



Internal Control Corporate Policy

Telefónica, S.A.

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Approved by the Board of Directors of Telefónica, S.A., January 2021

2nd Edition – January 2021

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1. Purpose and Scope of Application

The need to meet the requirements in terms of supervision and control of the Board of Directors through the Audit and Control Committee, require the definition of the framework on which the company's Internal Control Model is configured, as well as the existing mechanisms to supervise its adequate functioning. Through this Policy, the basic criteria of Telefónica's Internal Control Model are defined with a Corporate nature that, therefore, are applicable to all the companies that make up the Telefónica Group.

In its condition of parent company of the Group, Telefónica, S.A. is in charge of establishing the bases, instruments, and mechanisms necessary for an adequate and efficient coordination between this Company and all the other companies that make up the Group; all of the aforementioned without prejudice to, and without impairing, the autonomous decision-making capacity of each of said companies, in accordance with their own corporate interests and the fiduciary duties that the members of their management bodies maintain towards their shareholders.

In order to delimit the responsibility over the internal control within the subsidiaries¹ of Telefónica, this Policy establishes the guidelines to be considered. In case of incorporation of entities to the Group or new corporate holdings without taking control, those areas that lead these incorporations to the Group, the legal area attending these operations and, where appropriate, with the support of Internal Audit, always safeguarding the necessary confidentiality of operations and whenever possible, will establish the necessary mechanisms to ensure coverage of the requirements set forth in this Policy in each case, prior to the materialization of the corresponding investments or participation of Telefónica in these subsidiaries

2. Definition of the Internal Control Framework

The Telefónica Group has a strategy, and a series of objectives and plans aimed at its achievement. With the purpose of helping to achieve its objectives, the company has an internal control model defined in line with what is established in the Internal Control Integrated Framework of the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO)².

¹ The term "Subsidiaries" includes companies, Joint Ventures, Joint Operations, Investment Vehicles, Consortia and any other entity in which Telefónica has a stake.

² The COSO is a committee dedicated to the development of frameworks and guidances regarding internal control, the management of the business risk, and the deterrence of fraud, jointly sponsored and funded by the following professional associations: The American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), the Institute of Management Accountants (IMA), and the Institute of Internal Auditors (IIA).

The Internal Control Integrated Framework of the COSO is, from its origin and after its subsequent developments, the main global reference in terms of risks management and internal control. Its use as a reference in this area facilitates the recognition and validity of the company's internal control system to third parties, such as external auditors or supervisory bodies. Thus, for example, the Securities and Exchange Commission (SEC)³ expressly recognizes the integrated framework of the COSO as a valid reference regarding internal control⁴.

In this way, the Telefónica Group's internal control is defined as the process carried out by the Board of Directors, Management, and the rest of the company's personnel, designed with the objective of providing a degree of reasonable assurance for the achievement of the objectives related to operations, information, and compliance through the following fundamental components:

- Control environment: set of standards, processes, and structures that form the basis of the internal control system, including aspects such as: ethical and business principles, functioning of the administrative bodies or the definition of the reporting levels in the organization.
- Risks assessment: process of identification and management of the main risks that may affect the achievement of the company's objectives, determining the management to be performed on them.
- Control activities: actions established to guarantee the execution of the management's instructions and mitigate the risks that may affect the objectives. It includes activities in the different stages of the business processes and at a technological level.
- Information and communication: activities for obtaining and communicating the necessary information so that the organization can exercise its responsibilities and controls in line with the established objectives.
- Monitoring activities: the adequate functioning of the components of the company's internal control system are determined through continuous and/or independent monitoring, reporting the most relevant issues to the Board and Senior management.

³ The SEC is the stock market regulator of the United States, country where the Telefónica Group is listed.

⁴ As established in section II. B.3a of the Final Rule "Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports", published by the SEC in 2003, "The COSO Framework satisfies our criteria and may be used as an evaluation framework for purposes of management's annual internal control evaluation and disclosure requirements".

3. Responsibility Over the Internal Control

In accordance with what is defined in Telefónica's Business Principles, which constitute the company's code of ethics, "we establish adequate controls to assess and manage all the relevant risks for the Company".

In this way, the internal control is configured as a process that is integrated into the daily activity of the company, in which all the areas, within their scope of action (managers), are responsible for the internal control and must consider among their tasks the assurance elements needed for the achievement of operational objectives (effectiveness), with the minimum use of resources (efficiency), the availability of adequate information for making decisions and external reports (information - accurate), and the compliance of laws and regulations (compliance). The possible contingencies that may arise in the development of all these aspects (risks) must be considered on all said aspects, incorporating assurance elements against possible contingencies (Internal Control structures), as well as for the monitoring (supervision) of the activities and their own internal control structures within their scope of responsibility.

According to the applicable frameworks on Corporate Governance, Internal Control and Risk Management consider both financial and non-financial aspects, including operational, technological, legal, social, environmental, reputational, and regulatory compliance..

4. Supervision of the Internal Control

In line with what is established by the Spanish National Securities Market Commission. (CNMV for its Spanish original)⁵, and in article 22 of the Regulations of the Board of Directors of Telefónica, S.A., among the competencies of the Board of Director's Audit and Control Committee are the "supervision of the effectiveness of the internal control of the Company, the internal audit, and the risk management systems".

In this sense, and in accordance with what is established in the Internal Audit Function Statute of the Telefónica Group, included in the Policy on the Organization of this function, Internal Audit is the area in Telefónica in charge of confirming, through the timely evidence, the adequate functioning of the internal control and risks management structures, and, as the case may be, detecting the possible inefficiencies or non-compliances with the control system that the Group establishes through its processes.

⁵ Technical Guide 3/2017 of the CNMV regarding the Audit Committees of Public Interest Entities of 27 June 2017. Second Section, regarding the "Performance of its Functions by the Audit Committees".

In this way, Internal Audit is configured as an independent area of the company's management that supports the Audit and Control Committee in its competences regarding assurance, risk management, and the internal control system. To do so, Internal Audit applies a systematic and disciplined approach through the following main lines of action::

- Coordination and review of the consistency of the Telefónica Group's internal Regulatory Framework through encouraging the development and supervision of standards, simultaneously promoting actions that favour the updating and communication of said standards, always in line with what is established in the Telefonica Regulation on Preparation and Organization of the Regulatory Framework.
- Coordination and supervision of the Risk Management System: monitoring and coordination of the planned activities, coordinating and promoting the risk culture in the organization in pursuit of the corresponding methodological homogenization, and channelling to the Audit and Control Committee the subjects related to the risk management system, its implementation and application, as defined in the Group's Risk Management Policy.
- Continuous auditing: the continuous monitoring of the effective execution of specific controls of the management areas, taking advantage of the opportunities offered by information technologies, facilitates the monitoring of internal control aspects and the development of a preventive, real time, action. Helping to reinforce the internal control structures and the standardization of controls at the origin, thus facilitating the identification of the risks and their response, as well as the generation, by the corresponding responsible areas, of the justifying evidence regarding the effectiveness of the controls implemented by said areas.
- Supervision of controls over Outflows: in accordance with what is established in the Outflows Control Verification Protocol, it is performed through the sample verification on the effectiveness of certain controls, executed by the corresponding responsible business areas, prior to the execution of the payments ordered from said areas, as responsible parties for their execution and effectiveness.
- Reviews or Specific Audits on the company's processes, demonstrating the design and functioning of the controls and, as the case may be, issuing the timely recommendations and the follow up of the corresponding action plans to remedy the detected deficiencies, to be implemented by those responsible for said processes, both business as related to the preparation of financial information.

Included among these activities are at least the following: (1) the internal control Audits over the financial statements reporting required by the Sarbanes-Oxley Act from companies listed in the United States, which serves to also cover the assessment of the Internal Control System of the Financial Information for companies listed in Spain, (2) audits regarding the efficiency and effectiveness of the design and execution of the controls in the processes, and (3) other Specific compliance Audits or Reviews throughout the Telefónica Group.

- Specific Audits or Reviews regarding the operation and security of networks and information technology, including Cybersecurity audits, performing checks on the effective implementation and functioning of the controls on the Telefónica Group's Systems and Network infrastructures.
- Performance of other Audits or specific Reviews, of interest for the company's Board of Directors or Management, including investigations stemming from the whistleblowing channels enabled for this purpose in the Telefónica Group, potential cases of fraud, and those specific reviews aimed at the prevention of fraud

5. Internal Audit Organization

Internal Audit is a centralized area that functionally reports to the Group's Audit and Control Committee. It is organized on the basis of a central unit in Telefónica, S.A., and, where applicable, when deemed necessary by the Director of Corporate Internal Audit, in coordination with the respective CEOs and the People area, the delegations in the business lines and the Group operational units. These delegations will have operational and functional dependence directly to the central Internal Audit unit.

This organization shall be maintained for all the companies of the Group in which Telefónica has control of the operation. The constitution or modification of the Audit units in the Group, as well as any change, interpretation, or exception regarding the organization or resources of the activities of said units, must have the prior approval of the Corporate Chief Internal Auditor.

The appointment of the Corporate Chief Internal Auditor is approved by the Board of Directors at the proposal of the Audit Committee, and previously informed by the Nominating, Compensation and Corporate Governance Committee.

The development of the organizational aspects of the Internal Audit function is more specifically established in the corporate Policy regarding the Internal Audit Organization which includes the Status of said function.

6. Incorporation of Entities within the Framework of Telefónica

Given the diversity of situations with regard to the level of participation of the Telefónica Group in other entities, the following guidelines are established to facilitate guaranteeing, safeguarding and delimiting the responsibility of Telefónica for their internal control, depending on the specific details characteristics of each participation, taking into account the ownership and governance structure established in each case; The main aspect to be considered in this regard is the level of representation of Telefónica on the Board of Directors and / or their Management; as well as the percentage of participation and voting rights in such entities (contrast with the rest of participants) and the existence or not of rights (for example, contractual) in relation to their internal control, and distinguishing the following situations:

- *Entities with significant influence from Telefónica*

Entities over which the Telefónica Group have a significant influence in their management, without actually holding control, either individually or jointly with other participants, through the appointment of representatives on the Board of Directors (or equivalent body) of the entity and / or its Directors, without representing a majority, or a part equivalent to that of the rest of the entity's participants, of said entity's governing and / or management bodies.

Unless there are motivated reasons for a specific exception to this requirement, it will be recommended that these entities have an independent Internal Audit function that facilitates the work of supervision of internal control and risk management to the Board of Directors (or equivalent body) and / or to the Audit Committee, where appropriate, of this entity. Likewise, the existence of an Annual Plan of Internal Audit activities, duly approved, that covers the main risks of the entity in question will be sought..

- *Entities in which Telefónica holds joint control with other partner / s or other participants*

These are entities in which the Telefónica Group has joint control of them, together with other participant / s.

In addition to the measures included in the previous section, it will be considered that the basic aspects of internal control must be expressly included in the operational contractual documents related to said entities, such as, partner or shareholder agreements, joint venture or joint investment - ensuring that the needs evaluated in each case are met and that the requirements of the regulations that are applicable to the Telefónica Group are covered at all times (for example, the Sarbanes-Oxley Act, Foreign Corrupt Practices Act - FCPA, among others).

- *Entities controlled by Telefónica*

These are entities in which the Telefónica Group holds control, by owning the majority of its share capital (eg, by owning more than 50% of the shares or participations representing the capital of the entity) and / or the ability to appoint the majority of the directors or administrators of the entity.

These entities will be subject to the requirements set forth in this Policy, as well as the provisions of the other applicable regulations of the Telefónica Group..

7. Effective Date

This policy will take effect at the moment of its approval by the Board of Directors of Telefónica S.A



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