

**REGULATIONS OF THE AUDIT AND CONTROL COMMITTEE  
“TELEFÓNICA, S.A.”**

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**REGULATIONS OF THE AUDIT AND CONTROL COMMITTEE**  
**“TELEFÓNICA, S.A.”**

**Article 1. Composition of the Committee.**

1. The Audit and Control Committee shall consist of such number of Directors as the Board of Directors determines from time to time, which shall in no case be less than three, to be appointed by the Board of Directors. All members thereof must be External or Non-Executive Directors, and at least a majority of them must be Independent Directors. In appointing its Members, and particularly its Chairman, the Board of Directors shall take into account their knowledge and experience in matters of accounting, auditing or both, as well as in risk management. As a group, the Members of the Committee shall have relevant technical knowledge relating to the industry to which the Company belongs.

2. 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.

**Article 2. Requirements for Appointment of its Members.**

1. The Members of the Audit and Control Committee must have experience and expertise in management, economics, finance and business, as required of any Director.

2. The Board of Directors shall also endeavor to ensure that the Members of the Committee, taken as a whole, combine the necessary expertise not only in accounting and auditing but also in finance, internal control, risk management and business.

3. All of the aforementioned standards as to the composition, knowledge and training of the Audit and Control Committee are intended to secure the utmost independence for the Committee.

### **Article 3. Rules of Operation of the Committee.**

**1.** The Audit and Control Committee must have adequate, timely and sufficient access to information, for which purpose:

**a.** The Chairman of the Committee, and if thought appropriate or if so requested by other Members, the rest of Committee Members shall keep regular contact with the key personnel involved in the governance and management of the Company.

**b.** The Chairman of the Committee, through the Secretary of the Committee, shall channel and supply the necessary information and documentation to the rest of Committee Members sufficiently in advance for such information to be considered prior to meetings thereof.

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

The Committee shall in any event meet at least on the occasion of each annual or interim financial reporting date, in which cases the presence of the Internal Auditor, and, if any review report is issued, the Statutory Auditor, shall be requested.

In any event, in the performance of its duties, the Committee may require that its meetings be attended by the Statutory Auditor, the head of Internal Audit, and any employee or Senior Executive Officer of the Company and the experts it deems appropriate.

Attendance at formal meetings of the Committee should be preceded by sufficient dedication of its Members to analyze and assess the information received.

**3.** The Committee must have a Secretary (normally, the same person as the Secretary or Deputy Secretary of the Board of Directors) and be provided with the necessary assistance for planning meetings and agendas, drafting documents and meeting minutes, and compiling and distributing information, among other tasks.

**4.** The Committee shall establish an annual Work Program in order to provide for adequate planning to ensure that the intended purposes are effectively fulfilled.

Meetings must be planned by the Chairman of the Committee and notified to the Secretary thereof so that Members receive the documentation sufficiently in advance. All of the foregoing must have regard to the fact that Members of the Committee play a primarily supervisory and advisory role and should not become involved in executive or management duties, which are within the purview of Management.

**Article 4. Assigned Duties and Functions.**

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:

- i.** To report to the shareholders at the General Shareholders' Meeting on matters raised at the Meeting and within the purview of the Committee, and particularly regarding the results of the audit, explaining how it has contributed to the integrity of the financial information and the function performed by the Committee in such process.
- ii.** To submit to the Board of Directors proposals for the selection, appointment, re-election or replacement of the Statutory Auditor, taking responsibility for the selection process in accordance with the provisions of law, as well as the terms for the hiring thereof, and regularly obtain information from the Auditor regarding the audit plan and the implementation thereof, in addition to preserving the independence of the Auditor in the performance of its duties.
- iii.** 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 Annual Work Plan and its annual activities report;
  - e)** To receive periodic information on its activities; and
  - f)** To verify that the Senior Management takes into account the conclusions and recommendations set forth in its reports.
- iv.** To supervise the process of preparing and submitting mandatory financial information and submit recommendations or proposals to the Board of Directors intended to safeguard the integrity thereof. 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.
- v.** To supervise the effectiveness of the Company's internal control system, Internal Audit and systems for the management of risk, including tax risks, and to discuss with the Statutory Auditor significant weaknesses in the internal control system

detected during the audit, all without infringing the independence thereof. In such cases, and if applicable, it may submit recommendations or proposals to the Board of Directors and the corresponding period for follow-up thereon. 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 (at least, operational, technological, financial, legal and reputational) facing the company;
  - b) the setting of the risk level that the Company deems acceptable; the measures to mitigate the impact of the identified risks, should they materialize; and
  - c) the control and information systems to be used to control and manage the above-mentioned risks.
- vi. 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.
  - vii. To establish and maintain appropriate relations with the Statutory Auditor in order to receive, for review by the Committee, information on all matters that could entail a threat to the independence thereof, as well as any other matters relating to the audit procedure, and when applicable, authorization of services other than those that are prohibited, upon the terms contemplated by applicable law, and such other communications as may be provided for in auditing legislation and auditing rules. In any event, the Audit and Control Committee must receive, on an annual basis, a declaration from the Statutory Auditor of its independence vis-à-vis the entity or entities directly or indirectly related thereto, as well as detailed and itemized information regarding additional services of any kind provided to and the corresponding fees received from such entities by the Auditor or by the persons or entities related thereto pursuant to the provisions of applicable law.
  - viii. To issue on an annual basis, prior to the issuance of the audit report, a report stating an opinion on whether the independence of the Statutory Auditor has been compromised. This report must in all cases include a reasoned assessment of the provision of each and every one of the additional services referred to in point vii above, both individually and as a whole, other than the legal audit, and regarding the rules on independence or regulations on the activity of auditing.
  - ix. To analyze and report on the financial terms, accounting impact and, if applicable, the exchange ratio proposed for structural modifications and corporate transactions that the Company expects to carry out, prior to submission to the Board of Directors.
  - x. To report to the Board of Directors, in advance and upon the terms established by applicable law, on all matters provided by Law and the By-Laws, and particularly regarding:

1. Financial information that the Company must periodically make public;
  2. The creation or acquisition of interests in special-purpose entities or entities domiciled in countries or territories considered to be tax havens; and
  3. Related-party transactions.
- xi.** As regards those companies of the Group that are deemed to be Public-Interest Entities (*Entidades de Interés Público*) (as defined by applicable law) and with respect to which it is so approved by the Board of Directors, to perform all those duties of the Audit Committee at any time contemplated by applicable law, provided that such companies are directly or indirectly wholly-owned by the Company pursuant to the provisions of applicable law and that the administration thereof is not vested in a Board of Directors.

The provisions of sections ii), vii) and viii) of this article are deemed to be without prejudice to the regulations on auditing.

#### **Article 5. Resources.**

1. The needs for resources required by the Audit and Control Committee shall be channeled through the Secretary of the Company's Board of Directors.

Sufficient financial resources shall also be provided for the Members of the Committee to obtain external advice on legal, accounting, valuation and risk assessment matters and other issues as required.

2. The Members of the Committee, and especially the Chairman, carry out an important role that calls for a considerable dedication of time. They may therefore be adequately compensated in a manner consistent with their responsibility and dedication, and the compensation of the Chairman may differ from that due to other Members of the Committee.

The level of compensation for this role must never compromise the independence and impartiality of the Members of the Committee.

#### **Article 6. Rules on the Interaction of the Committee with the Board of Directors and the Shareholders.**

The Chairman of the Audit and Control Committee must act as its spokesperson at meetings of the Board of Directors and, as applicable, at the General Shareholders' Meeting of the Company.

In this regard, if after the review of the financial and non-financial information the Audit and Control Committee is dissatisfied with any issue, it must express its opinion to the Board of Directors.

#### **Article 7. Rules on Communication with the Statutory Auditor and the Internal Auditor.**

**1.** For the proper performance of its supervisory role, the Committee must be aware of and understand Management decisions on the application of key criteria and the outcome of reviews conducted by the Internal Audit unit. Moreover, the committee must keep fluid communications with the Statutory Auditor to be apprised of its opinion on the financial information.

**2.** Communications and meetings with the Internal Auditor and with the Statutory Auditor – with the latter especially – must be respectful of their independence. At such meetings, the following matters should be addressed:

- a.** Appropriateness of the scope of consolidation.
- b.** Opinions, criteria, assessments and estimates having a material effect on the financial statements and related non-financial information.
- c.** Changes in significant criteria.
- d.** Assessment of the reasons why the Company should disclose in its public reporting certain alternative performance measures (APMs) instead of the metrics defined directly by accounting standards, the extent to which APMs provide useful information to investors, and the degree of compliance with ESMA Guidelines in this respect.
- e.** Significant or material weaknesses in internal control, as the case may be.
- f.** Significant adjustments or differences in opinion identified by the Statutory Auditor or arising from Internal Audit reviews, and Management's position in connection therewith. The Committee must address, respond to and properly take account of any demands issued in the current or in previous fiscal years by the Supervisors of the financial information to ensure that the type of incident previously identified in such demands does not recur in the financial statements.

**3.** The Audit and Control Committee must verify that the head of Internal Audit has direct and effective access to the Audit and Control Committee itself.

**4.** Likewise, the Audit and Control Committee must discuss with the Statutory Auditor any fact or circumstance that might compromise its independence and assess the effectiveness of adopted safeguards, coupled with an understanding and assessment of all of the relations between the Company, its related parties, and the Statutory Auditor and its network entailing the provision of non-audit services or any other form of relationship.



Communications between the Committee and the Statutory Auditor must be fluid and ongoing. The Committee must regularly seek information from the Statutory Auditor on the audit plan, its implementation and any other issue relating to the statutory auditing process, and in particular, on any disagreement that may arise between the Statutory Auditor and the Management of the Company.

Communications between the Statutory Auditor and the Committee must also be in compliance with the duties and obligations set out in the regulations on statutory auditing and must not undermine the Statutory Auditor's independence or the effectiveness of performance of its audit or auditing procedures.

To support communications between the Committee and the Statutory Auditor, it is advisable that:

- The Committee and the Statutory Auditor inform one another of any relevant matter detected in relation to the accounts, the internal control system or the audit.

- The Committee ask the Statutory Auditor to explain the key aspects of its strategy and work plan, including determination of materiality or relative significance; the main risks identified; the resources allocated and the grounds for using specialists, if necessary; and the timetable for performance of the planned tasks, identifying the planned controls testing and substantive tests.

- The Committee discuss with the Statutory Auditor any judgments made as to the quality and applicability of the accounting principles and significant assumptions used for critical estimates.

- The Committee request from the Statutory Auditor any communications required to support supervision of the process of preparation and production of financial and business information.

- The Committee request from the Statutory Auditor information on the materiality figures for the financial statements as a whole and, as applicable, for certain transactions, balances or disclosures in the notes, and the manner in which qualitative issues are considered for determining those figures.

- The Committee discuss with the Statutory Auditor the methods and assumptions used by Management for significant accounting estimates, as well as the effect of considering alternative methods or assumptions.

**Article 8. Evaluations of the Committee.**

1. As part of the annual evaluation of the Board of Directors, the Audit and Control Committee must evaluate its own performance independently. For these purposes, it may seek the opinion of the rest of the Directors and, if it believes this to be appropriate, the assistance of an outside consultant.

The Committee must inform the Board of Directors of the matters evaluated and the outcome of the evaluation for purposes of the annual evaluation undertaken by the Board.

2. In the course of the process of supervising the Internal Audit unit, the Committee must evaluate the functioning of the Internal Audit unit and the performance of its leading officer.

3. To complete its supervisory work, the Committee must undertake a final evaluation of the Statutory Auditor's performance and of how it has contributed to the quality of the audit and to the integrity of the financial information. If as a result of such evaluation the Committee believes that there are matters for concern or unresolved issues as to the quality of the audit, it shall consider the possibility of informing the Board of Directors, and if it is thought appropriate by the Board, Supervisory Authorities should likewise be informed, leaving timely record of it.

The Committee and the Statutory Auditor should also consider the question of whether their mutual relations have been appropriate and, if necessary, whether the Committee should take steps to improve them.

**Article 9. Reports to be Issued.**

In addition to the reports mentioned in these Regulations, the Committee must prepare an Annual Report on the Operation of the Audit and Control Committee, which shall be posted on the Company's website sufficiently in advance of the holding of the Ordinary General Shareholders' Meeting pursuant to Recommendation 6 of the Good Governance Code of Listed Companies.

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