

05

Information on risk control systems



05.01 GENERAL MODEL OF THE RISK CONTROL SYSTEM

Telefónica performs permanent monitoring of the most significant risks of the main companies forming its Group. To do so, the Company has a map recording the risks requiring specific control and monitoring according to their importance. With the same objective of permanent monitoring of the risks identified, in November 2001, Telefónica set up a project aimed at protecting one of the most important assets of the Company: its reputation. To do so, it identified the main risks to the reputation of the Company before its customers, shareholders and investors, employees, suppliers, partners, the media and society at large.

Identification of these risks and processes is performed by the Directorate General of Internal Audit and Management Resources, which is responsible for the Internal Audit department of the Company, and its results are reported periodically to the Audit and Control Committee of Telefónica.

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

(i) Risks related to the 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.

(iv) Corporate reputation risks.

In order to establish adequate control systems, Telefónica has a set of rules, approved by the Board of Directors, that regulate the basic aspects of this system, as well as implementation of the control systems. The main internal regulations to these ends will be as follows:

(a) Regulation on the registration, communication and Control of financial/accounting information.

- Recording, communication and control of the financial-accounting information.
- Disclosure controls and procedures regulation.
- Intra-group operations: procedures for recording, payment and conciliation.

(b) Regulations on control over the activities of the Company personnel.

- Travel and hospitality expenses of the executives: limits, justification, reimbursement, etc.
- Regulations on physical safety and information.

(c) Regulations on external representation and links to the Company.

- Payments: segregation of duties, concurrent double signature, bank conciliations, etc.
- Powers of Attorney: to sign contracts, open accounts, withdraw funds, etc.

Thus, Telefónica has certain units with responsibilities for control over specific risks to the Company, such as Risks and Insurance, Reputation, Regulation, Control of Management and Human Resources (labour risks).

Lastly, the Company has an Intervention Unit for control of application of the funds, control of the relevant operations, control of travel and hospitality expenses, implementation of basic controls in the processes of greatest risk, etc.

In another order of things, one must point out that all the companies in the Group have insurance coverage for reasonable protection against the possible risks of damage to the fixed assets assigned to the operations and possible loss of profit arising from this. These policies include certain excesses. Management of that insurance is centralised at Group level within the Subdirectorate General of Corporate Risks and Insurance.

05.02 CONTROLS OVER THE FINANCIAL-ACCOUNTING INFORMATION PROCESS

Within the Company risks, due to its special relevance to investors and shareholders, one must emphasise the control system over the process of financial-accounting information. At Telefónica, that system is regulated through the following manuals, instructions and regulations:

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

