C.3. List any relevant transaction undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose object and conditions set them apart from the company's habitual trading:

Corporate name of the group company	Brief description of the transaction	Value (thousand euros)

C.4. Identify any conflicts of interest affecting company Directors pursuant to Article 127 of the Corporations Law.

The Board of Directors has not been informed of any conflicts of interest to the effects set out in Article 127 of the Corporations Law.

C.5. List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its Directors, management or significant shareholders.

The Company policy has established the following principles governing possible conflicts of interest that may affect Directors, Management or Significant Company Shareholders:

– With respect to the Company Directors, Article 36 of the Regulations of the Board of Directors establishes that Directors shall inform the Board of Directors of any situation of direct or indirect conflict they may have with the Company's interest. In the event of conflict, the affected Director shall abstain from intervening in the deliberation to which the conflict refers.

Moreover, and in accordance with the provisions set out in the Regulations of the Board, Directors shall abstain from participating in voting that affects matters in which they or persons related to them have a direct or indirect interest.

Likewise, the aforementioned Regulations establish that Directors shall not undertake professional or commercial operations or transactions with the Company, or with any of the companies in its Group, when such transactions are unrelated to the ordinary business of the Company or not performed under market conditions, unless the Board of Directors is informed of the said transaction in advance and, after prior favourable report from the Nominating, Compensation and Corporate Governance Committee, approves them with the favourable vote of at least 90% of the Directors present or represented at the relevant meeting.

– With regards to significant shareholders, Article 41 of the Regulations of the Board of Directors establishes that the Board of Directors formally reserves knowledge and authorisation of any transaction between the Company and any of its significant shareholders.

Under no circumstances shall the Board of Directors authorise the transaction without prior report issued by the Nominating, Compensation and Corporate Governance Committee appraising the transaction from the point of view of the principle of parity treatment of shareholders and the market conditions of the same. For ordinary transactions, a generic authorisation for the type of transaction and its general conditions shall be sufficient.

– With respect to Management, the Internal Code of Conduct for Securities Markets Issues sets out the general principles of conduct for the persons subject to the said regulations who are involved in a conflict of interest. The aforementioned Code includes all the Company Management Personnel within the concept of affected persons.

In accordance with the provisions of this Code, Management Personnel are obliged to (a) act at all times with loyalty to the Group and its shareholders, regardless of their own or other interests; (b) abstain from intervening or influencing decision-making that may affect the persons or companies with which the conflict of interest exists; and (c) abstain from accessing information deemed confidential related to such conflict. Furthermore, these persons are obliged to inform the Company Regulatory Compliance Unit of all transactions that may potentially give rise to conflicts of interest.

D. RISK CONTROL SYSTEMS

D.1. Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks hedged by the system, as well as an explanation of how far these systems match the profile of each type of risk.

Telefónica continually monitors the most significant risks in the main companies comprising its Group. To do so, the Company Model is applied regularly and equally in all the Group companies, which provides an evaluation of the importance of each of the risks that may affect the companies, as well as the degree of control over the same. Thus, the Group has a map that identifies the risks that require specific control and monitoring according to their importance. Likewise, the model matrix includes the operational processes in which each of the risks considered is managed, in order to evaluate the control systems established and to be reasonably sure that such risks will not arise.

Identification of these risks and processes is undertaken by the Directorate General of Internal Audit and Management Resources, which is responsible for internal Group audits, and regularly informs the Audit and Control Committee of Telefónica of the results of its work.

The 50 risks considered by the model are classified in the following categories:

I. Risks related to business processes.
– Operational risks
– Integrity risks
– Management and human resources risks
– Technological risks
– Financial risks

II. Information risks
– Operating information
– Financial information
– Strategic evaluation

III. Risks related to the environment

D.2. Indicate the control systems to assess, mitigate and reduce the main risks of the company and its group.

The internal control framework adopted by the Telefónica Group is based on the COSO model, widely recognised in international financial circles, the objectives of which are:

– The efficiency and effectiveness of Company operations,
– Protection of its assets,
– The reliability of financial information, and
– Compliance with legislation and regulations.

In addition to the controls established in each of the Company's operational processes, the Group also has the following specific elements of control:

– An internal audit structure that encompasses the entire Telefónica Group and functions in keeping with the criteria and professional rules set out by the International Institute of Internal Auditors (in fact, Telefónica is the first Spanish company to obtain the quality certification from this body).

– The Consolidated Annual Accounts and the individual Annual Accounts of the companies with significant importance are subjected to external audits. Likewise, the external Accounts Auditor is entrusted with the task of making recommendations regarding internal controls in the more important Group companies.

– In order to establish adequate, uniform control systems within the Group, Telefónica has implemented a set of rules that regulate the basic aspects of control.

– The Group has an Intervention Unit to control the use of funds, the relevant transactions and operations, travel and hospitality expenses, implementation of basic controls in the processes of greatest risk, etc.

– Moreover, Telefónica has units responsible for controlling specific risks: Risks and Insurance, Reputation, Regulation, Control of Management and Human Resources (labour risks).

– All the Group companies have insurance coverage for reasonable protection against the possible risk of damage to fixed assets affecting operations and the possible subsequent loss of profits. These insurance policies include certain deductibles. Management of this insurance is centralised at Group level within the Sub-Directorate General of Corporate Risks and Insurance.

Within the Group risks, and due to their particular relevance for investors and shareholders, it is important to emphasise the control system applied to the process of financial-accounting information. In Telefónica, this process is regulated by the following manuals, instructions and regulations:

– Manual of Rules for Evaluation and Accounting Policies
– Instructions for closing and external audits.
– Annual calendar of financial accounting information.
– Corporate Accounting Plan.
– Manual of the Subsidiary Information System (a technical-computing instrument for reporting financial-accounting information and consolidating financial statements).
– Rules of intra-group operations and internal control.

The efficiency of internal controls for the financial report is currently monitored both in the process of drawing up the accounting statements and in the main processes through which information is entered into the accounting system.

D.3. If any of the risks facing the group and/or its companies have materialized, indicate the circumstances and whether the established control systems worked adequately.

The Telefónica Group has not detected any situations that could lead it to conclude that the basic objectives that define the internal control model have not been reasonably protected.

The internal control model used by Telefónica and its Group is subjected to continual monitoring such that when a risk appears or a control deficiency is found in any process that increases exposure above a reasonable level, the relevant action plans are drawn up incorporating the necessary improvements. The most important aspects of the action plans undertaken are reported to and monitored by the Audit and Control Committee until they are fully implemented.

D.4. Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems and explain its duties.

The Board of Directors of Telefónica has constituted an Audit and Control Committee whose duties, competencies and rules of operation are set out in the Articles of Association and in the Regulations of the Board of Directors. Such regulations comply with all legal requirements as well as with the recommendations for good corporate governance issued by both national and international bodies. One of the duties of this Committee is to be familiar with the financial information process and the internal Company control systems.