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Commitment
to our team_



Human resources

The key to our transformation and leadership is having the best team of professionals. At the end of 2015 the Group had 129,890 employees with an average age of 41, of which fewer than 1% held executive positions. In comparison with the previous year's figures, the workforce increased by 5%. This increase was heavily influenced by the acquisition of GVT and DTS, and the deconsolidation of Telefónica United Kingdom. The organic variation of the workforce, excluding corporate movements, represented a fall of 4.2% compared with 2014, due to the simplification strategy that we are implementing in order to achieve greater efficiency within the organisation. Our goal is to maintain our innovation capacity, despite the increased competition that the sector is experiencing.

During 2015, the country with the most employees was Spain, with 38,130; followed by Brazil, with 35,512, following the purchase of GVT in 2015; Argentina, with 17,255; and Germany, with 8,738.

95.8% of our staff hold permanent employment contracts, which demonstrates our commitment to sustainable employment policies. In 2015, 91,451 employees had a negotiated work agreement (70.4% of the total), representing an increase over the previous year (78,166 employees). This increase is strongly influenced by the consolidation of GVT and DTS.



TURNOVER RATE AT TELEFÓNICA

	Total	Voluntary
Spain	4.0	3.2
Germany	25.3	9.5
Brazil	28.9	6.7
LatAm.	14.0	6.6
Telefónica Group	20.0	7.8

In early 2016 we began a voluntary Redundancy Plan in Spain, in order to achieve alignment with the objectives of simplification and the incorporation of young talent. This plan, which will last two years, applies to employees who will be 53 years old before the end of 2017 and have been working for our Company for fifteen years. Those who voluntarily join the plan will receive 68% of their salary until they are 65, in addition to social security and health insurance payments.

 **FURTHER INFORMATION**
 Refer to the "Employees" section of our corporate website.

ATTRACTION AND RETENTION OF TALENT

One of the most important challenges for a competitive company in the world of new technologies is to attract and retain the best talent. For this purpose, we offer a professional career with the aim of, on the one hand, attempting to fulfil the concerns and aspirations of our professionals and, on the other, answering the mid and long-term challenges facing our Company. Therefore, it is important for us to be a good place to work, where our employees feel appreciated, thus encouraging and enhancing their training and development.

We believe that diversity enriches the culture of the Company. Therefore, our diversity strategy is defined as the inevitable and natural result of adapting our business to the environment in which we operate and, therefore, understanding it as part of our business reality.

We currently have employees of more than 98 nationalities who are based in the 41 countries where we have staff. With regard to gender diversity, 37.7% of our workforce in 2015 were women, 19.1% of them in management positions. This diversity strengthens our culture and allows us to position ourselves as a global and competitive company, while increasing our ability to reflect the diversity of our customers and stakeholders.



BEST PRACTICES

“WOMAN IN LEADERSHIP”

To strengthen female leadership within our structure, we have initiated a global career acceleration programme specifically for women: “Woman in Leadership”. This is a global female leadership initiative which addresses different aspects involved in managing the barriers that women can face in their professional careers. It is designed primarily for women in executive and pre-executive positions, thereby enabling our talent to gain access to positions of greater responsibility, with the aim of increasing their presence in senior management positions. Two editions of the programme were launched in 2015, which were attended by more than 60 executives. In addition to the above, we have conducted career acceleration programmes for women at a local level.

We are committed to attracting talent from the new generation of digital natives, who are essential to a sector as dynamic as ours. In 2015, 19.9% of our employees were under 30 years of age and we recruited a total of 10,912 young people.

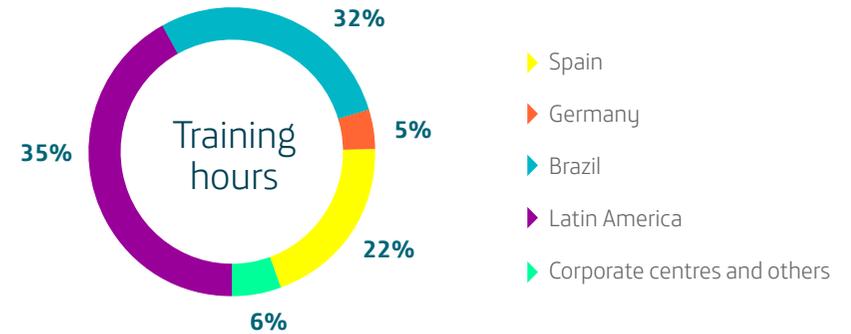
A large part of our untapped professional potential lies among our employees. For this reason, in the Talent areas of Telefónica, we design and implement programmes which help us to identify and evaluate our talent internally and develop their skills. In 2015 we evaluated 93% of Company executives and managers, enabling us to draw up a talent map and a structured succession plan.

By means of our evaluation and talent management processes, we seek to contribute to the development of our professionals and ensure we have the key profiles to guarantee the sustainability of our Company. Through a platform designed to align the needs of the business with those of each employee, we manage different global development programmes:

▶ **Young Leaders Programme:** Focused on employees under 30 years of age, its goal is to promote their development and growth within our Company. In 2015, 98 employees were involved in the programme.

	Training hours		Expenditure on training (thousand of euros)	
	2014	2015	2014	2015
Telefónica Group	3,712,292	3,986,368	41,559	43,020

Note: The data is not directly comparable, due to the change of scope caused by the inclusion of O2 United Kingdom in the data for 2014, which is not included in the data for 2015.



▶ **Programme for the Development of High-Potential Managers:** A personalised global development programme aimed at our managers. Over the past year 689 managers took part in this programme.

▶ **International rotations:** Thanks to this global programme our employees can enjoy an international and multi-functional experience at other companies in the group.

Our goal is to offer an attractive professional career which also promotes talent through

training. We structure the above by means of classroom training (Universitas and specialised courses) and online training (e-learning programmes). Thus, during 2015, the Telefónica Group invested a total of 43 million euros in different initiatives in this area.

During the year we continued to deliver training through individual development plans (IDPs). These have allowed us to put specific mechanisms in place to, continuously and online, identify training needs and enable us to provide a comprehensive and immediate response when these needs arise.



BEST PRACTICES

TALENTUM GRANTS

Since 2011 over a thousand professionals have joined Telefónica España, almost all of them from training grant programmes in partnership with the SEPI Foundation and the Talentum plans. We currently have 112 people undergoing training with this Company. In order to encourage diversity, we reserve a percentage of the Talentum grants for young people with disabilities, thereby ensuring the incorporation of talent from this segment of professionals.

At a global level, the Company knowledge transfer is particularly worthy of mention. This has a base of 16,252 internal teachers and is supported by the eKISS platform which, as a new feature, has launched a new, more powerful, social version. The platform already holds 66,427 documents and has received 5,965 visits.

In 2015, Universitas Telefónica, our corporate university, trained 2,046 executives on its campus in Barcelona through on-site leadership and strategy programmes focused on digital

transformation. In addition, the “On the Road” initiative, which brings the programmes directly to country operators, affected 2,041 middle managers at a local level. Last year the university received a rating of 4.7 out of 5 from the professionals trained there.

We are committed to reconciling the professional and personal lives of our employees. This is reflected in a set of measures and provisions aimed at work flexibility, with services and benefits tailored to their needs.

► On a corporate level, with regard to workdays and schedules, a large percentage of the workforce work intensive shorter days annually or in the summer months, promoting the new forms of flexible work that new technologies have made possible.

► To enhance family reconciliation, our employees enjoy flexibility when taking their holidays and also receive childcare bonuses. In some cases, such as at Company headquarters, we run a daycare service for the employees' children.

At Telefónica España we also have an Equal Opportunities Committee, made up of Company and workers' representatives, which encourages measures that favour the conciliation of work life with family and personal life.

47% of people under 30 years of age in our workforce are women

Indicators	2014	2015
Women in the workforce	38.3%	37.7%
Women in management positions	19.6%	19.1%
Women on the Executive Committee	1	3
Number of nationalities in the workforce	90	98
People with disabilities in the workforce ⁽¹⁾	1,072	886
Percentage of young people under 30 years of age	21.5%	19.9%

Note: To make 2014 data comparable, the scope of consolidation has been updated to include DTS and GVT, and exclude the data for Telefónica United Kingdom.

(1) The percentage of integration of people with disabilities in Spain (ex-LISMI) stands at 2.07%.

AGE PYRAMID OF TELEFÓNICA EMPLOYEES





We strive to create a working environment which encourages the elimination of barriers, an idea which forms part of our corporate strategy and culture. As such we seek to incorporate talent with disabilities, enable access to our facilities to any collective and encourage recruitment at special employment centres.

Our remuneration policy aims to attract, retain and motivate professionals so that, together, we can meet the challenges posed by the transformation of the sector. Telefónica's Business Principles set out our commitment to our employees, guaranteeing fair pay that is appropriate to the labour market in which we perform our operations.

Employee remunerations come in the form of compensations (basic salary, variable remuneration dependent on objectives, sales incentives, long-term benefits and share programmes) and specific benefits (pension plans, holidays, life and health insurance, company cars, etc.), as well as other ways of compensating employees, such as career development and opportunities. Our employees also have access to a personalised remuneration system which enables them to voluntarily allocate part of the fixed financial payment to the contracting of a series of products and/or services and, therefore, adapt their remuneration to their personal and family needs at all times.

Moreover, we have a Global Remuneration Policy which aims to achieve homogeneity



and alignment in remuneration practices throughout the entire Group. In turn, the local remuneration teams ensure alignment with the usual practices in each area of activity. We have single suppliers for all markets and the launch of retention programmes has a global application. All our variable remuneration systems include at least one Business Principle target for the employees: customer satisfaction.

At Telefónica we ensure that our remuneration policies and practices guarantee equal salaries and opportunities for men and women.

At Telefónica España we reserve 5% of our Talentum grants for young people with disabilities



FURTHER INFORMATION

Refer to the "Diversity" section on our corporate website.

Within the concept of total remuneration, the Employee Share Plans play an important role. Receiving shares from our Company aligns the interests of the employees with those of the shareholders and, at the same time, generates a sense of belonging and more direct involvement in the results of the entity. In 2015, 1 out of every 4 employees was a shareholder of the Company.

Our philosophy of long-term incentives through shares seeks to reach all Group employees around the world, at all organisational levels. For this purpose we



have designed and implemented different plans based on Telefónica shares, which are available in note 19 of the Financial Report.

MINIMUM SALARY AT TELEFÓNICA VS MINIMUM SALARY IN EACH COUNTRY

Country	Number of times
Germany	1.0
Argentina	1.9
Brazil	1.5
Chile	2.1
Colombia	1.9
Costa Rica	1.0
Ecuador	1.0
El Salvador	1.3
Spain	2.1
Guatemala	1.6
Mexico	5.3
Nicaragua	1.1
Panama	1.1
Peru	1.6
Venezuela	1.0
Uruguay	1.7

The social benefits for Telefónica employees vary from one country to the next and, essentially, consist of the following:

- ▶ Health, life and accident insurance. The fund is paid into to cover the risk of death or total incapacity for all kinds of work. Double the amount would be paid out in the event of death or total incapacity for all kinds of work as the result of an accident.

- ▶ Pension plan with contributions made by the employee and the Company.
- ▶ Child and school aid, which varies according to the age of the children.
- ▶ Total incapacity for usual employment. In our agreement we include financial compensation for cases of redundancy in the Company due to the declaration of permanent total incapacity for usual employment.

AVERAGE WAGE GAP BETWEEN MEN AND WOMEN

Percentage of the average salary for women in comparison with the average for men in our geographical areas

Basic salaries	Spain	Germany	Brazil	LatAm
Managers	96.3%	90.3%	97.3%	96.3%
Middle management	95.4%	94.4%	99.4%	94.4%
Total salaries	Spain	Germany	Brazil	LatAm
Managers	96.5%	86.0%	97.5%	95.7%
Middle management	96.2%	92.3%	99.5%	94.1%

Note 1: LatAm reflects the weighted average of the countries which had reported data at 31 December 2015: Argentina, Colombia, Ecuador and Mexico.

Note 2: The data shown by country corresponds to the whole collective of Managers and Middle Managers, as a result of which they are not homogeneous samples in terms of age, seniority or functional typology of the role performed.

- ▶ Teleworking. Our employees have the opportunity to work from home once a week, subject to prior authorisation.
- ▶ Advances of up to three months.
- ▶ Holiday plans and study plans for employees' children, with the possibility of receiving aid for children who study in a town different to that of their family home, in accordance with the requirements established for this purpose.
- ▶ Maternity supplements during maternity leave: if applicable, the Company supplements maternity allowance by up to 100% of the net salary of the employee.
- ▶ Social welfare. A specialised personal support service designed for employees in need of such help, and which may benefit their work, family and social lives.
- ▶ Intensive shorter days in summer and yearly for part of the team, voluntary part-time and unpaid leave.
- ▶ Flexibility in exercising various authorisations.



FREEDOM OF ASSOCIATION AND SOCIAL DIALOGUE

At Telefónica, by virtue of the agreement reached with Union Network International (UNI), we are committed to the basic ILO standards on labour, concerning freedom of association and the right to collective bargaining. The agreement was renewed in late 2014 and takes into account developments in matters of corporate responsibility, as set out in the United Nations' Guiding Principles on Business and Human Rights, which make clear that companies are to respect Human Rights in all their operations.

During this year, we should highlight the signing of the First Collective Agreement of Related Companies between Telefónica España and the largest trade unions, which contemplates improvements in employee remuneration, advances in the standardisation of working conditions, new proposals in matters of the reconciliation of work and personal life, special references to non-discrimination and a commitment to collaboration between both parties in order to incorporate environmental criteria into the management of the Company, with everyone's involvement. The collective bargaining processes in Brazil, Argentina and Peru, among others, were also significant and successful.

In 2015 the Group did not have any significant collective conflicts. We met all agreements included in the Workers' Statute (WS) concerning substantial changes in labour conditions, taking into account the distinctions determined by law. Decisions that substantially

modify individual labour conditions must be notified by the Company to the affected worker and his/her legal representatives at least 15 days prior to coming into effect. In the case of changes affecting collectives, the notifications must be preceded by a consultation period with workers' legal representatives, lasting no longer than 15 days. The workers are to be notified of the decision by the Company's management once the consultation period has ended and if no agreement has been reached, and it will come into effect in the seven day period following the date at which it was notified. Furthermore, in the case of Spain, regulation establishes that when restructuring takes place within the organisation, Management is to inform the relevant Committee 15 days in advance of the restructuring being effected, so that it may issue the required report. In case it were necessary to restructure activities and said process were to have a direct impact on the volume of employment, no workers connected to such activities will be forcibly reassigned without prior agreement with workers' representatives, as established in the collective agreements.

WORK ENVIRONMENT

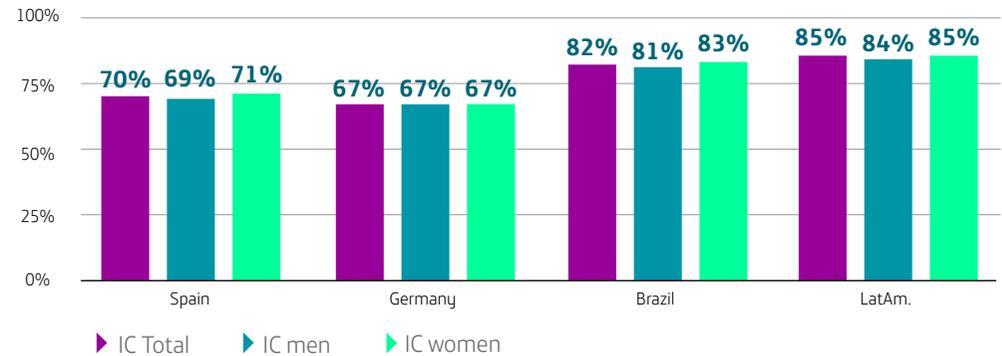
Our employees play a key role in achieving our transformation. For us, a high level of commitment and ongoing improvement in the excellence of our customer service are competitive advantages which make a difference. This is why, at Telefónica, we apply quantitative, measurable and manageable criteria to identify trends and objectives within the different categories of employee preparation, motivation and resources.

During 2015, a total of 92,587 of the 120,117 people who received invitations took part in our environment and commitment survey, in which we received a score of 79 out of 100. By gender, women have a CI (commitment index) that is 2 percentage points higher than that of men (80% and 78%, respectively) and,

by country, Chile and Venezuela are those with the highest CI (92%).

Moreover, during the year, Telefónica was acknowledged as being the 5th best multinational to work for worldwide, according to the 2015 Great Place to Work.

WORK ENVIRONMENT INDEX BY BUSINESS AREAS AND GENDER



CHALLENGES 2016

- ▶ To identify key talent and high potential in the different levels and segments.
- ▶ To define, maintain and develop the global talent and development framework.
- ▶ To design individual development plans for key collectives within the organisation.
- ▶ To encourage measures to incorporate greater diversity into our workforce, especially women and people with disabilities.
- ▶ To develop the Training Schools into a model of Communities and Working Groups within Success Factors, distributing them according to the key skills of our strategy.
- ▶ To implement a global training offer consisting of language plans, new MOOCs, the "Being a Trainer at Telefónica" project and a control kit to promote a culture of empowerment.



Occupational health and safety

Occupational health, safety and well-being have a direct impact on labour costs through productivity, as well as a considerable influence on the reputation of our Company and the personal attitude of our employees. Therefore, occupational health, safety and well-being is one of our main priorities. It is implemented via the occupational risk prevention management system, ensuring the integration of health, safety and prevention criteria into the processes and services of all our companies.

POLICY AND MANAGEMENT BODY

The Joint Service for Occupational Risk Prevention Management (belonging to Telefónica España's Transformation and Human Resources Division) is the unit designated as the Centre of Competence for the Telefónica Group, and coordinates global initiatives in matters of prevention and occupational health.

Through these bodies, we strive to achieve the following:

- ▶ To implement and maintain a management system based on continuous improvement, forming a framework to guide the carrying out of occupational health and safety measures through the definition of objectives, goals, programmes and indicators, regularly assessing their evolution.

- ▶ To apply management tools in matters of occupational health and safety which are aimed at prevention.
- ▶ To comply with the current legislation on the matter in all countries.
- ▶ To carry out training and awareness initiatives for employees so that commitment and knowledge of matters of occupational health and safety is acquired by all.

Our progress

During 2015 we renewed the OHSAS 18001 certification in all our companies in Spain and Colombia; we also plan to obtain it in Argentina in 2016. Obtaining certification such as the OHSAS 18001, which goes beyond formal compliance with legislation, shows Telefónica's commitment to continuous improvement in matters of occupational health and safety.

In addition, this year we received the SGIS Healthy Company certificate for our commitment to the health, safety and well-being of our workers due to effective implementation of a comprehensive health management system which is based on elements of continuous improvement.

Our commitment to the health and safety of our workers goes beyond Telefónica's work environment. We work with our suppliers to ensure that they offer their employees minimum occupational health and safety conditions, in accordance with local, national and international standards regarding the specific hazards of each activity.

In Latin America, during 2015, the following significant events stand out:

- ▶ The realisation of more than 100 evacuation drills in Argentina, with monitoring performed by means of a control plan enabling the corresponding preventive measures to be taken.
- ▶ Audit of the Occupational Health and Safety Management System performed by the Colombian Security Council, achieving a score of 97/100 in Colombia.
- ▶ Automation of Safety Inspection procedures in the activities of the supply chain in Ecuador.
- ▶ The implementation of the "Influenza" vaccination campaign in Mexico.
- ▶ The Quality of Life programme in Brazil for the promotion of health, which included nutrition, medical monitoring for pregnant women, medical centres and outpatient clinics, and vaccination campaign programmes.
- ▶ Renewal of the Health and Safety Committee in Peru.

Occupational health:

Feel good

Telefónica also carries out the "Feel Good" programme, which is built around four fundamental pillars: physical activity, nutrition, health and person. As such, we have launched various initiatives to promote healthy habits among our employees, such as giving up smoking, useful tips for a heart-healthy diet, dental health, prevention of musculoskeletal overexertion and a back school, among others.



JOINT COMMITTEES

The health and safety model established in the different regions in which we operate shows a high worker representation and participation in health and safety aspects via the corresponding Health and Safety Committees in all the regions where Telefónica is present. In 2015, Telefónica had 241 joint committees representing about 93% of the employees in the telecommunications businesses.

The Health and Safety Committees allow the implementation and consolidation of objectives established in this area, by means of continuous analysis and monitoring of the scheduled preventive activity.

ACCIDENTS

No special incidence or high risk of certain diseases is perceived among the professional activities performed within our Company. During 2015, twenty cases of occupational diseases were detected among the 129,890 employees of the Group and only two people, both males, were involved in accidents *in itinere*, in Argentina and Brazil. Both accidents resulted in the death of the employee.

During 2015 we renewed the OHSAS 18001 certification in all our companies in Spain and Colombia; we also plan to obtain it in Argentina during 2016

To facilitate transparency and comparison with other companies in our sector, only the businesses of Telefónica's main activity have been included in the ratios, that is: fixed and mobile telecommunications in all countries in which we operate, as well as all the activities carried out in Spain, as this is the corporate centre of our Company. However, ATAM's social recruitment companies have not been taken into account because the comparability of Telefónica with the other operators would be distorted, as these are activities whose primary purpose is the integration of people with disabilities.

Country	Incidence rate ⁽¹⁾			Gravity ratio ⁽²⁾			Average length ⁽³⁾		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Spain	7.0	7.3	6.2	227.0	274.6	238.9	32.6	37.7	38.6
Germany	2.1	1.2	1.8	27.6	9.1	20.0	12.9	7.8	11.1
Brazil	1.2	0.9	6.4	92.6	12.6	98.3	76.2	14.4	15.5
LatAm.	19.1	19.0	18.8	489.7	476.8	488.4	25.7	25.2	26.0

(1) Total number of accidents/average number of workers during the period.
 (2) Total number of days lost due to work-related accidents/average number of workers in the period.
 (3) Total number of days lost due to work-related accidents/total number of accidents.

Accident rate			Occupational disease rate			Lost days rate			Absenteeism rate		
2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
0.9	1.0	1.0	0.4	0.2	0.0	26.1	27.6	27.3	5,599.4	5,112.6	6,565.0

EMPLOYEE TRAVEL SAFETY

Telefónica is committed to going beyond the call of duty to protect employees on their business trips and, therefore, we establish indicators for monitoring the quality and perception of the traveller. Therefore, we offer

employees an app via our e-learning platform, which provides information on safety and comfort prior to journeys, a classification of risks by neighbourhoods, recommendations, assistance centres, local contacts, automatic reception of alerts, geolocation, etc.