for their social work in the fields of action contemplated by the Foundation in its foundational aims.
4. Elective Trustees may be those who, having full legal capacity to act, do not hold positions or functions that may be incompatible, for any reason, with the mission entrusted to them by the Board of Trustees.

15. Renewal

The Ex officio Trustees shall be renewed when they are replaced and appointed to the positions that confer them their status as such, and the Elective Trustees every four years, being in any case eligible for re-election.

16. Positions on the Board of Trustees

Positions on the Board of Trustees shall be of **trust** and **honorary nature**.

1. Consequently, their holders shall perform them free of charge and shall not receive any remuneration therefor. However, they shall be entitled to reimbursement of duly justified travel expenses incurred in attending meetings of the Board of Trustees and any other duly justified expenses

incurred in the performance of any specific mission entrusted to them on behalf of and in the interests of the Foundation.

2. However, the Board of Trustees may fix an appropriate remuneration for those Trustees who render services to the Foundation other than those involved in the performance of the duties as members of the Board of Trustees, subject to prior authorization from the Protectorate.

17. Obligations and responsibilities

1. The **obligations** of the Trustees include: to fulfil the aims of the Foundation, to attend meetings, to carry out their duties with the diligence of a loyal representative, and to maintain and preserve the values of the Foundation and to promote its extinction in the cases provided for in current legislation and in the Articles of Association of Fundación Telefónica.
2. The Trustees are **liable** to the Foundation, under the terms provided for in the Civil Code and Law 50/2002, of 26 December, for any damages and losses caused by acts contrary to the Law or the Articles of Association and for those carried out without the diligence with which they should perform their duties.

Those who have voted against the agreement, and those who prove that, not having been involved in its adoption and execution, were unaware of its existence or, being aware of it, did everything appropriate to avoid the damage or, at least, expressly opposed it, shall be exempted from liability.

3. By way of example and without limitation, the Board of Trustees shall be responsible for:
 - a. Representing the Foundation in all kinds of relations, acts and contracts before the Spanish State, foreign states, autonomous communities, public bodies, courts and any other public or private, national or foreign entities, as well as individuals; initiating and following through all procedures, instances and appeals as many procedures, files, claims and trials that are of active or passive interest to the Foundation in conformity with the current legislation.
 - b. Buying, selling and in any way managing personal and real property;

constituting, modifying and cancelling real and personal rights, all of this subject to the system of communications, authorisations and registry records relevant in each case in accordance with Article 21 of Law 50/2002; carrying out all types of banking and credit operations; constituting, modifying and cancelling deposits; accepting inheritances, legacies, donations and grants, subject to the provisions of Article 22 of Law 50/2002; exercising political and economic rights directly or by representative; making collections, making payments, entering into all kinds of contracts and legal transactions; granting and revoking powers of attorney of any kind.

- c. Ensuring the fulfilment of the Foundation's will, interpreting and carrying it out, if necessary.
- d. Amending the Articles of Association, if necessary to better fulfil the founder's wishes, in accordance in all cases with the provisions of Article 29 of Law 50/2002.
- e. Exercising high inspection, supervision and guidance of the Foundation.
- f. Approving the appointments and hiring of the Foundation's management staff.
- g. Approving the periodic action programmes and the action plan or budgets of the Foundation.
- h. Establishing the general guidelines on the distribution and application of the funds available for the objectives pursued by the Foundation.
- i. Authorising the modification of capital investments of the Foundation.
- j. Approving the annual accounts as provided for in Article 25 of these Articles.
- k. Proposing a merger with another foundation when it is in its interest to do so; agreeing on the termination of the Foundation in the event of the impossibility of achieving the foundational purpose, in accordance with the provisions of Articles 30 and 31 of Law 50/2002.

- l. The Board of Trustees may also appoint Delegates and Advisors with the functions and tasks entrusted to them, with the limitations established in article 16.1 of Law 50/2002.
- m. Deciding on all those matters not expressly mentioned in the previous sections and which are necessary for the achievement of the foundational aims, carrying out as many functions as may be necessary without any requirements or limitations other than those expressly provided for in these Articles of Association or ordered by Law as necessary.

Section Three: MAIN OFFICES AND BODIES OF THE FOUNDATION

18. Composition

1. The Trustees shall elect, from among their members and with a majority of 2/3 of them, the persons who are to hold the position of **Chairman** and **Vice-Chairman** of the Board of Trustees.
2. The Board of Trustees shall elect, by simple majority, a **Secretary** who, when not a Trustee, shall attend the meetings of the Board of Trustees with voice but without vote. They may appoint a Vice-Secretary to assist the Secretary or replace him/her in the performance of his/her duties in the event of vacancy, absence or impossibility.
3. The Secretary shall keep and safeguard the minute books of the meetings and shall issue certificates of the resolutions with the approval of the Chairman or, where appropriate, the Vice-Chairman.
4. The Board of Trustees may appoint a **Managing Director**, a position which, at the discretion of the Board of Trustees, may be remunerated if the person appointed does not qualify as a Trustee. The Managing Director shall be assisted by such technical staff as the Board of Trustees may determine.
5. The Board of Trustees may be assisted by an **Advisory Committee** composed of the Vice-Chairman and a member of the Board of Trustees and two representatives of each of the Foundations that may be established

in third countries.

- a. The Advisory Committee shall have those coordinating, advisory and evaluation functions regarding the activities and programmes carried out by the Foundation that are entrusted to it by the Board of Trustees at the time of its creation, as well as any others that may subsequently be conferred upon it.
- b. The Advisory Committee, if established, shall be chaired by the person holding the office of Vice-Chairman of the Foundation and its meetings shall be attended by the Managing Director of the Foundation, who shall act as Secretary. Representatives of non-profit organisations, executives of Telefónica, S.A.'s operating companies and external advisors, whose opinions may be relevant to the issues to be discussed, may participate in the deliberations of the Committee, with voice but without vote, when so decided by its Chairman.

CHAPTER III: FUNCTIONING OF THE BOARD OF TRUSTEES AND ADOPTION OF AGREEMENTS

19. Convening and conduct of meetings

1. **Meetings** of the Board of Trustees shall be convened, in writing and by rapid and secure procedures, by the Chairman on his own initiative or at the request of at least one third of the members of the Board of Trustees. It shall be convened, as necessary, twice a year, with at least fifteen days' notice being given by the Secretary.
2. The meetings of the Board of Trustees shall be considered validly constituted when at least half plus one of its members are present.

20. Agreements

1. Resolutions shall be adopted by majority vote, and in the event of a tie, the Chairman shall have the casting vote, and no Trustee may abstain from voting or vote in blank.

2. These resolutions shall be transcribed in the minutes book and shall be authorised by the signatures of the Chairman, or the Vice-Chairman, as the case may be, and the Secretary.
3. By express will of the founding company, Telefónica, S.A., the Board of Trustees of the Foundation shall exercise its powers with absolute supremacy, without hindrance or limitation, and its acts shall be final and unappealable, without prejudice to the powers granted by law to the Protectorate.
4. By virtue thereof, in the adoption or execution of its resolutions or agreements of any kind, the Board of Trustees may not be required to comply with any requirements other than those expressly provided for in its Articles of Association or as required by law.
5. Consequently, the Board of Trustees may carry out all kinds of legal acts, without the need for authorisations or interventions of authorities, bodies or persons outside the Foundation, or to observe any special formalities, except for the specific limitations established by the legal system in relation to such acts.

CHAPTER IV: MANAGEMENT TEAM

21. Recruitment of staff

The selection of staff for the required profiles shall be made in accordance with the principles of **equality, merit and ability**.

22. Professional development and equal opportunities

1. Fundación Telefónica will promote the **professional and personal development** of its employees, ensuring the observance of **ethical principles, non-discrimination and equal opportunities**.
2. The Foundation will guarantee its employees an environment free of health risks at all its facilities.
3. The Foundation shall promote measures aimed to **balance** the

personal, family and professional responsibilities of its employees.

4. The Foundation shall provide employees with adequate means for the proper performance of their duties.

CHAPTER V: ACCEPTANCE, COMPLIANCE, MONITORING, MODIFICATION, BREACH AND VALIDITY OF THE GOOD GOVERNANCE CODE

23. Acceptance and compliance

1. This Good Governance Code is applicable to the **governing bodies** and **employees** of the Foundation, who shall act in accordance with its contents.
2. The Foundation will disseminate the content of this Code by publishing it on its channels for access to information.

24. Monitoring

The monitoring and control of the application of the Good Governance Code shall be the responsibility of the **Board of Trustees** of Fundación Telefónica, which shall ensure its dissemination, knowledge and interpretation, making the recommendations and proposals necessary to keep it up to date and improve its content.

25. Modification

Any modification of the Good Governance Code will require the approval of the Board of Trustees of Fundación Telefónica.

26. Infringement or non-compliance

1. Any violation or breach of the Good Governance Code must be reported by whoever becomes aware thereof to the Chairman of the Board of Trustees or to the Executive Vice-Chairman of Fundación Telefónica, depending on its nature, who will assess the way to handle the information received.

2. The confidentiality of such information, as well as the identity of the person providing it, shall be guaranteed.

27. Validity

This Good Governance Code was approved at the meeting of the Board of Trustees of Fundación Telefónica held on 25 March 2015 and will remain in force until its modification is approved.

Madrid, 25 March 2015



www.fundaciontelefonica.com