



7



Commitment to our team

- Evolution of the workforce
- Attracting and developing talent
- Managing diversity
- Freedom of association, social dialogue and fair compensation
- Work environment, work-life balance and commitment
- Occupational health, safety and well-being



Evolution of the workforce_

At the end of 2016, we had 127,323 employees throughout the Group with an average age of 39.2, of which fewer than 1% held executive positions. This represents a reduction in absolute terms of 7.7% compared to the 2015 workforce, although much of that is due to the departure of some companies which were sold throughout the year – Telefónica Billing Centre in Peru, Vocem in Venezuela, Telefe in Argentina and the assets of TGSC in Spain, Argentina and Peru. The organic variation of the workforce, without taking into account corporate movements, represented a fall of 4.9% compared to 2015, mainly due to implementation of the voluntary simplification plans, which took place chiefly in Spain and Brazil.

Diversity is very important to us, since it enriches the culture of the Company and brings us closer to our customers and society in general. Our employees currently represent more than 106 nationalities, and are based throughout the 36 countries where we have personnel. With regard to gender diversity, 37.6% of our professionals in 2016 were women. For further information, see the chapter on 'Managing diversity'.

As regards long-term employment, it is important to note that 97.4% of our staff have permanent employment contracts, which demonstrates our commitment to sustainable



employment policies. In 2016, 82,444 employees had a negotiated work agreement (64.8% of the total), which represents a decrease over the previous year (91,451 employees in 2015). This decrease is strongly

influenced by simplification plans and the sale of the aforementioned companies.

EMPLOYEES

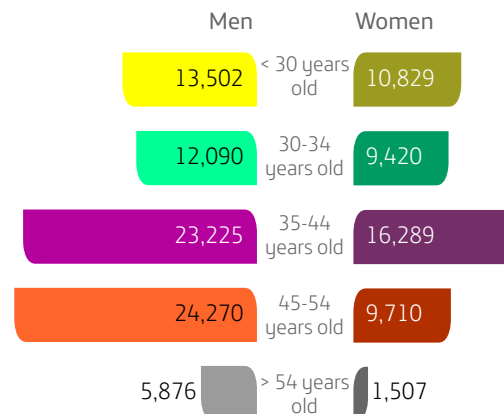
| | Germany | Brazil | Spain | LatAm | United Kingdom | Rest of the World |
|------|---------|--------|--------|--------|----------------|-------------------|
| 2015 | 8,738 | 35,512 | 38,130 | 46,771 | 7,807 | 739 |
| 2016 | 8,720 | 34,918 | 33,440 | 42,191 | 7,344 | 710 |

TURNOVER RATE

| 2016 | Germany | Brazil | Spain | LatAm | United Kingdom | Group ⁽¹⁾ |
|--------------------|---------|--------|-------|-------|----------------|----------------------|
| Total turnover | 24.8% | 26.1% | 20.6% | 29.4% | 31.3% | 25.9% |
| Voluntary turnover | 11.1% | 4.7% | 3.6% | 8.1% | 18.6% | 6.8% |

(1) Data for Atento Venezuela, which was sold in 2016, is not included.

EMPLOYEE AGE PYRAMID



Note: 305 employees in countries where Telefónica does not operate are not included.





Attracting and developing talent_

TALENT MANAGEMENT

In a sector marked by the digital transformation of communication technologies, attracting and retaining talent is one of the main issues for our sustainability and profitability. For this reason, we offer a professional career, which on the one hand aims to address employees' concerns and aspirations, and, on the other, aligns itself with the mid and long term challenges facing our Company.

It is important for us to be a good place to work, where our employees feel appreciated, motivated and where they can extend their training and development.

A significant element of the project is that we are committed to attracting talent from the new generation of digital natives, who are essential for a sector as dynamic as ours. Thus, in 2016, 19.1% of our employees were under 30 years of age and we recruited a total of 9,917 young people, of which 45.6% were women.

Our Human Resources Policy is that all employees receive regular evaluations of their performance and professional development. Last year we continued to promote global and local talent development programmes that contribute to the professional development of our teams, in order to improve the implementation of Company strategy at various levels and sectors, from youth to managers and the promotion of diversity in the workforce.

DIGITAL TRANSFORMATION: PROFESSIONAL PROFILES

Transformation needs a vision of the future, anticipation, and this is what has led us to implement the talent project: Profile for Digital Transformation. The initiative aims to identify the skills needed to lead change and thus maintain our competitive position in the market in the coming years. To achieve this we have applied Business Intelligence to the management of talent, which has allowed us to cross reference the input of the approximately 2,300 leaders who have participated in the project, with more than 28,000 references obtained.

The Profile for Digital Transformation has allowed us to identify what these differential capacities to succeed are in technological disruption environments:

- ▶ **Learning capacity**, crucial in changing environments, essential for continual reinvention. It means being able to learn and being able to do things differently, through experience, and at the pace of business. In turn, we are able to apply this knowledge to new situations.
- ▶ **Transformation skills**, which allow us to successfully navigate constant change. The model also identifies those skills with greater impact in transformational leadership.
- ▶ **Breadth and depth of digital experiences**, which are key to maintaining a competitive position, maximising impact on the business and improving customer experience.

▶ **Global Young Leaders Programme:** a two-year development programme that aims to develop digital, transformational and leadership skills among the most able young professionals. 100 young people participated in the first edition in 2015-2016. In 2017 we launched the second edition, in which 86 employees took part following a rigorous selection process. These young leaders come from 11 countries and all have a high level of English, which drives our globality. 53% of them are women, in line with the promotion of diversity in the Company.

▶ **Talentum:** an initiative that brings together all the proposals related to the development of talent and employability of our Company. This programme contains different types of scholarships and grants, for different ages, from school to a first job. Noteworthy in these programmes are: Talentum Mood, Talentum Startups, Talentum Universities and Talentum Schools.

▶ **Women in Leadership:** a development programme that aims to strengthen the leadership of the women within the Company.

For further information, see the chapter on 'Managing diversity'.

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

TRAINING

A fundamental aspect for managing talent well in a company like ours is continuous employee training. We articulate this through:

▶ **In-person training:** in 2016, Universitas Telefónica, our corporate university, trained 2,005 executives on its campus in Barcelona, thanks to the in-person leadership and strategy programmes focused on digital transformation. A further 1,963 have completed our on demand courses.

▶ **Online training:** delivered via our e-learning programmes, among which we highlight the use of virtual classrooms and learning through MOOCs.

In 2016, we invested a total of 39.3 million euros in various training initiatives, which were given in a total of 4.9 million hours. The average number of training hours per employee has increased by more than 25% in comparison with last year, reaching 38.61 hours. This demonstrates the significance that this aspect has for us.

The training process has been integrated into a global model supported by a single unified tool.

BEST PRACTICES

TALENTUM MOOD

In 2016 we created a new talent incorporation programme for the Company, aimed at bachelor's and master's university students with an interest in the digital world. The programme was founded last October and will have 2 inscription windows per year: in March (when 86 people were incorporated) and another one in May. These academic internships last 6 months (with the possibility of extension) and are encompassed within the Talentum programme.



In addition, it should be noted that, as of January 2016, all employees have individual access to any training process, through the cloud, from any device, and from any location, so that they can receive training and learn without interruption.

Moreover, through the Digital Development Festival, during the last quarter of 2016, we reached more than 2,000 of the Company's leaders with a unified message regarding the latest digital transformation trends, employing and promoting new ways of learning:

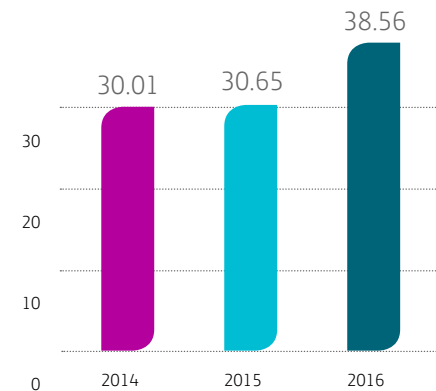
- ▶ We have been able to reach more than 40% of directors and managers, inviting them to do the online training offered, with an average evaluation of 4.3 out of 5.
- ▶ We have delivered the same 'homogenised' content, both in physical and digital format, which received a positive evaluation.
- ▶ 60% of the Group has received 100% of the training content in a digital and virtual format.

SPENDING ON TRAINING

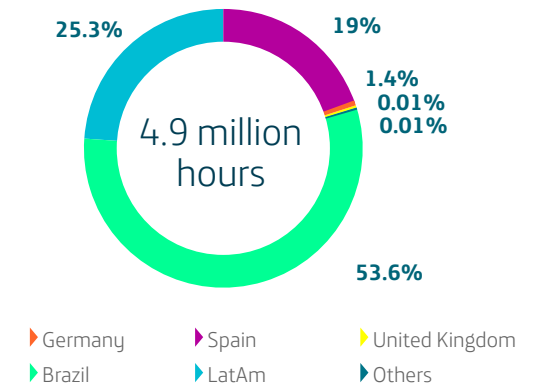
Thousands of euros

| | Germany | Brazil | Spain | LatAm | United Kingdom | Group |
|------|----------|----------|-----------|----------|----------------|-----------|
| 2016 | 7,045.54 | 4,726.62 | 19,233.37 | 6,079.92 | 2,108.08 | 39,311.11 |

AVERAGE HOURS OF TRAINING PER EMPLOYEE



TRAINING HOURS



MILESTONES IN 2016

Identification of key and high potential talent in the different levels and sectors.



Definition, maintenance and development of the global talent and development framework.



Design individual development plans for key collectives within the organisation.



Development of Training Schools based on a model of Communities and Working Groups within SuccessFactors, distributed by the key skills of our strategy.



Implementation of a global training offer consisting of language plans, new MOOCs, the "Being a Trainer at Telefónica" project and a management kit to promote a culture of empowerment.



CHALLENGES FOR 2017

Ensure the full adoption of the global training tool: 100,000 people to be trained through the courses offered globally.

25,000 people to be registered as users in the JAM communities.

Managing diversity_

We are convinced that a company is the reflection of the people who work inside it. Therefore, management of diversity is a key lever in the digitisation of the Company.

WHAT DO WE UNDERSTAND BY DIVERSITY?



We believe that diversity is a source of talent, and because of this we embrace it as a competitive element that allows us to get closer to a diverse and changing society. Diversity promotes empathy and innovation, and as such, generates value for the Company.

MANAGEMENT FOCUS

WHY IS IT A KEY ISSUE?



Diversity is an important source of talent, allowing us to promote inclusion and innovation, which are two strategic lines within our Company. We seek to attract and develop the potential of the best professionals.

WHERE IS THE IMPACT?



Giving better and more personalised customer care has an impact both on the Company's culture, as well as on our suppliers and partners.

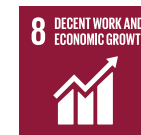
OUR OBJECTIVES



To ensure equal opportunities and the attraction of diverse talent. Reduce the difference in the number of women occupying positions of responsibility, attract young talent and advance the development of best practices in order to attain these objectives.

| Indicators | 2015 | 2016 |
|----------------------|-------|-------|
| % women | 37.7% | 37.6% |
| % employees under 30 | 19.9% | 19.1% |

SUSTAINABLE DEVELOPMENT GOALS



POLICY FOR DIVERSITY

We understand diversity to be a source of talent within our Company and a competitive element that draws us closer to a diverse and changing society. Through diversity we promote empathy and innovation, which in turn generates value for the Company and has a positive impact on our results.

In this sense, our commitment to diversity is transversal to the whole organisation and is part of the strategic cores of our Business Plan.

In order to establish and regulate the principles within the Telefónica Group that guarantee equal opportunities and diversity, in 2016 our Board of Directors approved a **Global Policy for Diversity and Inclusion**, with the objective of ensuring non-discriminatory, fair, and impartial treatment in very field of our organisation. We thus ensure prejudice-free management in terms of nationality, ethnic origin, religion, gender, sexual orientation, marital status, age, physical abilities and family responsibilities.



All our actions are based on our:
Responsible Business Principles

OUR GLOBAL DIVERSITY COUNCIL PROMOTES INITIATIVES TO ENCOURAGE EQUALITY THROUGHOUT THE GROUP





GLOBAL DIVERSITY COUNCIL

To ensure that our Company advances with the concept of diversity management as a source of value, at the beginning of 2016 a Diversity Council was created. Composed of top level managers (women and men of different nationalities, disciplines and origins), its purpose is to promote initiatives aimed at consolidating diversity as a key lever towards digital transformation.

The Diversity Council establishes the main lines of corporate action along which each country defines and implements its specific management plans at a local level. It also seeks to be a space for sharing best practices and for being able to replicate and extend the most successful initiatives to all operations.

—
“Each person’s
greatness is different”

José María Álvarez-Pallete,
Chairman & CEO of Telefónica

BEST PRACTICES

PLAN TO PROMOTE DIVERSITY IN SPAIN



In 2016, the Spanish Telefónica Management Committee approved an ambitious Plan to Promote Diversity. This plan is primarily based on 4 areas of action:

- 1. Selection:** encouraging the presence of female talent in the processes for structural posts and new incorporations.
- 2. Talent:** identifying our youngest talent and updating the chart of executive and pre-executive talent, as well as reinforcing the diversity

criterion as part of the process.

- 3. Training and development:** promoting diversity awareness programmes for all professionals and designing specific modules on inclusive leadership for all personnel managers and key groups within the Company.
- 4. Communication:** defining a framework which extends the main achievements and milestones of the initiative throughout the Company.



DIVERSITY IN FIGURES

DISTRIBUTION OF MEN AND WOMEN ACROSS THE TOTAL WORKFORCE



Of all our employees under the age of 30, **44.5% are women**

MAIN INDICATORS

| | 2015 | 2016 |
|--|-------|-------|
| Women in the workforce | 37.7% | 37.6% |
| Women in management positions | 19.1% | 20.5% |
| Women on the Executive Committee | 3 | 2 |
| Percentage of women on the Board of Directors | 11.1% | 17.6% |
| Number of nationalities in the workforce | 98 | 106 |
| People with disabilities in the workforce ⁽¹⁾ | 886 | 855 |
| Percentage of young people under 30 years of age | 19.9% | 19.1% |
| Percentage of young women under 30 years of age ⁽²⁾ | 48.3% | 44.5% |

(1) The reported percentage of integration of people with disabilities in Spain (previously LISMI) is 2.11%.

(2) Percentage of the total number of young people under the age of 30 years in the workforce.



Our employees currently represent more than 106 nationalities across the 36 countries in which we operate. With regard to gender diversity, the total number of professional women amounts to 47,934 employees, a 37.6% increase of the total, with 20.5% in managerial posts. This diversity strengthens our culture and allows us to position ourselves as a global and competitive company.

BEST PRACTICES

WORK-LIFE BALANCE:

In Telefónica Germany we have promoted the work-life balance among our employees regardless of gender, offering services to all professionals with children in order to make their personal lives easier. In this vein, we have made teachers, carers and tutors available for the children of our employees.

In addition, we have created the WMAD Community, which brings together all employees who are parents, to provide them with a support network.



GENDER EQUALITY

We want to promote diversity as a key component in the management of talent in all markets in which we operate. To support this goal, the Diversity Council proposed gender equality as a priority area of action in the Telefónica diversity plan. Consequently, Telefónica has designed a medium and long term work plan focused on reducing the gap between women and men who occupy positions of responsibility, guaranteeing equal opportunities and attracting female talent in selection processes. In this regard, a specific goal has been established: that 30% of all management positions shall be occupied by women by 2020.

Moreover, we highlight a new edition of the "Women in Leadership" programme, which seeks to provide career acceleration and increased visibility for women with the greatest potential for leadership. The initiative, which in 2016 included 151 female Group employees, compared to 60 in 2015, includes elements of leadership, digital skills, mentoring and networking training. Last year, 44% of the women promoted to executive positions within our Company had participated in this programme.

"Women in Leadership" workson the development of the following key levers:

- ▶ To improve the support given to women with high potential in executive and pre-executive positions in the Company.
- ▶ To establish a framework for career acceleration.
- ▶ To develop the skills, confidence and self-assurance needed to become influential leaders in a global environment.
- ▶ To build a network of mutual support between women with high potential in the Company.

DIVERSE TALENT

Despite the fact that the Diversity Council has chosen gender equality as its main area of focus, we are conscious that diversity is a much broader concept. For this reason, we have chosen talent as the core theme of our management, with the emphasis on being able to promote the best, diverse talent, regardless of gender, nationality, race, religion or physical abilities.

BEST PRACTICES

LGTB DIVERSITY

We have been recognised as one of the best companies in the management of LGTB diversity (lesbian, gay, transsexual, bisexual, and intersexual) in the workplace. We are ranked among those companies that have the best practices and strategy in Spain in the management of sexual and gender diversity, according to a report prepared by the State Federation of Lesbians, Gays, Transsexuals and Bisexuals (**FEL GTB**).

As regards people with disabilities, we are committed to removing barriers in the working environment in order to be able to fully incorporate people with disabilities and make our facilities easy to access for everyone. In addition, we carry out specific measures such as encouraging recruitment in special employment centres. In this regard, we also promote participation in our Telefónica Spain Talentum scholarships among young people with disabilities and high-level athletes. For further information on our progress in the area of disability, see the chapter on 'Digital Inclusion'.

EQUALITY POLICIES IN CORPORATE GOVERNANCE

In 2015 the Board of Directors approved our **Policy for the Selection of Board Members**, which encourages diversity in knowledge, experience and gender on a global level.

In connection with the promotion of women on the Board of Directors, it is important to note that our Director Selection Policy expressly obliges the selection procedures to encourage gender diversity, prohibiting any type of implicit bias that could result in a form of discrimination. As has been pointed out, the Appointments, Remuneration and Good Governance Committees, as well as the Board of Directors, have followed this maxim in all proposals for the appointment, re-election and ratification of Directors presented, analysed and approved.

During the first few months of 2017 the percentage of women on the Board of Directors rose to 17.64%. For more information, see the chapter on 'Corporate Governance'.



AWARENESS

We have designed an online training programme “We Chose Diversity”, and made it available to all of our employees in Spain. The programme fosters a sense of responsibility and commitment to diversity in its broadest sense. This training includes a specific section on diversity in the Group. In addition, the online course on “Diversity Management” has been launched globally.

Furthermore, all Company managers have access to a specific module on “inclusive leadership”, which sets out the main guidelines for encouraging, developing and promoting diversity in their teams.

—
The management of talent and diversity is *a key lever in the digitisation* of the Company

MILESTONES IN 2016

—
Creation of a Global Diversity Council.



100% Achieved

—
Approval of the Global Diversity and Inclusion Policy.



100% Achieved

—
To encourage measures to incorporate greater diversity into our workforce, especially of women and people with disabilities.



In progress

CHALLENGES FOR 2017

—
To continue making progress in the priority areas by raising sensitivity and awareness, through specific workshops on unconscious biases.

—
To increase the percentage of female executives in management positions to 30% of the total by 2020.



Freedom of association, social dialogue and fair remuneration_

By virtue of the agreement reached with Union Network International (UNI), we are committed to the basic ILO standards on labour, which chiefly refer to the freedom of association and the right to collective bargaining.

The agreement, renewed in late 2014, remains in force and takes into account developments in matters of corporate responsibility, as set out in the Guiding Principles on Business and Human Rights of the United Nations, which clarify that companies must respect human rights in all their operations. Within the framework of the above, the Group's Human Resources department held its annual meeting with UNI in January 2016 in Chile.

During the past year, we successfully concluded the collective bargaining processes in Brazil and Argentina and, in Spain, we signed the extension of the First Collective Agreement of Related Companies which will apply until 2018. It should be emphasized that were not involved in any significant collective dispute in 2016.

In general terms, we are involved in a simplification process, which is why some voluntary departure programmes have been implemented and, in the main, well-received by the Group's employees. In this regard, Telefónica España has extended the 2016 Individual Suspension Plan until 2018 in the

same terms of universality, voluntariness and non-discrimination. This plan applies to employees who will be 53 years old before the end of 2018 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 the payment of social security and health insurance.

FAIR REMUNERATION

Within our Responsible Business Principles we include our commitment to our employees, guaranteeing fair pay that is in keeping with the labour market in which we perform our operations. We ensure that our remuneration policies and practices guarantee equality of salaries and opportunities for men and women.

The aim of our remuneration policy is to attract, retain and motivate professionals so that, together, we can take on the challenges posed by the transformation of the sector which is taking place. The employees' remuneration comes in the form of payments (basic salary, variable remuneration dependent on objectives, sales incentives, long-term benefits and share programmes) and by means of specific benefits (pension plans, holidays, life and health insurance, company cars, etc.), as well as other forms of compensation, such as career development and opportunities.



Our employees also have access to a personalised remuneration system enabling them to voluntarily allocate part of their fixed financial payments to the purchasing of a series of products and/or services and, therefore, to adapt their remuneration to their personal and family needs at all times.

Within the concept of total remuneration, the Action Plans for Employees play an important role, because they align the interests of the

employees with those of the shareholders and, at the same time, they generate a sense of belonging and more direct involvement in the





Company's results. 25% of employees were Telefónica shareholders in 2016.

Moreover, we have a Global Remuneration Policy whose aim is to achieve homogeneity and alignment in the remuneration practices throughout the Group. In turn, the local remuneration teams ensure alignment with the usual practices in each area of activity. All our variable remuneration systems include at least one Responsible Business target for the employees: customer satisfaction.

We have designed and implemented different measures to improve the social benefits that our employees enjoy in different countries, such as the following:

- ▶ Health, life and accident insurance.
- ▶ Pension plans with contributions by the employee and the Company.
- ▶ Child and school aid, which vary according to the age of the children.
- ▶ Financial compensation for cases of redundancy within the Company due to declaration of the worker's permanent total disability for his or her usual occupation.
- ▶ A teleworking option once a week, with prior authorisation.

- ▶ Advance payments of up to three monthly salaries.
- ▶ Holiday and study plans for children of employees.
- ▶ Aid for children who study in a different location from that of their family home.
- ▶ Supplements during situations of maternity leave.
- ▶ Social care.
- ▶ Possibility of continuous working hours in summer and each year for one part of the collective, voluntary split working days and unpaid leave.
- ▶ Flexibility in the use of different permits.

—
 Within our Responsible Business Principles we are committed to *guaranteeing fair remuneration suited to the labour market*

AVERAGE SALARY DIFFERENCE BETWEEN MEN AND WOMEN

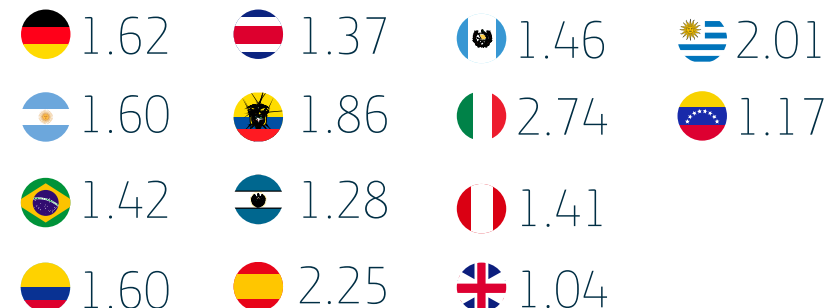
Percentage of the average salary of women in comparison with the average for men in our geographical areas

| Basic salaries | Germany | Brazil | Spain | LatAm | United Kingdom |
|-------------------|---------|--------|-------|-------|----------------|
| Managers | 97.7% | 96.2% | 97.4% | 94.0% | 96.8% |
| Middle management | 77.1% | 97.5% | 96.0% | 91.5% | 89.9% |
| Total salaries | Germany | Brazil | Spain | LatAm | United Kingdom |
| Managers | 97.0% | 96.2% | 96.6% | 91.5% | 95.6% |
| Middle management | 75.9% | 97.5% | 96.8% | 91.8% | 88.1% |

Note 1: LatAm reflects the weighted average of the countries which reported data by 31 December 2016: Argentina, Chile, Colombia, Ecuador and Mexico.

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

MINIMUM SALARY AT TELEFÓNICA IN COMPARISON WITH THE MINIMUM SALARY IN EACH COUNTRY



Work environment, work-life balance and commitment_

A very important aspect of the attraction and retention of talent is to foster a pleasant working environment. Aligning expectations and being aware of the problems are key to maintaining our professionals motivated, which in turn is essential to obtaining high commitment and providing an excellent service to our customers.

To achieve all this, we develop a constant and continuous dialogue with our employees through different channels and we carry out an annual survey regarding the work environment, the results of which provide a basis for the objectives we set. In this survey we apply quantitative, qualitative, measurable and manageable criteria to identify trends and objectives within the different categories of preparation, motivation and resources of our employees.

In 2016, a total of 87,682 of our professionals took part in our work environment and commitment study, in which we received a score of 79 out of 100. Colombia (91 points), Panama (91 points) and Venezuela (92 points) got the best results.

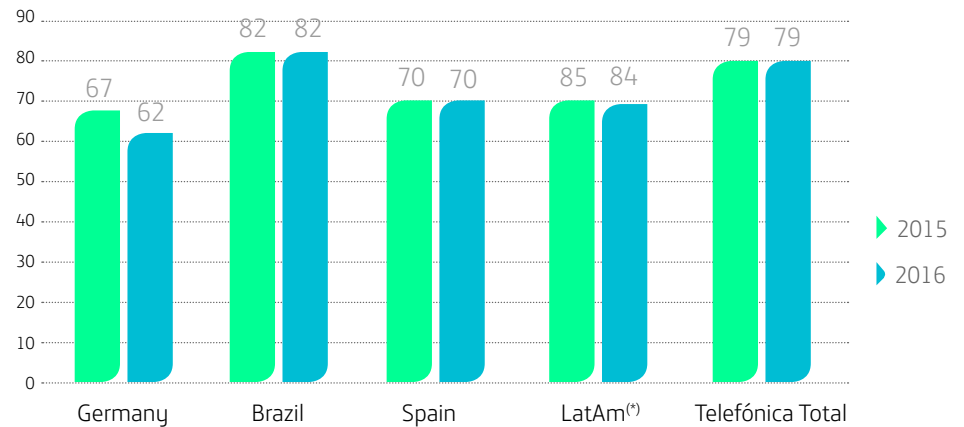
With regard to the analysis of diversity, the results show that commitment and motivation are higher among younger employees than in the groups of those aged 30 and over: 83 points for those under 20 years of age; and 80 points for those in the 20-30 age range. The score according to gender turned out to be very similar among women (79 points) and men (78 points).

In the global analysis, the issues that obtained better results from the workers were:

- ▶ "I know what is expected of me in my work" (89 points)
- ▶ "I feel energised to try to always give the best of myself at work" (87 points)
- ▶ "I am proud to work in my company" (87 points)

It is important to highlight that the statement "My company acts in an ethical and responsible way" obtained a score of 80 points, one above the global average.

WORK ENVIRONMENT INDEX



(*): The LatAm figures only include operator data.

BEST PRACTICES

PEOPLE OF VALUE

For another year running we launched the global annual recognition "People of Value" programme. It is an initiative that aims to foster a culture of meritocracy through personal recognition of leaders among employees and peers. This programme gives high visibility to those who stand out, both for their unique contribution and for alignment of their behaviour to the values

of the Company. It also recognises the Volunteer or social contributor of the year.

Among employees the campaign reported a total of 74,000 awards through our internal Success Factors platform. At the end of the programme, high global visibility was given to 32 people from the selected operations and 7 of them were acknowledged by the Chairman as being People of Value 2016.





WORK-LIFE BALANCE

We encourage the search for new ways of working that allow our employees a better balance between their professional and personal lives; we look for greater flexibility in timetables and to facilitate adoption of new ways of working.

Besides this, we have already implemented a set of measures and provisions aimed at

work flexibility, with services and benefits tailored to employee needs.

▶ At a corporate level, in matters of the working day and timetables, a large percentage of the workforce has opted for a continuous working day in the summer months, thereby fostering new forms of flexible working permitted by new technologies.

▶ To enhance the work-life balance, our employees enjoy flexibility when taking their holidays and also benefit from daycare vouchers. In some cases, like at the Company headquarters, we even have a daycare service available for employees' children.

At Telefónica Spain there is also an Equal Opportunities Committee made up of representatives of the Company and the workers in order to promote measures that encourage them to find a balance between their work, family and personal lives.

For further information, see the chapter on 'Managing diversity'.

We value *diversity* in our employees and see the *balance between personal and family life* as key to the development of our business



BEST PRACTICES

SMART WORKING

In 2016, we implemented "Smart Work" in Telefónica Germany. Through this formula, our employees have flexible working hours, which they choose according to their objectives. In this way, we encourage initiatives such as teleworking and we run a job-sharing arrangement for management positions.

In addition, we make collaborative work spaces available, which facilitates access to facilities during a greater availability of timetables, so that employees can better reconcile their work and personal life.

Occupational health, safety and well-being_

Health, safety and well-being for us constitute one of our main lines of action. We implement it through an occupational risk prevention management system that ensures the integration of health and safety criteria with preventive measures in our processes and services.

The management body for this area is the Joint Service for Occupational Risk Prevention Management (belonging to Telefónica Spain's Transformation and Human Resources Division), which is the unit designated as the Telefónica Group Competence Centre, and which coordinates actions with regard to prevention and occupational health.

In 2016, we performed the OHSAS Certification Follow-up Audit of the Health and Safety and Healthy Company Management System, for all the 33 companies of the Group in Spain. Obtaining certification such as the OHSAS 18001, which goes beyond formal compliance with legislation, is a sign of our commitment

In 2016, we conducted the **OHSAS 18001 certification** Follow-up Audit for all the companies in Spain

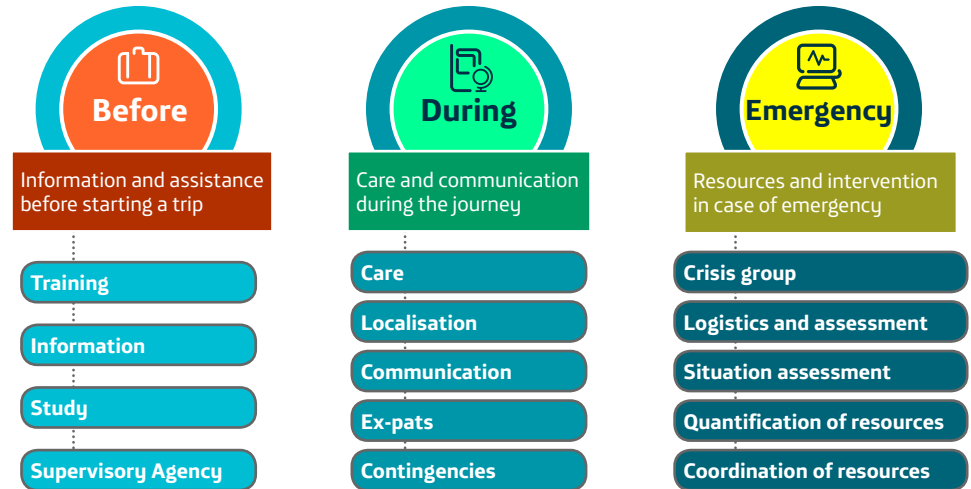
to continuous improvement in matters of occupational health and safety.

The OHSAS standard requires an annual follow-up of the certification, which involves both a prior internal audit, carried out by the prevention technicians of the Joint Prevention Service, and, subsequently, an external audit to verify the consistency of implementation of the system over time through the review and monitoring of the improvement actions proposed and the consolidation of the system implemented.

In addition, in 2016, we obtained renewal of the Healthy Business model certificate, for which we reviewed the Comprehensive Healthy Management model (Spanish acronym: SGSI) based on the physical and social work environment, personal health resources and participation in the community.

With the objective of making progress in effective management, as well as disseminating our established safe work procedures, during the past year, changes have been made to the web environment through which our Company's Coordination of Corporate Activities (Spanish acronym: CAE) are managed, both for contractors and customers.

The goal of the new website is to streamline the sending and receiving of documentation on occupational health and safety, with the aim of



creating an environment that ensures that our employees are informed and can effectively manage any incident in this regard.

PHYSICAL SAFETY OF EMPLOYEES

The information we collect regarding physical access controls enables us to manage efficient evacuation plans, in real time, in collaboration with emergency teams and the personnel concerned, by mobilising the resources needed to ensure their safety. Furthermore, the planning of absences (due to public holidays, holidays or illness) enables us to redistribute spaces, such as the assignment of parking spaces for employees, and the allocation of spaces for people with temporary

limited mobility and pregnant women.

Since we are a global company, our employees often make international business trips. Protection during business travel is essential in order to minimise exposure to any risk, to provide an appropriate response in any given situation and to provide backup at all times.

A training course on the prevention of risks when travelling is available from our e-learning platform. The information provided beforehand to employees on the region, country, city, local safety and insurance is essential for ensuring good use of all resources.



'FEEL GOOD' PROGRAMME

In 2016 we carried out various health promotion campaigns. For instance, as part of the 'Feel Good' programme (which focuses on four key areas: physical activity, nutrition, health and individuals) we launched initiatives to promote healthy habits among our employees. Key initiatives include the "Healthy Diet" nutrition campaign, prevention of osteoporosis and road safety when riding motorcycles. In addition, wellness rooms have been set up, with spaces for physical activity and talks on health for employees.

Through the "We Choose to Protect Ourselves" campaign, we promoted awareness regarding vaccination as a responsible act of self-care for individuals within their environment and society, and held informative talks for employees in parallel with the campaign.

IMPROVEMENTS IN PSYCHOSOCIAL PERFORMANCE

The Joint Service also implemented evaluations of psychosocial factors through external entities. In the light of the results, we have decided to reinforce the necessary preventive measures and actions.

In this way, the assessment will be enhanced by personal surveys of workers and leaders of the

groups which are being studied: sales, managers and support staff. This will enable identification of the best actions to follow.

JOINT COMMITTEES (SPAIN)

The health and safety model established in the various regions where we operate shows high worker representation and participation in health and safety matters through the corresponding Health and Safety Committees, in all regions.

These Committees enable established health and safety objectives to be implemented and consolidated by means of continuous analysis and monitoring of programmed preventive measures.

In 2016, we had 214 joint committees representing more than 90% of the employees of the telecommunications businesses.

INDICATORS

Among the professional activities that are carried out within our Company, no particular incidence or high risk of certain diseases is apparent. In 2016, 41 cases of occupational disease were detected among the 127,323 employees of the Group and there were no fatalities within the Telefónica Group.

| Country | Incidence rate | | | Ratio of seriousness | | | Average duration rate | | |
|----------------|----------------|------|------|----------------------|-------|-------|-----------------------|------|------|
| | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| Germany | 1.2 | 1.8 | 1.9 | 9.1 | 20.0 | 18.3 | 7.8 | 11.1 | 9.6 |
| Brazil | 0.9 | 6.4 | 4.8 | 12.6 | 98.3 | 44.6 | 14.4 | 15.5 | 9.3 |
| Spain | 7.3 | 6.2 | 6.7 | 274.6 | 238.9 | 212.3 | 37.7 | 38.6 | 31.6 |
| LatAm | 19.0 | 18.8 | 19.0 | 476.8 | 488.4 | 532.5 | 25.2 | 26.0 | 28.0 |
| United Kingdom | 3.0 | - | 15.6 | 71.7 | - | 263.1 | 23.5 | - | 16.9 |

Incidence rate: total number of incidents / average number of workers during the period.

Ratio of seriousness: total number of days lost due to accidents at work / average number of workers during the period.

Average duration rate: total number of days lost due to accidents at work / total number of accidents.

| 2016 | Incident rate (IR) | | | Occupational disease rate (ODR) | | | Lost days rate (LDR) | | | Absenteeism rate (AR) | | |
|----------------|--------------------|------|-------|---------------------------------|------|-------|----------------------|-------|-------|-----------------------|-------|-------|
| | Total | Men | Women | Total | Men | Women | Total | Men | Women | Total | Men | Women |
| Germany | 0.19 | 0.24 | 0.12 | 0.00 | 0.00 | 0.00 | 1.83 | 2.60 | 0.71 | 0.058 | 0.050 | 0.069 |
| Spain | 0.67 | 0.63 | 0.67 | 0.00 | 0.00 | 0.00 | 21.23 | 21.62 | 20.33 | 0.031 | 0.026 | 0.038 |
| Brazil | 0.48 | 0.69 | 0.17 | 0.00 | 0.00 | 0.00 | 4.46 | 6.15 | 2.02 | 0.011 | 0.009 | 0.015 |
| LatAm | 1.90 | 2.45 | 0.86 | 0.02 | 0.01 | 0.02 | 53.25 | 71.62 | 17.87 | 0.024 | 0.007 | 0.015 |
| United Kingdom | 1.56 | 1.09 | 2.39 | 0.46 | 0.31 | 0.73 | 26.31 | 19.98 | 37.70 | 0.006 | 0.004 | 0.009 |

Incident rate (IR): total number of incidents at work leading to absenteeism / hours worked per year x 200,000.

Occupational disease rate (ODR): total number of occupational diseases / hours worked per year x 200,000.

Lost days rate (LDR): total number of days lost due to work-related accidents at work leading to absenteeism / hours worked per year x 200,000.

Absenteeism rate (AR): total number of days lost due to any type of incapacity / working days per year.

Note:

In order to facilitate transparency and comparison with other companies in our industry, only Telefónica's core businesses have been included in the ratios: the fixed and mobile telecommunications in the countries in which we operate, which amount to more than 95% of our total number of employees.