

2013

Corporate Sustainability report

E

Be More  
Sustainable

*Telefonica*

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The 2013 Telefónica Annual Report is made up of the *Integrated report*, *Annual corporate governance report*, *Financial report* and the *Corporate Sustainability report*.



To access any of the Annual reports, click on the corresponding links below.



Integrated report

Annual corporate governance report

Financial report

Corporate Sustainability report



The 2013 Telefónica Annual Report is available in an online version for smartphone and tablet.



# Letter from the Chairman

**César Alierta Izuel**  
*Executive Chairman*



“ We at Telefónica are convinced that corporate sustainability and transparency are long-term sources of competitiveness and progress ”



Dear friends,

Once again I have the pleasure of writing to you to present the Annual Corporate Sustainability Report, which recounts our activities in the areas of risk management and leverage of opportunities, and our effective management of the risks inherent to economic, environmental and social development.

This Report, which Telefónica has been publishing since 2004, aims to respond to the concerns about information and transparency that the distinct groups with a stake in our activities may have. Similarly, it entails compliance ahead of time with European Union Directive 2013/34 with respect to “disclosure of non-financial and diversity information by certain large companies and groups”. In addition, we would like it to answer demands for information that are being made in some of the countries in which we operate, under the format “inform or explain”.

We at Telefónica are convinced that corporate sustainability and transparency are long-term sources of competitiveness and progress. Not only do these help to underscore our legitimacy to operate in the different countries in which we are present, but they also have positive repercussions on the management of our business, and therefore on our results. Moreover, ICT, based on connectivity, are leading the processes of transformation of our society and they are an essential factor in the creation of employment, economic growth, saving energy and transparency, as is shown by the digital agendas of the most important public and private bodies in the world.

In this Report you will be able to see the progress that Telefónica has made during the financial year along the three basic dimensions of sustainability: economic, social and environmental.

With regard to the economic impact, which in terms of sustainability has to do above all with the way in which we obtain our income and carry out our activities, we should mention the achievements of our Business Principles Office during 2013, the advances in compliance with the principles of sustainability in our chain of suppliers, and the progress we have made on privacy and data protection.

Relating to the social impact, in this Sustainability Report 2013, we have emphasised diversity management in the workforce, the projects of digital inclusion and social innovation, and also the important schemes to boost entrepreneurship in which we are engaged.

On the environmental side, you will find complete information about our environment policy in this Report. We continue to reduce our energy consumption and are moving forward noticeably with electronic billing as an alternative to paper consumption, and in addition our “green” services have made important advances which are already being translated into income for the Company.

As you will be able to see, sustainability is being incorporated gradually into the value chain of Telefónica. Indeed, we are collaborating actively with all the interest groups which have a relationship with our Company, and we are offering exhaustive information on the developments in the most relevant subjects, our indicators and our sustainability policies in terms of standard publication criteria like the GRI and the UN Global Compact.

All this means that in 2013, our Company has been included in the worldwide Dow Jones Sustainability Index; it was fifth in the Carbon Disclosure Project and Sustainalytics rankings; it was recognised in the Excellence Investment

Register by the Ethibel Sustainability index; and, for the twelfth year in a row, it forms part of the FTSE4Good ranking. And as a consequence of all this, Telefónica was acknowledged in 2013 as the most admired European telecommunications company, and second in the world, by Fortune magazine.

I would like to conclude by reminding you that our Company is currently positioned as a fundamental actor in the sector. Being able to count on the recognised team of professionals that we have assures me that I can say to you that Telefónica is going to play an ever more decisive role in the digital world, because we are convinced that technology ought to be within reach of all individuals, companies and public authorities, so that they can BE MORE.

I would like to express my thanks for the support of our stakeholders who, with their opinions and suggestions, have helped us to move forward in achieving our vision.

Many thanks,

**César Alierta Izuel**  
Executive Chairman



Principles for the  
2013 Sustainability  
report\_

Report boundary  
and structure\_

# 1. About this report\_



## ABOUT THIS REPORT

# Principles for the 2013 Sustainability report

*Telefónica presents the Corporate Sustainability Report 2013, a document that covers the progress made during the reporting period in economic, environmental and social terms, as well as in human rights, anticorruption policies and diversity management*

Telefónica is one of the world's leading integrated telecom solutions providers in the areas of communication, information and entertainment, with operative presence in Europe and Latin America. The Company is present in 24 countries and has a customer base that exceeds 323 million. It was constituted in Spain in 1924, is totally private and has over 1.5 million direct shareholders. Telefónica is quoted on the continuous markets of the Spanish stock exchanges of Madrid, Barcelona, Bilbao and Valencia, as well as in London, New York, Lima and Buenos Aires. At the end of April, the Group was the sixth biggest in the world in the telecommunications sector by stock market capitalization, the largest integrated operator in Europe and twentieth in the Eurostoxx 50 ranking, which groups the largest companies in the eurozone.

Telefónica boasts one of the most international profiles in its sector, generating more than 76% of its business outside its domestic market. Movistar (for Spain and Latin America, except Brazil), Vivo (in Brazil) and O2 (in the United Kingdom, Ireland, Germany, the Czech Republic and Slovakia) are the principal brands under which its products and services are offered.

For the compilation of the qualitative and quantitative information, internal and external tools and programmes have been used, especially eSIF for matters related to human resources and Credit 360 for matters of customers, community and the environment. This process has permitted self-diagnosis and verification of each datum from its department of origin, as well as ensuring its traceability, accuracy and reliability at different levels of aggregation. All the information published has in turn passed through internal processes of checking and verification, both internal (Management Control/CF0 in some countries and the corporate Environment and Corporate Sustainability Department). Additionally, the

information in this report has been subjected to various levels of external reviews.

The Report follows the principles of the Global Reporting Initiative (GRI) and AA1000 (APS), the most reliable and widely used standards in Sustainability and Corporate Social Responsibility reports. This methodology is used to facilitate comprehension, comparability and maximum transparency for our stakeholders.

This book has been drawn up following the general principles G3.1 established by the Global Reporting Initiative (GRI), and a guide to the progress already made towards the new G4 standard is included as an annex.

This chapter explains how these standards have been applied and gives details of those that determine the content and quality, which ensure a balanced and reasonable presentation of the organisation's performance. The entire process has been followed taking both the experience and intentions of Telefónica into account, as well as the utility for its stakeholder groups. Likewise, the verification was conducted by Ernst & Young under the framework defined by the standard AA1000AS (2008), whose values seek "to guarantee the quality of the Sustainability Report of the organisation and the processes, systems and competencies which underlie accomplishment throughout the organisation".

## According to the Global Reporting Initiative (GRI)

### With regard to the content

→ **Materiality.** The information contained in the Report covers aspects and indicators that reflect the significant social, environmental and economic impacts of Telefónica, in accordance with its business strategy and development, and its management of risks and opportunities.



Similarly, it also includes the results of research carried out by the Company among its distinct stakeholders to learn which aspects could have a substantial influence on their evaluations and decisions. Both external and internal factors are taken into consideration, as well as other facets highlighted among companies of the sector.

→ **Stakeholder inclusivity.** This Report is addressed to the distinct stakeholders of the Company and has been compiled bearing in mind the aspects most important to them in their relationship with our business. By stakeholders, we understand those entities or individuals who may be affected significantly by the activity, products or services of Telefónica, as well as those groups that could affect the capacity of Telefónica to carry out its strategy and fulfil its objectives. The stakeholders considered were: shareholders and investors, customers, suppliers and collaborating companies, employees, trade bodies, social NGOs, public authorities and regulators, the media and sustainability professionals.

→ **Sustainability context.** This Report addresses the subjects covered from a perspective of sustainability, in the sense of how the Company contributes to helping others to achieve greater development along economic, social and environmental dimensions at local, regional and global levels, within its business strategy and in accordance with its policy on managing risks and opportunities.

→ **Comprehensiveness.** The indicators and material aspects and the definition of the scope of this Report are sufficient to reflect the significant social, economic and environmental impacts. They also allow stakeholder groups to evaluate the Group's performance in the reporting period 2013.

### With regard to the quality

→ **Balance.** The Report reflects the positive and negative aspects of the organisation's performance so as to enable a reasonable assessment of overall performance.

→ **Comparability.** The Report and the information contained within can be compared on a year-to-year basis through tables and charts, thus highlighting any significant variations in the boundary and scope. In addition, the Sustainability website of Telefónica describes the ATLAS RC platform, which facilitates comparability of the indicators considered most relevant in managing corporate responsibility at Telefónica.

→ **Accuracy.** The Report information is sufficiently accurate and detailed (data, sources, measurement techniques, bases for calculation, underlying assumptions and estimates) for our stakeholders to assess Telefónica's performance. The data published are contrasted with an independent report by Ernst & Young.

→ **Regularity.** This Report is presented with sufficient regularity for stakeholders to be able to take well-informed decisions.

→ **Clarity.** The information is expressed in a comprehensible and accessible manner for Telefónica's stakeholders.

→ **Reliability and verification.** The information and processes used in the preparation of this Report were gathered, recorded, compiled, analysed and presented for external validation.

## According to AA1000 (APS)

→ **Inclusivity.** This refers to the participation of our stakeholders in developing and achieving an accountable and strategic response to sustainability.

→ **Relevance.** This is how Telefónica has determined the importance of each issue for stakeholders.

→ **Responsiveness.** This is the reaction of Telefónica to the demands of its stakeholders, as translated into the milestones and challenges for the Company in terms of sustainability.



ABOUT THIS REPORT

# Report boundary and structure

*The data that appear in this Report, published annually, describe the evolution of Grupo Telefónica in terms of corporate sustainability*

To compile this publication, Telefónica has an online system to coordinate and consolidate the information received from each country for each of the qualitative and quantitative indicators. This mechanism allows analysis of each of the Company's countries of operation in a comparable, weighted and measurable way and the use of these data as a management tool.

The Corporate Sustainability report describes the scope of the operations of the Group with clarity. Apart from this publication, Telefónica also publishes local information on sustainability in its most material markets: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Central America, Peru and Venezuela. In addition to the local publications, a complete breakdown of all the corporate data by country is presented on the platform <http://Atlas.telefonica.com>

Telefónica, S.A. is basically divided into four large operations departments from the point of view of serving its markets: Telefónica Spain, Telefónica rest of Europe, Telefónica Brazil and Telefónica rest of Latin America.

This is why we present the consolidated information for many of the indicators broken down in this way.

Although within Telefónica, S.A. there are some small companies whose activity does not fit neatly into these categories, they are not of sufficient size to be considered material, constituting only a small part of the Group by revenue, equity and workforce. Therefore, we

have decided that the consolidation perimeter for information relating to our operations included in this Report will refer only to telecoms service provision, so as to retain the materiality of the information and make it more comparable with other companies of our sector. In any case, all information relating to human resources will be consolidated for all Group companies, including the less material ones.

During 2013, the sales of 40% of the assets in Central America and 100% of those in Ireland and the Czech Republic were announced. With respect to Central America, the sale of the said shares package does not entail the complete de-consolidation of the companies, and so we are maintaining the region within the consolidation perimeter of the sustainability information. Regarding Ireland and the Czech Republic, while the sale has been announced, this is pending regulatory approval and the assets remained consolidated for financial purposes during the whole year. Thus we have decided to retain them within the consolidation perimeter of this Report, to make the information comparable to earlier years and allow the rates to be derived automatically from the relationship with other financial factors which have included these assets throughout the year, both in the Profit and Loss Account and the Balance.

The complete list of all companies that make up Telefónica Group has been published in *Annex VI: Principal companies of Telefónica Group* from the Financial Report that accompanies the present Report and may be found on the corporate website.

## Importance of Telefónica's core businesses in the perimeter of the Company

	Million €	% of total	Staff	% of total
T. Europe + T. Latin America	56,033	98.2%	107,742	85.02%
Rest of companies	1,028	1.8%	18,988	14.98%





By category, the origin of the information presented herein is as follows:

- **Corporate Governance and shareholders.** This comes from the same sources that compiled the information included in the *Annual Corporate Governance Report 2013*.
- **Economic and financial information:** This comes from the same sources that compiled the information included in the *Financial Report 2013*, audited by Ernst & Young.
- **Innovation.** This is consolidated through the corporate innovation department of Telefónica Digital, in collaboration with Telefónica R&D and Telefónica Global. The sources of the data in these chapters are the purchasing systems and are consolidated without application of any criterion of proportionality.
- **Customers.** This comes from the Telefónica quality control systems and those of the operations of Telefónica Latin America and Telefónica Europe. The total number of accesses of the Company need not coincide with the sum of the country-by-country accesses because for reasons of uniformity the corporate Management Control Department standardises some reckoning criteria for accesses. The standardisation criteria are given in the corresponding chapter.
- **Employees.** The numbers come from the HR management systems. This Report uses the concept of 'person' as opposed to the term 'employee' usually employed in financial reports. In those cases in which aggregated information is given, the number of employees is used as factor of proportionality. The section dedicated to this includes the entire economic perimeter of Telefónica Group, except in the chapter on Employee Health and Safety, where the rates reported only relate to the Group's telecoms businesses for easier comparison with other companies of the sector, because circumstances and legislation specific to the sector are envisaged in compilation (for instance, occupational diseases).
- **Environment and climate change.** The information comes from the departments of environment and operations in each country through online questionnaires and other computer support. The information is aggregated by simple summation and, in the case of climate change, the emissions factors of the GHG Protocol are taken into account.
- **Suppliers.** Derived from the contract adjudication system of the purchasing departments. The information has been consolidated without using any factor of proportionality, and is broken down

by country and line of business. This chapter includes the whole economic perimeter of the Telefónica Group. It is important to emphasise the difference between the data for *provisioning* in the aggregated accounts of the financial statements (according to the criterion of accrual and the consolidated accounting perimeter of Telefónica S.A.) and those for *purchases allocated* used in various sections of this Report, which refers to the purchases approved in the period, independently of the criteria for accounting and periodicity applicable to the expenditure.

- **E-inclusion** This information is from the quality control, operations and regulatory systems of Telefónica Latin America, Telefónica Europe, Telefónica Digital and Fundación Telefónica, as well as from the Social Innovation Reports published by the Company's CSR Department.
- **Social action.** The information is derived from the systems of management control and the patronage committees of Fundación Telefónica, ATAM and Telefónica S.A. and it is integrated with LBG validation in a single digital platform.
- **Exchange rates.** All the information in this Report is expressed in real euros, except where the contrary is stated. The exchange rates are the mean annual rates for each period and correspond with those used in all the financial statements published by the Company (balance, individual and consolidated profit and loss accounts), so as to ease understanding of the overall relationship between financial and non-financial variables.

**Exceptions to the perimeter**  
The data of some operators is not included when the percentage held by the Company is well below 50%.

- **China Unicom:** Telefónica has a strategic shareholding of 5.01%.
- **Telecom Italia:** Telefónica has a strategic shareholding of 10.50%.

Throughout this report there are links to further information, which provide more detail on certain matters covered herein. However, the information in these links is not an integral part of this Report.

For a deeper understanding on matters of corporate governance and financial performance of Telefónica, this Report refers to some part of the *Corporate Governance Report 2013* and the *Financial Report 2013*, supplementing the *Annual Report of Telefónica 2013*.



**Consolidation parameter by chapter**

		Core local businesses	Other affiliates	Corporate centres
<b>Driver of progress</b>	Our contribution to the communities: social cash flow	●	●	●
	Contribution to the public administrations	●	●	●
	Universal Service	●		
<b>Our approach</b>	Telefónica as a responsible investor			●
	Corporate responsibility and sustainability, as part of the Telefónica vision			●
	Corporate responsibility and sustainability structure in Telefónica, S.A.			●
	Materiality: focus on the key issues	●		●
	Stakeholder engagement	●		●
	Ethics and compliance	●	●	●
<b>Responsible management</b>	Customer satisfaction	●		
	Staff	●	●	●
	Working environment and commitment	●	●	●
	Training and talent management	●	●	●
	Labour practices			
	Attracting and retaining talent	●	●	●
	Fair pay and performance recognition	●	●	●
	Freedom of association and social dialogue	●	●	●
	Health and safety	●		
	Management of diversity	●	●	●
<b>People</b>	Sustainability in the supply chain	●	●	●
	Human rights			
	Respect for children's rights	●	●	●
	Commitment	●	●	●
	Privacy: an open and secure Internet for all	●		●
	Freedom of expression	●		●
	ICTs for children	●		●
	More accessible services	●		
	Digital education	●		
	e-Health	●		
<b>Society</b>	The key role of telcos in constructing the digital world			●
	Innovation at Telefónica	●		●
	Digital inclusion	●		●
	Response to emergency situations	●	●	●
	Volunteers	●	●	●
	Social action at Telefónica	●	●	●
	Open future			
	Wayra	●		●
	Talentum			●
	Campus Party	●		●
Think Big			●	
<b>Planet</b>	Support for entrepreneurship			●
	Green ICT and environment	●	●	●
	Environmental management in Telefónica	●		●
	Energy and climate change	●		●
	Electromagnetic fields	●		
	Green ICT services	●		
	Sustainable Smart Cities	●		
	Environmental and global leadership	●		●



Our contribution to the communities: social cash flow\_

Contributions to the public administrations\_

Universal Service\_

Telefónica as a responsible investor\_

## 2. Driver of progress\_

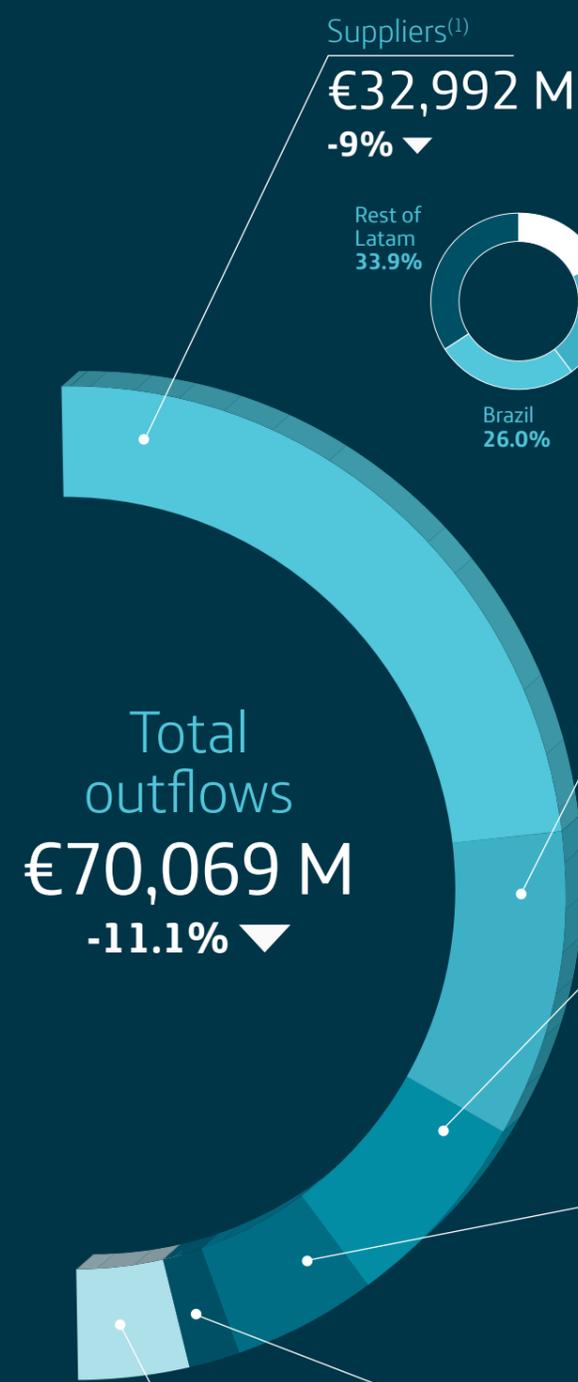
DRIVER OF PROGRESS

# Our contribution to the communities: social cash flow

Telefónica aims to be an economic, social and technological development driver

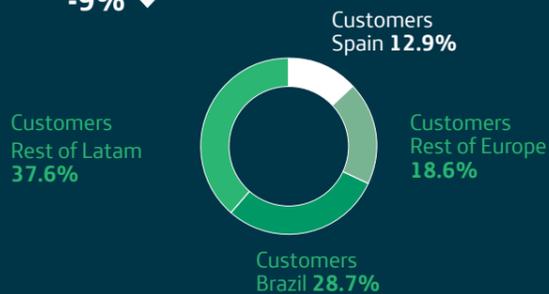
Despite the return to organic growth or revenue obtained in 2013, the effect of the decline of exchange rates for Latin American currencies against the euro has resulted in reduction reported revenues by 8.5%. This, along with the smaller divestments during the financial year (-68.8% compared to the previous year, during which there were divestitures in the long term investments of China Unicom and Atento), has resulted in a smaller presence of the Company in the global economy when compared to the previous year (-11.1%).

In this way, the value which has been distributed by Telefonica in 2013 has fallen for all reference investors (stakeholders), except for public administrations (for higher taxation, both at the part of taxes collected as part of the input taxes) and financial institutions, as a result of negative net exchange differences, since the effective cost of debt in the last twelve months, excluding exchange differences, stood at 5.34%, 3 bp below December 2012.



Receivables from operations

€69,149 M  
-9% ▼



**Note:** The information on this graph is calculated on the basis of payments and takes into account the scope of consolidation of the consolidated statements of cash flows for the financial years ending on December 31.

<sup>(1)</sup> Includes all providers for operating expenses, including interconnection and operating leasing.

<sup>(2)</sup> Includes both dividends and capital increases.



### Contribution to local progress

Revenue Supplies Salaries Taxes Investment

All figures are expressed in millions of euros.

	Economic impact	Revenue/GDP (%)	Amounts
<b>Argentina 2013</b>			
Revenue	3,871.6	1.1%	Staff 17,139
Payments	971.4 723.3 1,195.0 574.0		Certified suppliers 1,298
			% local purchases 88.1%
			Accesses (thousands) 26,650.7
<b>Brazil 2013</b>			
Revenue	12,378.3	0.7%	Staff 20,878
Payments	3,098.9 1,160.0 5,419.7 2,127.0		Certified suppliers 2,945
			% local purchases 98.37%
			Accesses (thousands) 92,748.9
<b>Chile 2013</b>			
Revenue	2,477.9	1.2%	Staff 4,911
Payments	785.1 245.9 351.0 488.0		Certified suppliers 1,011
			% local purchases 78.9%
			Accesses (thousands) 13,630.2
<b>Colombia 2013</b>			
Revenue	1,689.7	0.6%	Staff 3,613
Payments	462.6 130.6 331.6 457.0		Certified suppliers 547
			% local purchases 72.8%
			Accesses (thousands) 14,782.0
<b>Czech Republic+Slovakia 2013</b>			
Revenue	1,787.3	1.2%	Staff 6,011
Payments	553.7 218.8 357.1 218.0		Certified suppliers 191
			% local purchases 92.7%
			Accesses (thousands) 9,341.7
<b>Ecuador 2013</b>			
Revenue	489.9	0.9%	Staff 1,365
Payments	130.2 51.4 105.2 94.0		Certified suppliers 340
			% local purchases 69.9%
			Accesses (thousands) 5,151.3
<b>Germany 2013</b>			
Revenue	5,154.9	0.2%	Staff 5,735
Payments	1,922.6 433.2 625.0 666.0		Certified suppliers 492
			% local purchases 65.2%
			Accesses (thousands) 25,166.9



### Contribution to local progress

Revenue Supplies Salaries Taxes Investment

All figures are expressed in millions of euros

	Economic impact	Revenue/GDP (%)	Amounts
<b>Ireland 2013</b>			
Revenue	538.2	0.3%	Staff 967
Payments	156.7 63.1 76.6 56.0		Certified suppliers 14
			% local purchases 99.4%
			Accesses (thousands) 1,552.0
<b>Mexico 2013</b>			
Revenue	1,613.1	0.2%	Staff 2,969
Payments	712.0 134.3 95.1 242.0		Certified suppliers 668
			% local purchases 94.7%
			Accesses (thousands) 21,891.7
<b>Peru 2013</b>			
Revenue	2,499.1	1.7%	Staff 9,824
Payments	627.9 335.2 599.0 479.0		Certified suppliers 1,102
			% local purchases 76.4%
			Accesses (thousands) 20,898.0
<b>Spain 2013</b>			
Revenue	13,143.4	1.3%	Staff 34,604
Payments	2,818.0 2,540.8 3,443.5 1,529.0		Certified suppliers 2,065
			% local purchases 91.9%
			Accesses (thousands) 41,653.6
<b>United Kingdom 2013</b>			
Revenue	6,651.7	0.4%	Staff 7,833
Payments	3,322.8 657.7 363.0 1,385.0		Certified suppliers 343
			% local purchases 73.3%
			Accesses (thousands) 23,906.6
<b>Uruguay 2013</b>			
Revenue	256.2	0.7%	Staff 408
Payments	69.0 17.7 57.8 46.0		Certified suppliers 329
			% local purchases 47.7%
			Accesses (thousands) 1,843.9
<b>Venezuela+Central America 2013</b>			
Revenue	4,228.0	1.1%	Staff 8,826
Payments	1,169.0 390.4 995.9 739.0		Certified suppliers 1,640
			% local purchases 94.4%
			Accesses (thousands) 23,491.6

DRIVER OF PROGRESS

# Contribution to the public administrations

A total of 24.6 euros out of every 100 that Telefónica collects overall is paid in taxes

Corporate Income Taxes accounted for 38% of borne tax, while 32% refers to other taxes and fees associated with our economic activity

Telefónica makes quantifiable economic and social contributions by paying taxes to the authorities of the different countries where it operates. The countries where tax payments are largest are precisely the jurisdictions in which Telefónica obtains its main income, namely Brazil, Spain and Argentina.

The total tax contributions of Telefónica in the financial year 2013 were 14,060 million euros, 4,792 million euros of which corresponds to taxes borne and 9,267 million euros to taxes collected. This means that for every 100 euros of Company turnover, 24.6 euros was dedicated to the payment of taxes, or 8.4 to taxes borne and 16.2 to taxes collected. These figures include the payment of taxes and other local fees such as operator general taxes, numbering fees, charges for using the public domain, fees to finance the Public Radio and Television in Spain, and other similar taxes in other countries. Spectrum

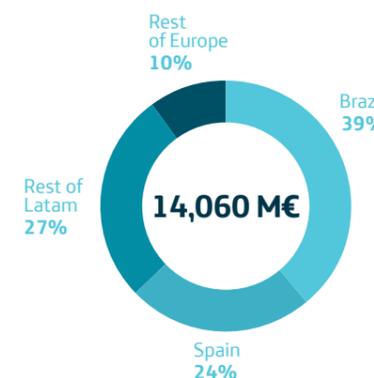
payments are not included due to their different classification and accounting treatment.

Taxes on profits represent 38% of the total tax borne. Taxes on goods and services, which are mostly special levies on the telecoms sector, made up 32%, and taxes associated to employment made up 21%. Among the taxes collected, VAT stands out, representing 83% of the total.

The Company's tax contributions in Spain in 2013 were 3,443 million euros, or 24.5% of the total. The tax contribution ratio for Telefónica in Spain was 35.67%: that is, during 2013, Telefónica paid 36 euros out of every 100 euros of pre-tax profits generated in Spain, in taxes.

Out of every 100 euros of Total Value Distributed<sup>(\*)</sup> by Telefónica in 2013, 51 euros were used to taxes.

## Distribution of taxes paid by geographical areas

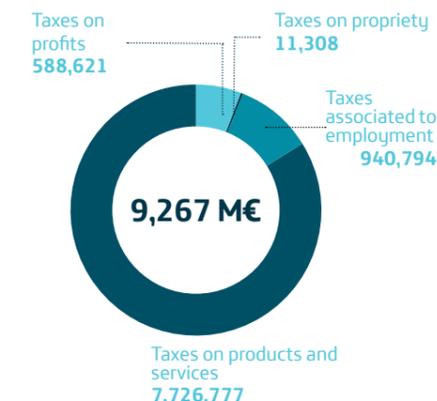


## Breakdown of the total tax contribution in the world

Taxes borne<sup>(1)</sup>  
Thousand euros



Taxes collected<sup>(2)</sup>  
Thousand euros



## Breakdown of Telefónica's global tax contribution

Thousand euros

Country	Taxes borne <sup>(1)</sup>	Taxes collected <sup>(2)</sup>	Total contribution <sup>(3)</sup>
Brazil	1,197,612	4,222,062	5,419,674
Spain	1,094,284	2,349,171	3,443,455
Argentina	507,294	687,723	1,195,017
Central America	774,087	221,836	995,922
Germany	170,834	454,200	625,034
Peru	299,364	299,648	599,012
United Kingdom	43,742	319,308	363,050
Chile	158,961	192,036	350,997
Colombia	160,654	170,907	331,561
Czech Republic	130,231	200,423	330,653
Ecuador	84,650	20,536	105,186
Mexico	47,035	48,044	95,079
Ireland	38,494	38,154	76,648
Uruguay	41,047	16,719	57,767
Slovakia	7,377	19,021	26,398
Luxembourg	18,394	2	18,396
Puerto Rico	7,881	8,220	16,101
Netherlands	7,203	146	7,349
Israel	1,826	1,534	3,359
Others	1,951	2,191	240
<b>Total</b>	<b>4,792,921</b>	<b>9,267,499</b>	<b>14,060,419</b>

<sup>(1)</sup> Taxes borne. Those taxes paid by Telefónica to the administrations of the various states in which it operates, and have been a cash cost to the Company.

<sup>(2)</sup> Taxes collected. Those taxes collected by Telefónica that have been entered on behalf of other taxpayers as a result of the economic activity of the Company, i.e. tax revenues are obtained thanks to the economic value generated by it.

<sup>(3)</sup> Total contribution. CT measures the total impact represented by taxes.

<sup>(\*)</sup> According to the methodology of the CTT of Price Waterhouse Cooper, distributed tax value of a company consists of the sum of the following elements: shareholder value (dividends, reserves, etc.), wages and salaries (net of tax raised to employees), net interest and tax (borne and collected).

DRIVER OF PROGRESS

# Universal Service

The objective of Universal Service is to establish suitable financing mechanisms for extending telecommunications services to the entire population, so as to guarantee the whole population a common minimum standard of services under the same conditions and at an affordable price

Public Universal Service agreements are in force in eight of the countries in which Telefónica offers its services

The so-called Universal Service implies a guarantee of a minimum quality standard of service to the entire population at affordable prices. In each case, the sector's regulator, in those countries that decide to have one, specifies the different services included and the conditions under which they are provided, as well as the operators that take on this responsibility. In the case of Telefónica, Universal Service is currently offered in Argentina, Brazil, Colombia, Spain, Peru, the Czech Republic, Venezuela and Ecuador.

It is important to emphasise that the figures in euros reflect the impact of the depreciation in the exchange rates, mainly in Brazil and Argentina, and the devaluation in Venezuela. The devaluation of the bolivar was announced on 8

February 2013 by the government of Venezuela, passing from 4.3 strong bolivars per dollar to 6.3 strong bolivars per dollar. Similarly, on 22 January 2014, the Venezuelan executive announced the creation of a new exchange system and a general currency plan, so that certain transactions would come to be administered through a system of auction at the SICAD rate of exchange, which in recent transactions has been set at about 11.4 bolivars per dollar.

Another major point this year is the rise in the value in Peru (+39% in local currency with respect to the year before), due to the inclusion of obligations of other Group companies in the country, such as Telefónica Multimedia S.A.C., TIWS and Media Network S.A.C.

## Universal Service in countries

	2013	
	Local currency	Euros
Argentina	135,133,813	18,700,763
Brazil	250,219,397	87,761,951
Peru <sup>(1)</sup>	82,952,841	23,159,355
Colombia	153,398,891,350	61,887,095
Venezuela	211,719,012	25,316,724
Ecuador	5,465,699	4,117,519
Czech Republic <sup>(2)</sup>	135,000,000	5,195,070
Spain <sup>(3)</sup>	30,455,695	30,455,695
<b>Total</b>		<b>256,594,172</b>

<sup>(1)</sup> Includes services of Telefónica Multimedia S.A.C., TIWS and Media Network S.A.C.

<sup>(2)</sup> Estimate, pending approval by the CTO in the Czech Republic.

<sup>(3)</sup> Estimate, pending approval by the CNMC in Spain.



DRIVER OF PROGRESS

# Telefónica as a responsible investor

*Fonditel, the managing entity for the Telefónica pension funds in Spain, takes SRI issues into account, using environmental, social and good governance criteria (ESG criteria) in its investments*



Fonditel is one of the founder members of the Spanish Forum for Socially Responsible Investment, a non-profit association

The Socially Responsible Investments (SRI) that specifically consider environmental, social and good governance criteria, of the employee pension funds of Telefónica Group<sup>(1)</sup> reached 75.13 million euros in 2013, representing 2.34% of the total value. Of this total, 45.67% is allocated in companies and funds of an environmental nature, in renewable energies, water and forestry. 41.76% in companies dedicated to affordable housing for rent and student residences. 10.01% is in funds aimed at good corporate governance, and 2.56% in risk capital funds that have signed the UN Principles of Responsible Investment (UNPRI).

At Fonditel, sustainability analysis takes into account the performance of its investments with regard to principles, directives, recommendations and regulations backed by a broad consensus, in both the domestic and international arenas. These are the UNPRI, the UN Global Pact Initiative, the Guidelines for Multinationals of the Organisation for Economic Cooperation and Development (OECD), the OECD Principles of Good Governance, the Tripartite Declaration of Principles for Multinational Companies and Social Policy of the International Labour Organisation

(ILO), the UN Guiding Principles on Companies and Human Rights, and the Unified Good Governance Code of the Spanish stock market regulator (CNMV).

Fonditel is one of the founder members of the Spanish Forum for Socially Responsible Investment (SPAINSIF). The forum is a non-profit association made up of entities interested in encouraging socially responsible investment in Spain by creating a platform which includes financial and managing entities, providers of SRI services, non-profit organisations linked to SRI and trade unions, and currently totals 41 associates. The association aims to be a point of meeting and reference, to generate and disseminate knowledge of socially responsible investment, as well as to raise awareness and encourage changes in the processes of the investment community, the public authorities, companies and the public in general.

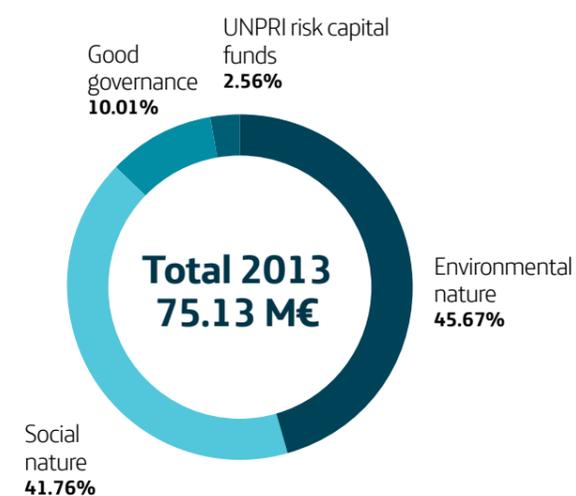
(1) Employees of Telefónica Spain, F.P. and Fonditel B, F.P.

## SRI (investments)

Million euros



## Distribution of SRI funds



# 3. Our approach\_

Corporate  
Responsibility and  
Sustainability as part  
of the Telefónica  
vision\_

Corporate  
Responsibility  
and Sustainability  
structure in  
Telefónica, S.A.\_

Materiality: focused  
on the key issues\_

Stakeholder  
engagement\_



OUR APPROACH

# Corporate responsibility and sustainability as part of the Telefónica vision\_

The company's vision is borne out of the conviction that technology should be available to every person, company and public administration so that they can BE MORE\_

Telefónica helps people to access, understand and enjoy what technology can offer them

Technology is amazing and it's getting more amazing every day. But technology is nothing without people. What is important is how it improves people's lives. Technology transforms the way in which people are in touch, keep up to date, enjoy, buy, share and learn. Technology also strengthens businesses, providing them with opportunities and increasing their productivity.

### Why do we work every day?

As a consequence of this reality, at Telefónica we believe that technology should be open to everyone so that we can all *be more\_*. In this way, we can all do more, live better, *be more\_*. We believe in this for three reasons:

- **Firstly**, because Digital Technology provides new opportunities for people and holds the power to transform the Company in a positive light. Due to this, we take the lead in this transformation, creating opportunities for the many and not the few.
- **Secondly**, because bringing technology to people requires a number of special capabilities; Telefónica is uniquely positioned to make a difference. We can bring technology to people through our networks and our commercial capabilities. This is what we know how to do best.
- **And thirdly**, because technology is creating an unstoppable and irreversible revolution within our industry. We can take advantage of arising opportunities for those companies that best respond to the needs of customers.

### How do we work?



**Disrupt.** We anticipate this change and will be innovative using our knowledge of the digital world and our spirit of openness. *Disrupt* means to improve the rules of the game to generate greater value for our customers and for Telefónica.



**Deliver.** We take advantage of our global presence, while remaining agile, allowing us to fulfil our commitment of carrying affordable technology to people.

**Discover.** We have always known the importance of being focused on our customers. However, it is now up to us to discover what it is they need in the digital world.

### How do we work every day?

*Discover, Disrupt, Deliver* define the way we work. These three key attitudes summarise our existing corporate behaviour and brand values as well as the insights we gathered from our customers, employees and analysts.

### What do we do for our customers?

Connectivity is the first step into the digital world. To be a Digital Telco means taking another step. Our mission is to act as a guide for people and businesses. We help people to access, better understand and enjoy what technology can offer them. This means that we will use our consumer knowledge, our networks, our technology and our commercial experience to deliver simple digital services that are smart, safe and enjoyable. In summary, a Digital Telco brings the best of technology to people.



**We can all BE MORE\_**  
The digital world creates opportunities for companies. We want our shareholders to *be more\_* by capitalising on the new revenue streams that flow in from our digital future.



We all aim to develop our potential as professionals. We want our employees to *be more\_*, achieving the best for themselves, their teams and their clients. We are all committed to being a Great Place to Work.



Technology changes the way in which people live. We want our customers to *be more\_*, discovering, understanding and making the most of technology.



Technology offers new business opportunities and increases productivity. We want businesses to *be more\_* thanks to the tools and knowledge in order to stay at the cutting edge of the latest digital innovations.



Institutions are challenged to accelerate socio-economic development. We want institutions to *be more\_* transformational and for this reason we are openly collaborating with them.



In the digital world, businesses cannot do everything on their own. We want our partners, startups and entrepreneurs to *be more\_* thanks to our scope, vision and experience.



Society seeks socio-economic progress and the protection of the natural environment. We want it to *be more\_* by making the most out of technology.



Corporate sustainability is a source of competitiveness and progress: it helps reduce risk and increase brand value and differentiation for customers

### Sustainability in the Telefónica vision

We are living through a social and economic revolution unprecedented in the history of humankind, brought on by the possibilities that technology opens up to people.

Our mission is to make these possibilities available to all companies and individuals, so that they can live better, do more things and *Be more...*

The sustainability strategy of the Company is a part of this mission and manifests itself in clear results:

- Helping people to live better. At Telefónica we are convinced that with our technology and services we can help to improve the quality of life and safety of our users.
- Transforming society. We at Telefónica know that where there are ICT, there are development and opportunities, and that the new technologies are a source of enterprise and social innovation.
- Caring for the planet. At Telefónica we are working on efficient management of the environmental risks of our operation, and we provide services that further the environmental sustainability of people and cities.

### ¿What is our strategic sustainability management?

Business transparency and the management of integrity through the Business Principles of Telefónica allow the creation of trust in the markets, and more generally among the stakeholder groups of the Company.

Corporate sustainability is a clear source of competitiveness and progress: it helps to reduce the risk premium on financial markets, increases the value of the brand and the distinctiveness for clients, facilitates employee fidelity, ensures a stable project as a Company and for society, bolsters the legitimacy to operate and permits sustainable development of the communities where Telefónica is present.

In Telefónica, sustainability is analysed from a value perspective, with 3 main guidelines: growth in activity, increase in profitability and risk management. It is centered on quality, innovation and productivity to create long-term competitive advantage and value.

This is realised in a series of key projects linked to operation with criteria of sustainability (economic, social and environmental), 100% aligned with the Company mission, and which offer responsible and transparent management of our entire footprint.

Protection of minors, supply chain sustainability, privacy and freedom of expression, human rights in all their aspects, management of the business opportunities linked to the positive impacts of our services on society and the environment, are some of the projects under way.

All this is very much in harmony with the concept of *stakeholder engagement*, that helps Telefónica to have a voice in debates on sustainability issues, beyond the traditional ones handled within projects as part of their needs.

The progress and results of this process can be seen in the Annual Corporate Sustainability report, which takes the materiality matrix as a reference, all within a framework of international reporting standards and verified externally. With these, we keep our *stakeholders* informed about the main advances in management issues and the evolution of indicators, in addition to stating our objectives for future years.

Sustainability at Telefónica is rated as among the best in our sector by its most influential analysts, and our actions are acknowledged in the most prestigious worldwide sustainability rankings, such as the Dow Jones Sustainability Index (DJSI), the Carbon Disclosure Project (CDP), Sustainalytics, Oekom, FTSE, etc.



### Awards



Member of the top category, DJSI World Index, 86 points



Listed for twelve consecutive years



Nº 5 in the telco industry



Sustainability Leaders Bronze class



Prime Rating



5<sup>th</sup> telco out of 112 operators



Excellence Investment Register



OUR APPROACH

# Corporate responsibility and Sustainability structure in Telefónica S.A.

The sustainability framework of Telefónica is supported by a corporate-based strategic management and operational executive. This model is carried out in the organs and units that the company has in the headquarters and in countries where it is operating.

Corporate Reputation & Sustainability Direction is the responsible area for the strategic management of Sustainability, reporting directly to the Global Public Affairs & Regulation Direction.

## Governing bodies

In May 2013 the Board of Directors approved the establishment of the Committee on Institutional Affairs as the top governing body of Reputation and Corporate Social Responsibility, replacing the Committee on Human Resources, Reputation and Corporate Responsibility, created in 2002.

This consolidates and reinforces the implementation and development of our sustainability strategy with other public affairs, in order to have a better understanding of the demands and expectations of all our stakeholders.

Functions of the Committee on Institutional Affairs:

- Analyze, report and propose to the Board the principles that must rule the Sponsorship and Patronage Group policies, track them and approve those sponsorships individually when the amount

or importance patronage exceed the threshold set by the Council.

- Promote the development of Telefónica's Corporate Reputation and Responsibility project, together with the implementation of the core values of the Group.

The Committee on Institutional Affairs offers a calendar of meetings and an annual plan of activities, meeting monthly according to schedule, and when necessary, upon call of the Chairman. During 2013, as planned, the Institutional Affairs Committee held six meetings to discuss certain issues and aspects of reputation and social responsibility of the Telefónica Group.

## Institutional Affairs Committee

Composition	Date of Appointment
Mr. Julio Linares López (Chair)	31 May 2013
Mr. José Fernando de Almansa Moreno-Barreda	31 May 2013
Mr. Alfonso Ferrari Herrero	31 May 2013
Mr. Gonzalo Hinojosa Fernández de Angulo	31 May 2013
Mr. Antonio Massanell Lavilla	31 May 2013
Mr. Francisco Javier de Paz Mancho	31 May 2013



## Management bodies

Corporate Reputation & Sustainability Direction works to facilitate, improve and measure corporate reputation management at Telefónica. It generates positive perceptions of trust and respect for all stakeholders (global and local) in order to facilitate the construction of the new public positioning. To realize this, the area promotes a responsible and sustainable manner in the way we do business throughout the company by (1) the identification, prevention and mitigation of reputational risks (pure and derivatives from activity), (2) the management of the Business Principles or code of ethics, (3) the development of policies, standards and projects to deploy the Business Principles... all with the aim of responding to new regulatory demands, to prevent unwanted social and environmental regulations and strengthen the legitimacy of Telefónica to operate.

Corporate Reputation & Sustainability Direction is addressed in the Global Public Affairs & Regulation area, whose mission is to disseminate and transmit the digital public positioning of Telefónica in all those international public spaces and areas related to Internet world, strengthening our regulatory position in Europe and Latin America, improving our reputation in all countries where Telefónica is present and the new policy of exploitation of digital sponsorships.

## Corporate Responsibility and Sustainability in countries

The Corporate Reputation and Sustainability team has international presence through direct collaborators in all the countries where Telefónica has operations, thus implementing global projects and developing their own projects based on their local context. Thus, the Company provides local responses to issues that are specifically relevant in each country.



OUR APPROACH

# Materiality: focused on the key issues

We have taken an important step in the methodology Materiality in order to convey our message on sustainability better to the markets and society in general by compiling a more relevant, credible and easy-to-use report

This procedure has let us create a more general matrix that shows which issues should figure in the Report, and a specific matrix for each relevant material aspect

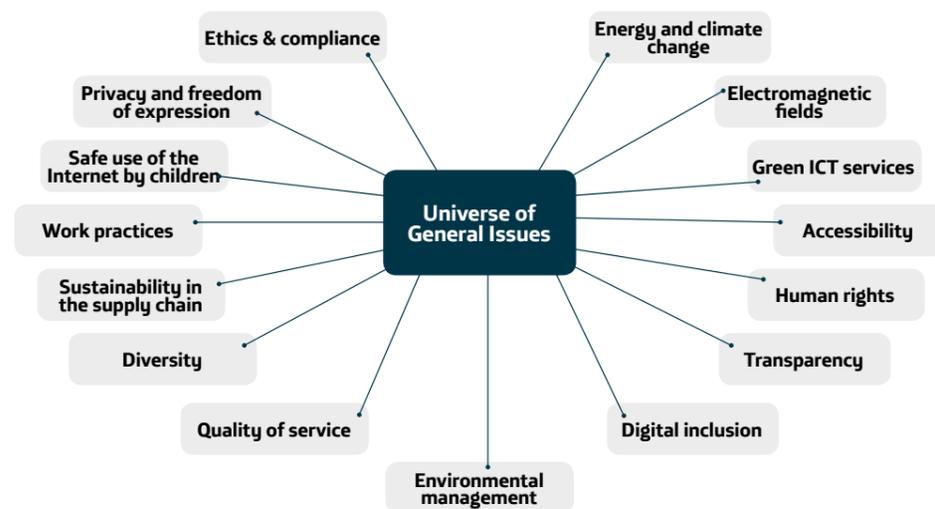
Taking advantage of the framework offered by version G4 of the Global Reporting Initiative (GRI), we at Telefónica wanted to go one step further with regard to our materiality matrix, so that we can concentrate on those issues which turn out to be key for our activity and our principal stakeholder groups.

In this way, we have analysed its materiality by creating a common procedure that makes us aware of the material aspects that reflect

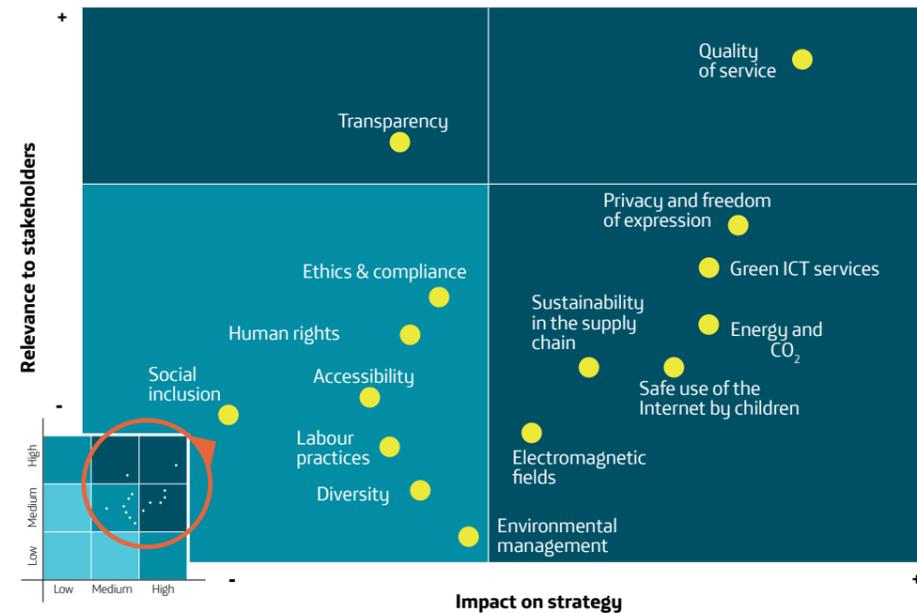
significant economic, environmental and social effects for our organisation, and also those of greatest relevance in our stakeholders' evaluations and decisions, such global and country level.

This procedure has let us create a more exhaustive general matrix that shows which issues should figure in the Report, and a specific matrix for each relevant material aspect.

## Identification of relevant general issues



## Materiality matrix



The analysis procedure are following:

### 1. Identification of relevant general issues

To identify the relevant general issues, we analysed the trends in the sector and the GRI G4 indicators, and we carried out interviews with our internal stakeholders. We identified 15 relevant subjects.

### 2. Identification of relevant specific issues

For each general issue, we carried out individual interviews with experts in the areas involved for analysis to determine which aspects were material. A total of 67 specific issues were identified.

### 3. Identification of stakeholders affected

As the outcome of our ongoing dialogue with our stakeholders, with whom we collaborate closely, we identified those affected by the issues, yielding weightings in terms of the impact and relevance for the company.

### 4. Evaluation of the impact on managing the company

To determine whether an aspect was material we performed a qualitative analysis in terms of four parameters evaluated according to a common criterion:

#### → Company vision and strategic relevance of sustainability

The company vision sets out from the conviction that technology should be available to all

individuals, companies and public authorities so that they can *Be more... Discover, Disrupt, Deliver* defines our way of working. These three attitudes sum up both our current corporate behaviour and brand values, and the expectations of our customers, employees and analysts. In the light of these criteria, we analysed whether each of the relevant issues identified fitted in with the company vision and strategy.

#### → Trends among our peers in the industry

We assessed whether each of the relevant subjects was being addressed by other companies in our industry.

#### → Sectoral initiatives and international sustainability trends

We determined whether the general issues identified were being considered by the main sector trade bodies and sustainability rankings. (GESI, ITU, DJSI, GSMA, CDP, ISO, etc.).

#### → Normative context

The applicable laws, regulations, international agreements and voluntary agreements were analysed for each of the issues identified.

#### 5. Evaluation of relevance for stakeholders

We identified the main stakeholders for each of the general issues, using all the information from the different mechanisms employed in our habitual dialogue with them.



## OUR APPROACH

# Stakeholder engagement

At Telefónica we know that interactive communication with all our stakeholders, in person and online, helps us look for positive results for both our Company and the groups implicated.

215 online channels take the pulse of stakeholders' opinion, 29% of them in Twitter, 26% in Facebook and 19% in YouTube

In our day-to-day work we take active responsibility for talking about those subjects related to information and communication technologies (ICT) of most interest and concern to our stakeholders. This allows us to identify their relevance and impact, so helping us to find exact, positive solutions among all of us. To do this, we collaborate actively with different interested specialised groups (stakeholders) so as to improve this exchange. Among these are government entities, NGOs, consumers' associations, academics and scientists, employees and investors. Knowing which questions most concern the stakeholders of Telefónica is the foundation for the sustainability projects of the Company.

At Telefónica we have 215 online channels for the Telefónica, Movistar, O2 and Vivo brands for communicating with our different audiences (as at February 2014). Of these channels, 29% use the platform Twitter; 26%, Facebook; 19%, YouTube; and the rest, on other platforms, among which is Tuenti in Spain (26%).

The stakeholder groups to whom we pay closest attention in these processes of online dialogue are customers, employees, academics and students, and people connected to social networks in general. Among the priority subjects we should mention: new products and services; quality, provisioning

and customer service; children and the use of new technologies; the digital revolution and ICT in society and the economy; the CR report and social action.

The objectives we are pursuing at Telefónica with this dialogue are, above all: better knowledge of the opinions and expectations of stakeholders; offer of an agile and effective channel for customer service and incident management; providing more personalised information; establishing an emotional connection with them and improving their perception of us, so as to bolster our legitimacy when it comes to operating in the different markets.

## Talking about the digital impact

To support and demonstrate the digital transformation of the Company, the online channels reinforced their contents and centered the conversation both on the new digital businesses (M2M or *Machine to Machine*, *Big Data*, *Cloud*, mobile advertising, digital security, etc.), and on their role as part of the solution to the great worries of society (education, health, social inclusion, energy efficiency, open government, etc.).

Stakeholders identified	Methodology for dialogue	Some examples of commitment and interaction
Customers 	Through the channels we establish at the moment of sale, and through customer services, monitoring of satisfaction, SDC, and through our services of Marketing and Market Research, fora, and trialling of our products and services in their facets of Sustainability and Corporate Responsibility.	<a href="http://www.movistar.es/particulares/atencion-cliente/">http://www.movistar.es/particulares/atencion-cliente/</a> <a href="http://www.movistar.es/particulares/tienda/servicios-digitales/solucion-guru/">http://www.movistar.es/particulares/tienda/servicios-digitales/solucion-guru/</a> <a href="http://info.telefonica.es/es/servicio_defensa_cliente/html/">http://info.telefonica.es/es/servicio_defensa_cliente/html/</a> <a href="http://www.telefonica.com.br/residencial/atencaoocliente/faleconosco/ombudman/">http://www.telefonica.com.br/residencial/atencaoocliente/faleconosco/ombudman/</a> <a href="http://forum.o2.co.uk/">http://forum.o2.co.uk/</a> <a href="http://www.movistar.com.mx/Contacto-Foro-Conectados#ForoConectados">http://www.movistar.com.mx/Contacto-Foro-Conectados#ForoConectados</a> <a href="http://www.movistar.com.ar/foro/web/guest/foro">http://www.movistar.com.ar/foro/web/guest/foro</a> <a href="https://twitter.com/#!/search/users/Telef%C3%B3nica">https://twitter.com/#!/search/users/Telef%C3%B3nica</a> <a href="https://twitter.com/#!/search/users/O2">https://twitter.com/#!/search/users/O2</a>
Staff 	Through the annual survey of all our professionals, which includes specific questionnaires on matters of sustainability, internal round tables on the Business Principles, various internal channels for allegations, the intranets of Telefónica and its affiliates and its blogs and Twitter accounts, as well as through all the fora for debate on training courses, online platforms, Yammer, etc.	<a href="https://twitter.com/#!/UniversitasTef">https://twitter.com/#!/UniversitasTef</a> <a href="http://www.observatoriocomunicacioninterna.es/Imagenes/ponencias/PresentacionTelefonica-EstrategiadeComunicacionInternaOnline.pdf">http://www.observatoriocomunicacioninterna.es/Imagenes/ponencias/PresentacionTelefonica-EstrategiadeComunicacionInternaOnline.pdf</a> <a href="https://portalsenior.telefonica.es/em/pub/a/index.html">https://portalsenior.telefonica.es/em/pub/a/index.html</a>
Shareholders 	Through continuous meetings, both individual and collective, with institutional investors and analysts of the sector, as well as by online channels to learn which matters turn out to be most relevant to the investor community, especially ISR institutions and/or those with specific projects of responsible investment and signatories of the PRI.	<a href="http://www.telefonica.com/es/shareholders_investors/jsp/home/home.jsp">http://www.telefonica.com/es/shareholders_investors/jsp/home/home.jsp</a> <a href="http://serviciosaccionistas.telefonica.es/Registro.do?idioma=es">http://serviciosaccionistas.telefonica.es/Registro.do?idioma=es</a> <a href="http://www.telefonica.com/es/shareholders_investors/html/presentaciones/index_foros.shtml">http://www.telefonica.com/es/shareholders_investors/html/presentaciones/index_foros.shtml</a> <a href="http://www.eurosif.org/">http://www.eurosif.org/</a>
Suppliers 	Through the biannual supplier satisfaction survey, and the assessments of quality included in the different operators' quality control systems.	<a href="http://www.telefonica.com/es/suppliers/html/modelo_compras/como_ser_proveedor.shtml">http://www.telefonica.com/es/suppliers/html/modelo_compras/como_ser_proveedor.shtml</a> <a href="http://www.ecovadis.com/website/l-en/home.aspx">http://www.ecovadis.com/website/l-en/home.aspx</a>



Stakeholders identified	Methodology for dialogue	Some examples of commitment and interaction
 <p>Industry organisations</p>	<p>We participate actively in fora and associations which debate the particular themes of Sustainability and Corporate Responsibility affecting our sector, with the objectives of improving measurement, standardising indicators and sharing best practices.</p>	<p><a href="http://www.ctia.org/">www.ctia.org/</a>  <a href="http://www.etsi.org">www.etsi.org</a>  <a href="http://www.gbd-e.org">www.gbd-e.org</a>  <a href="http://www.gsm.org">www.gsm.org</a>  <a href="http://www.itu.int">www.itu.int</a>  <a href="http://www.gesi.org/">www.gesi.org/</a></p>
 <p>Governmental organisations</p>	<p>Dialogue can be classified mainly by geographical area, grouping different parties according to the scope of their activity: local, regional, national and global. Within each field of action we maintain a fluid dialogue with those responsible for telecommunications services, for innovation, for consumers, education, social policy, regulation, economic policy, etc.</p>	<p><a href="http://www.weforum.org">www.weforum.org</a>  <a href="http://www.worldbank.org/">www.worldbank.org/</a>  <a href="http://www.ilo.org">www.ilo.org</a>  <a href="http://www.who.int/es/">www.who.int/es/</a>  <a href="http://www.un.org/es/">www.un.org/es/</a>  <a href="http://www.eifonline.org">www.eifonline.org</a>  <a href="http://web.oas.org/citel/es/Paginas/default.aspx">web.oas.org/citel/es/Paginas/default.aspx</a>  <a href="http://www.rpd.es/">www.rpd.es/</a></p>
 <p>NGOs (Non-governmental organisations)*</p>	<p>Agreements of collaboration and continuous dialogue. The following are our principal advisers on products and services developed by Telefónica for persons with some disability.</p>	<p><a href="http://www.acnur.org/t3/">www.acnur.org/t3/</a>  <a href="http://www.msf.es/">www.msf.es/</a>  <a href="http://www.oxfamintermon.org/">www.oxfamintermon.org/</a>  <a href="http://www.UNICEF.org">www.UNICEF.org</a>  <a href="http://www.bsr.org">www.bsr.org</a>  <a href="http://www.centroregionalpmal.org/web-pacto/esp/index.php">www.centroregionalpmal.org/web-pacto/esp/index.php</a></p>
 <p>Specialist audience</p>	<p>The opinion of professionals in sustainability and corporate responsibility is very constructive for identifying items of materiality.</p>	<p><a href="http://www.unglobalcompact.org/">www.unglobalcompact.org/</a>  <a href="http://www.cdproject.net/en-US/Pages/HomePage.aspx">www.cdproject.net/en-US/Pages/HomePage.aspx</a>  <a href="http://www.ghgprotocol.org/">www.ghgprotocol.org/</a>  <a href="http://www.globalreporting.org/">www.globalreporting.org/</a>  <a href="http://www.theiirc.org/">www.theiirc.org/</a>  <a href="http://www.lbg.es/">www.lbg.es/</a></p>

\* Telefónica maintains relationships with local NGO's in each of the countries for all aspect.

## RConversa is the Telefónica platform for open online dialogue with all members of its stakeholder groups

This trend was reflected in blogs like *Think Big*, Telefónica's Digital Hub, M2M, Telefónica Professorships Network, and Sustainability and Corporate Responsibility, as well as their accounts on the different social networks.

Likewise, the majority of the debates that were held during this past year on the online dialogue platform RConversa concentrated on the digital world. ICT in the area of health; education technologies in the new digital era; MOOCs; enterprise in the digital world; digital cities and open government, were the topics of some of the 13 debates organised.

In line with this digital evolution, in 2013, Telefónica promoted *#TheOpenAgenda*, an inter-sectoral project to communicate Telefónica's point of view about the concept *Be more open*, to show that the Company is being transformed into a Digital Telco, which acts differently, is more open, more agile... Telefónica also wants to strengthen its commitment to the openness of the web, data and innovation in support of the business objectives; to reach and influence the technology elite, the opinion-formers in the media, bloggers, developers, consumers...

We managed to get a big reaction with *#TheOpenAgenda*, which included support from key influencers in the industry, with articles by Tim Berners-Lee, the founder of the web; Mitchell Baker of Mozilla; Kathryn Parsons of Decoded and Bill Hoffman, of WEF.

Telefónica has already published its public stance on the new Internet ecosystem, in March 2014. The manifesto, entitled *A Digital Manifesto: An open and safe Internet experience for all*, underlines the political issues and challenges in releasing the full potential of the digital world for consumers, companies and the authorities, while it also offers 10 recommendations for improving consumers' experience on the Internet and prompting more investment in digital infrastructure.

In addition, it represents a chance to open up the debate internationally with official bodies, regulators, the industry and users, to define the public policies that need to be adopted in the new environment to drive development of the digital society and economy.

### Tools for professionals

Telefónica employees have access to the website Telefónica and Communication 2.0, in which responsible use of social media channels is promoted, through recommendations for action, an online course and the Company Social Networks Policy.

Similarly, we encourage use at Telefónica of the Enterprise Social Network (ESN), whose aims are to talk about and drive our cultural transformation into a Digital Telco and bolster the commitment of our professionals to this change by making cooperation easier.

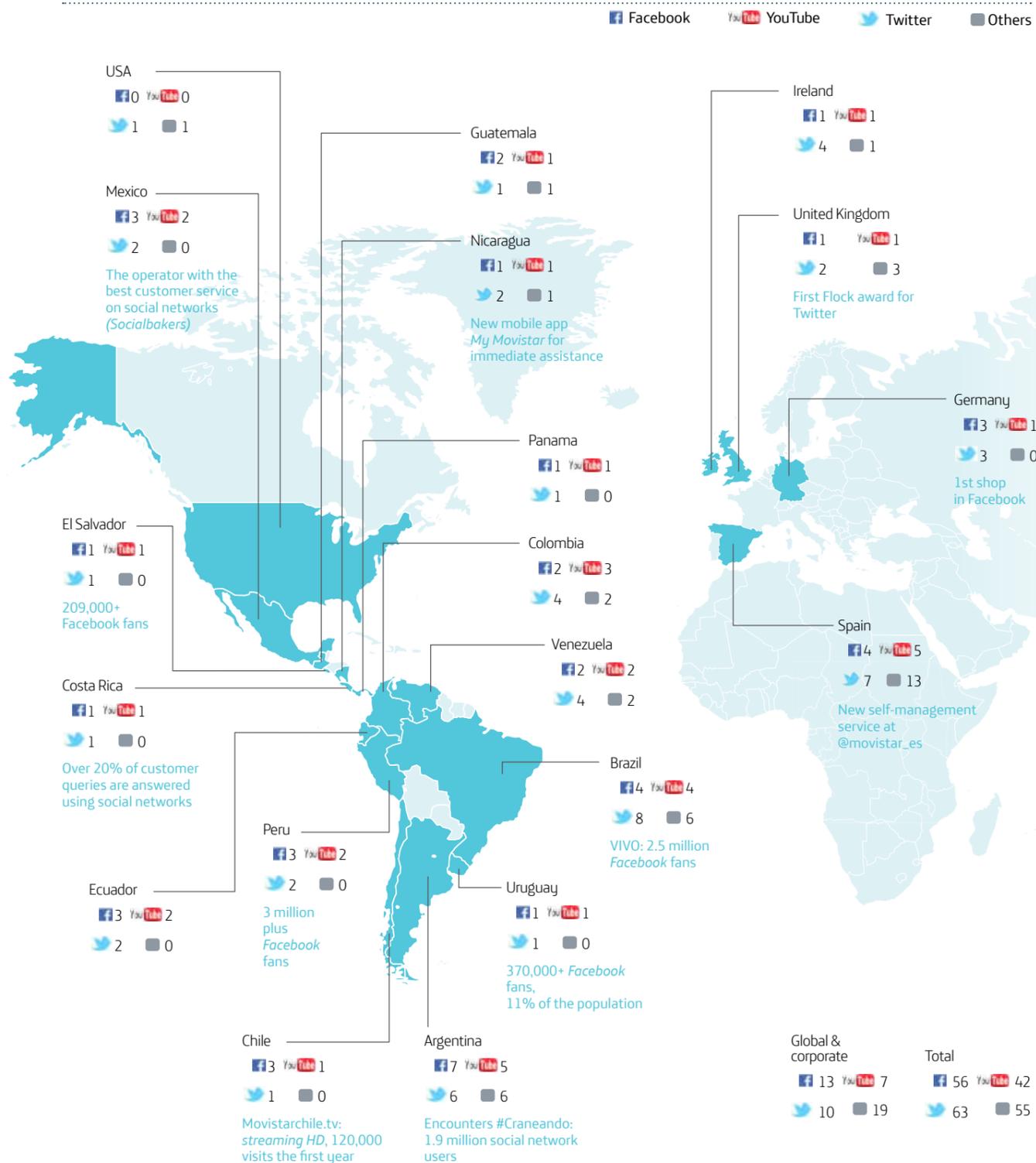
This internal network –Yammer– now has over 55,000 employees registered, with about 2,000 more joining each month on average. At the date of this Report Yammer had more than 400 active communities of interest in its principal network (Global).

These days, all the global internal communication channels at Telefónica are bidirectional, and harvest the opinions and evaluations of our professionals. In 2013, the most viewed items in the online daily bulletin were those relating to employee perks (offers, prize raffles, grants...) and the Company's organisation and results. The most viewed in the online corporate magazine was content about the Telefónica strategy to turn itself into a Digital Telco.

On another subject, knowledge transfer at Telefónica is based on eKISS, a platform that surpassed the figures of 62,000 documents held and 138,000 visits during 2013. The conferences held had around 18,000 visits.



### Social channels of Telefónica



### @RCySostleans an Corporate Responsibility and Sustainability blog and RConversa platform

During 2013 we added more information to the internal online platform on the subjects of public affairs and the role of ICT. Specifically, we included content on Public Policy, Regulation and Institutional Relations, aiming to have material of interest on the Company stance within a single tool for dialogue with stakeholders.

#### Milestones

@RCySost, is one of the most influential on Twitter in Sustainability.

In 2013, the Twitter account of Telefónica, which deals with matters of Corporate Responsibility and Sustainability, was included for the first time in the social media ranking SustMeme CSR & Business, which lists the 500 most influential users in the world on these subjects. Telefónica went straight in at number 78, being the fifth company. Also, in January 2014, it was in seventh position in the new ranking TOP 100 CSR, centered on Spain.

Throughout the year, it remained a point of reference in its field, exceeding 37.1 million impacts at the end of 2013 (10.3 million in 2012).

@RCySost is supported by the Sustainability and Corporate Responsibility blog and the debating platform RConversa.

#### Best practice

The most wide-ranging and exhaustive global survey carried out to date among young people from 18-30, from 27 countries:

#### What does the 'Millennium Generation' think?

Telefónica, in collaboration with the Financial Times, carried out the Global Millennium Survey in 2013,

The aim of the initiative was to obtain the most accurate possible snapshot of the Millennium Generation, for which more than 12,000 of its members were interviewed.

#### Some overall results

- 76% believe firmly in all that technology can offer.
- 42% say that improving access to quality education is the principal way to make a difference to the world.
- 42% of men and 29% of women think that technology is the most important field of study for their future success.
- 68% judge that they can become entrepreneurs in their own country or else develop and introduce an idea onto the market.

# 4. Responsible management\_



Ethics and  
compliance\_

Customer  
satisfaction\_

Labour practices\_

Management of  
diversity \_

Sustainability in the  
supply chain\_

Human rights\_



RESPONSIBLE MANAGEMENT

# Ethics and compliance

As part of our DNA, ethics is fundamental in the process of transformation to a Digital Telco

The Telefónica code of ethics, underwritten by the Board, runs right through our Business Principles

It is a priority for Telefónica that our employees are aware of the spirit and letter of our code of ethics. This is the basis for building a culture where employees understand what is required of them and their own responsibility in the observance of the *Business Principles*. In the same way, we rely on our partners and suppliers to comply with principles similar to ours.

In addition, there is a series of elements that make up an appropriate control setting. This defines our anticorruption programme, where the institutional message leaves no place for misunderstanding about our total intransigence towards corruption and illegality.

### Code of ethics

Our code of ethics, called *Our Business Principles*, approved by the Board of Directors in 2006 and revised in 2010, applies to all our employees and operations, independently of the country where our activity takes place.

Available in four languages, the code reinforces our commitment to act in line with the most demanding ethical principles, associated to

honesty and trust, respect for the law, integrity and human rights. In addition, it sets out some specific principles oriented at guaranteeing the trust of our customers, professionals, shareholders, suppliers and society in general.

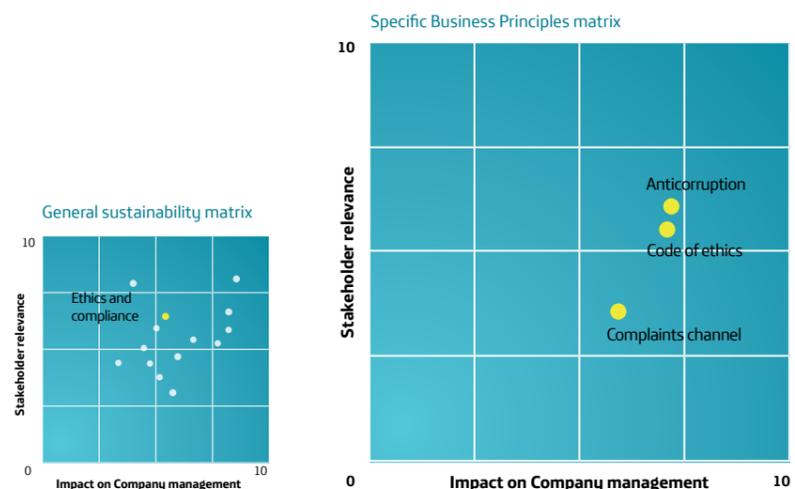
In 2013, the *Business Principles* were ratified in Costa Rica, where Telefónica began commercial operations at the end of 2011, and all the mechanisms to ensure their fulfilment have been put into place.

The body responsible for ensuring observance of the ethical code throughout the Group is the Business Principles Office. During 2013, this body incorporated new representatives designated by the departments that comprise the Office (Audit, General Secretariat, Human Resources and Sustainability), and revised and updated its functionality and duties in accordance with the new organisation.

### Training

An online training course on *Our Business Principles* has been included within employees' professional training plans. In this activity, by means of varied scenarios, the importance to

## Materiality matrix



the Company of having ethical directives, their responsibility as professionals to abide by them and the channels of assistance to resolve doubts or handle allegations are all explained.

By December 2013, more than 73,000<sup>(4)</sup> employees (63% of the workforce) had passed the Business Principles course.

The case of Telefónica Brazil is worthy of note, which with the integration of the fixed and mobile businesses following the purchase of Vivo, has launched the training course for its more than 18,000 professionals in late 2013.

Together with this online training, various in-person training activities have been devised to delve more deeply into some of the ethical principles, emphasising their applicability. These have taken place either anywhere in the organisation, or in those departments identified as at risk.

All employees have access through their respective intranets to the *Business Principles* website, where full information about the code of ethics and the mechanisms to guarantee compliance with it are given.

### Business Principles Channel

All employees have the opportunity to ask questions, seek advice and raise matters related to compliance with the Business Principles, either anonymously or in person.

The Business Principles Channel is available on the Intranet for employees, and during 2013 the Business Principles Office revised and updated the regulations that govern it.

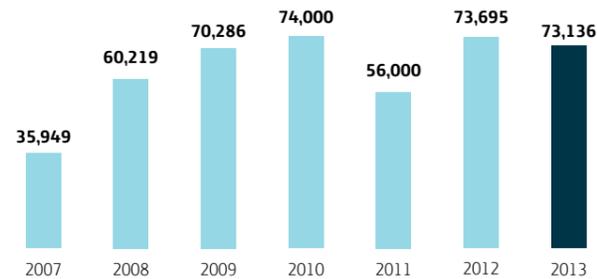
In 2013 the Business Principles Office recorded a total of 77 communications through the Business Principles Channel. Of the 63 whose investigation has concluded, 14 turned out to be well-founded, one of them being for corruption and none for discrimination. Among the measures adopted there were three dismissals.

All communications received were handled in keeping with the principles of respect, confidentiality, exhaustivity and substantiation. In the cases in which some irregularity was detected, the Audit and Control Committee, reporting to the Board of Directors, was informed.

In 2013, the Office of Corporate Business Principles received, through the Canal, a total of 77 communications

<sup>(4)</sup> To calculate the percentage of employees trained in the code of ethics, we've taken into account the number of permanent employees of the companies of the Group, wherever it has provided the training.

### Telefónica employees who have passed the Code of Ethics course



During 2013, Telefónica conducted 980 internal audits and inspections in all companies and countries in which the Group holds interests

#### Anticorruption

Our commitment is to 'zero tolerance' of fraud and corruption, since we understand that they have a negative impact in the long term on the businesses and society.

At Telefónica, there is a series of elements that make up an appropriate control setting in all our operations.

#### Regulations

Our Business Principles include our commitment in matters of anticorruption.

In addition, there is a series of regulations of global application that develop and complement this point, whose objective is to prevent corruption in the processes identified as being most at risk: decision-making, purchases and contracting, payments, warehouse management, etc.

Some of these are:

- Corporate regulations on gifts, invitations and entertainment expenses. We can highlight that in 2013, local regulations on conflict of interest were approved in Venezuela.
- Regulations on approval of patronage.
- Telefónica purchasing model manual.
- Regulations on general criteria for procurement of goods and services.

#### Risk management

Within the overall risk identification procedure we include the risks of corruption or bribery in our operations, so as to establish and carry through the controls and action plans necessary to mitigate this.

#### Organisational elements

Telefónica has a series of specific committees and units that help to ensure we keep our commitment to zero tolerance of corruption and bribery, within their specific areas of responsibility and experience:

- Committees reporting to the Board of Directors Audit and Control Committee, Institutional Affairs Committee.
- Specific organisational units:
  - Internal Audit Units in all the countries where the Group has significant interests.
  - Central Inspection Unit specialised in prevention of fraud and investigation of allegations or other situations.
  - Payment Intervention Unit in the most important companies.
  - Global Sustainability Department.
  - Corporate Risk Management Unit which centralises and reports information on risks that it receives from the local risk management units present in the Group's principal operators.

#### Controls

The Internal Audit and Inspection team, responsible for the processes of auditing operations within the Group, carried out around 980 actions in 2013, throughout all the companies and countries in which the Group has interests. Main points:

- 25% were audits of finances or of information systems, fundamentally designed to review the existence and effectiveness of controls over

the financial processes that manage or affect information about the main ledger accounts of the Group. The team issued certificates of the absence of material or significant weaknesses and the external auditor has attested to both the results and the efficacy of the revision process.

- 19% were directed at the prevention of fraud, investigation of allegations or revision of actions by individuals.
- 8% were total or partial analyses of processes related to the cycle of expenditure and investment (purchases, payments to third parties, payments to employees, logistics and management of warehouses, the investment process and management of assets, discounts and customer refunds).
- And another 7% of the reports were to verify correct observance of other legal obligations (occupational, data protection, fiscal, etc.).

In these activities, some cases of misuse or misappropriation of Company assets were detected, giving rise to 99 dismissals. All these were of minor importance, and in no case was there implication of directors or senior members of the Group or the relevant companies.



### Best practices

#### Training at Telefónica Vivo

- With the integration of the fixed and mobile businesses in Brazil following the purchase of Vivo, at the end of 2013 Telefónica Vivo launched, under the banner of *Our commitment, everyone's responsibility*, a training campaign on the Code of Ethics to its more than 18,000 professionals.
- So far, about 4,400 employees, 22% of the workforce, have already completed the course and another 1,121 are currently doing it.
- The launch of this training activity has been complemented by weekly information on the intranet about the Code of Ethics, videos, etc., with special attention paid to employees who deal directly with the client (sales agents, shop staff, etc.).



### Integrity

- We do not offer or accept gifts, invitations or any other kind of incentive that could be compensated by or influence a business decision.
- We avoid or declare any conflict of interest which could put personal priorities ahead of the business ones.
- We behave with rectitude, in no case seeking personal advantage or that of third parties through inappropriate use of our position or contacts in Telefónica.



#### Dow Jones Sustainability Index

- In 2013 Telefónica was among the 10 Telecom companies leaders in the world by criteria sustainability, with 27 points percentage above the average sector, according to the *Dow Jones Sustainability Index (DJSI)*, one of the most demanding in the world. Among the best industry practices (*Best in Class*) highlighted Telefónica was outstanding in code of conduct and anticorruption policies, among other aspects.

RESPONSIBLE MANAGEMENT

# Customer satisfaction

At Telefónica, we have placed the customer at the centre of everything we do. Satisfaction analysis is a her tool to know the perception of the service quality and the customer care

In 2013, Customer Satisfaction Index rose to 7.14 points out of 10, with an increase of 0.02 points compared to the year before

Total accesses of Telefónica exceeds 323 million at the end of 2013, or 3% higher than a year before, driven by mobile contract customers, especially for mobile broadband, and pay TV. It is notable how accesses of Telefónica Latin America developed (69% of the total), rising 4% inter-annually despite more restrictive criteria for counting prepay customers. It is important to bear in mind that the variation in accesses is impacted by the sale of the residential fixed line business in the United Kingdom.

We use the CSI (Customer Satisfaction Index) methodology to measure the satisfaction of our clients, and this indicator is reported periodically to the Board of Directors of the Company. Indeed, the Company's Board of Directors has a specific committee dedicated to Service Quality and Customer Service. This meets every quarter so as to reinforce our orientation towards the customers of the Group.

In 2013, the Telefónica CSI rose 0.02 points over the previous year to reach 7.14. The most substantial improvement was in Spain, where customer satisfaction rose by 0.42 to reach 6.85. By regions, there was a generalised improvement in Europe (6.94 vs 6.75 in 2012) and a slight worsening in Latin America (7.32 vs 7.54 in 2012), which was affected by slippage in markets of high volume like Brazil, in the second half of the year, and Argentina in the second quarter.

Movistar again became the Company with the best customer service, according to the latest report from the Civil, Economic and Social Rights Association (ADECES) in 2013, with 6.2 points out of 10, followed by OMO (5.4), Jazztel (5.35), R (5.29), Telecable (5.14), Euskaltel (5.08), Vodafone (4.92) and finishing with Orange (3.95).

According to data from the OAUT (statutory telecoms ombudsman in Spain), Movistar is the operator that receives fewest claims. In the area of fixed telephony, Movistar only received 0.88 claims for every 10,000 users. This is very different from Orange (with 4.62), Jazztel (3.73), Ono (2.69) and Vodafone (2.55). Respecting fixed Internet access, the Company is again the one that receives fewest, as only 0.19 of every 10,000 clients has lodged a claim. Above this, Jazztel (0.81), Vodafone (1.01), Orange (1.38) and Ono (2.42) can all be found. There is no doubt that the greatest differences between operators are found in the fixed line voice and data packages. Indeed, while Movistar has only 1.11 claims for every 10,000 users, the figures for the rest are 2.96 for Vodafone, 3.89 for Jazztel, 5.57 for Orange and 5.60 for Ono.

Telefónica United Kingdom has also managed to be the operator with fewest complaints in that country; according to data from the British regulator Ofcom, O2 has now been in this position for ten successive quarters.

In Brazil, where CSI fell slightly, we are putting a lot of effort into improving and expanding the channels of contact, with digital access technologies adapted to massive Internet use and the growth in the smartphone portfolio. Indeed, we are working on improving the available functionality of channels like as SMS, Chat and URA, so as to provide simpler, faster, standardised interactions. We recently introduced a chat channel for fixed users and launched a collaborative forum so that customers of one of our major promotions can communicate and help each other to clear up doubts. The success of these initiatives is made manifest by the fact that they now deal with about 80% of the incoming contacts.

## Materiality matrix



In Argentina we won first prize in the International Team Excellence Competition 2013 – awarded by the American Society for Quality (ASQ) in Indianapolis, USA – for a quality management improvement project focused on the final satisfaction of customers. The Telefónica project *Conectados a tiempo* (Connected on time), centered on diagnosing and implementing sustainable improvements in installation time for different equipment, was also recognised as the best at an international level. This Telefónica initiative was developed following the Six Sigma methodology, a system implemented by the company which points the way to perfection in management of products and processes.

### Milestones

We won first prize in the International Team Excellence Competition 2013 for the quality management improvement project based on the final satisfaction of customers in Argentina.

Telefónica has also maintained the channels of communication with diverse consumer and official bodies and with the regulator. Thus, meetings have taken place with ASGECO (the general consumers' association), the OAUT (ombudsman) and various OMICs (municipal consumer information offices).

### Best practices

The AI (Internauts Association - a consumer body) has rated the quality of mobile broadband access offered by operators in Spain at 6.41 out of ten. This figure is well below the 9.1 rating achieved by Movistar. According to the analysis carried out by AI, Movistar is two points above Vodafone and Yoigo and more than 2.7 above Orange.

The association has explained that the differences are in the download speed (in comparison with the speed offered), in customer service and in the prices and features of the classic offers.

Specifically, AI has underlined the "large differences" in compliance with nominal download speeds of 7.2 Mbps. While Movistar attained 101%, the Vodafone mean was 64% and Orange reached 78%. At the 42 Mbps speeds, Vodafone and Orange reach 39% and 31%, respectively, although Vodafone reaches 73% at 10.8 Mbps.

Regarding customer service, the data show a mean score of 5.9, ahead of Orange, which had 5.4 points, and Vodafone, with 4 points.

With respect to prices, the mean cost per MB without speed limitation ranges from 0.0065 euros/MB with Movistar contract to 0.17 with the Vodafone card model, according to the AI data.

Relating to combined offers (bundles), the mean score was 6.60 points, Movistar leading with 8 points, followed by Orange and Vodafone.

Customer Satisfaction Index (CSI)	CSI	Var. 2012/13
Spain	6.85	+0.42
Total Europe	6.94	+0.19
Brazil	6.95	-0.39
Total Latam	7.32	-0.22

RESPONSIBLE MANAGEMENT

# Labour practices: Staff\_

As a global company in a rapidly evolving sector, at Telefónica we have made an effort to put our professionals in the spotlight in order to adapt and transform ourselves to face new social and industry realities, and accelerate our conversion into a Digital Telco

Telefónica has employees from over 105 nationalities, distributed in 24 countries, with Latin America having the highest percentage

The telecommunications sector has been completely redefined in a short period of time: new business ecosystems have appeared that require companies to adapt and transform to their new environment. This urgent need for transformation is linked with innovation. Companies must implement ecosystems that promoted and favour innovation in order to ensure long-term success, which places more and more people at the centre of the business.

In response to these new realities, Telefónica has focused on managing employees in three clearly defined areas: design a simpler organization; have the best team; and have an appropriate company culture, capable of adapting to the changing needs of our clients. The three priority areas for the Employee department support the implementation of Telefónica's strategic transformation programme *Be More...*

### A simpler organization

At the end of 2013, Grupo Telefónica had 126,730 employees, with an average age of 39, of which less than 1% were managers. The workforce has increased by 4.9% in size compared with the previous year due to an effort to increase organizational efficiency with the objective of maintaining Telefónica's innovative capacity given the difficult environment that the sector is in.

At Grupo Telefónica we have more than 105 nationalities, distributed in 24 countries. Latin America continues to represent the highest percentage of the workforce. The country with the most employees is Spain with 34,604, followed by Brazil with 20,878, Argentina with 17,139 and Peru with 9,824.

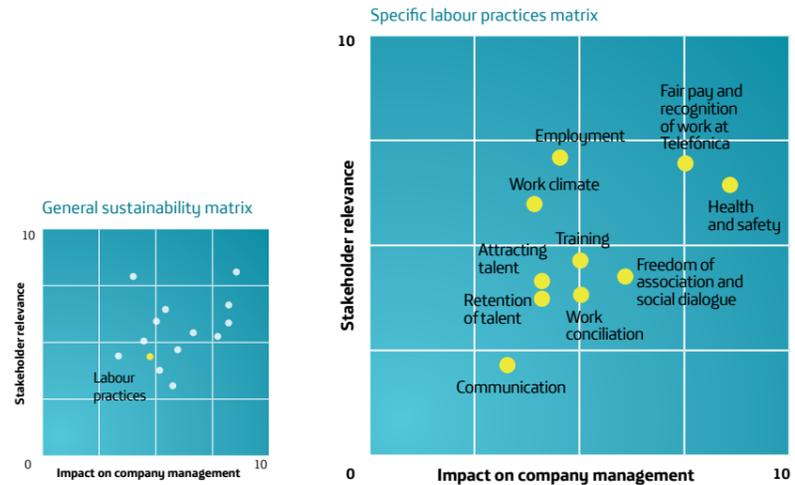
In Telefónica we make an effort to use sustainable work policies: 94% of the personnel have indefinite work contracts and the presence of women on the workforce has increased to 38%. Additionally, the number of female managers increases each year, reaching 21% in 2013, that is, 1.7 p.p. more than the previous year. In the last four years, this ratio has increased by over 4 percentage points. On the other hand turnover reached 21.31 in 2013 compared with 18.54 in 2012 excluding the effect of Atento.

Also, and as part of the simplification of processes strategy and in order to favour conciliation, we are promoting telework contracts, which already amount to 11,320, 166.1% more than in 2012.

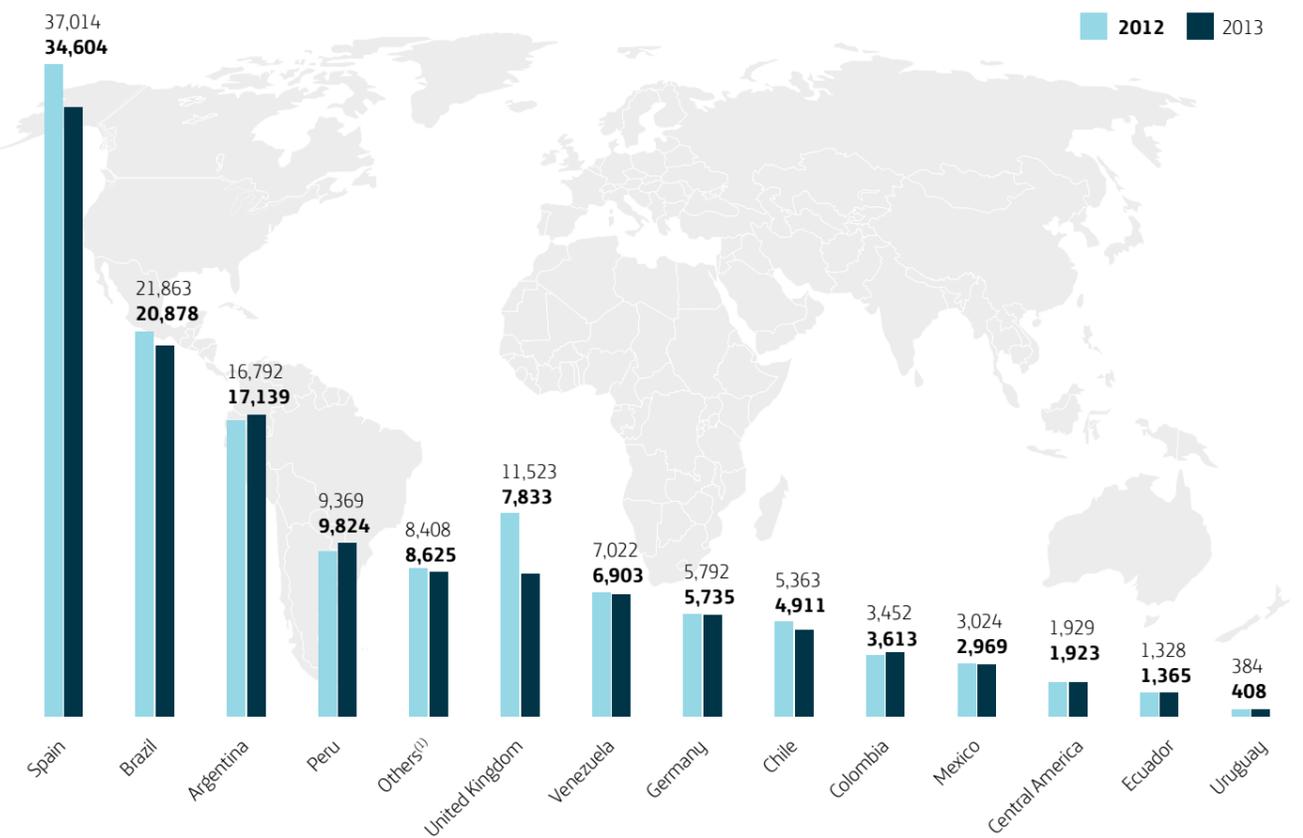
### The best team

The best team is achieved through development and recruitment of necessary qualities, according to the needs of the company, and ensuring proper attraction and diversity in hiring new talent.

## Materiality matrix



## Number of Telefónica employees in the world



<sup>(1)</sup> 'Others' includes operators from Telefónica in the U.S., Israel, Czech Republic, Ireland, Slovakia, Rest of Europe (the Netherlands, Luxembourg, Portugal, Brussels).



### The adequate culture

The best people are capable of achieving the best results if they share the same principles on how to do things and understand that each of them have an important role in achieving the objective of any organization, which is no other than achieving success and ensuring long-term sustainability.

In 2013 we have focused our efforts on transmitting the need for transformation to the entire organization, ensuring the employees' commitment and alignment to our global transformation programme *Be More\_*. For this reason over 200 *Be More\_* workshops have been held in 20 countries, with more than 120 trainers trained. In total, over 13,000 employees have participated in these workshops, with a satisfaction index of 9.2 out of 10.

### Challenges

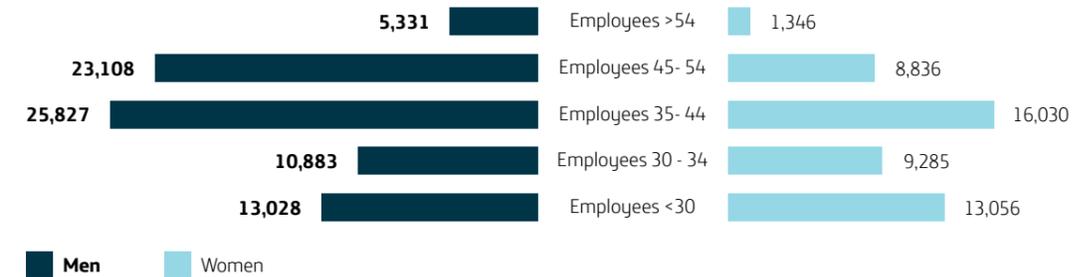
- ➔ Upon defining the new Company structure, announced at the end of February 2014, one of the department's challenges will be achieving the best design of the areas in order to promote the transformation of Telefónica into a Digital Telco.
- ➔ Ensuring the globalization of Company management by establishing three world hubs: Madrid, London and São Paulo.

### Turnover\*

	2012	2013
Total turnover	18.54%	21.31%
Voluntary turnover	15.13%	15.75%

\* Entry of personnel into Grupo Telefónica + voluntary departures, dismissals, retirements or deaths x 100/average workforce in Grupo Telefónica in 2013 (not including Atento).

### Workforce distribution by age and gender



### Best practice

**BE MORE\_ Experience**, an initiative that started on January 27 and ended on February 21. The format was an MOOC (Massive Online Open Course) taught in four languages. A learning environment was created that encouraged participation allowing us to connect users from around the world, to a single learning and knowledge initiative. By overcoming five challenges, over 7,000 employees from around the world were able to experience the three attitudes, through comments, images, videos, and votes.

**Be More\_ TV**, a new communications channel that attempts to share with employees everything happening with the company with regard to *Be More\_*: programmes, actions, attitudes... but, above all, people.

The first *Be More\_ TV* programme was aired in January of 2014, although the idea for its creation was conceived in September. From the start it was conceived as a fresh, distinctive channel that would provide a different perspective on things. With the help of all the teams from Internal Communication and the participation of employees from around the world, *Be More\_ TV* has come to life and is now a reality. With improvised hosts, fictitious poker matches and spontaneous appearances from actors, there have already been many Telefónica employees who have participated in the programmes and many more wish

to volunteer to get in front of the cameras and talk about the Company's transformation stories.

The broadcast of the channel through Yammer, Telefónica's corporate social network, has the advantage of allowing direct interaction between all of the Group's employees, facilitating conversation and enabling viewing from any device (computer, tablet, phone, etc.).

The *Be More\_* programme has materialized itself in the transformation the company has experienced in its organizational structure. This organizational structure is a complete response to the 10 strategic priorities defined by the *Be More\_* programme. The objectives pursued through this new structure announced in February 2014 can be summed up in: increasing our income, modernizing networks and systems, increasing efficiency and strengthening our leadership in the digital ecosystem.

In order to reach these objectives, the company has decided to give local operators greater visibility, bringing them to the centre of corporate decisions, simplifying the global organization chart and strengthening transversal areas to improve flexibility and speed decision-making.

**Turnover**  
21.31%

**94%**  
of indefinite contracts

**38%**  
of the workforce are women

**126,730**  
employees in the world

RESPONSIBLE MANAGEMENT

# Labour practices: Working environment and commitment\_

*Keeping our professionals motivated is essential for achieving a high level of commitment and an excellent service for our clients. Therefore we commit ourselves to align expectations and understand the problems and situations that can affect the work environment, which is fundamental for the increased sustainability of our company*

Telefónica is among the Top 10 large companies in the world for offering its employees the best work environments

Toward the end of 2013 we launched the Climate and Commitment Survey, one of the most important tools that we have for learning the opinion of all of our employees on various aspects of the organization. Thanks to the results obtained we have been able to learn of and promote potential lines of improvement in each area that integrates Telefónica, S.A.

The last edition had the participation of 92,550 employees, which represents a 79% participation and an increase of over 10 points compared with the survey performed during the previous fiscal year.

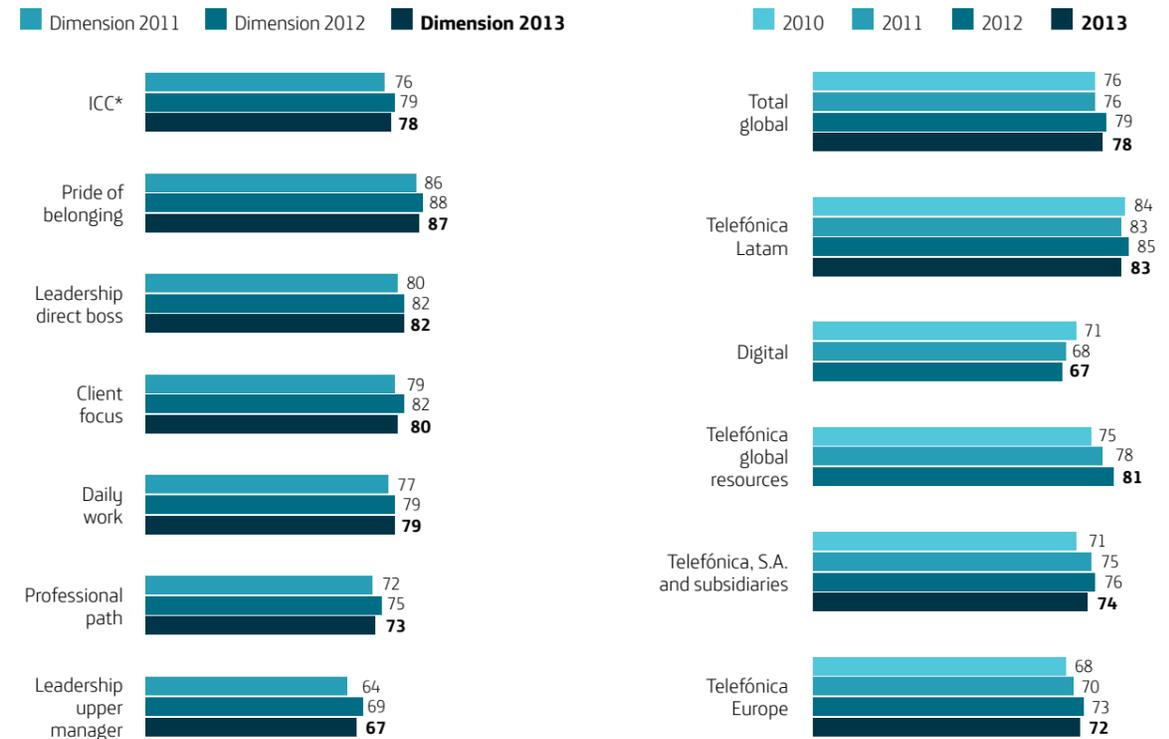
As a result, the 2013 Global Climate and Commitment Index (ICC) —which is uniformly applied in the Group— has remained high, reaching 77.7%. It should be noted that the most strengthened aspects are image and pride of belonging, by 87%, as well as the dimension of leadership by the direct supervisor, by 82%.

With these results an analysis has been made following the Employee Effectiveness Framework, where two variables are combined: commitment and preparation. This allows us to perform a departmental study and thus implement specific measures for improvement, to result in an increase in employee satisfaction, focusing on each variable based on the result obtained in the department. At Telefónica we know that the actual benefits of performing surveys on Climate and Commitment are produced when employee feedback becomes actual actions.

### Great Place to Work® (GPTW)

In 2013 Telefónica once again occupies high positions on the best places to work lists, that are drafted by the Great Place to Work® (GPTW) institute, being the international benchmark with over 25 years of experience in the analysis and assessment of work environments. To perform its *rankings*, the institute takes surveys on the work climate among employees and analyzes the

## Result of the global survey on the work environment



(\*) ICC: Global Climate and Commitment Index.

management practices and policies of individuals from the companies.

Being for the third consecutive year among the 20 best multi-national companies in the world to work for (No. 16), this is undoubtedly a privilege, but also a challenge for Telefónica: to show on a daily basis that we are deserving of this award.

### Telefónica Spain Top 10 of the 100 best companies to work for in Spain

VIII Edition of the MERCO Study People, Business Monitor of Corporate Reputation.

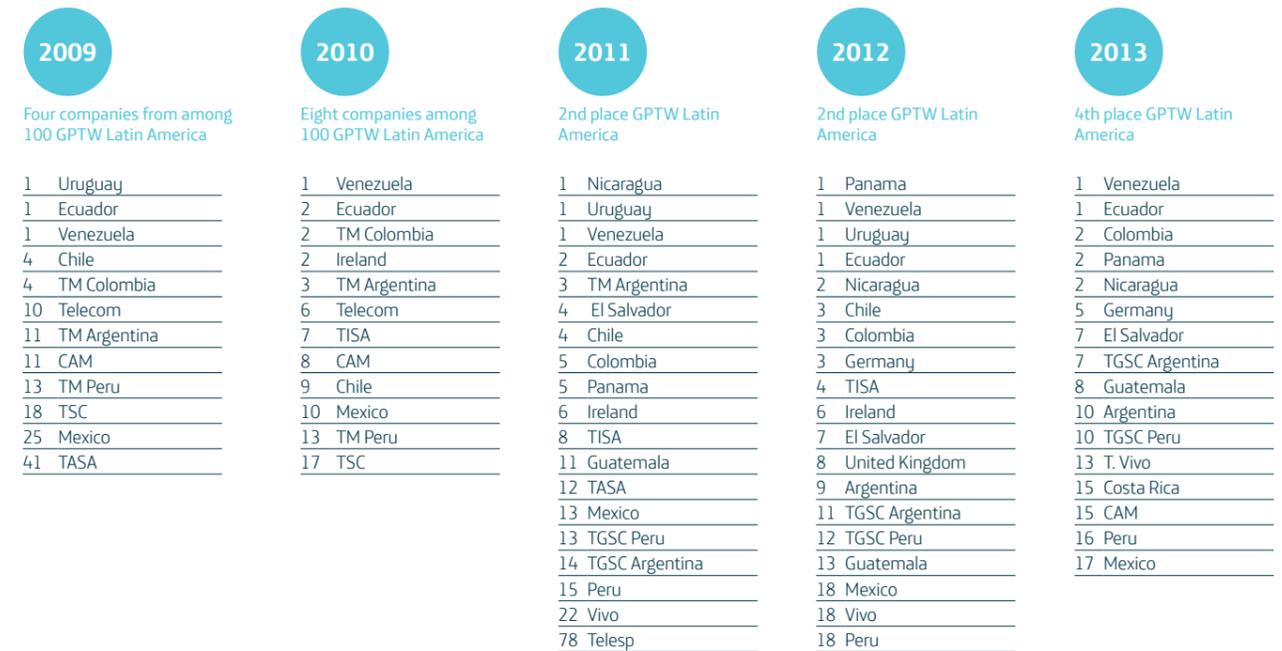
Along this same line, during 2013, Telefónica España continues to be in the TOP 10 of the 100 best companies to work for in Spain, occupying eighth place on this list, according to the information in the VIII Edition of the MERCO Study. People, Business Monitor of Corporate Reputation, an institution that performs a study every year.

The study considers the reputation of a good company to be based on three values: employer brand, internal reputation and work quality. Telefónica has good assessments in the three scopes, but it is in the last where we show our greatest strength, acknowledging ourselves in the market as one of the companies with the best working conditions.

The methodology of *MERCO Personas* present the assessment from different opinion groups like university students about to finish their degrees, business school students, the general population, experts in human resources or workers.



### Comparison of participation and ranking development over the last five years: Great Place to Work



Telefónica has been externally acknowledged for its reconciliation in the United Kingdom and Germany

#### Reconciliation

##### Telefónica UK: Mumsnet acknowledgement of our family friendly policies. Silver accreditation.

Telefónica United Kingdom has been recognized in 2013 with the Mumsnet silver ranking for the second consecutive year. Mumsnet is the largest *online* network in the United Kingdom for parents, generating 60 million page views and 10 million hits per month. Mumsnet invites large companies to join its *Family Friendly* programme. Under this plan companies can highlight the internal actions implemented in relation to maternity/paternity leave, *flexwork*, etc....as well as, if relevant, what products and services they offer to families. The awards were created to acknowledge companies for their contribution to family friendly policies with bronze, silver and gold categories. The assessment is based on the internal analysis of family friendly practices and through *secret shopper* actions by the team of Mumsnet users, which cover criteria including customer service, quality-price relationship,

human resources policies, training and how the companies communicate their family friendly policies to their employees.

##### Power Part Time List. Milica Gay named in the Top 50

The Power Part Time list is managed by TimeWise Foundation. The TimeWise Foundation, is formed by three companies: Women Like Us – a social company that supports women in reincorporating themselves into the work world after the maternity period, especially for part-time employees with employers that value their skills and experience - TimeWise Jobs (online leader in the United Kingdom for job searches dedicated entirely to temporary jobs and 'flex' jobs) and TimeWise Recruitment, a temp agency for candidates with experience looking for workplace flexibility.

The Power Part Time list comprises 50 business leaders selected from a wide range of candidacies and reflects key selection criteria:

- Age. It challenges the idea that part-time work is only for junior roles.
- Inspiration. Stories that open new roads or which through personal interest are a model to be followed by others.
- Success. Evidence of advancement or significant achievement since starting part-time work.

Milica Gay, employed in Telefónica United Kingdom, appears on the Power Part Time 2013 list. Milica manages a series of projects at Telefónica in the United Kingdom, being responsible for the launch of products and joint ventures worth millions of pounds. Admitted to O2 (Telefónica United Kingdom) in 1999, initially working in the Mobile Banking Area, having started her degree in a postgraduate programme of Lloyds TSB. As the mother of three children, Milica works part-time, in order to spend more time with her family while handling her professional concerns.

##### Telefónica Germany: 'Beruf und Familie' Audit and certification

Telefónica Germany has a certificate for its family human resources policy (called 'Beruf und Familie'). The certificate is granted by the *berufundfamilie* Service GmbH, under the sponsorship of the German Ministry on Family and Economy. It is an accredited seal of quality for staff policies regarding family. The audit is based on interviews with employees, managers, as well as the company committee. The reconciliation of family and work is an important, thus Telefónica Germany wishes to be measured. In general, the award also acknowledges, the development of diversity and aid to critically reflect on existing measures. This certificate, also is positively influencing the position of Telefónica Germany, on the ranking prepared by the Great Place to Work institute.

## RESPONSIBLE MANAGEMENT

# Labour practices: Training and talent management

*Talent is a global asset, and the development of our personnel is a basic pillar on which to build the sustainable transformation of the company and attain digital leadership. Our experience shows that development plans have a positive impact on the motivation, commitment and loyalty of employees, as well as their productivity*

During 2013 more than 2.9 million training hours were given in the Group

Training and staff development in Telefónica is included in a cycle that begins with setting objectives, continuing with the assessment of performance and finishing with the design of a personal development plan.

During 2013 over 2.9 million hours of training were given in the Group. Training opportunities at Telefónica are structured by means of different tools: classroom training (Universitas and specialised courses) and *online* training (*e-learning* programmes).

At a local level, individualised training plans are devised, generalising the use of the 70/20/10 methodology, where we encourage training and development techniques like swapping jobs, international mobility, project-based work in groups, and mentoring schemes as alternatives to traditional classroom-based education.

The term '70/20/10 methodology' means that 70% of training should be received in the workplace, through real problem-solving experiences, this being the most important aspect of any development plan. Another 20% of the development comes from feedback, observation and role exchange. And the final 10% comes from formal education in courses and classroom learning.

The model used by Telefónica Spain allows the creation of a dynamic Training and Development Plan, which is adjusted during the whole year, yielding much better responses in time and form to business needs.

The process of training puts special emphasis on the needs of each department, to support all the initiatives of transformation, internalisation and simplification which are identified, and this allows us to advance with the transformation process in the Company.

In 2013, over 9,000 employees were trained within the transformation training framework at Telefónica Spain, and more than 290 courses and 183,996 hours of classes were given. The students' evaluation of the perceived quality of the courses was eight out of ten.

Among the most relevant initiatives, with the biggest impact on the organisation, was the new territorial model for the call centres and the new network supervision assistance model.

Similarly, the Telefónica Schools were launched, which cover material organised into six areas: Leadership, Finance/Legal, Technology, Sales, Languages and Internal Teachers. In addition, the whole training management model has been integrated into the same platform that supports the schools.

In Latin America, the *Digital Race or Marathon* initiative was launched, within the overall project to make employees more digital, and its objective is to speed up the transformation of Telefónica into a Digital Telco, giving our collaborators access to the Internet and smart devices, generating digital experiences for training purposes and promoting the use of digital services and tools.

The *Digital Race* is a voluntary, fun activity that takes place on the platform Yammer, and in which collaborators from each country form teams to take on different challenges that give them a chance to show off their knowledge and skill with digital tools.

During 2013, a total of 2,607 collaborators from different countries of Latin America participated in this initiative, helping to drive digital culture forward in the region, and to show our people that they are the leaders of the digital revolution that is on-going in our industry and the world.

Yammer has also established itself as a tool for global collaboration within the Group. This technology (*Enterprise Social Network*) is provided to our employees to facilitate transversal collaboration, allowing the sharing of information and knowledge contributing to the transformation of processes in our company. It is open to all employees in every market and they can create international online communities as they wish.

## Universitas Telefónica

Universitas Telefónica is the meeting place for our professionals, where they live and breathe the culture and values of Telefónica, while they share concerns and points of view in training programmes. This initiative comes out of our commitment to the training and development of our professionals.

Thanks to the programme design, we reached the figure of 4,610 employees trained in 2013, or 64.8% more than in 2012, with 55% of the teachers being Telefónica staff, compared to only 5% in 2011. In total, there were 43 editions of 12 programmes:

### Milestones

- We launched *Universitas Offshore* for in-person training at off-campus locations: China, the United Kingdom, Ireland, Brazil, Peru and Germany.

→ We achieved the highest number of participants in the history of Universitas Telefónica (4,610 employees), in addition to a reduction of 2% in our budget, thanks to the collaboration of internal speakers. We have speakers from the Executive Committee, internal coaches, managers and sponsors. In 2011, only 5% of our facilitators were internal, while in 2013 we reached 55%.

→ We achieved better ratings than ever: 4.6 out of five, for average rating of the programmes, and 4.8 out of 5 for the overall campus experience.

→ *Leadership For Change*

→ *Leading Self*

→ *Leading High-performing Teams*

→ *Global Professional Skills. New*

→ *AMP. New*

→ *Engaging Realities*

→ *Customer Focus*

→ *Global Management Programme*

→ *Innovation & Creativity*

→ *Postgraduate Course in Business Telecoms*

→ *English Week*

→ *Spanish Week*

Universitas Telefónica was a winner of the VIII Garben Training and Business Awards, in recognition of its role as the meeting point for the Company's best professionals, not just from Spain, but from all our European, American and Asian teams.

The Garben Training and Business Awards were instituted in 2005, with the aim of recognising and stimulating the efforts made to improve the skills and capabilities of workers. These prizes

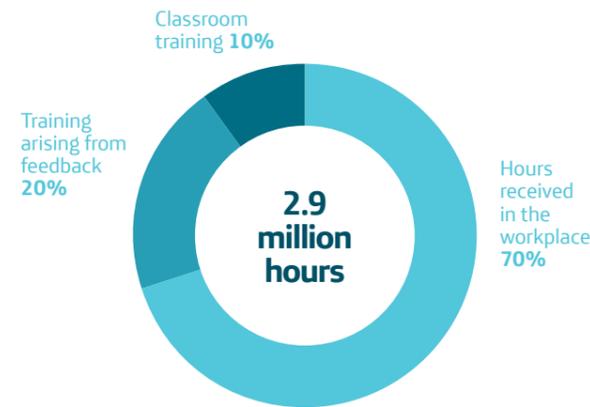
30,554,188  
Euros: total spending on training in 2013

2,983,665  
Total hours of training

23.54  
Training hours per employee

Staff training\*

\* Calculated using 70/20/10 methodology



Training hours/employee

Spain	31.5
Germany	30.2
UK	9.4
Argentina	28.2
Brazil	8
Chile	31
Colombia	24.4
Ecuador	47.9
Mexico	11.8
Peru	7.8
Uruguay	34.7
Venezuela	18.9
Cent. America	20.7
Others	45.7



During 2013, we had 176,429 students and 460,320 registrations for training actions

underline the work performed by institutions, companies and individuals of different categories related to continuous training.

Corporate e-learning (a+)

The e-learning range is a fundamental lever of training that aims to boost the digital development of our professionals with a more dynamic and collaborative training model, with a single access for all users, and which emphasises students' self-development.

Principal e-learning achievements in 2013

- New tools were put into service that allow broader management of in-person training (classroom and speaker logistics, validation of inscriptions, permission for training managers to include ratings or close events), an improvement in the display of student profiles (showing data such as who registered them for the course and

who their manager is), and course availability data (colour codes to denote numbers of free places).

- Consolidation of the e-learning model, with 47,109 unique users and 382,982 accesses in the corporate schools. The number of unique users grew by 62% over 2012 (29,017).
- Implementation of:
  - The **Spanish School**, which went from 13,882 accesses at its launch in July to 23,240 in December.
  - **Design and implantation of** global content of strategic utility for the whole Company, like *Get to know Telefónica and the telco sector*, which combines the content of *Get to know Telefónica and Engaging Realities*.

During 2013, we had 176,429 students, 460,320 inscriptions in training activities, representing an increase in penetration of over 98% compared to the results of 2012: that is, in 2013, the number of students who benefited from a+ training activities doubled, thanks to the rise in the use of the platform in regions such as Latin America and Europe, with nearly 25,000 inscriptions more than in 2012.

The data show that user interest has shifted significantly towards synchronised in-person training by means of the a+ platform's Virtual Classroom tool, which accounted for 98,528 hours in 2013, an increase of 91,266 hours over 2012.

This, allied to excellent results in the number of hours of training received through the resources of the corporate schools (176,350 hours), indicates a change in user preferences towards more immediate, individualised and up-to-date training.

Talent management

Talent is a global asset, and at Telefónica we boost it through benchmark training programmes, promoting diversity and facilitating ways to achieve a work-life balance. Developing the talent of our employees, giving them opportunities of personal and professional development, and supporting their personal growth constantly with the distinctive opportunities at Telefónica.

The evaluation of talent lets us have a map of the management talent of the whole Company, as well as a structured succession plan. This is a fundamental tool of differential management and boosts a meritocratic culture which should facilitate decision-making on aspects such as development, organisation, pay, etc. In 2013, the talent of more than 80% of all managers was assessed.

'Universitas' and 'e-learning' training programmes

176,429 e-learning students

460,320 registrations for training activities

382,982 'e-accesses' to corporate schools

4,610 employees were trained in 2013

43 editions of 12 programmes



e-learning is the lever to boost the digital training of all our professionals

On a different track, the evaluation of competencies we are driving for over 23,000 staff at Telefónica Spain should also be noted. This process encourages the transformation programme *Be More\_* evaluating the attitudes we want in the Company (*Discover, Disrupt and Deliver*) for the entire workforce and also assessing the business competencies of those groups following professional careers. The process starts with a self-evaluation by each person (86% of these completed), and an evaluation by each manager (93% completed), concluding with an evaluation interview between the manager and collaborator (82% of these were completed). This initiative encourages communication, conversations about development and feedback, between managers of people and their teams.

**Awards**

**2013 Best Companies for Leadership or BCL**  
The BCL assessment classifies the best companies in terms of leadership, looking at how they encourage talent and innovation. In 2013, research was carried out among over 18,000

employees of big companies all over the world (137 of them from Telefónica). Participants were asked to identify three companies, of any size or sector, at which, in their opinion, leadership in the organisation is best developed. In the 2013 study, Telefónica was ninth in the world and seventh in Latin America.

**Telefónica Spain**

**Idealab Innovation Programme**  
Telefónica Spain continues to boost the spirit of innovation among its staff through the programme *Idealab* which gets public awards year after year. On this occasion, it was through the TVE (Spanish state broadcaster) programme *Aquí hay trabajo* (There's work here), which dedicated part of its item *Intraemprendedores* (Between entrepreneurs) to *Idealab*, highlighting the involvement of Telefónica's professionals, who, encouraged by the Company to which they belong, develop innovative projects and receive a prize.

The (*Idealab*) programme has the structure of four challenges, in four batches during the year. The objective of the challenges is to help the

Group meet its strategic targets, and they are aligned with the real situation of the Company. The ideas proposed are evaluated by the selection committee and the finalists defend them in oral sessions which take into account aspects like originality, business impact, strategy and viability.

**Cegos Award for the 'A better business team' initiative**

For Telefónica Spain, people have always been a priority and so in 2009, the initiative *A better business team* was launched, aiming to convert all employees into ambassadors for our brand and Movistar products, boosting pride in belonging to the Company, and rewarding employees for their commercial effort.

Telefónica Spain received two prizes for this initiative in the IV Edition of the Cegos and E&T Awards 2013, for the *Best HR Practices* in

the category *Organisational Management and Consultancy* and also a distinction in the Retail Sector. The real protagonists of the success of this initiative have been Telefónica Spain's own professionals, who are acting as the best ambassadors for our brand at the personal level, and have increased the satisfaction and loyalty of customers.

With this award, Telefónica Spain is acknowledged yet again as a benchmark for projects that add extra value in the marketplace.

The creation of a talent map for the Company is fundamental in boosting the meritocratic culture

**Best Practice**

The strategic focus on the digital development of our employees means that training is more dynamic and collaborative, that it is better organised, that it has a single access for all users and encourages students' self-development, while in addition it simplifies the entire training process.

**TEDx Telefónica São Paulo**

In 2013 the second TEDx Telefónica event took place. While the first edition was in Madrid, this new round took place in São Paulo. For Telefónica, this experience was an opportunity to gather the workforce community under a global transformation initiative, by means of knowledge and dissemination of ideas. Innovation, proactivity, technology, teamwork, responsibility and growth were the keys to the presentations at TEDx Telefónica São Paulo.

Under the banner *Opening up to all the possibilities of Technology*, the agenda for the session was divided into four blocks of talks. *Citizen access: service evolution and social impact; ¿What is novelty and how does it arise? Creativity as instinct and exercise; Technology and development: a tool for our generation and finally, Current issues: What makes today's world stop and start?* The speakers at TEDx Telefónica were chosen mainly from the employees themselves, who made their own conference proposals to share with the rest of the Company, nine of Telefónica's local employees in São Paulo having been chosen.

In its 2013 edition, TEDx Telefónica São Paulo had 100 live participants and over 3,200 online connections.

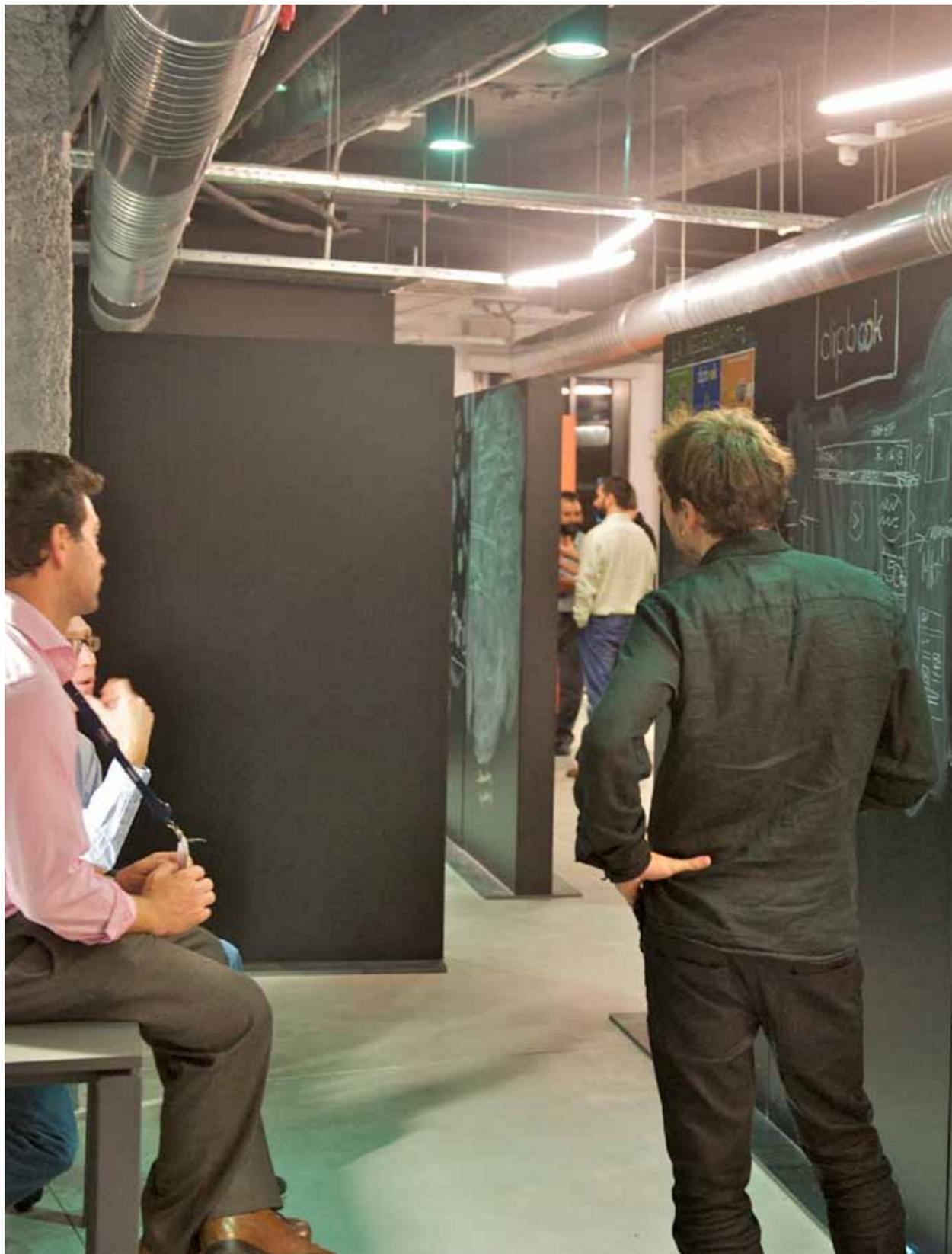
In 2014 there will be a new edition, this time in London: TEDx Telefónica London.

**Smart Week**

Smart Week, also known as Innovation Week or Be More\_ Week, is a massive event for collaborators in which voluntary workshops are offered on subjects such as creativity, innovation, entrepreneurship, the digital world, technological advances and marketing.

The initiative was created seven years ago in Argentina, and since then it has also been held in Spain and other Latin American countries like Colombia, Uruguay, Venezuela and Chile.

Each operator combines this initiative with other activities like *Torchbearers of Innovation*, workshops for generating ideas, ideas banks (Eureka), *I-Tours*, schools of innovation and creativity, ideas competitions, and so on, in such a way that the different programmes are integrated into models of innovation that encourage collaborators to offer ideas that will improve the way we do things, and to propose new products or services that will generate value for the business.



RESPONSIBLE MANAGEMENT

## Labour practices: Attracting and retaining talent\_

*Finding and attracting talent is a high priority at Telefónica. The innovation strategy backs ideas, young talent and enterprise*

### Attracting talent

Telefónica aims to attract young talent, which is indispensable in a sector as dynamic as ours. So, during 2013, within the Talentum programme, 5,700 under-30s were hired across the Telefónica Group, and the criteria for selecting them included their ability to anticipate the challenges of change, their interest in the customer and their ability to work in teams.

Into Talentum Universities, Telefonica Spain and in collaboration with the Foundation SEPI has a long-term fellowship program duration, 12 months, aimed at young graduates university up to 30 years of age facilitate their integration into the labor market, through practical training. The fellowship is developed in Telefónica Spain with a possible later incorporation into the company as permanent employment if their practical training is satisfactory. So far I have made 96% participants performed in 2013, 557 hires.

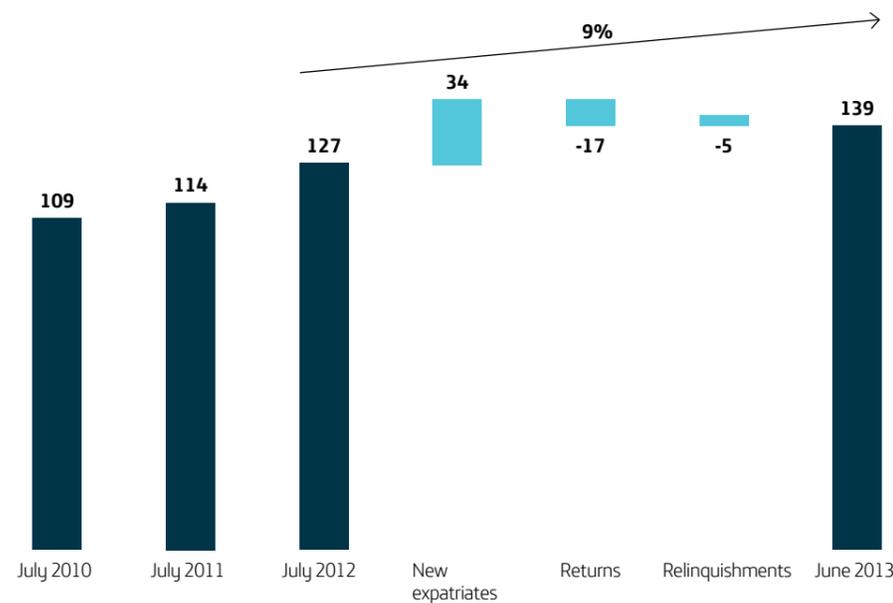
In 2012 Talentum Universities granted 569 fellowship while in 2013 were 217. At the end of the 2013 edition, Telefónica hired 557 fellowship in 2012.

Likewise, and aiming to attract digital profiles and fill posts in the area of technology and marketing, we launched two digital talent search platforms in 2013.

- **'Digital Jobs' external portal.** All the vacancies of the Telefónica Digital division were accessible online. 120 specific profiles were hired for the Telefónica Digital division.
- **'Digitalent' internal portal.** This is the first global website with listings of internal vacancies at Telefónica Digital, and also has the vacancies at Telefónica Europe and access to the global website of vacant posts in the whole Group. The site is being used by the global recruitment teams. It also includes sections on CV improvement, and on techniques that can be used at job interviews.

During 2013, Telefónica contracted 5,700 young people under 30 years of age

### Growth in international mobility of employees



### Internal transfers

	Current	Accum. mobility
<b>Global/Long term</b>	156	213
<b>Global/Short term</b>	22	58
<b>Development Short term</b>	92	260
Subsidiaries	2	14
Graduates	2	26
European Rotation Programme	18	28
International Rotation Programme	70	192
<b>Permanent moves 2013</b>	162	207
International transfers	71	99
International new hire	8	18
Local	83	90
<b>Total</b>	432	738

International mobility gives people the knowledge the Company needs to be a global organisation

#### Retaining talent

In 2013, we consolidated the global target fulfilment measurement model, distinguishing between performance and potential, and combining it with variable incentives. The performance model not only evaluates compliance with objectives (What) by both the Company and individuals, but also the How of their achievement, and in 2013 we used the Three Ds defined in the transformation programme Be More\_ as elements in the evaluation:

- **Discover.** We have always been aware of the importance of being centered on our customers. But now, in the digital world, this is the moment to discover what they need.
- **Disrupt.** We are ready for change and constantly looking for new ways to better harness our knowledge of the digital world and our spirit of openness. Disrupt means to improve the rules of the game so as to generate more value for our customers and for Telefónica.
- **Deliver.** We take full advantage of our global presence while remaining agile, letting us keep our commitment to take technology to people.

In 2013, over 80% of managers were evaluated following this model.

Currently we are undertaking a process of Management Review for all managers so as to give us a global picture of our talent, and which will

be the principal source of information for taking decisions when it comes to internal promotion.

#### Talent mobility

For Telefónica, international mobility is a critical issue, to guarantee that the workforce has the knowledge and capabilities necessary to tackle the challenge of converting the Company into a global organisation. Mobility not only consolidates the feeling of belonging to one single company; it also helps to develop leadership capacity and store up experiences which will facilitate intercultural understanding and collaboration. These are qualities of particular utility when it comes to taking on international acquisitions, negotiating alliances or opening up new markets.

During 2013, Telefónica implemented a uniform international mobility policy in the whole Group, offering an international professional career to employees and helping to attract and retain the right people.

This policy includes four international mobility options: Global Long Term, Global Short Term and Development Short Term, which have been designed for temporary international transfers. International Local Hire has been designed for permanent transfers from one country to another. Each option has its own independent access requirements, duration, remuneration and benefits packages.

### Awards

#### Telefónica Global

##### 2013 Fortune's World's Most Admired Companies or WMAC

Telefónica is the most admired non-US company in the Telecommunications sector.

For the last 16 years, Hay Group has been collaborating with the magazine Fortune to identify and classify the most admired companies in the world. To compile this ranking, interviews of over 15,000 managers and financial analysts from 687 selected companies in 30 countries were carried out, so as to find out which company has the best reputation within each sector. The analysis takes nine attributes of reputation into account.

Telefónica was top-ranked among non-US telecoms sector companies in 2013, having improved since the previous year in the category of Attracting and Retaining Talent.

##### National Apprenticeship Awards - Regional Winner: Macro Employer of the Year

These awards acknowledge excellence, both at companies which increase their own talent pool by using apprentices, and by apprentices themselves who have made a significant contribution to their workplaces.

Telefónica was the regional winner in the Thames Valley as Macro Employer of the Year for our Talentum programme. In recent years we have offered an apprenticeship scheme which was mainly a small technological niche programme based in the operational area of our business.

However, in 2012 we put our new Talentum initiative into effect, which integrates the apprenticeship programme into a much broader project that offers multiple career choices for new and promising apprentices. With the creation of our Talentum programme, we have improved our earlier scheme, focusing it on other business areas of the Company such as sales and service. This has also given us the chance to explore joint businesses, by including the apprentices within our Tesco Mobile team. These fundamental changes have given rise to a growth of 300% in our number of apprentices since the start of 2012.

Telefónica was top-ranked in 2013 as the most admired non-US telecoms sector company

RESPONSIBLE MANAGEMENT

# Labour practices: Fair pay and performance recognition\_

At Telefónica, the on-going need to innovate, whether in products, services, processes or people, is growing at the same speed as the transformation of the business. At the core of the transformation are the employees, who must be motivated, attracted and retained, by means of the correct model of recognition that incentivises change

The highest governing body for the remuneration policy is the Nominating, Compensation and Corporate Governance Committee

The commitment of Telefónica to its employees is included within our *Business Principles*, guaranteeing fair remuneration in accordance with the labour market in which our operations take place.

### Principles of the remuneration policy

#### 1. Concept of Total Remuneration

At Telefónica Group, we use the concept of Total Remuneration, made up of the sum of pay (base salary, variable pay, sales incentives and long-term benefits *Equity programmes*), benefits (pension plans, holidays, life and health insurance, company car), career development and opportunities (training programmes at the corporate university *Universitas*, online training platform *A+*, possibility of international mobility, recognition programmes (*RecogniseD*, launched as a pilot in the UK) and the culture of Company social programmes through the Telefónica Foundation, the *Proniño* programme, teleworking and the work health and welfare campaigns.

#### 2. Compensation for meeting business and individual targets

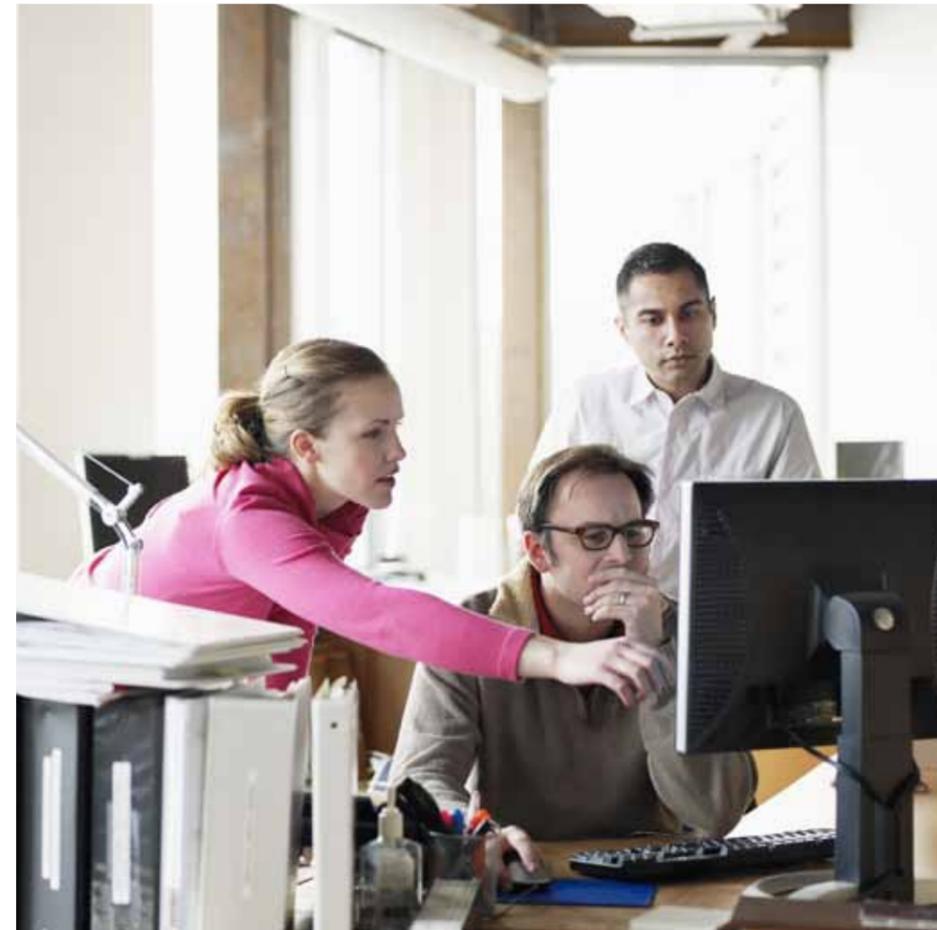
Telefónica recognises a variable component linked to fulfilment of objectives in its remuneration policy. This variable pay will be calculated annually as a percentage of the base salary, a percentage linked to the fulfilment of objectives by Telefónica Group, and another linked to the targets of the region and/or country. Each person responsible for a team will also be responsible for assessing compliance with targets in their area, seeking to maximise the differences in distribution.

#### 3. The correct balance between a global remuneration policy and alignment with the local practices of each market

Telefónica has a Global Remuneration Policy whose objective is to achieve uniformity and alignment in the remuneration practices throughout the Group; in their turn, local remuneration teams ensure alignment with local practices. We have single providers for all markets, and the retention programmes launched are of global application.

(Local currency)	Minimum salary	Minimum TEF entry salary
Brazil	678.00	983.40
Peru	750.00	2,800.00
Chile	210,000.00	455,670.00
Mexico	1,942.80	8,000.00
Colombia	589,500.00	1,140,000.00
UK*	6.31	6.70
Germany	--	2,073.67
Spain	645.30	1,380.00

\* Wage per hour.



#### 4. A clear model of governance

The highest governing body for the Telefónica Remuneration Policy is the Nominating, Compensation and Corporate Governance Committee. Its duties are centered on fixing the remuneration of the Chairman, Managing Director, Board of Directors and senior managers of the Company.

The Executive Committee of Telefónica approves the budget item for salary revision, the global Remuneration Team being responsible for ensuring correct definition of local budgets. So, this team uses macroeconomic data for each country (inflation, growth and unemployment), salary surveys (using a single provider for all countries, together with specific information for some markets with special features), analysis of internal equality (monitoring pay for posts that are comparable in terms of duties and responsibilities through salary structures that help to analyse and maintain salary differences

in an equitable way), and the business circumstances of each operation.

In 2013, we consolidated the global target fulfilment measurement model, distinguishing between performance and potential, and combining it with variable incentives. This model of performance measures not only fulfilment of targets (*What*) of the Company and individuals, but also the *How*, that is, whether they were achieved using the 3Ds or attitudes defined in the *Be More\_* programme, as elements in the evaluation.

Within the notion of total remuneration mentioned above, employee action plans play an important role, because they align their interests with those of shareholders and at the same time generate a more direct sense of belonging, and involvement in the results of the Company. Our long-term share incentives philosophy seeks to reach all employees of the Group all over



In 2013, just as in previous years, the employee could opt voluntarily for a flexible plan that adapts their pay to their personal and family needs

the world, at all levels of the organisation. So, different plans based on the shares of Telefónica have been put into operation:

- **Global Employee Share Plan (GESP).** Under this plan, for each share that employees purchase and retain until the end of the vesting period, Telefónica gifts another share as compensation. Over 25,000 employees have registered for the second edition of the scheme; bearing in mind that 70% of those registered already participated in the first round, this demonstrates the success of the programme, as well as the confidence of employees, who continue to invest in their Company.
- **Telefónica, S.A. long-term share incentive plan: Performance and Investment Plan (PIP).** Aimed at executives of high potential and performance in the Group, this is designed to incentivise and remunerate development of the individual and the Company, and to boost commitment to the Company's results as both employee and shareholder.
- **Restricted Share Plan (RSP).** A new long-term share incentive plan has been put into effect, the so-called *Restricted Share Plan (RSP)*. This is a flexible tool for recruitment from the external market, and it is useful for retaining key personnel in new acquisitions, making them participants in the Company through rights convertible into shares.

Telefónica Spain, just as in previous years, made a personalised remuneration system available in 2013 to its employees, under which part of their fixed salary can be voluntarily allocated to the subscription of a series of products and/or services. This meant that employees can adjust their pay to their personal and family needs at each moment.

Contracting these products allowed employees to raise their net disposable income, thanks to the more generous treatment of the products for IRPF (personal income tax) purposes and the more favourable economic conditions obtained from the Company. This flexible benefit plan has clear advantages for employees.

- Fiscal optimisation of total annual pay, thanks to current IRPF regulations.
- Savings from getting services and products at lower cost because of economies of scale (purchase at the Company and/or Group level).

→ Flexibility, as it fits in with employee personal and family needs at each moment.

→ Convenience, as the choice of suppliers, negotiation and management are all done through the Company.

## Awards

It is of vital importance for Telefónica to encourage and drive the culture of recognition among its professionals.

*Recognise\_D* is the recognition scheme that Telefónica Europe introduced in 2013. This scheme is intended to evaluate the commitment of employees in terms of the three attitudes of *Be More\_*: *Discover, Disrupt, Deliver*, by acknowledging work well done with recognition of their commitment to transformation.

Recognition comes from colleagues, who can use a simple tool to praise those whose daily work attitude is a good fit with the three Ds.

This initiative, which is part of the recognition scheme in the countries and regions, started in the UK, where, after three months, there are 2,500 active users, 3,300 recognitions have been made, and 333 images, 1,895 likes and 60 comments have been uploaded.

The application is simple to use, whether from PC, tablet or smartphone, and it includes some social network features. To use the tool, it is only necessary to have a user account on the Telefónica Enterprise Social Network (Yammer). Recognising a colleague is very easy: text explaining why or a short video is sufficient. The colleague receives a the praise immediately.

The current model at Telefónica Spain, which began to be used in 2009, has evolved and been adapted along three principal lines: the first of these is based on *Company*, boosting the culture of teamwork, transversality and alignment; the second is *Customer*, which identifies those people who have gone the extra mile for our customers and are ambassadors for our brand; and the third, *People*, recognises the behaviours and attitudes of individual employees who make a difference.



During 2013, the recognition programme distinguished over 3,000 people distributed along these three axes. Under teamwork, four main transversal projects and workgroups were identified as key to the transformation of Telefónica, with over 300 members in total. For exceptional action with our customers, nearly 900 professionals were rewarded or recognised. And along the more personal axis, nearly 2,000 people were recognised and congratulated.

In Latin America, a recognition programme has been established, which boosts individual commitment and collaboration among work teams, and reinforces the *Be More\_* attitudes, because the behaviours worthy of awards are aligned with the three D's: *Discover, Disrupt, Deliver*.

This initiative includes both daily recognition, in which any collaborator may recognise their colleagues or leaders, and differential recognition,

in which managers, vice-chairmen or members of the Board of each operator recognise project teams that have achieved important milestones, at special events.

The scheme also includes a regional award, in which the three best projects of each country (one for each D) compete to be recognised as the best under *Deliver, Discover or Disrupt* for the region.

The results of the *Be More\_* programme are presented in public, and the winners get coverage in different national media of each country, so that they feel proud of their achievements and are motivated to carry on with efforts that let them *Be More\_*.

It is of vital importance for Telefónica to encourage and drive the culture of recognition among its professionals



## RESPONSIBLE MANAGEMENT

# Labour practices: Freedom of association and social dialogue

*Our Business Principles include the right for employees to belong to the trade union of their choice and we do not tolerate any kind of reprisal or hostile action towards those who participate in union activities*

There was major progress in 2013 in collective bargaining, based mainly on meeting the strategic targets set

## Collective bargaining in Europe

Telefónica Europe has a European Works Council (EWC) which informs and consults the employees to promote dialogue and exchange opinions on transnational matters. Each Operator Business (OB) has a specific number of workers' representatives chosen specifically. They are selected in accordance with the law or practice in their respective countries. From among those nominated, the EWC chooses a Chairman, at present Christoph Braun (Germany), and a Secretary, a post currently held by Angie Prangall (UK). The European Works Council has 10 workers' representatives: one in Ireland, five in the UK and four in Germany.

Furthermore, the European Works Council appoints 5 people to a Special Committee (SC). This Special Committee meets with Telefónica's Central Committee in order to discuss matters of greater urgency, such as the preparation of a new agreement for CER after the expiration of the existing one. The European Works Council meets every 6 months to discuss transnational issues and all matters raised through Telefónica Europe. These are generally to do with changes of organisation and structure, the economic and financial situation of Telefónica Europe, the introduction of new working methods and technologies, fusions, transfers, workforce reductions, or social and human resources policy, including health and safety and equality of opportunity.

## Collective bargaining in Spain

During 2013, there were important advances in collective bargaining based mainly on compliance with strategic targets set by the Company on the adoption of efficiency measures, raising productivity and controlling labour costs, within the framework of dialogue and social partnership. Among the most significant challenges with impact on the Company strategy are:

## Telefónica Spain (TdE)

In the first quarter there was a modification of the current Collective Agreement (2011-2013) by which the Company and employee representatives signed an accord to extend the Collective Agreement 2011-2013 to 31 December 2014. This accord permits progress in the transformation necessary within a framework of work stability, a key aspect of the negotiation process guaranteeing, on the one hand, a pay rise of 1% for 2014, and on the other, a reduction in labour costs through the suspension for 15 months of the contribution to the Pension Plan and Life Assurance Policy, and a better fitting of the Social Funds to the current workforce. Through these measures, progress has been made towards the efficiency and productivity targets.

In this same context, the conventional commitments of the current Collective Agreement were met, and important agreements were reached with worker representatives on aspects which were key objectives for the Company:

- Shift modification agreement for the SME Call Center.
- Approval of the Functional Mobility Agreement, to meet the need to adapt the current Professional Classification model to define the organisational spaces, the procedures and criteria applicable for developing functional mobility in our Company.
- *The Availability Regime for Customer Service in Operations and Network* has been modified to meet the strategic productivity and efficiency targets that let us maintain stable employment all over the country.

Likewise, during 2013 the Agreement reached with workers' representatives on the ERE (redundancy plan) 2011-2013 concluded its life. During its period in force, this system offered Telefónica employees the possibility of accepting voluntarily the conditions for leaving

the Company envisaged in the Social Plan, always following the principles of willingness, universality and non-discrimination. Thus, in 2013 the total agreed number of redundancies (over 6,800) for the authorised reduction in employment was finally attained. Similarly, and during the period of validity of the ERE, the commitments to create employment laid out in the Social Plan itself were surpassed, approximately 1.000 hires.

## Telefónica Móviles España (TME)

In April 2013 the VI TME Collective Agreement, agreed by the majority of the worker representatives, was signed, and it aims to:

- Give TME its own legal personality, providing a stable work framework in the short/medium term, with guarantee of employment.
- Align the industrial relations framework at TME towards convergence/integration with TdE, by adapting the professional classification model.
  - A classification model for jobs based on notional standard types.
  - Formalisation of principles of action of the future TE classification model.
  - Incorporation of TME sales staff to the converging sales career track.
- Adapt of salaries by containing and rationalising salary costs (suspension for 15 months of the contribution to the Pension Plan)
- Progress on converging working conditions.
- Progress on matters of work-life balance (age of minor entitling employee with legal responsibility for same to reduced working day raised to 12).

## Telefónica Soluciones (TSOL)

Along the same lines, in 2013, the TSOL Agreement was signed, by which, together with the measures to contain and rationalise salary costs (suspension for 15 months of the contribution to the Pension Plan), measures to guarantee employment were adopted, and the equal opportunities plan was agreed along with a protocol to prevent bullying and sexual harassment of Company workers.

## Collective bargaining in Latin America

Along the same lines, in 2013, the TSOL Agreement was signed, by which, together with the measures to contain and rationalise salary costs (suspension for 15 months of the

contribution to the Pension Plan), measures to guarantee employment were adopted, and the equal opportunities plan was agreed along with a protocol to prevent bullying and sexual harassment of Company workers. During 2013, and just as in the other regions, work on ensuring a stable work framework took place in the collective bargaining process in all the companies. The principal achievements of 2013 are:

- Colombia: elections for Company and worker representatives to the occupational health joint committee and the community committee were held, the UNO programme - which covers Company benefits - was consolidated, so as to facilitate work-life balance, and there were elections for staff representatives. Work was also done on unifying internal policies and procedures following the fusion of the fixed and mobile businesses in 2012.
- Peru: collective agreements were reached with each trade union individually (four in the fixed business and three in the mobile part). A collective agreement of four years' duration was also signed with the Federation of Communication Workers of Peru, and new negotiations with the Telefónica Workers' Union and those of the telecommunications sector were opened.
- Argentina: the mobile telephony Collective Agreement was signed, and is the most flexible on the market; a pay agreement was reached with all the unions, and financial agreements were reached with the three unions UPJET, OSTEL and FOESITRA. In addition, the pending career path agreements were signed (with FOETRA/FATEL and CEPETEL), so that all the unions now have career paths based on merit and work enrichment.
- Brazil: Integration of the employees of TVA (segment -TV) of Telefónica in Brazil, implying the Collective Agreement with the same parameters and the scope of the concession telephones policy (logistics and distribution orders), revision of the model of unified work contracts for management, administrative, commercial and office premises, negotiation of the voluntary retirement package with workers' unions (in March and October) the PPR (profit participation) agreements, and the database.

## Worker representation on Joint Health and Safety Committees

The health and safety model established in the different regions of Telefónica boasts a high level of representation and participation by workers through the corresponding Health and Safety Committees in all Telefónica's regions.

At TdE, the Collective Agreement 2011-2013 has been extended to the end of 2014, allowing progress in the transformation necessary within a framework of work stability

## RESPONSIBLE MANAGEMENT

# Labour practices: Health & safety

*The health, safety and wellbeing of our employees constitutes one of the principal lines of attention and action by the company, which is implanted through the occupational health and safety management system*

Telefónica guarantees very high levels of protection and health and safety for its workers. In 2013 we began the audit process for the OHSAS 18001 standard

The most important lines of action on matters of occupational health and safety during 2013 were:

### OHSAS audit of health & safety management system

As part of our commitment to very high levels of protection for workers' health and safety, as well as implementing a coordinated and efficient system for managing health and safety at work, during 2013 we started the audit process according to the standard OHSAS (Occupational Health & Safety Assessment Series) 18001, for all Group companies in Spain.

The first step was to start an internal audit process, the work for which was performed by technicians from the Joint Health and Safety Service. Its aim was to assess the compliance of the health and safety management system for the 36 companies of the Group, evaluating their capacity to comply with the applicable laws and regulations, as well as their ability to meet specific targets and identify possible areas for improvement.

Similarly, we evaluated the effectiveness of the system through sampling in different provinces, visiting, among other places, A Coruña, Ciudad Real, Guadalajara, Madrid, Segovia, Toledo, Valladolid and Zaragoza, in the case of Telefónica Spain.

During these visits the Joint Prevention Service staff worked closely with those responsible for the different units involved, such as Property, Security,

Operations, etc., as well as with representatives of the other companies of the Telefónica Group.

Following this internal analysis and the adoption of appropriate measures of improvement, the process of external OHSAS audit was begun, undertaken by technical auditors accredited to do so.

An exhaustive revision of the health and safety management system procedures for working, and of Telefónica's own installations proper, was carried out. During the external audit, various aspects of the system including those listed below were verified, at both the central and provincial levels:

- Emergency measures.
- Evaluation of risks.
- Investigation of occupational accidents.
- Vigilance of individual protection equipment.
- Coordination of business activities with our collaborating companies.
- Revision of installations (telephone exchanges, inspection boxes, base stations, posts, etc.).
- Health & safety committees.
- Development of annual preventive scheduling.
- Health monitoring management.

### Health promotion during 2013

During the year, various health promotion campaigns were carried out.

Some of these take place during the medical examination, like the campaigns to prevent colon cancer, prostate cancer and gynaecological conditions, and to mitigate cardiovascular risk.

Others are run at certain periods only, and the workforce is invited to participate and take advantage of the consultations and checkups offered, by means of notices posted on the intranet. These are the annual campaigns of anti-flu vaccination and the promotion of healthy habits, such as exercise, eating properly and giving up smoking.

In addition, during 2013 we have continued to work on making the procedures and instructions in the area of health, safety and wellbeing more uniform, and promoting and publicising 'good practices' among the operators of the different geographical areas of Telefónica Group.

#### Europe

- During 2013, Telefónica United Kingdom has used its expertise to support one of its principal partners – Capita – in obtaining OHSAS 18001 certification, meaning that the two organizations





Telefónica continues to develop procedures and instructions for the health, safety and wellbeing of its employees all over the world

- are sharing synergies with a view to an effective policy on health and safety at work.
- In Germany, they are committed to a global – holistic – concept of health and safety at work, and so they have developed a specific programme called EAP (Employee Assistance Programme) for problems of stress, and the programme BEM (for reintegration at work after a long illness).
- In Ireland, a design and construction manual has been defined as part of the network sharing process, and in this the requirements for all aspects of network design and construction are set out.
- In the case of Spain, the content of the occupational health and safety website has been reorganised.

**Latin America**

- Various countries in Latin America have made good progress in the continuous improvement of their preventive activities, such as Mexico, which has given 500 employees training in forming emergency teams. The Health & Safety Committee made 26 trips around the country, including both corporate offices and other installations, with the objective of ensuring the health and safety of all staff.

- In Venezuela, the first phase of the *Health and Safety Programme* was adapted so as to cover, among other things, processes for declaration and investigation of accidents, identification of danger, evaluation and notification of risks, etc.
- In Nicaragua, seven joint occupational health and safety committees have been set up.
- In Ecuador, a *Programme of Industrial Safety Inspections* was carried out at telephone exchanges located in the cities of Quito and Guayaquil.
- In Colombia, the pilot programme TSAN has been developed, which focuses on working safely at heights, identifying the needs for standards, procedures and individual and team equipment for such work.
- In Argentina, working conditions have been checked in 175 buildings, awareness-raising workshops were held for operational supervisors, reaching 83% of them, and over 5,000 people were mobilised for evacuation drills in 186 buildings all over the country.
- In El Salvador, the 'complete health fair' was held to promote the benefits in the areas of health and nutrition to employees.

Latin America	2013	2012
Accident rate	12.92	11.50
Serious accident ratio	575.81	468.94
Mean duration	44.56	40.78

Europe	2013	2012
Accident rate	5.01	5.01
Serious accident ratio	152.08	130.72
Mean duration	30.35	26.08

**GRI global indicators 2013**

	Total 2013	Total 2012
IR	0.93	0.83
ODR	0.39	0.34
LDR	38.10	29.68
AR	5,599.35	5,658.76

IR: Injury rate  
 ODR: Occupational disease rate  
 LDR: Lost day rate  
 AR: Absentee rate

**Worker representation on Joint Health and Safety Committees**

The health and safety model established in Telefónica's different zones shows a high degree of representativeness and participation by workers through the corresponding health and safety committees in all Telefónica regions.

These committees permit the health and safety objectives set to be turned into practice and consolidated, by means of continuous analysis and follow-up of the programmed preventive activity.

**Accident rates**

In the interests of transparency and comparability with other companies of our sector, the ratios only include the core businesses of Telefónica: fixed and mobile telephony in all the countries where we operate, together with all the activities in Spain, being the corporate centre of the company. Employees of business units not related to the main activity of our company (mainly those of Atento and Terra in Latin America) have therefore been excluded from the calculations of these rates. Likewise, the social employment enterprises of ATAM have been excluded, as they would diminish the comparability of Telefónica with the other

operators, the main object of their activities being the integration of people with a disability.

With respect to the relevant indicators, a reduction in the serious accident ratio, the mean duration and accident rate in Europe can be seen, as a consequence of the health and safety policies applied. In the case of Latin America, the most noticeable decline is in the serious accident ratio.

**Milestones**

Start of the external OHSAS audit process for the 36 Telefónica companies.

**Challenges**

The audit process of Telefónica Group in Spain, whose principal aim is for every single one of the companies of the Group to obtain OHSAS certification, will be completed. To achieve this, we will continue to work with the representatives of the different units involved to fit the procedures and processes to the standard for continuous improvement of occupational health and safety cited.

The health and safety committees permit the occupational health and safety targets set to be turned into practice and consolidated

RESPONSIBLE MANAGEMENT

# Management of diversity

For Telefónica, diversity is a competitive advantage. The growth of the Group is possible thanks to its team of individuals from different cultures, generations, ethnic origins and sexual orientation, and their diverse professional experience

The goal is to integrate and thus achieve greater benefit from the talent of the company's employees

Diversity is a competitive advantage. Having a team of professionals that accurately reflects the societies in which we operate, allows us to better understand our clients and surprise them with new products that fit their needs. It also makes it possible to offer them high quality services, which subsequently have an impact on our profits.

Our Business Principles include the fundamental right to equality:

"We promote equal opportunities and we treat all individuals fairly and impartially, without discriminating on the basis of race, color, nationality, ethnic origin, religion, gender, sexual orientation, marital status, age, disability or family responsibilities."

However the concept of diversity goes much further, it is a fundamental value. The reasons that diversity is a critical management factor for us are many. But from these we can highlight, first, the need to use all of our talent, and second, the importance of other market segments, of other non-traditional groups with a large purchasing capacity, such as women, handicapped individuals, elderly, etc. The intended impact is achieved through proper management of employee diversity; these employees come from over 24 countries (four of which are represented on the Board of Directors and which belong to more than 105 nationalities).

## Strategy

The diversity and inclusion strategy is adapted to our company vision and finds an echo in each of the pillars of this strategy: Discover, Disrupt and Deliver:

- Discover. Diversity is an added value. Our employees' diversity gives us a competitive advantage in revealing and responding to our customers' needs.
- Disrupt. Our employees' diversity boosts our capacity to innovate. The vision and thought

of employees from different origins help us to make positive changes in our organisation and work methods. We attract, hire and retain diverse talent with multiple ideas to help to build new products, services and markets, and broaden the existing ones.

- Deliver. The crucial success factor is not the mere presence of diversity, but the leverage and use of the differences existing in the service of excellent business results. We create awareness in our leaders and we support them in the construction and management of a diverse workforce at all levels.

The diversity project, which received an important push in 2012 through the pilot programme in the European region, continued in 2013 with the goal of creating a structure of global diversity and inclusion, aimed at insuring proper management of our various work efforts and an inclusive work environment, as well as raising awareness that diversity and inclusion provide business opportunities and are part of our transformation.

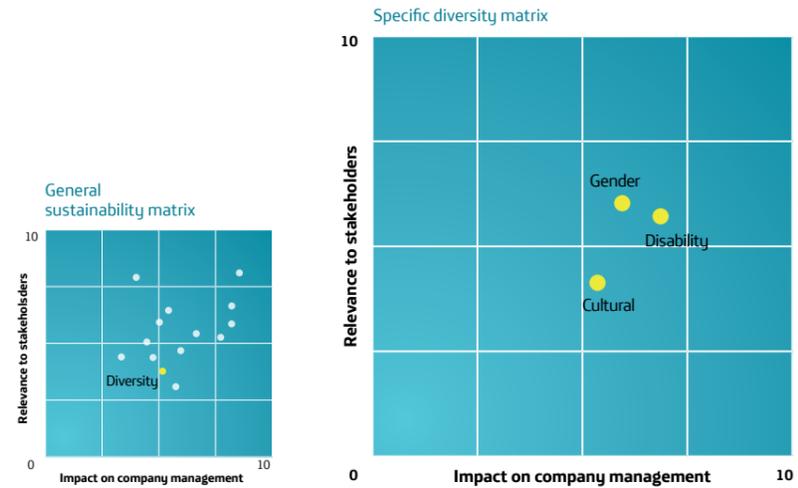
## Gender

Regarding the distribution of men and women in the global workforce, the total number of employees of Telefónica on December 31, 2013 was 126,730. The total number of professional women amounted to 48,553 - in other words, 38.3% of the total. Total professional men amounted to 78,177, the remaining 61.68%.

In the same way, in 2013 Telefónica had a total of 1,255 management positions, of which 21% were filled by women, an increase of 1.6 p. compared with the previous year. This increase was the result of optimizing the exchange of diversity as good practice within the Group.

Therefore, regarding the relationship between the base salary of men compared with women, in our domestic market (Spain being the most relevant)

## Materiality matrix



the average salary for women was 96% in middle management positions and 97% in management positions. This is a decrease compared with the previous year of 0.5 p. and 1.7 p., respectively.

We are aware of the need to progress in diversity. So, during 2013 Telefónica has driven various initiatives. Among them, it is worth mentioning:

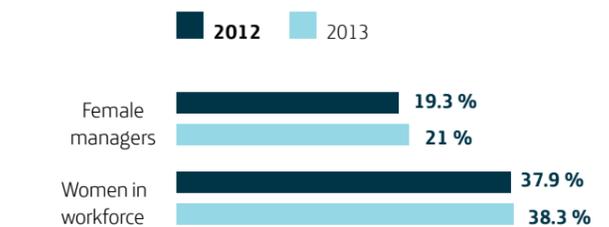
- **The 'Women in Leadership' programme** which began in September 2012 and continued into 2013 in its second installment. Thanks to its success, the programme was extended throughout Latin America and to other divisions of Telefónica. The programme intends to strengthen women's abilities, confidence and personal recovery ability; establish a solid network of female leaders in Telefónica's European companies and increase their visibility; create an environment in which they can share experiences that affect organizational culture, and identify mentors and sponsors that can support them, among other objectives.
- **Telefónica Mexico** has received the award given by the Great Place to Work Institute for the last three years, being among the 70 best companies in gender equality. The good practices of the operator in recruiting talent, for example the Assessment Center, allows us to show non-discrimination, by giving more importance to the potential and talent of candidates than any other consideration, whether it be their physical appearance, age, race, or belief.

Women equal 38.3% of the employees at Telefónica and occupy 21% of management positions

## Mean salary gender gap for Telefónica's major markets

	2012		2013	
	Senior managers	Middle managers	Senior managers	Middle managers
Spain	96.1%	95.6%	97%	96%
Brazil	93.8%	94.1%	96%	94.3%
United Kingdom	94.0%	109.7%	88.7%	107.2%

## Diversity on the payroll



## Staff worldwide

	2012	2013
Nº of nationalities on payroll	-	105

### Support for people with disabilities

	2012	2013
■ Compliance with the Spanish Law on the Social Integration of People with Disabilities <sup>(3)</sup>	■ 3.04%	■ 3.2%
■ Volume of contracting with social suppliers	■ 4,225,258	■ 4,548,894
■ Web page accessibility level (W3C)	■ AA	■ AA
■ Dialogue established between organisations representing people with disabilities <sup>(1)</sup>	■ ONCE, CERMI, CNSE, FIAPAS, FEAPS, ASPAYM Granada and CENTAC	■ ONCE, CERMI, CNSE, FIAPAS, FEAPS, ASPAYM Granada and CENTAC
■ Products and services that incorporate principles of universal accessibility and design for all	■ Bills in Braille or large-type print, platform in sign language, accessible terminals, ATAM (LAVECO, MONDECO, SERVITELCO, DO2, SOSTENIBLE)	■ Bills in Braille or large-type print, platform in sign language, accessible terminals, ATAM (LAVECO, MONDECO, SERVITELCO, DO2, SOSTENIBLE)
■ Investment in social innovation and disability <sup>(2)</sup>	■ 9,328,294	■ 8,688,997
■ Telefónica volunteers who participate in initiatives where the beneficiaries are people with disabilities <sup>(1)</sup>	■ 1,816	■ 3,051
■ People with disabilities (PwD) benefiting from volunteer activities <sup>(1)</sup>	■ 12,436	■ 16,397

<sup>(1)</sup> Pwd: People with disabilities.  
<sup>(2)</sup> Data verified by LBG criterion.  
<sup>(3)</sup> Spain - General Law on rights of persons with disabilities and their social inclusion.

### 'Positive conflict' finds and retains talent, and uses it to grow the Company

#### People with disabilities

We are aware the need to progress on the diversity path, and even further, when it comes to the employment of disability and dependency.

→ ATAM and working to integrate handicaps and dependencies. ATAM, the social arm of Telefónica, with expertise in people, disability and dependency, is a registered non-profit organization declared of Public Utility by the Cabinet in 1977.

The objective of the association is making it so that all handicapped individuals have greater access to employment, as a key part of their social integration. Under the principles of their enabler model, they work so that people with handicaps can develop themselves professionally. In addition, the business project of ATAM is configured by firms that operate using the special employment center's formula, which reinvests their economic profits with the objective of increasing the number of positions offered to handicapped individuals.

During 2013, nearly 16,000 people in Spain have benefited from their work and 774 employment offers have been managed through the Mercadis employment search, among others.

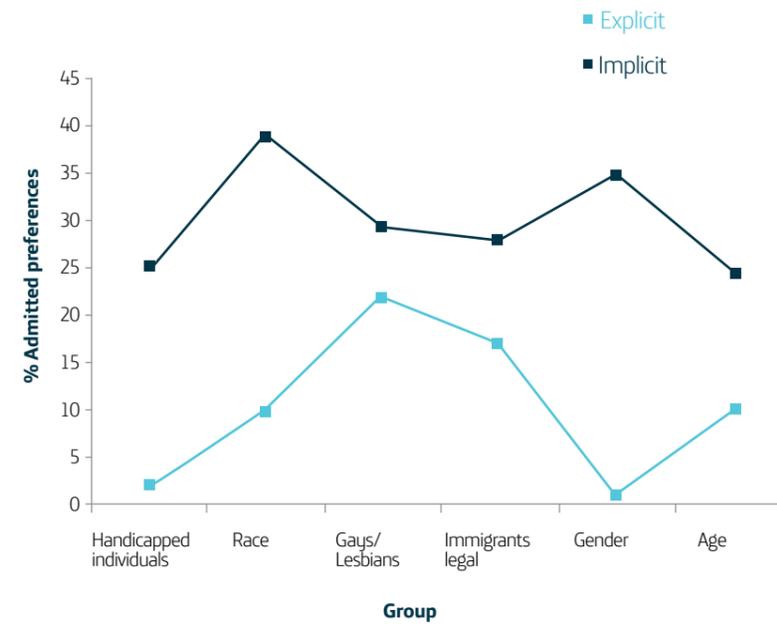
711 professionals have worked in these companies during 2013, of which over 90% suffered some type of handicap.

→ Telefónica, in its commitment to society, makes important social investments and innovations for the handicapped. Among others, we can mention the Telefónica Ability Awards, which recognize companies or institutions that have incorporated handicaps into their value chain, or which have developed sustainable business models, which integrate solutions, products and services that meet the needs of individuals with handicaps and deepen their incorporation in society.

→ During the next round of the Talentum Universities scholarship programme, which will soon be launched by Telefónica España, there is a reserve of 5% for young handicapped individuals with degrees to have

### Unconscious prejudices about diversity

By category



### Unconscious prejudices about diversity by categories

The launch of a new course on subconscious prejudice at Telefónica Europe attempts to raise awareness among our managers of how decision making processes are influenced by the subconscious. We all have prejudices that are developed subconsciously. From a biological and natural point of view we prefer being around people who look like us and who share our interests. This preconceived idea which we develop subconsciously regarding people, limits our ability to manage diverse teams. Greater awareness of prejudices and underlying stereotypes allow us to make more effective and objective decisions. The result is called 'positive conflict', aimed at optimizing the meritocracy and inclusion where there are equal opportunities for all of our talent to have a successful career, allowing us to progress, increase recruitment and the retention of the most important skills, and maximize our growth.

the opportunity to access this scholarship programme. Through practical training, they will be able to see the business up close, promoting their integration to it. This measure will doubtlessly result in a significant improvement in promoting the addition of this group to the workforce.

subconscious and how to make this a positive element in management.

#### Challenges

- Creation of the global work group and employment of regional initiatives within the group.
- Preparation of the diversity map of Grupo Telefónica.
- Development and approval of the corporate diversity policy.

#### Milestones

- Constitution of the European Diversity Committee as a subcommittee of the Executive Committee of Telefónica Europe.
- Successful completion of the 1<sup>st</sup> edition of the *Women in Leadership* programme and start of the 2<sup>nd</sup> edition in Europe and the 1<sup>st</sup> in Latin America.
- Implementation of the prejudices pilot test to raise awareness among managers of how the decision-making processes are influenced by the

#### Best practice

Telefónica España joined in the celebration of *Diversity Day* at Telefónica Europe by performing awareness actions among its employees.

RESPONSIBLE MANAGEMENT

# Sustainability in the supply chain

Managing the impact associated with the acquisition of goods and services has become a key issue in our sector, where companies share ever more links in the value chain with their suppliers and contractors

Sustainable management by our suppliers multiplies the positive impact of our activity

The identification and management of risks associated with the supply chain is an inherent responsibility of each company, as is made clear by the UN's Guiding Principles on Businesses and Human Rights, and the sectoral guides created by the European Union, published in June 2013.

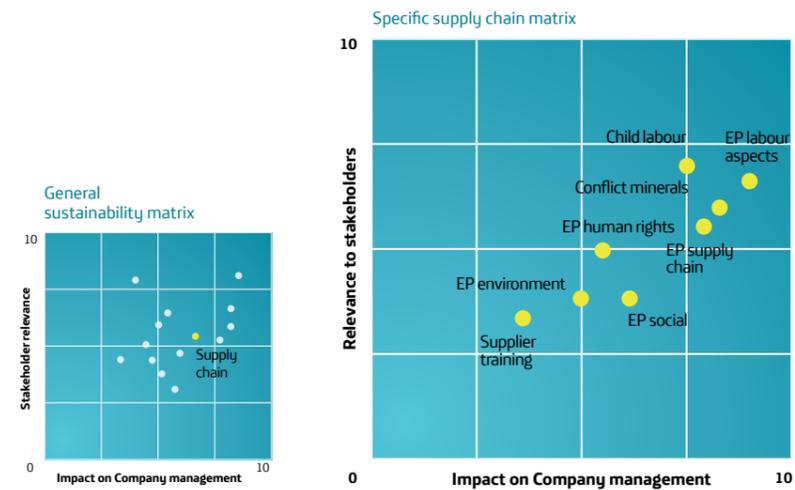
Telefónica Group undertook a public commitment in 2010 to sustainability in its supply chain, incorporating social, working and environmental aspects into its purchasing criteria. The commitment, laid out in detail in internal policy and regulatory standards, has become a relevant aspect of our global procurement model.

## A significant commitment given the presence and scope of our supply chain

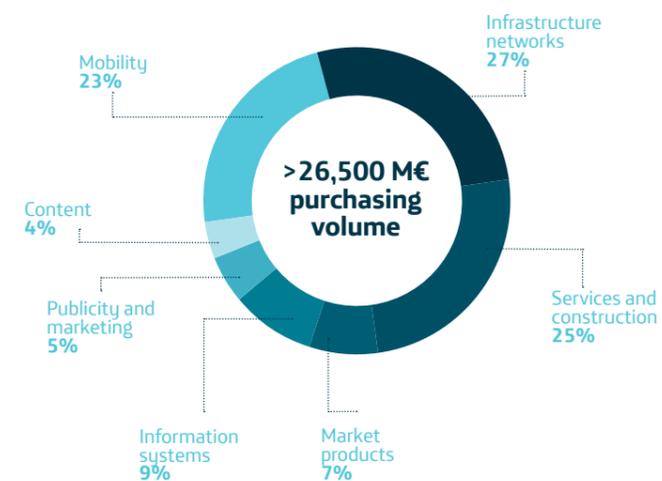
This commitment by the Group has let us set out the positive impact of our activity through an international chain of value, but with a high local component.

- More than 800 professionals in 19 countries.
- Over 15,700 suppliers from 73 countries used.
- Nearly 84% of supplier contracts awarded locally.
- Volume of purchasing above 26,500 million euros.
- Over 247,000 professionals from our suppliers carry out key support and customer service activities in Latin America, playing a fundamental role in the satisfaction of our customers.

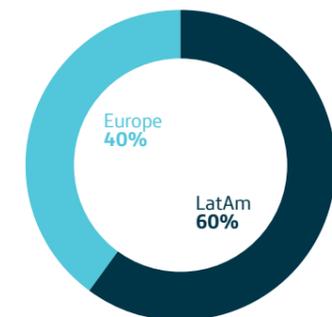
## Materiality matrix



## Details of adjudications by product line



## Details of adjudications by region





Through Telefónica Global Services, the Group handled over 22,000 purchasing processes to the value of 16,900 million

### A global and transparent purchasing model

Our purchasing model is focused on a global approach which, at the same time, addresses the needs of the different markets and countries, guaranteeing coordinated and transparent management between Telefónica Group and its suppliers.

The main suppliers in 2013 by value were: Apple, Samsung, Huawei, Ericsson, Atento, NSN, Nokia, Sony Ericsson, Publicis Group, Alcatel-Lucent.

In 2013, we continued to consolidate our objective of managing purchasing globally and strengthening relations with our suppliers, negotiating more than 22,000 procurement processes through Telefónica Global Services whose total value exceeded 16,900 million euros.

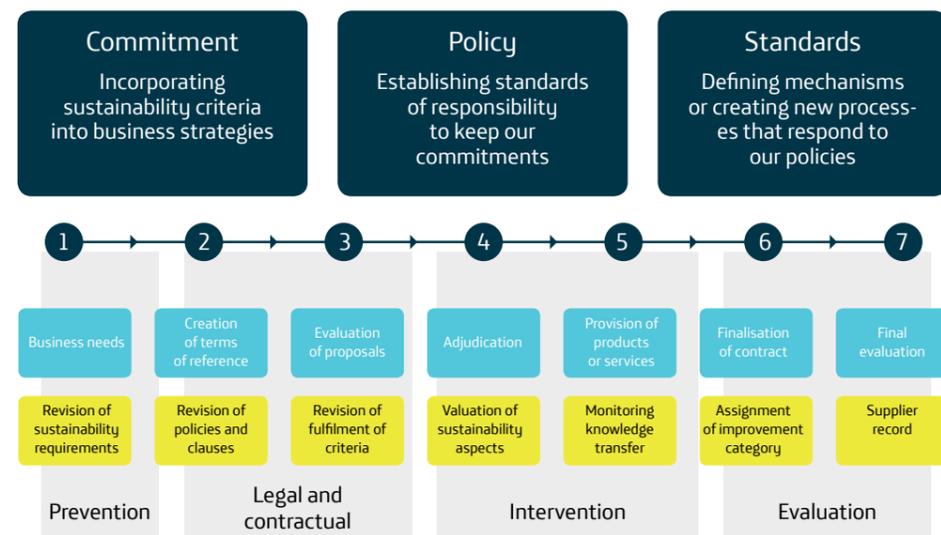
Likewise, in 2013 we have advanced in a project to transform the buying process into an end-to-end (E2E) process to raise the added value of Purchasing in the supply chain. This project was also aimed at making the relations with our suppliers more efficient, through greater standardisation of specifications and greater involvement by Purchasing in the activities following adjudication.

We at Purchasing are also working towards the objective of Telefónica to be a Digital Telco. Ecommerce tools help us contribute to this target and to ensure that our activity is carried out with transparency and integrity. In fact, in 2013:

- We negotiated over 28,000 million euros electronically, as well as nearly four million euros through online auction.
- We carried through more than 18,500 million operations of electronic formalisation which includes letters of adjudication, orders and contracts.
- We received 598,484 invoices issued electronically.
- We carried out further interconnection of Group company systems with those of our suppliers, reaching more than 16,500 orders.
- More than 2,000 suppliers received training in handling negotiations, ordering and electronic invoicing.

### Our Business Principles

These are the basis for building trust with our stakeholders



More info in the Suppliers Portal



### Sustainability of the supply chain (value drivers)



### A general sustainability framework integrated into the purchasing process

Since 2010, and in compliance with the commitment undertaken, we have incorporated sustainability into all the key phases of the purchasing process.

At Telefónica we understand sustainability in the supply chain as a management framework that lets us mitigate risks and identify opportunities, while it is a key driver of the reputation of the Group. The sustainability in the supply chain framework is based on the global purchasing model, and rests on four basic pillars that allow minimisation of our negative impact, at the same time as it encourages innovation and efficiency.

#### Governance, management and transparency model

On the basis of our Business Principles we require that our suppliers carry out their activity applying similar principles and that they respect compliance with the law and regulations in force in the countries in which they operate.

Our Business Principles include the minimum requirements on social, occupational, environmental and ethical matters with which all our suppliers must comply. For this, we have made an online course available to them, accessible at our supplier portal. The standards which we require of our providers are as follows:

- Business Principles of Telefónica Group.
- Commitment to sustainability.
- Policy of responsibility in the supply chain.
- Commitment to human rights.
- Commitment to responsible trade in minerals.
- General conditions for the supply of goods and services.

We use different tools to ensure that these requisites are fulfilled by our suppliers, from pre-evaluation processes to audits in situ.

If a supplier does not reach the required level or cannot provide the information requested, an internal process with multiple phases and tools is triggered. The final objective is to ensure that the supplier does comply with our requirements.

Risk management is the key pillar in the sustainability model



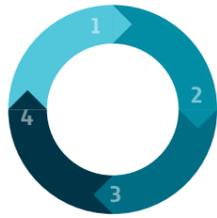
**The EcoVadis process: a virtuous circle**  
All providers evaluated go through these four stages

**1. Preselection**

- Online registry and rating of all suppliers
- Priorities in evaluations

**2. Evaluation**

- Compilation from multiple sources (online questionnaires, etc.)



**3. Results**

- Dynamic easy-to-use evaluation records available online
- Supplier performance rating and qualitative information

**4. Improvement**

- Corrective action plan: module
- Evaluation records to improve supplier performance

In extreme cases, when this is not feasible, on the basis of the agreement initially entered into by both parties, relations with that provider are suspended until they can show that the situation has been rectified and that they do attain the levels demanded.

**Risk management**

A key pillar of the supply chain sustainability model, risk management consists of four basic processes:

- Evaluation and analysis of key aspects.
- Map of at-risk suppliers.
- Definition of aspects that need to be improved.
- Follow-up and reporting.

It is fundamental for Telefónica to perform an *a priori* risk evaluation of our providers. Because of the size of our supply chain, this has to be carried out by an external and independent source. For this reason, in 2012 we decided on the solution offered by EcoVadis.

**Deployment of 360° tool for evaluating our suppliers**

At the end of 2012 Telefónica reinforced the prior evaluation that it carries out of its at-risk providers, thanks to the agreement reached with EcoVadis. The solution offered by this company is based on international standards of corporate responsibility – in addition to having the contribution of experts in sustainability who analyse the information supplied by providers or published by organisations of reference – which allows a 360° analysis of the performance of our suppliers.

**We have 21 CSR criteria**

Policies	I Environmental	II Social	III Ethical
	Energy consumption and GHG (CO <sub>2</sub> ) Water Biodiversity Local pollution Materials, chemical products and waste	Occupational health and safety Working conditions Social dialogue Career management and training	Identify the smelters or refineries (SORs) – included in the supply chain
Shares	Use of product End of useful life Customer health and safety Responsible consumption	Child labour Discrimination Basic rights	
Profit and loss	Supplier environmental performance Social practices		IV Providers



**Audits carried out in Latin America**



The platform evaluates the policies, actions and results of our suppliers in terms of 21 sustainability criteria. This sets in motion a complete risk management process.

The assessment carried out gives Telefónica an objective and independent point of reference. Similarly, the suppliers can share the results of their evaluation with other EcoVadis clients, so taking advantage of the exercise performed. At the end of the first year of use of the platform, 86 suppliers had been evaluated and 36 more were in process.

**Auditing the performance of our suppliers**

The evaluation model just described is complemented by the Annual Audit Plan that takes account of the critical aspects in each region.

The audits made by Telefónica in 2013 were in response to different needs in the two regions in which we are active:

- Europe
  - Manufacturers of terminals and network infrastructure equipment
  - 12 audits carried out in the UK, of a global nature, with seven improvement plans put into operation.

- Latin America
  - Suppliers whose activity is labour-intensive, in direct contact with the customer. Especially, contracts and *call centers*.

Under the aegis of the Aliados programme, more than 14,000 administrative audits, over 1,400 audits *in situ* on the basis of local conditions, and 100 corporate audits were carried out, using uniform sustainability criteria. All these activities led to over 750 improvement plans being put into operation around the world.

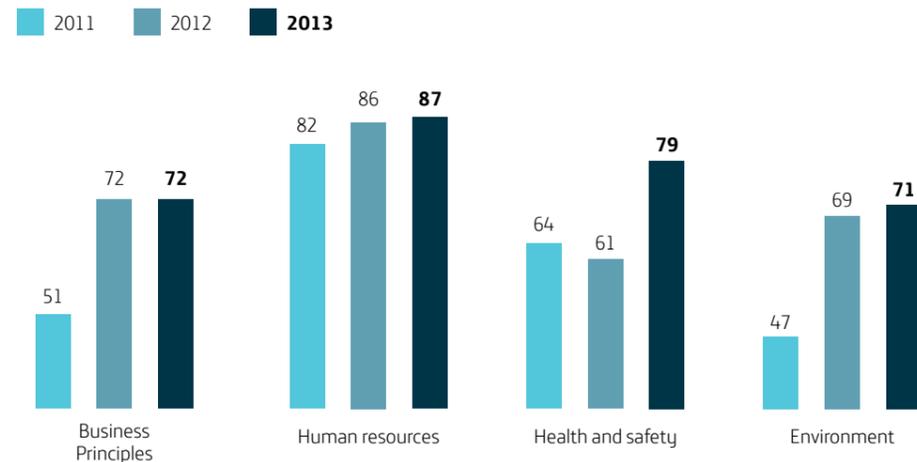
In the context of the *Annual Corporate Audit Plan 2013*, 100 audits of suppliers were carried out, representing 79% more than in the previous year. The graph above displays the distribution of the corporate audits carried out in LatAm.

While the graph on the following page shows the results of the evaluation in terms of the four pillars of the model.

Slight improvements were detected in the degree of compliance of the suppliers in the disciplines Business Principles (BP) (0.5%), HR (1%), and Environment (2%). The most significant rise was in the area of Health and Safety (18%).

EcoVadis audits Telefónica suppliers so that they comply with the criteria established by the company

## Corporate audits in Latin America



For cases of noncompliance, all the suppliers have started improvement plans, there being 100 of these this year. We should mention the case of Peru, where a software module to facilitate management and follow-up of noncompliances detected in the audits has been implanted.

Some of the most common risks were: medical-occupational, tidiness and hygiene, illness with a common cause, examinations of work relocation and readaptation (HS), claims assistance procedure, pay settlement, pay policy, disability (HR) and energy efficiency policy, rational and efficient use of water (Environment).

### Efficient production

Telefónica deployed the Marco Polo project in 2013 so as to have end-to-end management of the supply chain for residential modems (xDSL, FTTH). This project allowed participation by the Company in the whole process, from the definition of the product and technical specifications, up to scheduling the manufacturing and quality control.

The main benefit of the project arises from the direct relationship with manufacturers (ODMs & Chipsets), and promoting local manufacture in some key countries for Telefónica, such as Brazil. In addition to the improvement in quality and reduction of the time to market, this project has also simplified operational relationships with

manufacturers as it ensures them direct contact with Telefónica. So far, over one million units from the Marco Polo project have been deployed and it is expected that this number will grow rapidly in 2014.

### Culture of sustainability

We believe that communication is a strategic axis to generate commitment and closeness to our suppliers and allies in fulfilling the commercial targets that we propose month by month, so helping us to meet the said targets.

So, in 2013, in addition to reinforcing the existing channels of communication with our suppliers like the Allies' Portal, online platforms, e-bulletins, etc., we have promoted physical meetings with the main providers throughout our geography, in particular:

**I LatAm Regional Supply Chain Meeting, held in Brazil.**

**II Authorised Distributors and Providers Meeting that took place in Ecuador:**

Here, spaces for dialogue were created and the exchange of good practices with our strategic partners was encouraged, so as to reduce risks to the business and make the most of the opportunities of having

all together the nearly 200 authorised distributors and providers for Telefónica in Ecuador. In addition, a training course of five hours was held during the meeting.

The event was also propitious for driving home the policy of zero tolerance of child labour in the network of companies.

In response to the multiple concerns that arose during this meeting, a virtual seminar was held later, on the Health and Safety at Work Management System: Compliance with Legal Requirements. This digital event was designed specifically for our value chain and meant that more than 100 of our suppliers and authorised distributors, from different cities, could participate from their own offices.

During the 90 minutes that the event lasted, participants formulated over 100 questions online. Further, 94% of participants stated that the matters dealt with by the seminar would help them with their business management.

### 'Marketplace' on responsible purchasing and hiring people with a disability:

Within the scope of the Telefónica *Ability Awards*, and in collaboration with BBVA, the different agents implicated from both the supply and demand sides of the labour market gathered to discuss the solutions, barriers and myths that special employment centres encounter; in the case of Spain, these employ 61,851 disabled people.

### Managing the opportunities

We at Telefónica recognise that suppliers have a fundamental role to play in achieving a sustainable model, and so we manage not only the potential risks, but also the opportunities. With regard to this two-pronged approach, the actions of Telefónica UK should be highlighted, which boosted new sustainability practices in 2013 that go beyond routine compliance with basic requirements.

In 2012, Telefónica UK, as part of the *Think Big* scheme, made 40 public commitments, of which 20% affected the procurement process.

To comply with these obligations, and with the aspiration that the provisioning model become an effective engine of change, Telefónica United Kingdom requires that its suppliers:

- Have a sustainability plan, as well as sustainability certificates for their products.
- Comply ahead of time with the law on the elimination of dangerous substances.
- Raise their purchasing levels for renewable energy, in line with market availability, and commit themselves to ongoing improvement in energy efficiency.
- Commit themselves to support the Telefónica *GoThinkBig* programme, oriented at improving young people's skills so that they can cope in a society that is evolving rapidly.
- Revise their purchasing processes so as to allow greater participation by SMEs and social organisations.

In addition to the above, Telefónica UK introduced a further measure in 2013 that facilitates the inclusion of SMEs and social organisations in our supply chain, direct or indirect, thanks to an improvement in settlement terms. So, a Buyers' Forum was held for them, also attended by some of our largest suppliers, where the SMEs and social organisations learned in detail what and how we buy, the support team we have at their disposal and what is required to be a Telefónica supplier.

With regard to risk management, the activity of Telefónica UK in 2013 was centered, in accordance with the principle of due diligence, on the categories of greatest risk, taking two fundamental factors into account:

- The adoption of the EcoVadis platform, that offers an analysis of behaviour in the context of sustainability.
- Greater coordination and involvement with the procurement team, requiring, for all purchases in excess of one million pounds, an express declaration by the supplier that they comply with the requirements set out in the Supply Chain Responsibility Policy or that, if not, they have set improvement plans in motion in response to the stipulations of the said policy.

In 2013, Telefónica UK introduced a measure to give access to the supply chain to SMEs and social organisations



In addition, suppliers are contractually obliged to extend our supply chain sustainability requirements into their own supply chain, and to supply evidence that they have evaluated the risks associated to their own value chain, defining and/or implementing the projected due diligence actions within the period defined.

This model allowed Telefónica UK to work jointly for the first time with suppliers of level two, to deal with critical aspects.

Here are some key data about the results obtained by Telefónica United Kingdom in 2013, in relation to supply chain sustainability management:

- Nearly 7,000 employees of contractor organisations were positively and directly affected by the evaluations of suppliers in 2013.
- Over 150 jobs created thanks to contracts from Telefónica O2.
- A total of 776 jobs were maintained to fulfil Telefónica O2 contracts.
- Up to 85% compliance recorded by corporate audits of suppliers. Regarding revisions with suppliers, the values were between 80% and 95%.
- Twelve audits and revisions performed on at-risk providers.
- Seven supplier improvement plans.

#### Sustainable products

Telefónica is aware that the global risks that affect the supply chain need sectoral multistakeholder solutions, so that the goods and services acquired are ever more sustainable.

To this end, we at Telefónica collaborate at a global level with two key organisations in the area of supply chain sustainability:

#### Global e-Sustainability Initiative (GeSI)

Telefónica is a founder member of GeSI, an organisation of ICT companies and industry associations committed to the creation and driving of technologies and practices that improve social, economic and environmental sustainability. Created in 2001, GeSI foment

open, global cooperation, informs the public about the voluntary actions of its members to improve their sustainability and encourages technologies directed at sustainable development.

In relation to the supply chain, in June 2013 GeSI signed an accord with EcoVadis to update and administer the new version of eTASC: a collaborative platform among ICT sector companies that sets their sustainability requirements of providers on a uniform footing, in addition to reducing the associated workload through the exchange of its results with multiple clients.

#### PPA: the Public-Private Alliance for responsible trade in minerals

Telefónica renewed its participation in the PPA, which campaigns for responsible trade in minerals. The PPA was proposed by the United States Under-Secretary of State for Democracy and Global Affairs; it is a multisector and multistakeholder initiative, and it currently has more than 48 associated organisations.

The Alliance promotes and carries out initiatives that respond to the various challenges faced in supply chains which could include minerals from areas of conflict. The PPA provides finance and coordinates support for organisations that work in the region, to develop supply chains that can be shown not to involve conflict, to align the programmes and practices in the chain of custody, encourage responsible provisioning from the region, promote transparency and strengthen civil society and government writ in the region.

In addition, we can mention at a local level other organisations with which we collaborate on supply chain sustainability management, like the Latin America and the Caribbean Regional Compact, CERES, CemeFi, local chambers of commerce and Forum for the Future, among others.

#### Eradication of child labour: 'Aquí Estoy y Actúo'

'Aquí estoy y Actúo' (I'm here and I'm acting) helps companies to eradicate child labour totally from their value chain, in both their own scope of activity and in that of their suppliers and distributors. Similarly, it invites the public to



report a problem that affects 168 million boys, girls and adolescents.

'Aquí estoy y Actúo' forms part of Telefónica's efforts at a global level to foment a sustainable supply chain. The Group's strategy in this area is structured along three lines of action:

- Compliance with the responsibility to respect the Rights of the Child in our operations and our supply chain.
- Promotion of respect for the Rights of the Child, especially in relation to education and infancy free of child labour.
- Incentivisation of activities and promotion of alliances to achieve greater impact in eradicating child labour.

The basis of 'Aquí estoy y Actúo' is the guide for identifying and mitigating the risk that there could be child labour in the value chain of companies. The guide was compiled in 2011 by Movistar and Fundación Telefónica in Colombia, as part of their work with the Colombian Global Compact Network. In 2012 we put the publication at the disposal of the UN in New York, with the determination to pass it to other Latin American companies, and we began to build a programme around a web platform 'Yo digo aquí estoy' (I say I'm here).

Currently the initiative offers four lines of support to companies:

- Make workers aware of the responsibilities of employers and professionals to eradicate child

Telefónica is committed to the eradication of child labour, which affects 168 million children all over the world



More info  
Link to 'Aquí Estoy y Actúo'



The 'Aquí estoy y Actúo' platform has received 15 recognitions, among them the UN's Social Investment Pioneer Award

- labour, as well as tell them how to act should they become aware of a case.
- Create internal teams in companies to undertake the implementation of a voluntary plan of ongoing improvement in this matter.
- Provide tools and guides so as to prevent child labour throughout the activity (including providers and supply chains).
- Evaluate companies with a model that lets their actions be assessed and drives progress through a commitment to continuous improvement.

In addition, 'Aquí estoy y Actúo' includes an app so that anybody can report cases of child labour.

The programme, launched in 2011 and implanted in 2012, is managed and operated in 12 countries of Latin America, through a network made up of those responsible for the focal points of the UN Global Compact for America and the Caribbean, and by members of the sustainability department of Telefónica and social programmes of Fundación Telefónica.

At the end of 2013, 'Aquí estoy y Actúo' is being used by over 100 companies in 12 Latin American countries, meaning that it has reached a total of 180,000 employees. Indeed, Telefónica/Movistar is already using the platform in Colombia, Costa Rica, Guatemala, Mexico, Nicaragua, Panama and Peru. Further, there are many other companies from different sectors who have also incorporated it into their processes.

The initiative has already received 15 public acknowledgements, among them a *Social Investment Pioneer Award* from the United Nations. In addition, UNICEF, Save the Children and the UN itself all recommend it as a reference for compliance with the Rights of the Child and Business Principles.

In 2014, in addition to carrying on with this initiative, two key lines of action have been defined:

- Support and monitoring for companies that carry out a self-diagnosis; for this a toolkit to help companies to follow up the activities to which they have committed has been created.
- Holding of awareness-raising and self-diagnosis workshops, both for new companies and those that already exist on the platform.

### Aliados

#### Objectives

Aliados is a transformation and commitment initiative with our collaborating companies and third parties who become 'aliados' (allies) of the Company. The importance of this initiative, that began in Latin America in 2008, lies in the fact that about 80% of direct contact with Telefónica customers is made by third parties.

Alignment of third parties is a fundamental element in achieving the Group's targets, so the scheme aims to:

- Ensure the creation of strategic allies.
- Guarantee compliance with organisational objectives and technical security, and develop early halting and risk prevention mechanisms:
- Raise contractors' awareness of compliance with Telefónica's standards.

The programme monitors compliance with social, occupational and ethical standards, facilitates the progress of allied companies in sustainability and promotes excellence in customer service.

#### Management Model

A global third party management model has been defined, and which has given rise to common tools, among which are: the minimums policy,



## 1. Contractor Classification and Policies

### 2. Outsourcing of activities

- 2.1 Supporting analysis and building a business case
- 2.2 Inclusion HR annexes
- 2.3 Final validation and approval

### 3. Administration of allies

- 3.1 Induction
- 3.2 Communication
- 3.3 Training and development
- 3.4 Intervention and assurance
- 3.5 Working climate
- 3.6 Reports

### 4. Closure contracts allies

- 4.1 Evaluation
- 4.2 Legal report

## 5. Allies' Committee

the Third Party Committee, the model for risk detection and management, work audits and the online supplier training platform.

In addition, and respecting the legal framework in force locally, sustainability practices are shared with allied companies through workshops, certificates and communication bulletins.

The keystone of this initiative is the Allies' Committee, the body responsible for putting the model into practice, and following up and updating the same. The Committee, present in the principal countries of the region, is made up of key departments in the relationship with allied companies: HR (guarantor of work and health and safety aspects), Purchasing (ensuring that sustainability criteria are incorporated into the purchasing process), Sustainability (in charge of ensuring the sustainability of suppliers: evaluation and monitoring), General Secretariat and departments of management or petitioners (who identify key providers for the performance of the service, who will be incorporated under the umbrella of Aliados following analysis by the Committee).

#### Principal lines of work

The scheme has different lines of work, both internal and external, developed in each country in terms of the local framework in force.

The scale of the work carried out in 2013 is made manifest in the following data:

- More than 14,000 administrative audits.
- Over 1,400 in situ audits and over 750 improvement plans.
- More than 9,000 courses offered by our Company to allied companies, from which about 27,680 collaborators benefited.

What makes the Aliados programme different is it has shown that this is a purchasing process aligned with sustainability standards during all its phases in all the countries, and in a continuous and consistent way.

This is the only initiative of its kind that works uniformly throughout the region, guiding suppliers in the key aspects of sustainability, though without interference. Similarly, it has a high impact on controlling occupational liabilities and on labour-intensive suppliers.

## The lines of work of Aliado



The aspects of sustainability are the most valued by our suppliers overall.

### Awards

Telefónica Mexico, recognised for its supplier management:

- In 2013 the Aliados programme received an award from the Mexican Center for Philanthropy (Cemefi), the Alliance for Corporate Social Responsibility in Mexico (AliaRSE), and the Business Forum, in recognition of its Best Practices in Corporate Social Responsibility 2013.
- The practice was exhibited at the 8th International Seminar on Best CSR Practices held in Monterrey, Nuevo Leon, on 30 September and 1 October.
- The Aliados management model was selected for publication in 'The Contribution of Latin America and the Caribbean to Responsible Supply', by the Latin America and the Caribbean Regional Center for the UN Global Compact, and the Business Administration Faculty of Externado University in Colombia.
- The UN Global Compact gave an award to Telefónica Colombia for its fight against child labour, with the *Social Investment Pioneer Award*.
- Our 'Aquí estoy y Actúo' app was a winner at the APPCircus in Bogotá.

### Milestones

- Monitoring of sustainability throughout the supply chain, with progressive implementation of a 360° evaluation system for suppliers of high or medium risk. Evidence: implantation of the EcoVadis platform.
- Adaptation of sustainability criteria to the Purchasing platform. Evidence: choice of the EcoVadis platform to evaluate suppliers of high risk; inclusion of EcoVadis scores in RFQs to high-risk providers.
- Reinforcement of monitoring, assurance, awareness-raising and dialogue mechanisms with suppliers. Evidence: activities of Aliados in each country, as well as projects like Marco Polo and the meetings or events held with providers.

### Challenges 2014

- To implement the EcoVadis evaluation process in the top 150 Telefónica suppliers
- To consolidate the Aliados programme in global suppliers.

## Best practice Aliados

### Argentina

#### Supplier relations development model implementation

Telefónica considers that this is the most ideal mechanism for sustainable development in relations with suppliers, especially in Argentina, where the economic context is complex because suppliers have to meet their obligations as employers, paying and committing to pay the AFIP (federal tax office) and for social work, which in some cases may reach 120, for periods of up to ten years.

So:

- An information and communication mechanism for the status of each supplier was developed, with web access, letting each provider have up-to-date information about the status of their documentation and aspects pending.
- Together with the Quality department, all the contracts were segmented by activity so as to define a suitable model of certification for each segment (COPC, ISO, National Quality Prize or, where appropriate, special ad hoc certification of activity, as in the case of Agents or Channels).

### Colombia

#### Transparency Programme for Colombia

Within the framework of the Aliados scheme, and in line with Telefónica's purpose of accompanying the development and growth of its contractor companies through extension of the corporate practices, the programme Rumbo Pymes (SME Course) was started in 2012, in alliance with Transparency for Colombia (the local affiliate of Transparency International – TI – one of the world's leading NGOs in the fight against corruption).

The programme, designed by Transparency for Colombia, is a self-contained tool for managers that helps SMEs to bring ethics into their management model, and create value and trust in the business. It includes over 280 hours of assistance. During 2013 a second group of allies was constituted, made up of eight companies that received accredited training in building and implementation of the ethics programme.

### Ecuador

#### New suppliers' web section

We launched the new suppliers' web section in 2013, which offers tools to our suppliers and partners for them to implant responsible management. The section is divided into six subsections, including: the commitment of Telefónica Group to responsible supply chain management, our Business Principles (BP), responsible environmental management, occupational health and safety, and taxation matters. In addition, the annexes to contracts with local suppliers are included: in the BP section, a manual for creating ethical codes and standard clauses against child labour are given, and our providers can take these as models for their own contracts.

In 2013, Telefónica Ecuador had over 2,600 visits to this subsection after only five months in operation.

### Mexico

#### Sociabilisation and recognition of the Aliados programme

Telefónica Mexico received the Best CSR Practice Award 2013 in the value chain category for its programme 'Third Party Management'. The distinction is awarded by the Mexican Center for Philanthropy (Cemefi), the Alliance for Corporate Social Responsibility in Mexico (AliaRSE), and the Business Forum.

The award followed exhaustive analysis of the information supplied by Telefónica to the technical evaluation committee, and confirms that its practices contribute to sustainable management in the Company and affect all those involved positively, while adding to the overall success and value of the business.

The main criteria for selecting this practice were: it is a creative response to a business need, taking the expectations of its stakeholders into account; it integrates social responsibility into the management of the business; it requires allocation of resources for its implementation, and it has measurable, innovative, sustainable and replicable results.

In addition, the third party management practice was presented at the 8th International Seminar on Best CSR Practices held in Monterrey, Nuevo Leon, on 30 September, before an audience of over 200 domestic and international companies who attended the event.

### Peru

#### Implementation of the Monitoring Module 'No Conformidades':

The aim was to ensure correct flagging of and action on 'No Conformidades' (noncompliances) encountered during regional audits. Through this, the consultancy's auditors could follow the action plans established for each supplier and validate the evidence furnished thereby on the closure of noncompliances.

#### Promotion of ABE certification

To get Telefónica suppliers, the object of the Aliados programme, to obtain ABE (Good Employers' Association) certification as awarded by AMCHAM (the American Chamber of Commerce), which certifies companies who comply with their labour obligations and follow good people management processes.

At December 2013, 62% of third party staff audited were working in companies with 100% fulfilment of the AMCHAM evaluation criteria for obtaining ABE certification.

RESPONSIBLE MANAGEMENT

# Sustainability in the supply chain: responsible minerals provisioning

We at Telefónica are committed to respect for human rights and work with our suppliers to apply our supply chain responsibility policy with efficiency, seeking the correct way to handle the impact of our operations

The extraction of minerals and the impact associated come within the scope of international action to reduce the negative effects in the relevant regions

### Foreword

Extracting and processing minerals to obtain metals involves a series of actions which cause a significant environmental and social impact that linger over time beyond the activity period of said extractions.

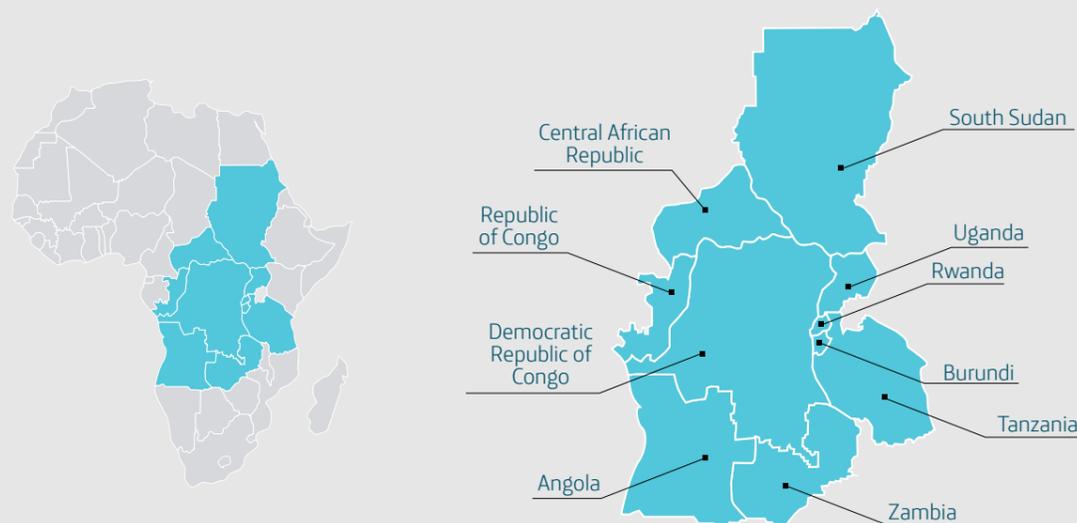
Many services are now incorporating digital technology which means that metal is present in a number of sectors, ranging from the automotive industry and equipment manufacturers to the technology sector and terminal manufacturers. This rise in the use of electrical components has increased the impact on society and the environment. This is why the responsible supply of minerals has become an increasingly important and current topic, both from a regulatory and public opinion standpoint.

Mineral extraction and its associated impact is moving into the arena of international action to reduce the negative impact in the following regions:

**The Great Lakes region: Conflict minerals**  
It refers to four types of minerals which mainly come from The Democratic Republic of Congo ("DRC") and the Great Lakes Region – Angola, Burundi, Central African Republic, The Republic of Congo, Rwanda, South Sudan, Tanzania, Uganda or Zambia.

The name "conflict minerals" refers to the fact that the profits gained by selling these minerals finances armed groups in the region which prolongs conflict and advocates human rights abuses.

### The region of the African Great Lakes



Un minero sostiene en su mano fragmentos de coltán. / Fotografía cedida por Responsible Sourcing Network

Conflict minerals, also known as the 3TGs are:

- **Cassiterite.** A mineral from which the metal tin is extracted. Cassiterite is used in electronic apparatus (welding), coatings and as a stabiliser in plastics.
- **Columbite-tantalite or "Coltan":** Is a high-conductivity mineral from which tantalum is extracted. Coltan is used for manufacturing electronic apparatus.
- **Wolframite.** A mineral from which the mineral tungsten, used as a cable for electric and welding appliances, is extracted.
- **Gold.** Used in jewellery and electronics.

**Indonesia: Tin extraction**  
A third of the world's tin comes from Indonesia and its extraction plays an important role in local development. Contrary to what happens in The

Great Lakes region, the situation in Indonesia is not determined by conflict but rather by the impact in extraction on both the environment and human rights. It is important to note that the former affects marine and terrestrial ecosystems. The latter essentially refers to the dangerous working conditions and child labour that are characteristic of secondary mining in the area.

Practice is increasingly to consider all 3TG minerals to be conflict minerals regardless of their origin; hence, this list might be extended in the near future.

Telefónica follows the directives of the OECD and drives their application to the supply chain, with special attention paid to minerals from zones of conflict

## Telefónica's situation on regulatory requirements for conflict minerals

We follow the OECD guidelines set forth in its "Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" report. In this regard we:

- Have adopted a company policy, described in this document.
- Have structured internal management to support a supply chain due diligence, according to our Supply Chain Responsibility Policy.
- Are implementing a system of control and transparency over the conflict minerals supply chain.
- Have strengthened our engagement with relevant suppliers.
- Will establish a company grievance mechanism.
- Report on supply chain due diligence.

Furthermore, Telefónica as a listed company on the New York Stock Exchange duly complies with Section 1502 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*.

In addition, in March 2014 the European Commission released a draft conflict minerals Regulation that will create a voluntary process in which importers of tin, tantalum, tungsten and gold (the 3TGs) into the EU can self-certify that they do not contribute to financing armed conflict.

## Telefónica's approach

At Telefónica, we're committed to respecting Human Rights and we work with our suppliers to efficiently implement our Supply Chain Responsibility policy by finding an appropriate way to manage the impact of our operations.

We believe that, in some areas, extracting, processing and trading minerals could lead to armed conflict or cause a breach of Human Rights for the affected people and communities. We understand that mineral extraction is an important economic driving force in the previously mentioned countries and regions; meaning that if mineral extraction and processing were to stop, it would have a negative impact on the development of said places.

We are aware that finding a solution for this type of situation is complex and that it goes further than companies. This is why a joint commitment - from local governments and authorities, companies and the non-profit sector - to take action is necessary so that the different initiatives that are being launched can succeed. These actions are oriented to promote the transparency of the supply chain to obtain conflict-free minerals or to manage properly the impact of mineral extraction and processing has on the environment and working conditions.

In the spirit of the UN Guiding Principles, any 3TG minerals will be considered "conflict minerals" by Telefónica. For this reason we encourage our supply chain to conduct effective due diligence processes – according to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas - to ensure traceability of 3TGs and risk mitigation (including risks of financing armed groups and committing other human rights abuses), wherever necessary and possible.

Telefónica supports and forms part of the main initiatives in our sector oriented towards reducing the impact of and bettering these types of situations. Section 4 of this document identifies the main international initiatives which affect conflict minerals.

### Working with our suppliers and establishing alliances

Telefónica does not have direct business relationships with smelters or refiners (SORs), but we actively work to include the sustainability criteria in the whole value chain.

→ We have included in the *General Conditions for the Supply of Goods to Telefónica S.A. and Corporations from its Group*, Procurement Policy (MCT. NI.003), 8.1 Edition, March 2014, a requirement for the submission of offers: The express warranty that to the best of their knowledge following due and careful analysis, the products offered do not contain any of the so called "Conflict Minerals". "Conflict Minerals" are considered as any those meet the following two conditions:

- That such minerals are any of the following: Cassiterite, Columbite-Tantalite, Gold; and Wolframite, and
- 2. That these minerals were extracted from the Democratic Republic of Congo, Angola, Burundi, Central African Republic, Republic of Congo, South Sudan, Tanzania, Uganda, Zambia or any other Country considered as conflict area in the future.

→ THE SUPPLIER must have a clear policy on Conflict Minerals that promotes the adoption and use of OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights for internal use and within its extended supply chain. To support its policy, THE SUPPLIER must have a management system.

This requirement is mandatory and there is no possibility of agreeing otherwise in the specific conditions or any related documents.

→ We are checking our level supplier compliance through external assessments. The main tools to achieve this goal are:

- 360 degree assessments of our risk suppliers, thanks to a signed agreement with EcoVadis<sup>1</sup> in May 2013.
- Audits of our main risk suppliers, where the risks associated to minerals have a specific monitoring.

→ We follow the OECD guidelines set forth in its "Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" report and encourage its implementation among our suppliers who work with these minerals. We expect our suppliers to set up an appropriate management system addressing the issue, to conduct a risk identification and assessment of their own supply chain, to define a risk management plan wherever appropriate, to conduct an independent third-party audit as necessary, and report on progresses to proactively mitigate risks of human rights abuses.

→ Since its formation in November 2011, Telefónica has formed part of the Public-Private Alliance for Responsible Minerals Trade - a joint effort of the U.S. Department of State, the U.S. Agency for International Development, non-governmental organizations, companies, and industry organizations - to take on the challenge of addressing conflict minerals concerns while delivering solutions that benefit those involved in responsible minerals trade in DRC and the Great Lakes Region. In this way, previous initiatives in which we were previously involved are integrated, for example the iTSCI ([www.itri.co.uk](http://www.itri.co.uk)) project.

### Participating in the sector's initiatives

In order to achieve a major impact on the responsible supply of minerals and also to facilitate the actions developed in collaboration with our suppliers, we actively participate in various existing initiatives in the sector. Among them are the Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI) Extractives Working Group.

This Group has developed a range of programmes which aims to guarantee the traceability of minerals used, from the moment of extraction to the final product, as well as initiatives which move transparency in the supply chain.

Telefónica supports and is part of the principal initiatives in our sector directed at reducing the impact and redressing this kind of situation.

<sup>1</sup> EcoVadis promotes the improvement of environmental and social practices of companies by leveraging the influence of global supply chains. EcoVadis elaborates recognized ratings of supplier sustainability performance. Besides that EcoVadis offers monitoring tools that allow companies to manage risks associated to their supply chain. [www.ecovadis.com](http://www.ecovadis.com).

## 4. Main international initiatives

Global and Regional initiatives	Main organisation involved	Aim	Type
OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict Affected and High-Risk Areas	Organisation for Economic Co-operation and Development (OECD)	Provides recommendations for responsible action in supply chains of minerals on a global scale. It helps companies respect human rights and avoid contributing to conflict through their mineral or metal purchasing decisions and practices.  It promotes accountability and transparency in terms of conflict minerals within the supply chain.  <a href="http://www.oecd.org/investment/mne/mining.htm">www.oecd.org/investment/mne/mining.htm</a>	Voluntary
United Nations Due Diligence Guide to mitigate the risk of direct or indirect support of the conflict in the Democratic Republic of Congo.	UN Group of Experts in the Democratic Republic of Congo - UNGoE	Issued in May 2011, it complements the American Dodd-Frank Act (2010) Section 1502.  The guidelines aim to avoid (i) the abuse of human rights and (ii) the promotion of armed conflict through the extractive operation.  It promotes accountability and transparency for conflict minerals within the supply chain.  <a href="http://www.un.org/sc/committees/1533/egroupguidelines.shtml">www.un.org/sc/committees/1533/egroupguidelines.shtml</a>	Mandatory
The Public-Private Alliance for Responsible Minerals Trade (PPA)	Participant representatives from government, industry, and civil society Main members: <a href="http://www.resolv.org/site-ppa/governance-committee-and-work-groups/">http://www.resolv.org/site-ppa/governance-committee-and-work-groups/</a>	Multi-sector and multi-stakeholder initiative to support supply chain solutions to conflict minerals challenges in the Democratic Republic of Congo (DRC) and the Great Lakes Region (GLR) of Central Africa.  The PPA provides funding and coordination support to organizations working within the region to develop verifiable conflict-free supply chains; align chain-of-custody programmes and practices; encourage responsible sourcing from the region; promote transparency; and bolster in-region civil society and governmental capacity.  <a href="http://www.resolv.org/site-ppa/">www.resolv.org/site-ppa/</a>	Voluntary
Conflict-Free Smelter Program	Global e-Sustainability Initiative (GeSI) together with the Electronic Industry Citizenship Coalition (EICC)®	An initiative which offers companies and their suppliers a guide and tools to identify the origin of the mineral supplies. This is how smelting and refineries can be catalogued as "conflict-free".  It holds a workshop twice a year which gathers hundreds of industry, government and civil society representative to discuss the best practices in this matter.  <a href="http://www.conflictreesmelter.org/">www.conflictreesmelter.org/</a>	Voluntary

Global and Regional initiatives	Main organisation involved	Aim	Type
Conflict-Free Gold Standard and tools from the World Gold Council	World Gold Council (WGC)	Establishes a common framework for mining companies to act responsibly in the extraction of gold and for them to show that their mining operations do not provoke conflict or abuse human rights.  <a href="http://www.gold.org/about_gold/sustainability/conflict_free_standard/">www.gold.org/about_gold/sustainability/conflict_free_standard/</a>	Voluntary
LBMA Responsible Gold Guidance	London Bullion Market Association (LBMA)	Ensures that all gold stock and all gold produced in refineries are conflict-free.  It allows companies who provide mining supplies to identify and have a conflict-free smelter programme.  <a href="http://www.lbma.org.uk/pages/index.cfm?page_id=137">www.lbma.org.uk/pages/index.cfm?page_id=137</a>	Mandatory for LBMA-accredited refineries
RJC Chain of Custody certification from the Responsible Jewellery Council	Responsible Jewellery Council (RJC)	Certification programme launched in March 2012. It supports the identification and monitoring of the origins of conflict-free precious metals – gold, platinum, palladium, rhodium – throughout the supply chain thanks to documentation in the chain of custody.  <a href="http://www.responsiblejewellery.com/chain-of-custody-certification/">www.responsiblejewellery.com/chain-of-custody-certification/</a>	Voluntary
ITRI Tin Supply Chain Initiative (iTSCi)	ITRI; Tantalum-Niobium Pact International Study Center; Channel Research	Supports units responsible for contracting Central Africa through the development of: <ul style="list-style-type: none"> <li>▪ A physical chain of custody which follows and monitors minerals from the mining to the smelting process.</li> <li>▪ A due diligence system which includes third-party audits and assessments of the mining locations and transport routes.</li> </ul> <a href="http://www.itri.co.uk/index.php?option=com_zoo&amp;task=item&amp;item_id=2192&amp;Itemid=189">www.itri.co.uk/index.php?option=com_zoo&amp;task=item&amp;item_id=2192&amp;Itemid=189</a>	Voluntary
German certified Trading Chains	Federal Institute for Geosciences and Natural Resources (Germany) (BGR)	Supports units responsible for contracting Central Africa by creating a certification framework for artisanal mining sites.  <a href="http://www.bgr.bund.de/EN/Themen/Min_rohstoffe/CTC/Home/CTC_node_en.html">www.bgr.bund.de/EN/Themen/Min_rohstoffe/CTC/Home/CTC_node_en.html</a>	Voluntary
ICGLR's Regional Certification Mechanism	International Conference on the Great Lakes Region (ICGLR)	Establishes a certification mechanism for mining and the trade of conflict minerals coming from the Great Lakes Region.  <a href="http://www.oecd.org/investment/mne/49111368.pdf">www.oecd.org/investment/mne/49111368.pdf</a>	Mandatory for member countries

Source: CONFLICT MINERALS DISCLOSURE RULE/SEC's Actions and Stakeholder-Developed Initiatives - July 2012



### What we expect from our suppliers

While specific due diligence requirements and processes will differ depending on the mineral and the position of the company within the supply chain, companies should review their choice of suppliers and sourcing decisions and

integrate into their management systems the following five-step framework for risk-based on *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict Affected and High-Risk Areas*.

#### 1

- **Establish strong company management systems**
  - Adopt a company policy
  - Structure internal management to support supply chain due diligence
  - Establish a system of controls and transparency over the conflict minerals supply chain
  - Strengthen engagement with relevant suppliers
  - Establish a company grievance mechanism

#### 2

- **Identify and assess risk in the supply chain**
  - Identify 'to the best of their efforts' smelters or refiners (SORs) in the supply chain
  - Engage with SORs to obtain mine of origin and transit routes
  - Assess whether SORs have carried out all elements of due diligence according OECD Guidance
  - Where necessary, carry out, including through participation in industry-

driven programmes, joint spot checks at the SORs' own facilities



OECD due diligence guide on mineral extraction

#### 3

- **Design and implement a strategy to respond to identified risks**
  - Develop report finding of list of SORs at risk
  - Define risk management plan.
  - Implement/track/monitor performance of risk mitigation efforts
  - Undertake additional fact and risk assessments for risks requiring mitigation, or after a change of circumstances

#### 4

- **Carry out independent third-party audit of supply chain due diligence at identified points in the supply chain**
  - Define scope
  - Execution on a regular basis.
  - Input other steps

#### 5

- **Report on supply chain due diligence**

RESPONSIBLE MANAGEMENT

# Human Rights

For Telefonica, in accordance with the 'United Nations Guiding Principles on Business and Human Rights', the human rights impact assessment is critical to business sustainability. In 2013, we have worked proactively to strengthen the commitment to respect them

## Commitment

Since, in 2006, respect for human rights became one of the pillars of our business principles and in 2012 we became pioneers in conducting a comprehensive assessment of the impact of our operations, based on the UN Guiding Principles on Business and Human Rights, our goal during 2013 was to integrate those aspects which had been identified both globally and locally in external procedures.

In accordance with these principles, we have developed an explicit commitment to respect the human rights of our stakeholders, including our employees, community members, customers and business partners, as well as the millions of people whose lives are affected by our products and services every day.

The development of our strategy has been based on five core components that cover our area of influence:



- We respect our people by setting high labour, environmental, health & safety standards, as well as fair, equal and premium working conditions

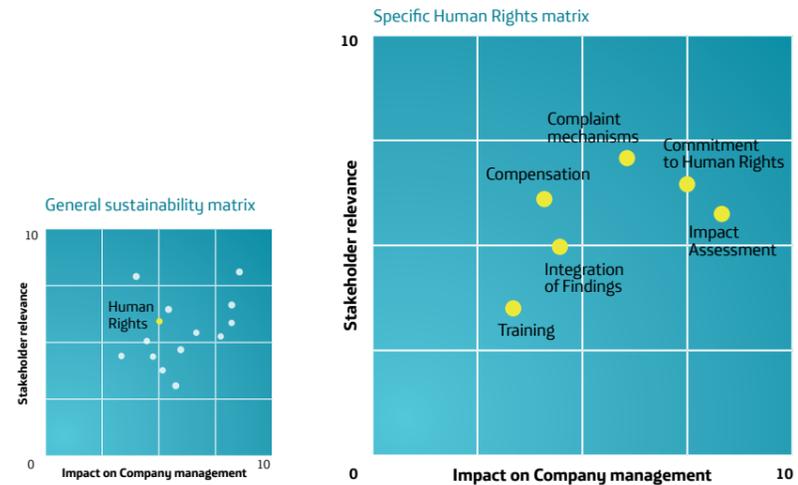
- We recognize that as a leading technology provider with global operations, our business can help to promote – or be used to impede – Human Rights.

- Our responsibility to respect Human Rights covers our direct impacts and extends to our business relationships. Expecting high labour conditions, environmental performance and excellent health and safety management in our supply chain is one way for Telefonica to leverage, and make the best we can to effect change and mitigate risks of abusive behaviour of business relationships.

- By applying our products and services, besides our knowledge, to local community challenges, we can address some of the greatest local needs with due regard for Human Rights.

- We are committed to exploring all relevant opportunities of engagement or alliance with external stakeholders enabling the creation of leverage effecting systemic changes and promoting respect of Human Rights.

## Materiality matrix



## Telefónica has set up global work for managing key aspects of human rights

### Due diligence

The final report on our impact assessment in 2012 served as a starting point for the development and implementation of a working plan at corporate and local levels. In it, 15 priority issues were identified for Telefónica, involving a combination of risks and opportunities.

The plan was structured to develop and strengthen several different projects on a global and local basis, adapting them to the different contexts in the 16 countries where the assessment was carried out. The main lines of action of the plan were as follows:

- Share the findings with the areas involved at local level.
- Integrate the findings, identifying the existing policies, strategies and management systems.
- Arrange internal and global working groups to manage key aspects that appeared after the assessment, such as the Working Group on Privacy and Freedom of Expression and the Working Group on Business and Children's Rights.

→ Start building a map of stakeholders and multi-stakeholder platforms.

→ Monitor risks and opportunities

### Non-discrimination

Our Business Principles/Code of Ethics state: "We promote equality of opportunity and treat all people fairly and impartially, without prejudice as to their race, colour, nationality, ethnic origin, religion, gender, sexual orientation, marital status, age, disability or family responsibilities".

→ **Equal opportunities.** The Telefónica standards for the promotion of the employment of people with disabilities include our commitment to equal opportunities for all, including people with disabilities.

→ **Diversity.** The Diversity Project, initiated in 2012 with the pilot programme in the European region, continued in 2013 with the aim of creating a global structure and processes to highlight the diversity of our Group, as well as facilitating the process of transformation of the company.

### Health and safety

We will establish suitable mechanisms to avoid workplace accidents, injuries or diseases associated with our work activity through strict compliance with all relevant regulations and the preventive management of workplace hazards.

As part of our commitment to achieving and maintaining high levels of protection for the health and safety of workers, in addition to the implementation of a management system for safety and health at work which is coordinated and efficient. In 2013 the audit process began, in accordance with the OHSAS 18001 standard, at all companies of the Telefónica Group in Spain.

### Collective bargaining and freedom of association

The *Business Principles* include the right of our employees to belong to the trade union of their choice and we do not tolerate any type of retaliation or hostile action towards those people who participate in union activities.

→ In 2013 there were important developments in collective bargaining, as reflected in the chapter on Freedom of Association and Social Dialogue.

### Working conditions in the supply chain

Our public commitment to sustainability in the supply chain, taken on in 2010, has enabled us to articulate the positive impact of our activities through an international value chain, which nevertheless has a high local component.

- More than 800 professionals in 19 countries.
- More than 15,700 registered suppliers from 73 countries.
- About 84% awarded to local suppliers.
- Volume of purchasing above 26,500 million euros.
- More than 247,000 professionals at our suppliers perform key customer support activities in Latin America, playing a key role in customer satisfaction.

In 2013 we consolidated our model of responsible management in our supply chain, which is reinforced by other initiatives such as our commitment to human rights and to responsible trade in minerals.

### Privacy

At Telefónica we respect the rights and freedoms of individuals, including the fundamental right to protection of personal data. Our *Business Principles* contemplate this fundamental right

and establish common standards of behaviour for all our companies.

In 2013 we continued with the efforts we made in 2012, increasing internal audits on data protection by 19%; continuing the training plan started in 2011 on data protection, participating in multi-stakeholder platforms and developing various awareness initiatives focused on data privacy (Familia Digital, Eleven Paths, etc.).

### Freedom of expression

At Telefónica we are convinced that the best way to achieve overall progress on respect for freedom of expression and privacy is through dialogue between governments, industry, civil society organisations (including human rights experts), investors, supranational organisations and other stakeholders. Therefore, in March 2013 we set up, together with a group of operators and manufacturers in the industry, the Telecommunications Industry Dialogue Group on Freedom of Expression and Privacy.

### Children's rights

At Telefónica, as part of our business strategy, we have been working actively in different ways for more than a decade on the promotion of and respect for Children's Rights. In 2013 we worked to transform the traditional approach – which includes a recognition of the responsibility of companies towards children and is often focused on the impact on the supply chain – into a more global approach, as described in the UNICEF report *Children's Rights and Business Principles*.

### Deployment and management of network infrastructure

We work to minimise the environmental impact of our activities, promoting best management practices in all the countries where we operate, the adoption of environmental criteria in the deployment of the network, and the participation of all employees in achieving these gains.

### Corruption and bribery

We are committed to 'zero tolerance' regarding fraud and corruption, and a number of elements are in place to constitute a proper control environment in all our operations.

### Access to health

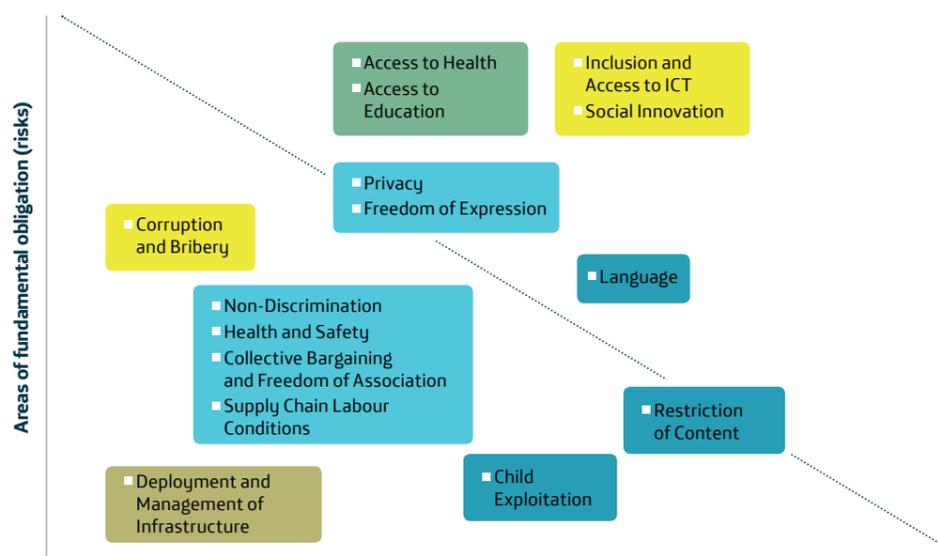
In 2013 we committed ourselves to becoming a major player in mHealth with products and services that contribute to new, more efficient and effective health models.

### Access to education

We support education through the Fundación Telefónica programmes, which are focused on learning and education, both through our

In 2013, we consolidated our model of responsible management in our supply chain, reinforced by other initiatives such as commitment to human rights and responsible trade in minerals

## Areas of competitive advantage (opportunities)



## Telefónica is founder member of the Industry Dialogue on Privacy and Freedom of Expression

direct intervention projects and through our commitment to educational innovation. We implement and support the generation of knowledge, research, publications and support for the educational community.

### Inclusion and access to ICT

Telefónica is committed to promoting economic, social and cultural development in the communities in which we operate and our commitment extends to ensuring that society as a whole can enjoy the benefits of information and communication technology (ICT).

### Social innovation

The strategy of social innovation at the Telefónica Group aims to improve the lives of people, taking advantage of the opportunities offered by information and communication technology.

### Language

At Telefónica we support the right of minorities to enjoy their own culture, to profess and practice their own religion, and to use their own language.

Initiatives that demonstrate this are carried out at local level:

- **Telefónica España.** Telefónica España promotes respect for linguistic rights, facilitating the use of the co-official languages of the country with its customers, employees, institutions and society in general. This means, among other things, that any client from Galicia, the Basque Country, Catalonia, the Balearic Islands and Valencia can be attended by telephone in either Spanish or in their co-official language and that they can choose the language used on their bill. In recent years, it has also promoted the incorporation of co-official languages in the menus of mobile handsets marketed by Telefónica and the inclusion of such information about each terminal on the Movistar website. Telefónica also offers the possibility for its employees to take online courses in co-official languages to improve their relationship with customers.
- **Telefónica Perú.** In Peru, given that 15% of the population use Quechua as their native language and that this percentage is about 34% in rural areas, Telefónica continued providing its Quechua and Aymara customer care telephone service, a service which handles more than one million calls every year.
- **Telefónica Venezuela.** Karawaretuy Telemedicine Service (El Paují, Bolívar State). The outpatient centre and telemedicine service are a medical diagnostic assistance option for about 2,000 people. Telefónica-Movistar fulfilled

all of its commitments with the establishment of the service in October 2013. Content creation on preventive health in the indigenous local languages was planned, but due to the dynamics of the community and its grassroots organisations it could not be completed.

## Compensation/complaint mechanisms

Even with the best policies and practices, Telefónica may cause or contribute to an adverse impact on human rights.

Inquiries and facts relating to our activities may arise through different channels both locally and globally: this is the case with our specific channel for the Business Principles Office, a confidential channel that allows our employees to seek advice and raise issues relating to compliance with the *Business Principles*, particularly when signs of non-compliance are detected.

The other stakeholders can access the various confidential channels provided on each of the portals that have been authorised for this purpose. These channels can serve for them to provide their opinions or to inform Telefónica of any matters that may affect them. They can also collect information on commercial and corporate matters, and report any violations of rights of any kind.

## Milestones

- Development of the Group's Commitment to Human Rights.
- Inclusion of the main findings in policies and key projects: responsibility in the supply chain, privacy and data protection, privacy and freedom of expression etc.
- The milestones achieved in the management of the different aspects identified can be found in each of the chapters, which contain the progress made in 2013 in the initiatives the company already had in place before the assessment. New features this year include:
  - Telefónica is a founding member of the Working Group on Privacy and Freedom of Expression, setting up an internal working committee that provides support to that group, as well as working on the implementation of the Guiding Principles on Privacy and Freedom of Expression.

- Adoption of the framework established by UNICEF, as a guide for integrated management of the impact of our activity on children.

## Challenges

- To develop training materials and awareness about the impact of Telefónica on human rights and the main international frameworks.
- In critical processes, to work with the stakeholders involved on understanding the situation, impact analysis, and access to mechanisms for complaint and compensation.



More info on the UN Global Compact page

## Best Practices

Telefónica Colombia has developed various initiatives and action plans resulting from diagnoses made locally in 2011 and 2012 as part of the overall assessment of the impact of Telefónica on human rights. They include:

- **Training Course on Human Rights.** As part of the due diligence process and in order to strengthen capacity and awareness in relation to certain specific risks within the company, in 2013 they worked on the design and usability of the human rights training course for employees through the A+ training platform. They have set themselves the challenge of training 80% of the employees in Colombia during 2014.
- **Protocol on Relationship with Communities.** Following a diagnosis, in 2011 it was proposed that a protocol be developed as part of the process to strengthen internal processes. This protocol includes the basic guidelines of behaviour for the areas of Telefónica Colombia which have a direct relationship with communities and aims to prevent potential conflicts arising. It also aims to establish appropriate actions to reduce their impact in the event of local crises.

The protocol was generated through the compilation of existing practices in some areas of Telefónica Colombia. The refinement and alignment phase is currently under way in the target areas, with a view to the subsequent implementation and dissemination of the protocol.

- **Colombian Guidelines.** Colombian Guidelines (actual title: Guías Colombia) is a multi-stakeholder initiative comprised of companies, civil society organisations, the Colombian government and international organisations, united under a common purpose: to identify and adopt clear standards for corporate behaviour in complex environments in terms of human rights. Telefónica Colombia is participating as a member of this initiative. During part of 2012 and throughout 2013, Telefónica Colombia participated in the construction of the *Decent Work and Lands Guidelines*, currently in the final phase of adjusting by its entire membership.
- **'Business for Peace'.** Telefónica Colombia leads the working group of the *Local Network of the United Nations Global Compact*. It joined the platform in 2013, given the local relevance of the issue of peace building in Colombia.

## Access to remedy



### Employees

- Confidential Channel of the Business Principles Office



### Shareholders

- Mailbox of Shareholders' Office



### Suppliers

- Supplier Portal of Telefónica Group



### Customers

- Business Portal of Telefónica in each of the countries



### Society

- Specific channel for Reputation and Sustainability

RESPONSIBLE MANAGEMENT

# Human Rights: respect for children's rights

We have defined a new approach that allows us to consolidate and give greater visibility to the initiatives we have been working on, where children play a major role

## Companies and children's rights

We are in the midst of the digital revolution, where technology is able to transform the lives of people in the way they communicate, learn, have fun, shop, share and learn. Children and teenagers are key agents in this transformation and the inevitable key players of the future, but are often among the most marginalised and vulnerable members of society. At Telefónica, as part of our business strategy, we have been working actively in different ways for more than a decade to promote and respect their rights as part of our business strategy and through different lines of action.

To date, the recognition of the responsibility of businesses towards children has often focused on preventing and eliminating child labour.

At Telefónica we worked during 2013 to evolve this traditional approach towards a more global approach, as described in the *Children's Rights and Business Principles* report drafted by UNICEF.

"Companies have enormous potential to protect the rights of children through the way they produce and market their products, provide

their services and exercise their influence on economic and social development. Conversely, some policies or business practices can cause irreversible damage to children and threaten not only their development but even their survival"

Also, in 2012 Telefónica participated – together with a small group of international companies from different sectors – in the consultation and pilot programme conducted by UNICEF for the drafting of the *CSR and Children's Rights Guidelines*. The experience gained there was invaluable for including children as a special group in future assessments of the impact on human rights.

### Our framework for action

Based on the framework established in the report on *Children's Rights and Business Principles* by UNICEF, we have defined a new approach that allows us to consolidate and give greater visibility to the initiatives we have been working on, where children play a major role.



## 1

Meet the responsibility to respect and promote children's rights

At Telefónica we meet this responsibility in our own activities and business relationships.

In 2012, we conducted a comprehensive assessment of our impact on human rights, where children's rights was one of the issues discussed, forming part of the 16 aspects we assessed.

According to this study, the greatest risk comes from the use of child labour by our suppliers as well as the misuse of information technologies. For the overall management of these risks, we have developed the initiatives contained in the chapters *Sustainability in the Supply Chain* and *The Proper Use of the Internet by Children*, from this report.

In addition, we encourage voluntary actions that promote these rights, both in support activities and those related to participation in public policy (*Spanish National Plan for Human Rights and Companies*, Consultation on EU initiatives, etc.) and when working in cooperation with other organisations (UNICEF, Save the Children, Child Online Protection, etc.)



Children's Rights and Business Principles, UNICEF, the Global Compact and Save the Children, 2012.

## 2

Contribute to the elimination of child labour in our operations and in our supply chain

The Telefónica Group meets with local laws and international standards, observing the minimum working age, ensuring appropriate working conditions and the impact on the health and safety of young workers. Our supply chain is made up of more than 15,000 suppliers from 73 countries and, through our Responsibility in the Supply Chain policy and the monitoring activities to ensure compliance, we are actively working towards the elimination of child labour in our supply chain.

In 2013, moreover, we reinforced this commitment by launching the platform 'Aquí estoy y actúo' ('Here I Am Taking Action'), a sustainability project for the eradication of child labour in companies and value chains in Latin America and the Caribbean.

The most important achievements have been the following:

- Use the guide for more than 100 companies in 12 countries of Latin America.
- Presentation of the Methodological Guide in different international forums as a benchmark in their contribution to the eradication of child labour.
- Recognition of the Guide and the online platform adopted by different international organisations since its launch.

## Best practices

### Acknowledgements



- **El Ojo de Iberoamérica 2012**
  - Gold - Sustainable CSR
  - Gold - Mobile Category
- **El Dorado Festival 2012**
  - Gold in Cyber category
  - Silver in Outdoor category
  - Grand Prize in Cyber category
- **The One Show - Interactive**
  - Silver Pencil
- **FIAP 2012**
  - Silver Sun - 'Interactive' Category in Latin America
- **DeVida Advertising 2012**
  - Special Recognition
- **Cannes Lions 2012**
  - Silver Lion in 'Mobile France' category
  - Bronze Lion in 'Mobile France' category
- **The Latin American Cup**
  - 'Public Good' Category
- **Accenture Awards**
  - Gold - Sustainable CSR
- **Clio Awards 2012**
  - Gold - 'Mobile Spain' Category
- **New York Festivals 2012**
  - Silver - Philanthropic Appeals

3

Provide decent jobs for young workers, parents and caregivers

We are convinced that the best way to ensure the rights of children at home lies in ensuring decent work for parents and caregivers. For this reason, salaries in our operations match the functions performed and are always above the prevailing minimum wage level in each country. With regard to young workers, we encourage decent employment opportunities and educational programmes.

- **'Think Big Schools'**. First experience in Spain by Fundación Telefónica with the aim of providing training in digital and entrepreneurial skills to young people of school age (14-16 years), whose most outstanding projects could be included in *Think Big Youth*.
- **'Think Big'**. Social enterprise project created by Fundación Telefónica with Movistar, which helps young people between 15 and 25 years old to bring their ideas to life and develop their potential. During 2013, Fundación Telefónica invested over €6.9 million in this programme to support the development of more than 3,338 projects
- **'Gothinkbig'**. Initiative launched by Telefónica UK in 2012, in collaboration with the Bauer Media Group, with the aim of helping young people get on the career ladder through advice, inspiration and promoting 30,000 work experiences for young people (between 16 and 25 years) by 2015. O2 created more than 3,000 opportunities during 2013.

4

Ensure the protection and safety of children in all business activities and facilities

We have an occupational risk prevention policy and a risk assessment procedure in which especially protected workers are taken into account. Their purpose is to adopt a set of preventive measures to encourage improvements in the health and safety at work of this group and, in particular, measures for pregnant workers, those who have recently given birth or those who are breastfeeding their children. In this last case, measures have been established to prevent situations that may adversely affect their health or that of their child.

With regard to our supply chain and as stated in our Responsibility in the Supply Chain policy:

- Children under 18 who, in accordance with local law, are permitted to participate in the labour market may not work at night or in hazardous conditions.

In any case, the action in question shall be taken while considering the interests of the child in accordance with the provisions of ILO Convention 138 and shall be consistent with the *UN Convention on the Rights of the Child*.

5

Ensure that products and services are safe and seek to support children's rights through them

In our efforts to ensure that our products and services are safe and that through them an online context is promoted which is more respectful of minors, Telefónica is working so that children can take full advantage of new Information and Communication Technologies (ICT), while being taught to avoid misuse.

This applies in the field of marketing of our products and services (parental control, Kangaroo Net, Safety Pack, selection of educational apps, 'Classroom 365' and the 'I'm Here' service) and through sectoral initiatives and partnerships with international organisations. The best example of this is the promotion of the safe use of ICT on the website: [www.familiadigital.net](http://www.familiadigital.net).

6

Use marketing and advertising that respects and supports children's rights

At Telefónica we ensure that our communication and marketing actions fully respect the rights of children. Within our transformation programme, we are working to define a framework for responsible marketing, in which special attention is paid to children.

7

Respect and support children's rights in relation to the environment and to land acquisition and use

At Telefónica we practise a comprehensive environmental policy to reduce our carbon footprint, especially with regard to network deployment. We comply with environmental legislation at local and international level on visual impact, waste management, noise footprint, etc., covering the general population spectrum and especially children as a group which is sensitive to environmental pollution.

8

Respect and support children's rights in security arrangements

Telefónica does not hire underage workers for positions related to physical security, such as nightwatchmen or security guards, either directly or when outsourcing.

9

Help to protect the children affected by emergencies

In emergency situations, Telefónica works to ensure that the children concerned have certain levels of protection, such as having food and drinking water. In 2013, the company collaborated with seven NGOs – Action Against Hunger (ACF), UNHCR, Caritas Española, the Spanish Red Cross, MSF, Oxfam Intermon and UNICEF – in the emergency situation following the typhoon that struck the Philippines. The company contributed €300,000 via a Push SMS campaign to customers and employees donations.

10

Reinforce community and government to protect and fulfill children's rights

Telefónica contributes to observance of children's rights, not only through its own practices, but also by helping to strengthen the communities in which it operates and where children live and grow.

Fundación Telefónica, through the Proniño programme, contributes to the development of communities by eliminating child labour, especially in Latin America where, according to the latest ILO report, it is estimated that over 12 million children aged between 5 to 17 years old are working. This number is 1.6 million lower than in 2008.



## RESPONSIBLE MANAGEMENT

## Human Rights: Commitment

*We are committed to work proactively within our sphere of influence to avoid any kind of human rights abuses*

Telefónica acknowledges that consistent management of Human Rights is critical to our business success, and mainly because:

- Telefónica operates across countries with heterogeneous Human Rights challenges and opportunities.
- Developments in technology make Human Rights risks and opportunities much more significant for the sector. Significance is increasing with the development of the "Internet of things" or "Big Data".

Telefónica is consequently committed to respecting all internationally recognized Human Rights referenced in the Universal Declaration of Human Rights (UDHR), the International Covenant on Civil and Political Rights (ICCPR), International Covenant on Economic, Social, and Cultural Rights (ICESCR), the International Labour Organisation's (ILO) Eight Core Conventions on Fundamental Human Rights, the ILO Convention 169 on Indigenous Peoples' Rights, the UN Convention on the Rights of the Child (UNCRC) and the UN Convention on the Rights of Persons with Disabilities (CRPD).

As members of the Global Compact since 2002, we have assumed the commitment to respect and protect them, in accordance with its 10 Principles. Along the same lines, we respect the framework established by UN Guiding Principles on Business and Human Rights.

## Our commitment

In line with our Business Principles, we are committed to respecting the Human Rights of all people, including our employees, community members, customers and business partners, as well as the millions of others whose lives are affected by our products and services every day.

Telefónica, especially commits to strive itself within its sphere of influence -including its personnel, business partners and other parties linked to its activities- to understand, continuously learn, and improve if deem appropriate to ensure to proactively avoid any kind of Human Rights abuses, as well as complicity in abuses of our business partners.

Our Human Rights approach is built around five core components covering our sphere of influence:

- 1. Our people.** We respect our people by setting high labor, environmental, health & safety standard, as well as fair, equal and premium working conditions.
- 2. Our technologies.** We believe that technology has positive Human Rights impact. When used appropriately, our products and services should facilitate, and not repress, privacy and freedom of expression. We recognize that as a leading technology provider with global operations, our business can help to promote – or be used to impede – Human Rights. The stakes grow higher every year as information

At Telefónica we are aware that consistent management of human rights is critical to the success of our business

## Implementation

We have developed a seven-step framework that serves as the foundation for management of Human Rights, the implementation of key practices across the Group, and the achievement of industry leadership.

1

### Creation of a Human Rights commitment

that is aligned with our Business Principles and is being integrated into our existing corporate and country-level policies: human resources, corporate security, audit, social innovation, regulatory, legal, procurement, sustainability, sales, marketing and product design.

2

Incorporation of Human Rights into our auditing framework.

3

Assessment of our Human Rights impacts in each of our markets.

4

Provision of Human Rights training for relevant employees and suppliers that are customized based on the audience, issue and geography.

5

Adaptation of our existing grievance mechanism to ensure it applies to relevant Human Rights risks specific to each market.

6

Continuous engagement with our stakeholders to join collaborative efforts that tackle industry risks and create innovative partnerships to capitalize on leadership opportunities.

7

Monitor and report to communicate progress and challenges both globally and locally.

Telefónica expects all of its partners to show the same degree of commitment

and communications technologies (ICT) become ever more important in how people work, learn and interact with one another. We henceforward recognize the important to have a human centered approach when we develop our services and products.

**3. Our business partners.** We recognize that our responsibility to respect Human Rights cover our direct impacts and extend to our business relationships. Expecting high labor conditions, environmental performance and excellent health and safety management in our supply chain is one way for Telefónica to leverage, and make the best we can to effect change and mitigate risks of abusive behavior of business relationships. We expect that all our business partners act in this line, including those one or more steps within our value chain.

**4. Our role in the communities.** By applying our products, services, besides our knowledge to local community challenges, we can address some of the greatest local needs with due regard for Human Rights.

**5. Our role for the change.** We also recognize that respecting Human Rights can have implications which are beyond our own direct sphere of influence. We commit to explore every relevant opportunity of engagement or alliance with external stakeholders enabling to create leverage effecting systemic changes and promoting respect of Human Rights.

### Governance

The Corporate Reputation and Sustainability Direction at Telefonica SA, with the participation of their counterparts in countries areas, is

responsible to promote, coordinate, measure and report both, globally and locally, the development and implementation of this commitment.

Telefónica is committed to maintaining a transparent approach to management of our Human Rights program, and thus encourages periodic sharing, within our internal committees, the vision of our key external stakeholders on Human Rights.

### Improvement process

Telefónica is working to implement this commitment in all its business and countries where operates. In this line:

- We assess in a periodic way our Human Rights impacts of all our operations on an ongoing basis. To best respect Human Rights, we regularly review and update our relevant policies, processes and management systems.
- We also regularly review and strengthen anonymous grievance reporting mechanisms that allow our employees and others affected by our operations to report suspected incidents of Human Rights abuse. We investigate and, where appropriate, take remedial action to address reported violations.
- We provide more transparent reporting about risks, incidents and action taken.

Telefónica extends respect for human rights to all its areas of activity



Privacy: an open and safe Internet for all\_

Freedom of expression\_

Good use of the Internet for children\_

More accessible services\_

Education\_

E-Health\_

# 5. People\_



PEOPLE

# Privacy: an open and secure Internet for all

Respect for privacy is essential for the development of the digital society

Telefónica respects the rights and freedoms of individuals, through protecting personal data both online and offline

The universal and global nature of the Internet, its easy access for multiple devices, the growing number of social networks and applications, storage of and access to large amounts of data in the cloud make the Internet a tool of frequent use for both personal and business purposes. Its widespread use has resulted in the digital revolution, but this status as a universal and participatory tool entails risks and challenges. Risks to users' privacy, and challenges via the blurring of territorial barriers and the legal systems governing privacy.

The process of reform of the laws in the US and Europe is a perfect opportunity to include certain global measures. One example is the proposed Regulation on Data Protection in the European Union, which aligns the regulations across the 28 Member States, closing the existing loopholes. However, it has yet to define its level of alignment with the US model and that of other geo-economic areas.

The educational work involved in privacy is also a line of action to be considered; given that 'privacy' is far from being a universally shared concept. From childhood and also in adulthood, training and information on privacy is essential to ensure that users are aware of their level of privacy and are able to control their data.

One challenge we all face as industry players – both telecom operators and Over the Top service companies (OTTs) – is how to combine the demands of privacy in the current environment, where technological possibilities grow exponentially with the development of

technology that is based on the exploitation of information.

### Our commitment

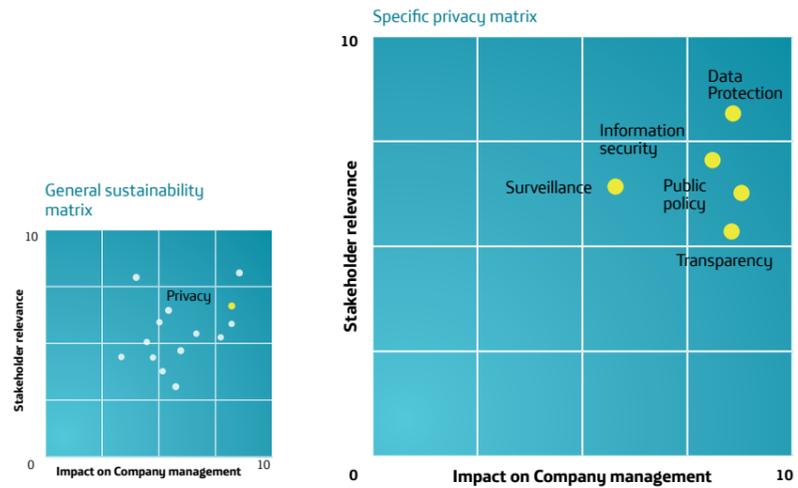
At Telefónica we respect the rights and freedoms of individuals, including the fundamental right to the protection of personal data. Our Business Principles contemplate this fundamental right and establish common standards of behaviour for all our companies to:

- Protect the confidentiality of personal information entrusted to us, whether that of customers, shareholders, employees or suppliers.
- Provide our stakeholders with relevant information about how we use and store their personal data.
- Inform users on how to access and correct the data we handle.
- Store all personal information with appropriate security measures. If at any time this security is compromised, we have to act quickly and responsibly.

### A changing regulatory framework

The regulatory framework for privacy and data protection is evolving at European and international level. One example is the updating by the OECD of the *Privacy Guidelines Governing the Protection of Privacy and Transborder Flows of Personal Data*. As a result, Telefónica, both individually and through industry associations,

## Materiality matrix



has been active in the institutional debate taking place ahead of the creation of a regulatory framework that addresses the needs of consumers and industry on privacy and data protection.

In Europe, the European Parliament and the Council continued throughout 2013 to discuss the proposed review of the European regulatory framework for data protection, presented by the European Commission in January 2012. At Telefónica we have drafted comprehensive and detailed analyses of the key issues discussed in Parliament and in the Council and met with representatives of the European Parliament, the Council, the Commission and other stakeholders such as the EDPS (European Data Protection Supervisor) and the Article 29 WG (made up of national data protection agencies).

In addition, during 2013 we participated in numerous high profile events where we emphasised the position of Telefónica, which argues that the ongoing regulatory review must strike a balance between legal security and the development of new services. These interventions were complemented by other actions:

- Leading the Working Group on Data Protection, Trust and Security of ETNO (European Telecommunications Network Operators Association).
- Leading through ETNO, an industry coalition made up of the main European associations (GSMA, ECTA, ETNO and CableEurope).

The following are some examples of relevant events:

- In February, Telefónica participated in a meeting with Commissioner Reding and with the President of the Executive Board of ETNO.
- In March, Ronan Dunne (CEO of Telefónica UK) took part, along with Commissioner Reding, in a debate on data protection organised by European Voice.
- In May, Ronan Dunne returned to share the stage with Commissioner Reding, MEP Sean Kelly and Pierre Louette (Deputy CEO and Secretary General of Orange) in an event organised by ETNO, GSMA, ECTA and CableEurope in the European Parliament.
- In October, Telefónica participated, along with a small number of European companies, in a meeting hosted by Commissioner Reding on the future of the Safe Harbour agreement for the transfer of personal data between the EU and the United States.

Telefónica also participated in the high-level advisory group, chaired by the President of Estonia, Toomas Hendrik Ilves, that has prepared a series of recommendations to Commissioner Kroes on how to promote the use of cloud services by government. This advisory group, known as the European Cloud Partnership, is one of the implementation actions in the European Strategy for Cloud Computing. Telefónica has also been involved in other implementation actions, such as the preparation of a privacy code for cloud service providers.

For Telefónica, the ongoing regulatory review in the European Union needs to strike a balance between legal security and the development of new services

To ensure respect for the rights of its users, Telefónica has created the Privacy Committee, chaired by the 'Chief Privacy Officer'

### Digital Manifesto: an Open and Secure Internet For All

The Digital Manifesto is the new public positioning of Telefónica in the field of public policy for the digital world. The Manifesto highlights the challenges faced by public policies in unleashing the full potential of the Digital World to the benefit of consumers, businesses and government agencies, as well as providing 10 recommendations to improve the user experience on the Internet and promote greater investment in digital infrastructure.

#### Action lines

##### a) Policy and Privacy Committee

Having been approved by the Board of the Telefónica Group, this policy establishes guidelines that any Group company has to follow to protect the privacy of our customers and all those stakeholders who entrust their personal data to Telefónica.

The privacy policy sets common guidelines for action, setting the stage for the development of a privacy culture. The policy is built around three pillars:

- Self-regulation, in order to guarantee the rights of users and security, which goes beyond international and local laws.
- Privacy as an engine of confidence and generator of an optimum reputation for Telefónica.
- Privacy as a key element to promote innovation, welfare and prosperity in the digital world.

To facilitate the development and implementation of this policy, the Privacy Committee of the Group has been created, being chaired by the Chief Privacy Officer and made up of key areas, both in terms of business and in terms of security and infrastructure. Thus, in addition to ensuring compliance with the Privacy Policy, a single, clear and consistent public position on our privacy practices and data protection is ensured in all our geographic areas of operations.

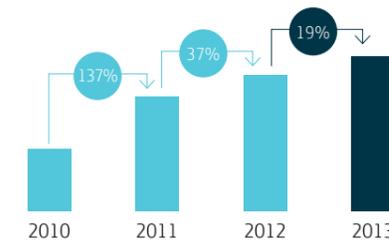
To ensure the alignment of the countries in the Group, as well as the communication and adaptation of local actions, a Data Privacy Officer has been appointed in each country.

##### Data protection and audits

In 2013 we continued with the efforts we made in 2012, increasing internal audits on data protection by 19%. We performed nine audits on bodies collaborating in the Proniño programme in seven countries in Latin America and 22 audits on Group companies, both in Europe and in Latin America.

The most important aspects reviewed were as follows: implementation of security measures in the treatment of personal data, control of access to this data, quality of information, consent to the processing of data and the ability of the people concerned to exercise their rights of access, rectification, cancellation and opposition.

### Evolution of internal audits



- Venezuela, where more than 2,500 people, 37.3% of the workforce, took part in telematic security courses.
- Mexico, where emphasis was placed on publicising the recent update to the Federal Privacy Act, as well as strengthening the induction courses to the company, with more than 500 people given training, involving 17.7% of the employees.
- Ecuador, where through e-learning, more than 1,100 employees were trained in the classification and processing of information. In addition, 80 executives took a classroom-based module on information security. In total 89.8% of employees participated in this training initiative.

##### c) Training and awareness

During 2013 we continued in both regions with the training plan on data protection, launched in 2011.

Telefónica Europe. Nearly 29,800 employees have had up-to-date training on privacy and data protection. This represents approximately 54.2% of all Telefónica employees in the region. The breakdown by country is as follows: United Kingdom, 6,758; Germany, 5,041; Czech Republic, 4,981; Ireland, 640; Slovakia, 259, and Spain, 12,059.

Telefónica Latin America. Nearly 10,900 employees were given training in data protection, information security and the use of social networks, including:

- Argentina and Colombia. Over 2,100 and 3,500 employees, respectively, were given training in Security and Social Networks. This represents 13% and 98% respectively of the employees in those countries.

These training activities were also carried out at the corporate centre, where around 260 people took the course of data protection. Also in the corporate centre, a global awareness campaign on information security was developed which encouraged the implementation of practical measures, the use of mobile devices, the management of their personal and professional passwords in the office or when telecommuting; the use of social networks, the use of wireless networks, the use of cloud services, the sorting and processing of information, and security when travelling, among other areas.

In addition to internal training, we conducted training workshops on data protection and confidentiality, which were attended by local organisations and institutions. One example is the workshop held in Costa Rica, which was attended by representatives of the International Labour Organization, the Omar Dengo

10 policy recommendations to improve the digital consumer experience and to connect everyone to an open and secure Internet



- 1 **Build Digital Confidence through a safer Internet experience** and by empowering citizens to be in control of their personal data.
- 2 **Create a Portable Digital Life** for consumers by allowing them to use their data, information and applications regardless of their devices or platforms.
- 3 **Open up mobile Operating Systems, App Stores and other digital platforms** to increase users' freedom, choice and competition.
- 4 **Promote interoperable Internet applications, communication and messaging services** to improve consumer experience and foster competition.
- 5 **Improve transparency** about the conditions of use for Internet services and the distinction between information and advertisement in online search results.
- 6 **Transform education, learning and teaching** by widely adopting digital technologies and services based on Open Resources and Standards.
- 7 **Promote Open Innovation and Open Standards** principles and prevent that undue Intellectual Property protection restricts innovation in the Digital Economy.
- 8 **Create fairer policy frameworks by establishing the same rules for the same digital services** and smarter regulation by relying more on outcome-based policy making and case-by-case supervision.
- 9 **Make Internet available to everyone** by establishing adequate conditions for private investment in broadband infrastructure.
- 10 **Evolue the policy models of Global Internet Governance** by building on its existing foundations and through involvement of all stakeholders in an open manner and on equal footing.

## Telefónica and the Financial Times asked 12,000 young people belonging to the 'Millennial Generation' about their expectations and concerns

Foundation, World Vision and the Ministry of Labour and Social Security.

With regard to actions aimed at raising awareness about the safe use of technologies, we should mention the Digital Family platform, a resource centre for parents, which aims to promote digital education and help to create a better Internet environment for children which ensures their privacy. The website, launched in early February 2014, will be launched later in other countries served by the Group.

As regards the general public, one highlight is the book published by Fundación Telefónica, which covers the debate over data privacy and security.

This paper examines the origins and evolution of the debate, based on contributions from academic and business experts from the US and Europe. It includes a contribution from Commissioner Viviane Reding, as well as comments by academics and companies such as Facebook, Orange, Microsoft, Telecom Italia and Telefónica.

### Security in our services

Responding to the fact that security and privacy have become a key issue for both businesses and users, Telefónica has launched a new line of business, Eleven Paths, which features a highly regarded team from the world of information security.

Eleven Paths was born as a type of innovation laboratory, with the aim of radically changing the process of development of products and services in the field of security.

Additionally, given the new trends in threats to information security at companies, and taking into account the fact that a different approach is required to address the prevention and mitigation of these attacks, Telefónica presented its security operation centres, a comprehensive offering of security solutions which go well beyond traditional protection.

In all these actions we consider the role of our suppliers to be vital, so we are promoting collaboration in the field of online security. One example is the joint workshop on Network Security with Huawei, held in April 2013.

This new line of action applies to manufacturers and service providers. In February 2014 we closed an agreement with PricewaterhouseCoopers to market cybersecurity services jointly.

As regards our social platform, Tuenti, in 2013 it introduced three new guides for users, parents and teachers.

Also, in January 2013 it launched a privacy simulator for social networks.

### Knowing the expectations of our 'stakeholders'

#### 'Millennial Generation'

Telefónica and the Financial Times conducted a survey which looked at more than 12,000 members of the Millennial Generation from 27 countries. This has been the largest and most comprehensive survey to date.

Millennials, young people between 18 and 30 years, have great expectations for privacy and individual liberties; they believe they should have the right to choose who they marry and vote for, to express themselves, enjoy their privacy and have access to healthcare.

91% of its members are concerned about privacy, data security and the personal information circulating on the Internet. 95% believe that more important safety measures need to be promoted to protect one's identity on the Internet.

### Customers

We celebrated Innovation Security Day, an event that was attended by more than 700 customers. At the event we presented our cybersecurity services offering for businesses and end users. Comprising business solutions and in-house development, it covers the entire cybersecurity management cycle of our customers, focusing on prevention, detection and response.

### Institutions and opinion leaders

In addition to the actions described above with the new regulatory framework in Europe, the Telefónica Group is constantly exploring new challenges and approaches to keep identity personal and private, protecting the rights to privacy and the freedom of expression. In 2013 the major initiatives undertaken were:

- Roundtables organised by European Voice and sponsored by Telefónica, with the participation of a broad representation of stakeholders belonging to the political and business sectors and civil society. The topics covered include data protection and cybersecurity.

- Quarterly debates organised by the Centre for Information Policy and Leadership, covering the challenges and approaches in order to keep personal identity private and to protect the right of expression.

- Telefónica took part in Cybersecurity Month with the National Institute of Communication Technologies (INTECO), the Secretary of State for Telecommunications and the Information Society (SETSI) and the main telecommunications companies, which participated actively in awareness raising activities for Cybersecurity Month.

- We held the 3rd Telefónica Global Meeting on Information Security, which brought together 136 experts from Spain, Brazil, the USA, Peru, Colombia, Chile, Argentina, the UK, Germany and the Czech Republic. At the forum there was an emphasis on the importance and the need for visibility to integrated into security matters, hence the participation of our main partners: Fortinet, Westcon Afina, HP, Arbor, Alien Vault and McAfee.

95% of young people between 18 and 30 are calling for stricter measures to protect their personal data and identity while surfing the Internet

## Tuenti Guides



### User Guide

Intended to allow you to get the most out of Tuenti, with a special emphasis on privacy and security.



### Parents' Guide

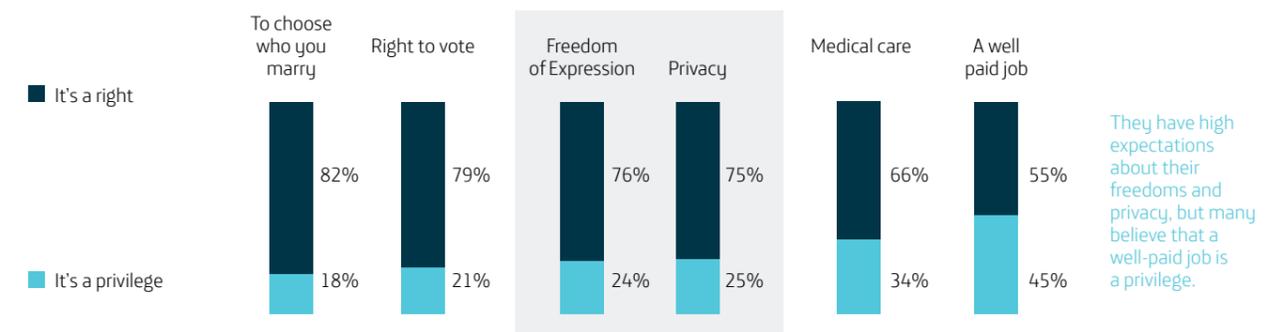
An assistant to show how Tuenti works, which also teaches younger users about safe navigation.



### Teachers' Guide

Shows what teaching uses can be made of this social network for young people and provides safety advice.

## Right or privilege



## PEOPLE

# Freedom of expression\_

*Respect for freedom of expression is produced through dialogue among governments, industry, civil society and other interested parties*

In March 2013, the Telecommunications Industry Dialogue Group for Freedom of Expression and Privacy was set up

These days, any action in the online world can be considered an act of freedom of expression. It follows that guaranteeing privacy is ever more important, as is protection of freedom of expression itself. Farhan Haq, alternate spokesman for the UN, has ratified this: "Freedom of expression cannot exist without protection of privacy".

In this context, the resolution on the *Right to privacy in the digital age* approved in November 2013 by the General Assembly of the UN, is especially important as it establishes that individual rights are universal and must be protected both online and offline.

At Telefónica we are convinced that the best way to achieve global progress on respecting freedom of expression and privacy is through dialogue between governments, industry, civil society (including experts on human rights), investors, supranational organisations and other interested parties affected.

With this in mind, Telefónica set up the Telecommunications Industry Dialogue Group for Freedom of Expression and Privacy in March 2013, together with a group of other operators and manufacturers from the sector.

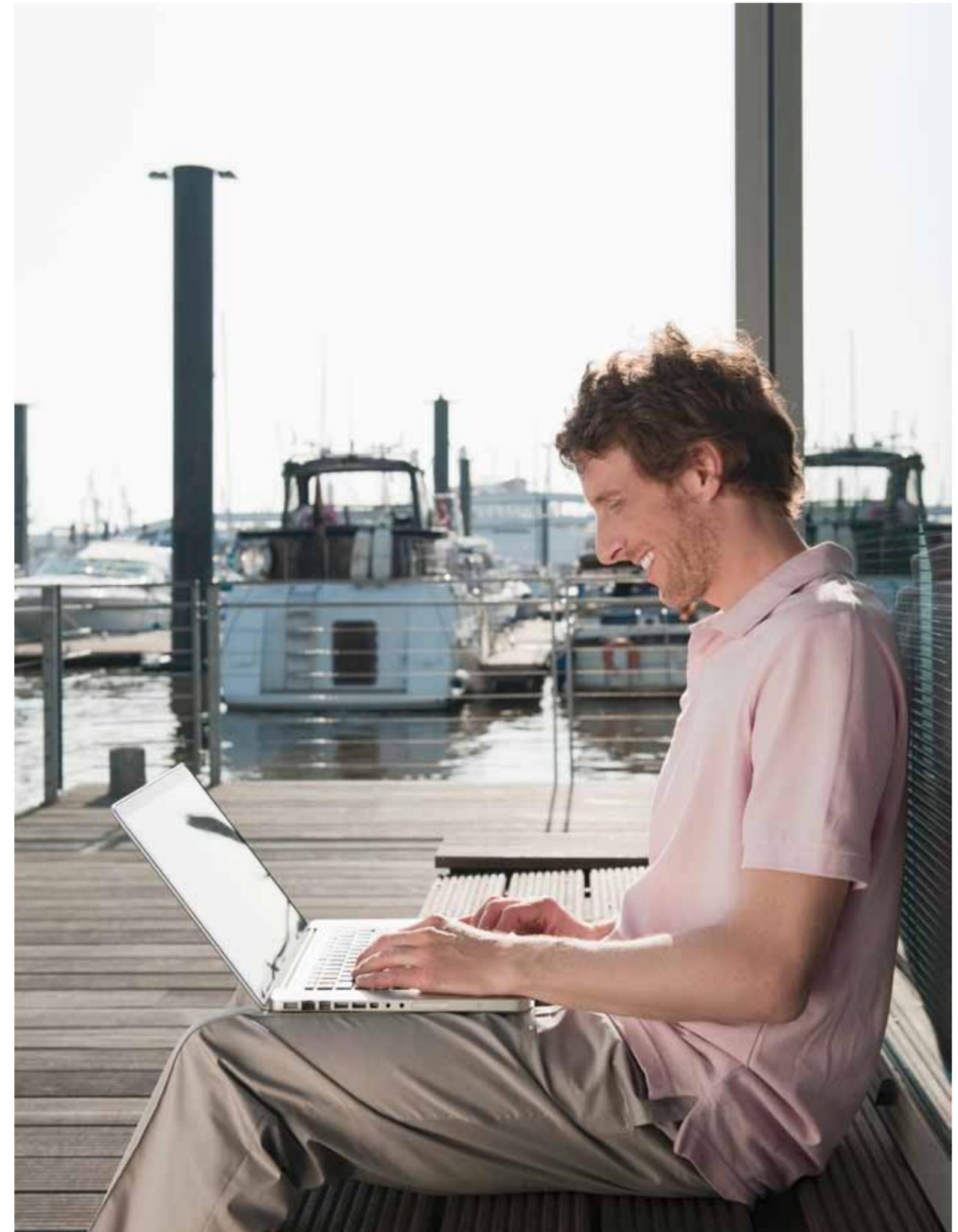
The Dialogue Group has developed *Guiding Principles for Freedom of Expression and Privacy* that address these rights in the telecom sector. The Principles, signed on 6 March 2013, provide a common framework for developing corporate policies and processes related to freedom of expression and respect for privacy in the sector, and explicitly explore the interaction and limits of the duty of a government to protect human rights and the corporate responsibility of telecoms companies to respect them.

Currently, the Principles have the backing of manufacturers and operators like Alcatel-Lucent, AT&T, Millicom, Nokia Solutions and Networks, Orange, Telefónica, Telenor Group, TeliaSonera and Vodafone.

The Dialogue Group recently published its first annual report covering the main actions carried out and progress made, one year after foundation.



**More info**  
Link to the annual report  
of the Dialogue Group



## The Guiding Principles for Freedom of Expression and Privacy at Telefónica

### Guiding principle

### Telefónica programme

- 1 Create and/or maintain relevant policies, with Board oversight or equivalent, outlining commitment to prevent, assess, and mitigate to the best of their ability the risks to freedom of expression and privacy associated with designing, selling, and operating telecommunications technology and telecommunications services



- Our Business Principles, as revised in 2010, recognise the right to privacy as the basis of a relationship of trust with our stakeholders
- As such the Group has a Privacy Policy approved by the Board in March 2013 which has to be complied with in all the countries in which we operate
- As such the Group has appointed a Chief Privacy Officer, who heads the implementation and monitoring of the Policy and is supported by local Data Protection Officers
- Concerning security management, the Group has its Corporate Information Security Policy, based on international standards and updated according to growing international demands in the area of security. As well as undergoing specific training in these Policies, all our employees also have access to training in the Group Intranet

- 2 Conduct regular human rights impact assessments and use due diligence processes, as appropriate to the company, to identify, mitigate and manage risks to freedom of expression and privacy – whether in relation to particular technologies, products, services, or countries – in accordance with the Guiding Principles for the Implementation of the UN 'Protect, Respect and Remedy' framework

- Respect for and commitment to human rights is one of the bases of our *Business Principles*. So, and in line with the framework of the *Guiding Principles on Business and Human Rights*, in 2012 we performed an assessment of all our operations to evaluate the overall impact of our activity, with the help of Business for Social Responsibility ([www.bsr.org](http://www.bsr.org)). The assessment has let us define a formal process for proactive handling of risks and taking opportunities, as well as involving our principal stakeholders. The exercise carried out allowed us to identify privacy and freedom of expression as high-risk aspects for the sector; in search of a global solution we helped to create the Dialogue Group on Freedom of Expression and Privacy [www.telecomindustrydialogue.org](http://www.telecomindustrydialogue.org)

- 3 Create and/or maintain operational processes and routines to evaluate and handle government requests that may have an impact on freedom of expression and privacy

- Telefónica has formal processes for handling data requests from local or governmental authorities. These processes are the responsibility of the departments of the General Secretary and Security in each Group company

- 4 Adopt, where feasible, strategies to anticipate, respond and minimise the potential impact on freedom of expression and privacy in the event that a government demand or request is received that is unlawful or where governments are believed to be misusing products or technology for illegitimate purposes



- In addition to the formal processes indicated above, the recent creation of the figures of Chief Privacy Officer at global level and Data Protection Officers in the different companies, makes the procedures and processes that affect the privacy of our customers more uniform

- 5 Always seek to ensure the safety and liberty of company personnel who may be placed at risk

- Health, safety and welfare at work are three pillars of Telefónica, not only to guarantee protection for staff, but also to have a direct influence on their job satisfaction in the Company. With regard to physical safety, global security managers have established a series of guidelines specific to the risks identified in each country, in addition to covering the actual process of movement

### Guiding principle

### Telefónica programme

- 6 Raise awareness and train relevant employees in related policies and processes

- Telefónica Group has designed a specific plan to train and raise awareness among employees, in the policies and processes relevant to them. This continuous training programme is carried out both in person and online. An example of this is the effort made in Latin America, where the number of people trained in privacy and data protection rose by 65% in 2013.

- 7 Share knowledge and insights, where relevant and appropriate, with all relevant and interested stakeholders to improve understanding of the applicable legal framework and the effectiveness of these principles in practice, and to provide support for their application and development



- We consider dialogue with our stakeholders fundamental to identifying and mitigating the risks, as well as to developing new business opportunities. We believe that both transparency and sharing knowledge with these groups are key to applying these Guiding Principles. In this context, the following should be mentioned:
  - The round tables organised by European Voice. Among the subjects dealt with were data protection and cybersecurity
  - The quarterly debates organised by the Center for Information Policy and Leadership, where challenges and approaches to maintaining personal identity confidential to protect privacy and freedom of expression are discussed.
  - Telefónica participated in *Cybersecurity Month*
  - III Telefónica Global Information Security Conference, where 136 experts from Europe and Latin America gathered

- 8 Report externally on an annual basis, and whenever circumstances make it relevant, on their progress in implementing the principles, and as appropriate on major events occurring in this regard

- The present report is a synthesis of the progress made by Telefónica Group on privacy and freedom of expression

- 9 Help to inform the development of policy and regulations to support freedom of expression and privacy including, alone or in cooperation with other entities, seeking to mitigate potential negative impacts from policies or regulations

- Telefónica believes that the best way to achieve global progress on freedom of expression and privacy is through dialogue among the social agents implicated. Evidence of this is our *Digital Manifesto* ([www.digitalmanifesto.telefonica.com](http://www.digitalmanifesto.telefonica.com)) published in January 2014. The Manifesto highlights the challenges to be resolved by public policies to free up the whole potential of the digital world for the benefit of consumers, companies and public authorities alike, while it offers 10 recommendations to improve the Internet user experience and promote greater investment in digital infrastructure

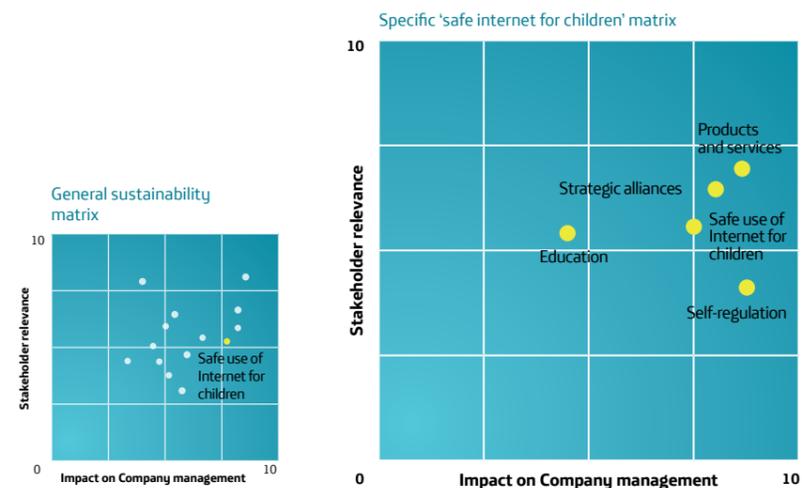
- 10 Examine, as a group, options for implementing relevant grievance mechanisms, as outlined in Principle 31 of the *UN Guiding Principles for Business and Human Rights*



- This aspect, currently being debated internationally, is being explored within the Dialogue Group



### Materiality matrix



## PEOPLE

# ICTs for children\_

*Telefónica promotes an environment where minors can use new communication and information technologies while avoiding risks arising from misuse or lack of awareness*

During 2013, the child protection strategy has been reflected in an internal Rule which has taken into account the commitments reached within the CEO Coalition and the ICT Coalition.

This Rule is mandatory across Telefónica's OBs and it will be implemented step by step and progressively until we achieve the homogenization in all the initiatives we carry out at Telefónica to promote the better use of our services by all the members of the family.

The said Regulations shall be of obligatory compliance in all countries, and the measures will

be applied in stages until we achieve uniformity in all the actions we carry out at Telefónica to promote safe use of our services by the younger members of the family.

### Products and services

Part of the strategy of Telefónica to leverage the better use of its services is based on the design of specific products and services that promote the positive use of ICT by both children and teenagers, and tools that prevent them from being victims of abuse by malicious people and from getting access to inappropriate or

damaging content, whether by mobile, Internet or TV. Among other things, we offer antivirus programmes and content filters to guarantee safe navigation on the Internet. Similarly, adult content on the Company's TV services is offered subject to a parental PIN code.

### Digital Family

In the previous year (2012), we developed, together with the Interactive Generation Forum, Digital Family ([www.familiadigital.net](http://www.familiadigital.net)), which is a resource centre for parents aimed at boosting digital education and helping to clarify their doubts about ICT.



Members of the CEO Coalition, in 2013.



Telefónica is part of the Monitoring Committee of the National Code of Conduct for safe use of mobile services by children

The interactive portal offers high quality content, news section updated periodically, and other information of interest. It has been developed in collaboration with prestigious organisations such as European Schoolnet, the University of Navarre, Insafe, EU Kids Online, Childnet International, *Protégeles* and *PantallasAmigas*, to name just some. The web is already available in Spain for the Movistar brand and will soon be made available in other countries in Latin America.

#### Hotlines

Collaboration with hotlines, as channels to report about content that might be considered illegal, is one of the priorities of the Rule. All our countries must insert an icon on their webs linked to the local hotline, or in the event that the country does not have one, the hotline of their choice member of Inhope.

The case of Spain should be mentioned, where, together with the other operators and *Protégeles*, an App for reporting and seeking for help has been developed for smartphones and tablets. Or the case of Colombia, where Telefónica has contributed to establishing the first hotline member of the Inhope in Latin America, called *Te Protejo*. This hotline also has an App that can be downloaded from the principal app stores.

#### Aula 365 (Argentina, Colombia and Peru)

*Aula 365* is a free educational support service with multimedia content for the students. Through this portal, we at Telefónica have made advanced Web 2.0 tools available to help the children of our broadband customers to do their homework from home, to improve the school performance of students of all ages. The web is

supported by a virtual teacher who responds to doubts and queries.

#### Complete K-12 education solution from Telefónica Learning Services

Based on the training and education experience acquired during the last 10 years, this offers a complete end-to-end solution for K-12 education. The package is composed mainly of TLS in-house developments like the virtual learning environment WeClass. This is an environment that incorporates different activities for the different profiles of an educational centre (teachers, students and parents). WeClass allows users to: create *Mi clase digital (My digital class)*, design syllabuses according to student level, create repositories of content, maintain direct online contact between families, students and the educational centre, encourage cooperative work, and, in short, adopt the use of ICT in the classroom.

#### Education

Among the educational activities that have taken place there are workshops for parents (held in schools) on the better use of social networks by teenagers, leaflets in the shops, collaboration on national initiatives, etc.; everything that helps to take maximum advantage of ICT, while avoiding misuse.

In 2013, Interactive Generations trained over 7,000 children, parents and teachers in responsible use of ICT, thanks to sessions given by the organisation's own volunteers, numbering more than 55 in Spain, and by talks both by experts from the University of Navarre, and diverse collaborators of the Forum.



#### Self-regulation

Telefónica participates in numerous initiatives of the sector so as to multiply the efforts to achieve a common goal: to offer the best possible environment for children on the Internet.

#### Alliance of mobile operators

Telefónica is a founder member, since 2008, of the Mobile Alliance Against Child Sexual Abuse Content, and will proceed to block this kind of content proactively, following the guidelines and lists provided by the Internet Watch Foundation.

#### National Code of Conduct

Since 2007, Telefónica has been part of the Committee of the National Code of Conduct for safer use of mobile services by children, along with the other principal operators in Spain.

As an outcome of this collaboration, an icon was introduced on operators' web pages, which is easily identifiable by users and which allows them to alert *Protégeles*, which is the official node of Inhope in Spain, should customers come across Internet content that could be deemed potentially illegal. In 2012, a downloadable application for smartphones and tablets was developed, using the same icon designed for the webs, and which also allows users to alert *Protégeles* when using these mobile devices to access the Internet. In 2014 the updated and more completed version of the app will be presented.

#### Coalition of CEOs for a better Internet for children (CEO Coalition)

During 2013, all the companies that make up the CEO Coalition have been busy implementing the measures to which they had committed themselves at the start of 2013, the final results of which were submitted to the European Commission in January 2014.

This cross-industry collaboration has facilitated the joint search for solutions that require intervention at various points in the chain of value: to deepen relationships between the industry and those organisations that defend the needs of children in the digital world; to bolster projects and good practices already under way, and innovate in products and services to build a safer environment for Internet use from all available platforms (PC, tablet, smartphone, etc.), and for the different kinds of Internet access (fixed, mobile, wif, etc.), as well as to develop closer relationships with Law Enforcement Agencies and similar bodies.

#### ICT Companies' Coalition

In January 2012, 30 companies from the Information and Communications Technologies sector announced the launch of the ICT Coalition for safer use of the Internet by children and teenagers. At the end of 2013, each of the companies submitted a report with the commitments that it had undertaken for each line of action of the ICT Principles, and which will be audited in 2014 by an external professional who, following analysis and verification of the information supplied by each company, will issue a report on its veracity. These documents will be available at [www.ictcoalition.eu](http://www.ictcoalition.eu)

The ICT Principles are supported by companies from throughout the ICT sector: from network operators to device manufacturers, together with content providers, search engines, etc. The Principles deal with key issues and hot topics such as content, parental control, handling of abuse and misuse, child sexual abuse images and control of privacy, in addition to education and awareness-raising for children and teenagers.

#### Strategic alliances

Telefónica is aware that to foster the better use of the new information and communication technologies, we need to build strategic alliances with civil society; for instance, we should mention our collaboration in the different countries with Inhope and Insafe's nodes such as *Protégeles*, Childnet and FSM, and other non-governmental organisations with similar aims to Telefónica such as *PantallasAmigas*, *Red Papaz*, and ASI. Also worthy of mention is our participation in initiatives promoted by the industry itself, the European Commission and the International Telecommunication Union, among others.

Without these alliances, it would not be possible to carry out all the activities we are engaged in, whether training or raising awareness, and nor would the ICT sector be in the position to offer effective global measures to ensure that its services are used to their best advantage while avoiding unnecessary misuse.

This is why this pillar is so important, and it is transversal to strategy, because this is what allows all the initiatives undertaken to achieve the expected level of success.

To encourage correct use of the new communication technologies, it is indispensable to have the backing of the whole sector and civil society

PEOPLE

# More accesible services\_

At Telefónica, we are convinced that technology should be available to every person, business and public administration so that they can Be more\_

Radio Me is a service created to contribute to bridging the digital divide for older people and those not familiar with technology

We firmly believe that the digital revolution we are immersed in needs to generate new opportunities for everyone, not just for a few.

Telefónica has understood the need to evolve towards becoming a digital telco which is capable of improving people's lives. We also believe that these opportunities must be available to everyone, including people with disabilities and older people. In other words, an Accessible Digital Telco.

According to the latest data published by the International Telecommunication Union, the number of active smartphones is already over 1 billion. These are known as *The Next Billion*.

There is also another group that represents over 1 billion, which we can call *The Other Billion*, and represents the number of people with disabilities around the world. This is a very significant group which up until now has not had particular

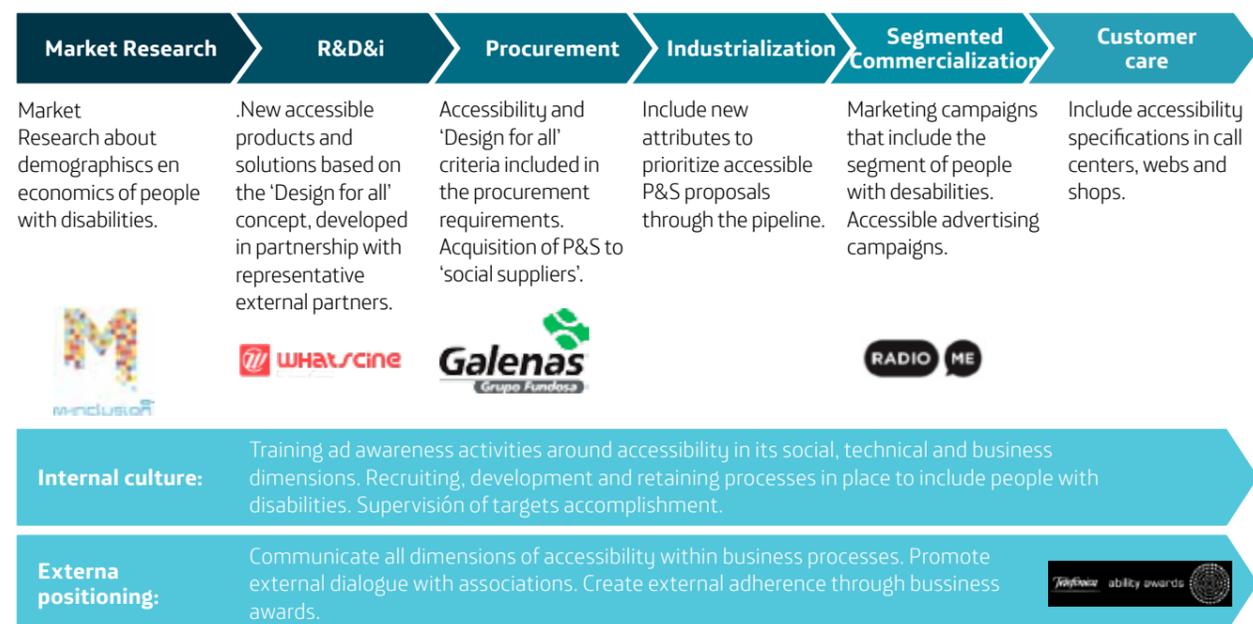
attention paid to it as a segment. However, it represents an enormous number of potential users of mobile technology, to the extent that this has become a key element of economic and social inclusion.

The Company, following the guidelines of the *Convention Human Rights of Persons with Disabilities* and by the hand of national and international associations of disability has developed Telefónica Accessible program in Europe and Latin America.

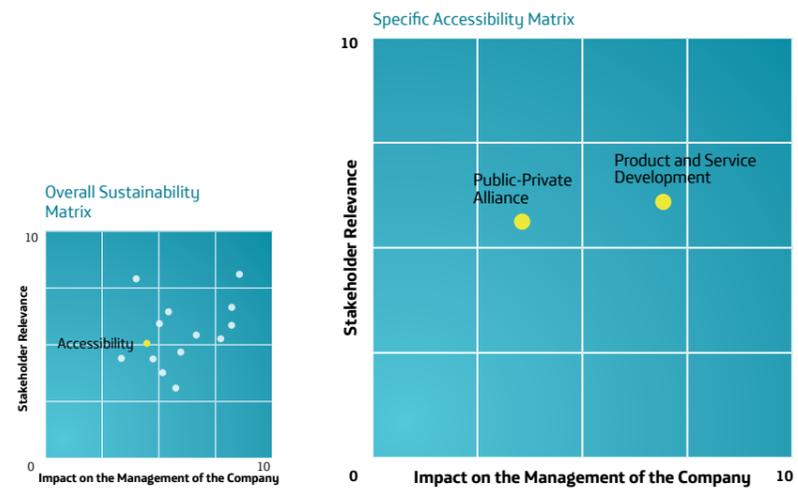
Telefónica is a cross-project accessible also to link different areas of business where Telefónica operates, links to the various departments that make up the value chain of the company. This cross-project is divided into four main areas: Leadership, Customer Orientation, Internal Culture and External Diffusion.

## Telefónica accessible. Definition and scope

Comprehensive project to promote ICT accessibility, which includes both the elimination of barriers, such as generating opportunities for value creation.



## Materiality Matrix



## Wayra start-ups to improve the quality of life for people with disabilities:



**Prodeaf.** Software for translation of Portuguese text and speech to sign language, in order to aid communication between deaf and hearing impaired people with hearing people. All this through an avatar. It is available through to web, tablet and smartphone. [prodeaf.net](http://prodeaf.net)



**uSound.** Application that improves the quality of life for people with hearing problems and and help to prevent hearing damage to the population. Usound leverages the processing power of the smartphone to function as a digital hearing aid, after entering data audiometry (or performed a hearing test from the app itself). Usound allows proper hearing in remote transmission of audio, video and audio files. [usound.com.ar](http://usound.com.ar)



**Biglauncher.** Through an interface, this initiative changes the screen colors, contrast, size, etc., for people with visual impairment and / or elderly. [www.biglauncher.com/es](http://www.biglauncher.com/es)



**Insane Logic.** iPad apps for the education of persons with speech or learning difficulties. Insane Logic builds communication tools available to give voice to those struggling to make themselves understood. [www.mychoicepad.com](http://www.mychoicepad.com)



**Remote Assistant.** Geolocation system of relatives/friends with visual disabilities, in order to know where they are. It also incorporates a video for the carer in order to let him/she see where the user is going. In addition, the smartphone itself detects obstacles and warns the user via vibrations. [www.mapzproject.org](http://www.mapzproject.org)



Radio Me. Amplía y facilita las oportunidades para comunicarse de personas de más edad.



'Walker +', developed with the Universidad Carlos III in Madrid, will allow people with disabilities, especially children with cerebral palsy, to walk!

**Outstanding products and services developed in 2013**

**Radio Me**

This is a service that was created to contribute to bridging the digital divide for the older population and people who, for various reasons, are not active users of technology. It allows voice messages to be received and sent through WhatsApp- or Line-type messaging applications, without needing to use a smartphone. The design and functions of the service were designed for this type of user. Through a device as familiar as the radio and by just pressing two buttons, older people and those who are not used to technology connect simply and intuitively with their family and friends. Older people do not need to learn to use any new technology or face unfamiliar screens, nor are they required to master or know how to handle the functions of a smartphone, a requirement which in many cases leads them to reject and abandon the idea.

Radio Me expands and facilitates communication opportunities for older people and those not familiar with technology, offering them the possibility of integration through using the new forms of social communication as a door to enter the world of digital services.

**Whatscine**

This is a tool created with Universidad Carlos III in Madrid which allows people who are deaf and blind to enjoy the cinema through an accessibility system. To access this experience, the user just has to download the free app and install it.

Once at the cinema, which must have already installed the accessibility platform, the user connects to the integrated Wi-Fi network in the cinema and chooses the subtitle options (English or Spanish), subtitles for deaf people, audio description or Spanish sign language, depending on the user's needs.

In 2013, Telefónica celebrated the 40<sup>th</sup> anniversary of ATAM, Telefónica's social entity which is an expert in people, disability and dependence, boasting 34 participant firms and over 52,000 partners among its active

In this way, people who are deaf can access subtitles or translate narration in a foreign language, or if they prefer they can see an image showing a Spanish sign language translator that is synchronised with the film's dialogue. People who are blind can also enjoy the films through audio.

**112 Service**

One of the greatest demands of people with disabilities is having safe, swift access to the emergency services. To this end, Telefónica signed an agreement with the 112 Emergency Call Handling Service in Catalonia and the Catalanian Federation for the Deaf to develop an application aimed at this group.

The application contains three pictograms that represent the most common emergency requirements: the police, the fire service and emergency medical assistance. These in turn indicate situations of abuse, aggressions, fires, robberies, domestic accidents and health problems. It also includes videos that offer advice to minimise the risks while the emergency services are on their way.

Additionally, users can have their data registered previously so that in any situation they can be geolocated by the emergency services via the 112 system.

The Walker + project has been developed as part of the Telefónica Chair at the Universidad de Alcalá de Henares in Madrid. This device allows people with disabilities, especially children affected by cerebral palsy, to walk. Thanks to this equipment, children can walk around their school playground, their home or the park.

The walker consists of a harness which is adjustable for different heights and weights, which is placed on the child's body and rests on a metallic structure that supports the child's weight. With a slight push, the child can move around easily. The system also incorporates two buttons which are associated with an electronic system and allow voice messages to be activated and lights to be turned on or off, or which can be used as a computer mouse, enabling interaction with their surroundings.

**Other Initiatives**

In addition to these services which were launched in 2013, Telefónica continued to offer accessible terminals, bills in large type or Braille (requested through the 1004 telephone service), the Spanish sign language remote interpretation platform and the intermediation centre in an alliance with the Ministry of Health, Social Policy and Equality.

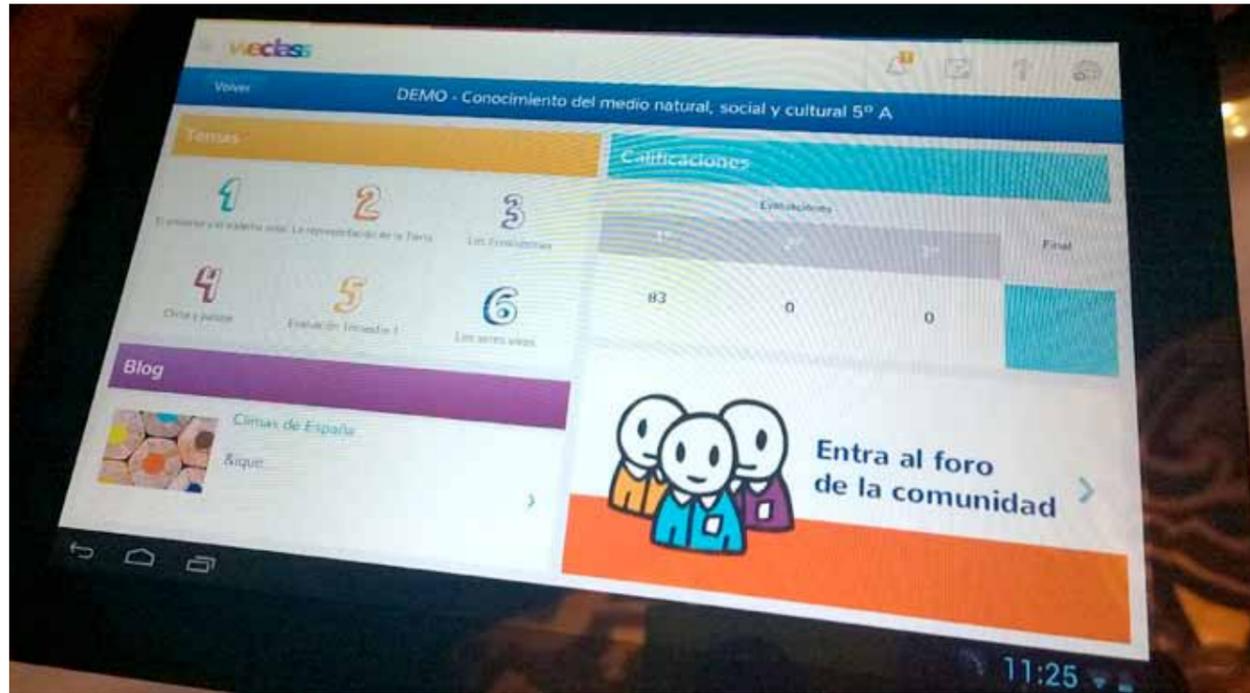
It continued to train employees in customer care for people with disabilities and to work within the framework of the Telefónica Ability Awards to continue to promote the mainstreaming of disability in all types of business.

Along these lines, in 2013 the Ability Club organised jointly with the BBVA Premios Integra awards a workshop to promote purchasing from special employment centres (*Centros Especiales de Empleo*, or CEEs) and make contact with firms interested in this type of social procurement from CEEs.

In 2014, Telefónica has launched the third edition of the Telefónica Ability Awards, to continue increasing the ecosystem of organisations that work in favour of finding the value of disability in business models.

Also in 2013, Telefónica celebrated the 40<sup>th</sup> anniversary of ATAM, the social entity at Telefónica which is an expert in people, disability and dependence, boasting 34 participant firms and over 52,000 partners among its active employees. The aim of the Association is to enable people with disabilities to have better access to employment, as it understands this to be a key aspect of full integration. Under the principles of its enabling model, it works so that people with disabilities can develop professionally.

ATAM has an individual aid system which reduces the financial cost involved in having a disability. In 2013, it awarded 3,719 subsidies to 2,179 people for a total amount of €6,897,015 and overall almost 16,000 people throughout Spain benefited from the work of the ATAM through two basic lines of activity: assistance to families and integration into the workforce.



Telefónica Learning Services launches WePack, a solution for colleges, pioneer in the educational world.

PEOPLE

# Digital education

ICT use can have a significant impact on achieving higher quality education, as well as contributing to the sharing of innovative knowledge, improving competitiveness and reducing social inequalities. Telefónica Learning Services (TLS) is the Telefónica Group company which specialises in offering comprehensive technological solutions for education

WePack is a comprehensive solution for educational institutions which covers all classroom needs

Applying technological breakthroughs to the world of education allows the productivity of both the teachers and the students to flourish, through incorporating systems that foster personalised learning and ubiquitous access to contents. Telefónica Learning Services (TLS) has increased its range of products and services to play a leading role in the world of digital education, with the goal of encouraging the inclusion of technology in the educational environment, thus taking advantage of its potential to integrate in the process the most disadvantaged communities and sectors and to offer personalised education that fosters students' abilities.

To this end, during 2013 TLS launched a comprehensive solution for educational establishments through an educational package covering all classroom needs, called WePack. In addition to providing tablets for the students and teacher, as well as management, administration and security, WePack brings together connectivity from Telefónica in the classroom and advice from educators and counsellors to accompany the teachers in this process of transition towards digital education. The solution includes the WeClass platform, which is a virtual learning environment (VLE) where teachers can upload their own contents or content provided by the publishing companies they usually work

Telefónica's technological solutions mean that quality education can reach any student, no matter what their location or family situation

with, post assessments, monitor students' performance and set work, among other things, while students and their parents can consult the contents, access the work and exercises, update their schedules and consult their marks, etc.

Another recently launched product is WeShare. This is the first truly family-friendly tablet. It includes three profiles (parents, family and minors) and, thanks to a newly conceived safe browsing system, allows children to go online in a protected and totally reliable environment. If any unpleasant situation does arise, the child can press an alarm button, appraising their parent of the situation and giving the option of reporting it online, thanks to the *Protégeles* application offered by the association of the same name, the Spanish benchmark in protecting minors on the internet. For children aged under seven years old, WeShare incorporates an innovative application from Infantium that allows children to learn through play, while the platform learns with the children and offers them new educational pathways based on their individual progress.

For universities, Telefónica Learning Services has worked hand-in-hand with Universia to develop the MiriadaX platform, which offers free MOOCs (Massive Online Open Courses) to anybody who has registered as a user (registration is also free). These courses are offered by the more than 1,000 universities in Spain and Latin America who are part of the project. Students only pay a modest sum if they wish to obtain the official certificate.

Another noteworthy product is YPD Box, a pioneering initiative in entrepreneurship training, with the aim of developing people's entrepreneurial talent and spirit through four pillars – energy, creativity, communication and leadership. This tool was already picked up by the regional education office for the Castile-La



Mancha regional government, to be introduced in the 2013/2014 academic year.

These solutions, thanks to the use of technology, mean that quality education can reach any student, no matter what their location or family situation. And, in addition, all this takes place in a safe and reliable environment.

Milestones

- Introduce and begin implementation of WePack in Spain
- Begin distribution of WeShare in Spain

Challenges

- Extend the deployment of WePack and WeShare to Latin America and other European markets

Best practice

The WeClass education platform has been successfully rolled out at the Colegio San Gabriel school in Aranda de Duero (Burgos). The process began with intensive training for the teaching staff on how to use the technology to offer better education to their students.

## PEOPLE

## e-Health

At Telefónica, we place our technology at the service of improved healthcare for all

In 2013, Telefónica presented its new platform which allows chronic patients to be monitored

## Europe

Parkinson's disease, a neurodegenerative condition that affects a patient's motor skills, has been the focus of two projects that Telefónica R&D has participated in. HELP and REMPARK were developed as part of a European funding framework. These are research projects involving the remote monitoring of motor symptoms and remote, real-time management of the treatment for this illness.

In 2013, Telefónica R&D also participated in another European research project, *Mobilesage*, which created the first help-on-demand mobile service, specifically designed for elderly people and using Near Field Communication (NFC) and Quick Response (QR) code technologies to simplify interaction with their surroundings and get immediate help.

That year also saw the presentation, at the e-Health workshop held in Cantabria, of the Company's new service to track and monitor chronically ill patients. This platform, which was one of the most significant services in the most recent Mobile World Congress in Barcelona, is garnering increasing interest from health professionals, who see in it the potential to provide patients with an independent, autonomous life in their own homes. The system was developed to provide complete, ongoing

healthcare outside the hospital environment. Chronic illnesses currently represent around 80% of health costs. In this respect, Telefónica has identified e-Health services as being one of its priority areas for research into the development of innovative applications that contribute to increasing the quality of life of people and improving the productivity of the system.

## Latin America

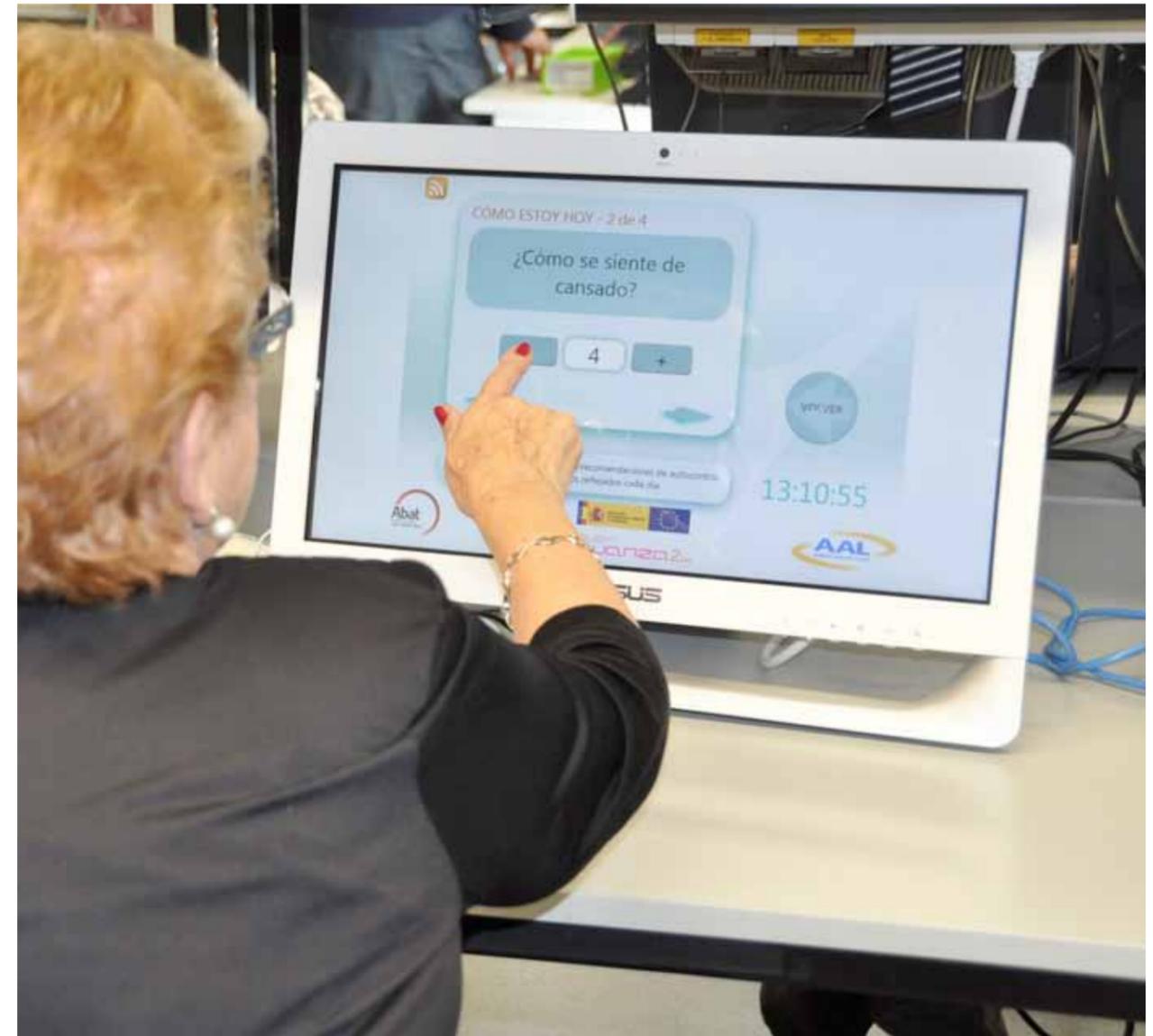
Telefónica's e-Health features were reinforced in 2013 with new acquisitions, including Axismed, which occurred at the beginning of last year. Axismed is the largest Brazilian company managing healthcare for chronic patients, to offer comprehensive e-Health services to healthcare services and large companies, as well as to the 90 million Vivo customers in Brazil.

The arrival of Axismed at Telefónica allows us to extend our care model, thanks to the remote multichannel patient management platform developed by Telefónica and to the great reach of the company's commercial network. The combination of Axismed's knowledge of managing chronic conditions together with the experience in technology and communications-based services of the Telefónica Group will make it possible to develop innovative services for healthcare operators and the corporate market.

## Best practice

In 2013, the Vivo Mais Saudável online platform was launched. In addition to being a place where users have the opportunity to contract Vivo's mobile health services, the platform offers varied healthcare services, many of them free,

advice from professionals renowned in their speciality, the possibility of programming medical appointments online and the purchasing of pharmaceutical products due to the association with Netfarma. [More info.](#)



Help, an innovative project for treating Parkinson's Disease patients remotely and in real-time.



[More info](#) on the Telefónica 'e-Health' website.

# 6. Society



The key role of the 'Telco' in building a digital world\_

Innovation in Telefónica\_

Digital inclusion\_

Solutions for emergencies\_

Volunteering\_

Social action\_

Support for entrepreneurship\_

SOCIETY

# The key role of telcos in constructing the digital world

Telecoms are at the heart of the Digital Revolution. They make it possible for everyone and everything to be connected, generating huge opportunities for the sector. We believe that technology should be at the reach of everyone so anyone can broaden their personal and professional perspectives

In 2013 the figure of 7,000 million mobiles was reached. Already there are more devices than people

The Digital Revolution is coming rapidly and in large numbers. And connectivity, which is at the core of this Revolution and makes it possible, is also advancing. In 2013, the figure of 2,800 million Internet users, 40% of the world's population, was reached. All of them access the Internet via telecoms networks. With 760 million homes connected and 2,200 million mobile broadband connections, we live in a completely connected world.

Social networks reach almost the equivalent of the population of Brazil instantly, and have been decisive in certain recent and deep social and political movements.

Innovation cycles are shorter and consumers want the latest thing. New connected personal devices that are *wearable* (watches, glasses, bracelets, heart rate monitors...), a connected car, meters or smart houses, control *drones* and the new services that make a city smart... *the Internet of things* is taking off.

We are also on the threshold of disruptive change in the model of production, with *big data* and *cloud computing*, and even 3D printers that delocalise production like never before. All this is possible thanks to broadband connectivity and it creates opportunities for reinvention and transformation in multiple sectors and industries. Financial services, security, healthcare, education, advertising, public administrations and content provision are among the sectors that are increasing their efficiency and opening up new markets in this new digital world.

Internet traffic has shot up in the era of smartphones, with video being the service that has most influenced its growth. One fifth of all Internet traffic is now generated from mobile devices. And users and companies demand ever more.

To make this Revolution and the opportunity it represents real, networks need to be renewed and transformed. More than 50% of the people in the



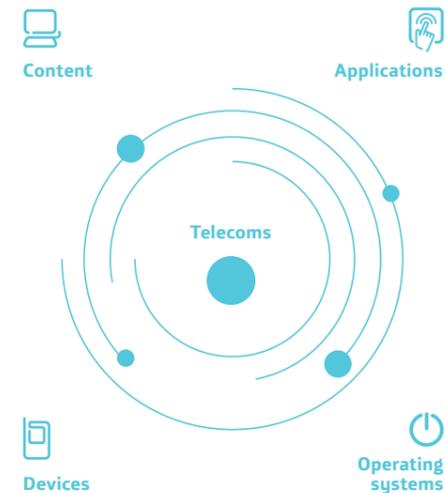
world already enjoy 3G coverage. And users await the speeds offered by LTE. Asia is already thinking of the fifth generation. The technology is available and network renovation is vital to keep up with demand and realise the opportunities in the sector.

And all this is only the beginning. In 2013 we reached 7,000 million mobiles worldwide, but in 2014 there are already more mobiles than people. If only 30% of these devices have broadband connectivity, the potential for growth is enormous. Traffic per user will pass from 440 MB in 2013 to 3.8 GB in 2018, and total traffic is expected to multiply by 11.

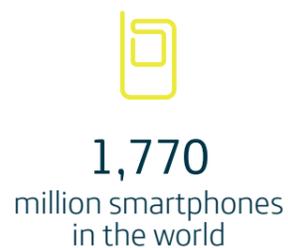
The *Internet of things* will be superseded by the *Internet of everything* and according to forecasts, there will be 50,000 million connections by 2020. 99% of these connections are still pending.

There is no doubt: the opportunities generated by the Digital Revolution are real and awaiting the telecoms sector that makes them possible,

## Telcos make the Internet and new digital services possible



### The digital revolution in figures





The ICT sector, with its new technologies and its capacity for innovation, is heading up the digital revolution

### ICT at the heart of the solution

Today, the processing capacity of an average smartphone is greater than that of the technology NASA had to send the first man to the Moon. Technological quantum leaps of this scale do not occur very often. Today, we create in a few days as much data as all previous generations of Humanity have created until the invention of the Internet. It is the ICT sector with new technologies and innovation which is fuelling the Digital Economy and driving this dramatic period of change.

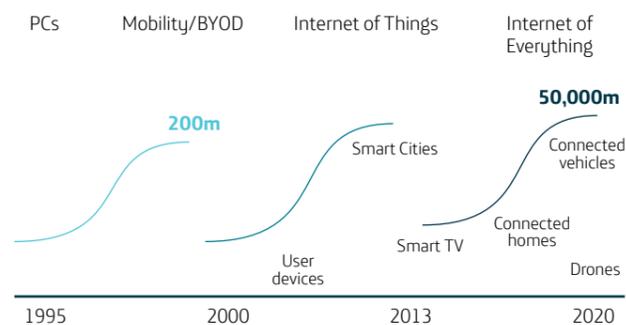
The Internet is present in our everyday life: at home, at work or in our entertainment. Internet networks connect today over one third of Humanity and this is transforming all societies from an economic, environmental and social perspective.

The range of potential applications for a more sustainable world is wide: smart cities, clean tech, intelligent shopping solutions, smart metering, home automation, energy saving, remote security products, and e-Health applications.

Many international studies have shown how Broadband and the Internet improve economic growth and productivity. [More information](#)

- A 10% higher penetration for Broadband Internet Access increases GDP by up to 1.5% [More information](#)
- Investments in ICT generate more productivity growth than other capital investments [More information](#)

### Connected objects

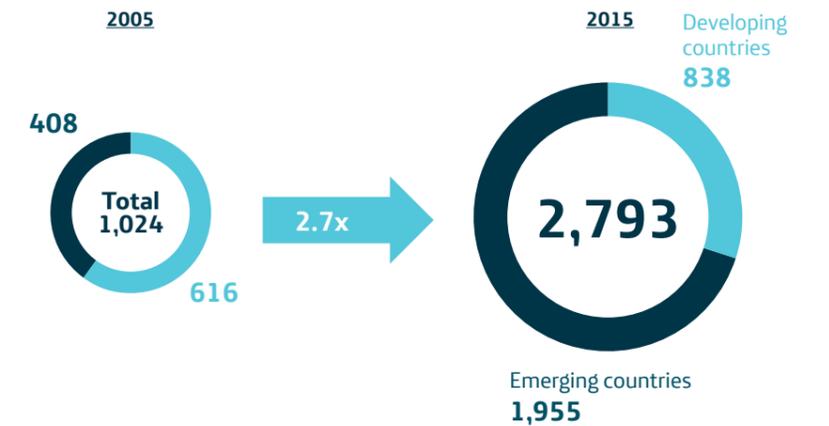


### The New Internet is born

From the fixed line to 'from anywhere'  
Broadband connections (in millions)



From developed countries to emerging economies  
Internet users around the world (millions)



- Digitization has boosted world economic output by €141 billion over the past two years and created 6 million jobs during that period [More information](#)
- An increase of 10% in a country's digitization score fuels a 0.75% growth in its GDP per capita and a 1.02% drop in a State's unemployment rate. [More information](#)
- In emerging economies digitization could help lift over half billion people out of poverty over the next decade [More information](#)
- The Digital Economy is creating new jobs, is making labour markets more inclusive and is creating completely new business models [More information](#)

At Telefonica, we aim to provide the digital products and services which will help to improve the lives of our customers by leveraging the power of technology. This ranges from developing new technologies for consumers to communicate with friends and family through to helping businesses and governments address new opportunities, improve operations and increase efficiencies.

Among the most relevant sustainability services by Telefónica we highlight those related to education, e-health, accessibility, Smart cities and green telecommunications services.

The data explosion  
Global traffic on IP (Exabytes/month)



SOCIETY

# Innovation at Telefónica

Once again, the percentage for innovation regarding the Group's revenues rose (10.8% in 2013 compared to 9.3% in 2012)

Investment in R&D at Telefónica represents 8% of our total business investment in Spain, and was the biggest investment by an operator in Europe in 2013

## Boosting R&D

2013 was an important year for R&D at Telefónica. On the 25th anniversary of the birth of Telefónica I+D, Telefónica was recognised by the European Commission as the telecommunications operator that last year invested the most in R&D in Europe, while it was ranked second worldwide in this respect. Also noteworthy is the fact that investment in R&D in Spain by the company represented 8% of total business investment.

As at 31 December 2013, Telefónica I+D had a workforce of 689 professionals from 18 nationalities located in Barcelona, Granada, Huesca, Madrid, Valladolid, São Paulo and London. In addition, in 2013 we opened a new innovation centre in Santiago de Chile that will centre on Information and Communication Technology (ICT) and the development of smart cities.

At Telefónica we not only project our innovation-oriented focus into our own activities and products, during 2013 we also promoted innovation by third parties, acting as a

catalyst for the national system for research and development, through policies of open innovation, both with venture capital funds (Amerigo and Innvierte, the latter in collaboration with CDTI) and with Telefónica's accelerator, Wayra, and OpenFuture, our programme to promote entrepreneurship. This role as drivers of innovation is also reflected in our support for and contribution to the various editions of Campus Party and the organisation of different open hackathons and contests, among other initiatives.

Also noteworthy in 2013 was our cooperation with other European operators and institutions as part of different EU-promoted programmes, in addition to our collaboration with over 150 Spanish and foreign universities and research centres.

## Innovation to improve the lives of consumers

During 2013, at Telefónica we focused our innovation activity on key areas for improving the quality of life of consumers, such as Machine-to-Machine (M2M), cloud services, security, video, Big Data, applications and financial services.

Thus, having already launched the first devices with the Firefox OS open source operating system, our objective in 2013 was to democratise smartphones, through increased collaboration with Mozilla to develop more smartphones that are accessible both in emerging markets and to the general public.

In M2M, innovation focused on the management of services primarily related to Smart Cities, energy efficiency and mobility. It was also prominently geared to the Internet of Things and its adoption in the urban and industrial area, as well as being an enabler for the creation of services.

Another remarkable innovation project was Telefónica's leadership in the development of the European Future Internet platform, FI-WARE. Cities that deploy this platform will create an ecosystem where open data and the Internet of Things (IoT) will allow entrepreneurs to create new services. The city of Seville has already chosen this platform to promote developments that improve public services and the quality of life of its citizens and at Telefónica we intend to take the FI-WARE platform to those regions of Latin America where we are already firmly established and committed.

## Patents

At Telefónica we understand that the knowledge and inventions generated through our innovation create an intangible heritage that is reflected, *inter alia*, in patents. During 2013, Telefónica registered 82 patents (87 in 2012), of which 70 were registered at the Spanish Patent and Trademark Office (SPTO) and 12 at the USPTO. Of the patents filed at the SPTO, 57 were European applications (EP) and 13 were international applications (PCT).

## Social and environmental innovation

In the digital telco sector, significant advances are being produced in areas which are fundamental to the future of our company, such as those taking place in Big Data, e-Health, M2M, etc. These developments could have a significant impact on the improvement of society and the environment as well as in the privacy of consumers. As a result, at Telefónica we are taking these environmental and social aspects into account from the early stages of development of research and innovation.

Some clear examples of how social issues become part of the conceptual essence of innovation at Telefónica can be seen in the research on Big Data in the analysis of the impact of the Mexican government's actions to contain the outbreak of the Influenza A (H1N1) virus in 2009, and the study of impacts on mobility of individuals during certain natural disasters in Mexico.

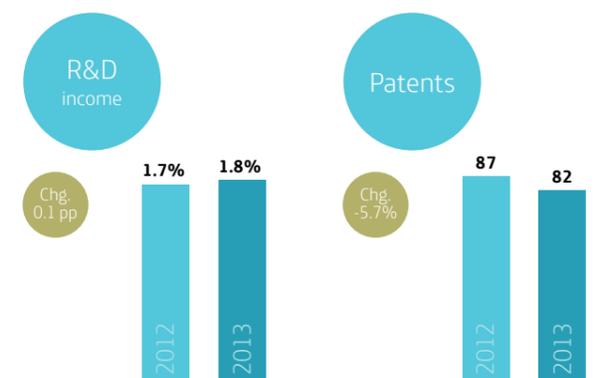
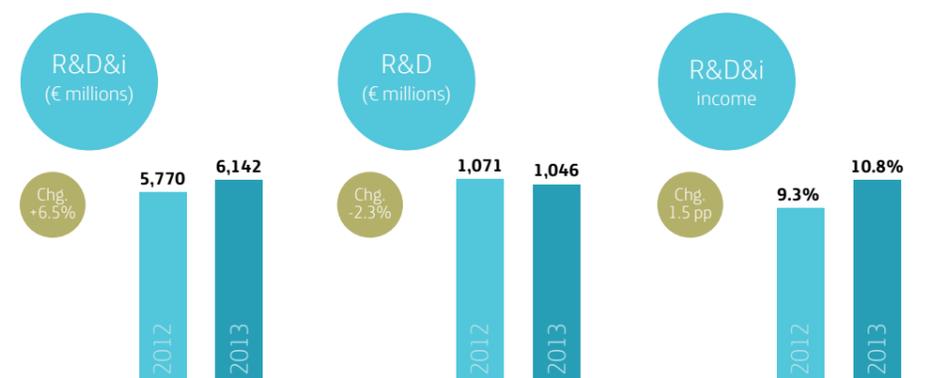
Regarding the role of environmental issues in the research and development of new products and services, noteworthy in 2013 was the selection of Telefónica as the future supplier of smart metering services in the UK, which will be vital for managing energy systems more efficiently and reducing carbon emissions.

## Milestones

- Marketing of the first models of Firefox OS
- Marketing of 'Radio Me' as an example of services based on social innovation

## Challenges

- Management of energy efficiency through smart meters



SOCIETY

# Digital inclusion

At Telefónica, we are developing a series of programmes so that the underprivileged can have access to and benefit from these technologies

The European Commission considers that 'M-Inclusion' is a good example of collaboration between Europe and Latin America (for Horizon 2020)

## 'M-Inclusion'

The *M-Inclusion* project is co-financed by the European Commission and implemented by a consortium led by Telefónica and made up of Econet, Futura Networks Colombia, Innovation Engineering, the Nokia Institute of Technology of Brazil, the Cayetano Heredia University of Peru, and the Polytechnic University of Valencia (UPV).

The initiative began in 2011 with the goal of creating a framework for cooperation among the developers of mobile solutions in Europe and Latin America, and different end-user organisations and entities, as well as to define a roadmap for achieving social inclusion through mobile technology of groups that are at risk of exclusion, targeting the conclusions at different stakeholders.

The project has been aimed at providing mobile solutions to people with disabilities, chronic disease, low-income groups, and isolated areas. At the same time, the project promotes user-oriented innovations and the search for affordable mobile solutions.

A stakeholder group has been created around *M-Inclusion*. This group is made up of entities with a strong interest and commitment to the interests of *M-Inclusion*, and whose members act as advisors to the *M-Inclusion* consortium. The stakeholder group was formed to provide the *M-Inclusion* Community with a high level of expertise in inclusion-related topics, from a technical and social point of view. The stakeholder group has its own section on the website where its activities are promoted.

One of the project milestones was the definition of a roadmap that identified the keys to making inclusion a reality through mobile solutions for the agents involved in this transformation: users and their organisations, mobile developers, public institutions, financing entities, and industrial partners.

### For End Users

- The number of terminals and applications for low-cost mobiles is growing very quickly.
- The evolution of broadband in regions of Latin America. The 3G and 4G standards will be the main drivers of growth in the area.
- More new inclusive services offered by mobile technologies.

### For Developers

- The size of the market in Latin America: 600 million potential consumers.
- Operators will invest in 4G standards and HTML5 as the new development language.
- New sources of financing: crowdfunding for startups and developers.

### For Public Institutions

- Broadband implementation contributes directly to economic growth.
- Digital culture to narrow the digital divide.
- The mobile industry contributes to public financing through taxes.

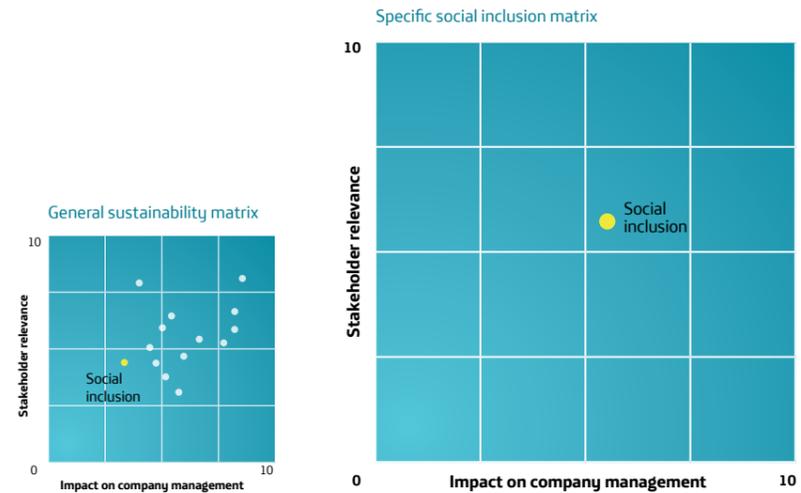
### For Financial Institutions

- The introduction of broadband is directly associated with the growth of the GDP of the country.
- Price flexibility: mobile broadband charges drop and low-cost devices are available.
- Mobile technologies have significant potential to change the lives of millions of people.

### For Industrial Partners

- Low-cost devices will encourage the growth in and demand for traffic by the population.

## Materiality matrix



- Newly-created regulatory agencies are working to reduce taxes and eliminate barriers.
- Improvements in regulations and telecommunications licences will promote the implementation of infrastructures.

In addition to covering these key aspects, the *M-Inclusion* roadmap also includes the needs of end users (from a general perspective as well as from a more specific point of view, taking into account the participating stakeholders), ICT solutions that are suited to these needs, the technological divides and emerging trends to fully address the social inclusion objectives in healthcare, education, the economy, and mobility in Latin America.

People who connect to the web platform can now discuss, participate in the project, and access the services that the portal offers, including open innovation, to find financing or partners, or the mobile app marketplace, which currently has more than 4,300 applications.

As part of *M-Inclusion*, two challenges have been launched called *Apps4change*, which are aimed at recognising the mobile solution that

most encourages social inclusion. The first year the event was held, in 2012, 120 people from 15 countries participated, and some of the applications that were presented are available for download free of charge. The winner was Byron Llerena, a 26-year-old from Ecuador, for his entry, *Black and White*, an innovative programme for Android aimed at people with visual disabilities.

The second year, in 2013, Javier Gonzalo from Spain won with his *MicroHealth* app that allows patients and parents of children with problems of haemophilia and other congenital coagulopathies to monitor the progress of the treatment in real time and share evidence and conclusions with healthcare professionals.

Also, in 2013, *M-Inclusion* was awarded the prize for Best Project 2013 by the Spanish Association of Information and Telecommunications Service Users (Autelsi), for its commitment to social and environmental issues. It was also recognised at the 4th Corresponsables Awards in the Large Company category. These awards are given by the Corresponsables Foundation, which recognises the most innovative and sustainable initiatives in the area of Social Responsibility.

## 'M-Inclusion'



- Innovation of services in mobile technology that are more inclusive for users
- New sources of financing for startups and developers
- Broadband development promotes economic growth



Today, the Brazilian Amazon is connected to the world thanks to broadband and 3G from Telefónica

### Conexão amazônica

Information and communication technologies transform people's lives significantly, and one of example of this is that the Brazilian Amazon today is connected to the world thanks to broadband internet and third-generation (3G) technology offered by Telefónica.

Since 2009, the municipality of Belterra, with a population of almost 16,000, has enjoyed these telecommunications services thanks to an alliance between Vivo (owned by Telefónica), Ericsson, and the collaboration of the Brazilian non-governmental agency *Saúde e Alegria*, which developed a digital inclusion project that has helped to narrow the geographical divide of remote communities in the state of Pará, in the northern part of the country.

The arrival of telecommunications services has resulted in significant developments for the region, including better access to healthcare, education, and economic growth. According to a study by the Faculdades Integradas do Tapajós, close to 90% of the people felt that mobile phones changed their day-to-day lives for the better, and 53% thought that they had actively contributed to the creation of companies and the generation of jobs.

During the execution of the project, it was discovered that the Tapajós River was acting as a mirror, increasing the range of the 3G signal. This has made it possible for the hospital ship *Abaré*, which sails along the length of the river and provides healthcare services to the inhabitants of more than 70 communities, to connect to the broadband network. Today, doctors on board the *Abaré* can communicate with their colleagues around the world and send X-rays and other diagnostic images. This means that thousands of people who live in the Amazon can benefit from quality medical care.

The *Abaré* is also using its mobile broadband connection to offer educational programmes to the communities along the Tapajós River with the support of local universities.

This project won the Global Mobile award in 2013 for the *Best Mobile Product, Initiative or Service for Emerging Markets*.

### 'Intégrame'

*Intégrame* (Integrate Me) is a project of Telefónica Perú that brings telecommunications services to distant rural areas in the country with high poverty levels. This initiative, which began in 2006, was started as an alternative model for

the development of public service infrastructure, with the goal of narrowing the digital divide and fostering social inclusion through public-private alliances to promote the development of telecommunications in rural areas.

Using wireless technology, the programme offers mobile telephony, fixed telephony, public telephones, Internet access, and satellite digital television services, taking advantage of the efficiency generated by the use of a single network for all of the services.

In 2013, the programme reached more than 229 rural towns, which benefited inhabitants of areas like Piura, La Libertad, Ancash, Moquegua, Tacna, Cajamarca, Ucayali, Pasco, Junín, Cusco, Puno, and Huancavelica.

This project has become a benchmark for sustainable development programmes and has been recognised at the International Business Awards (Stevies), which award the best strategies and actions in the area of businesses worldwide. The initiative was also chosen as one of the best examples of Social Responsibility in South America, and one of the best telecommunications products worldwide.

### 'Pescando con redes 3G'

*Pescando con redes 3G* (Fishing with 3G nets) is a project that was started in 2010 to promote economic and social development in the city of Santa Cruz Cabrália, in the south of Bahia, in Brazil, through the digital and social inclusion of fishermen and oyster farmers.

During phase one of the project, the fishermen in Cabrália received mobile devices with credit and used 3G networks to access information on fishing conditions and market prices in real time. Software applications were also designed to support the fishermen in their activities by analysing and providing information on navigation, weather, market research, direct sales, and technical support.

Other initiatives consisted of training the fishermen to use these new technologies, which included the creation of training centres in Santa Cruz Cabrália, as well as a ship to reach the more distant communities. As a result, the fishermen's income increased and they improved the efficiency of their sales.

In total, approximately 60 fishermen in seven communities benefited directly from the project, and more than 750 members of the community and local businesses benefited indirectly.



'Intégrame', is a project of Telefónica Peru to bring telecommunications to poor, isolated rural areas

In phase two of the project, participants received an augmented reality application that uses Qualcomm's Vuforia platform to provide access to data, images, and videos on the *Pesca don Redes* 3G project, information on the community, and restaurants that are participating in the project, tourist information, and a game for increasing social-environmental awareness.

Instructions have also been created for the farming of oysters as a sustainable alternative to traditional fishing in the off-season. The addition of oyster farming to the fishing trade in Santa Cruz Cabrália has increased employment and income per family in the region.

The most recent activities developed as part of this project include the new Centre for Education and Innovation Fishing with 3G Nets (CEIT PR3G), installed in a building donated by the city, which offers training courses to locals. Participants use tablets and smartphones to connect through the 3G network of Telefónica Vivo to an online platform with development tools that allow them to create localised digital content and unique mobile applications. The project will affect more than 4,000 people in Santa Cruz Cabrália and another 5,000 people in other nearby communities.

The awards received by this project include third place in the Social Technologies award of the Bank of Brazil Foundation, and the Viva Mobile OI display award.

### 'WawaRed'

*WawaRed. Connecting to improve maternity-infant health in Peru* is a project in collaboration with the Inter-American Development Bank (IDB), which consists of the implementation of an electronic clinical record for prenatal care of underprivileged pregnant women in Peru.

The project seeks to use information and communication technologies (ICT) to provide a solution to the problems of maternal mortality in Peru, promoting an improvement in maternity-infant health and helping to achieve Millennium Development Goals 4, 5, and 6.

The initiative uses text messages to send personalised information on nutrition, vitamins,

alarm signs, and recommendations for potential problems during pregnancy. The messages are related to the health and gestational age profile of the patient. The project also includes the implementation of an interactive voice response (IVR) system that consists of a telephone exchange with pre-recorded voice messages with information that is of interest to the users.

*WawaRed* currently gives access to the healthcare system to approximately 5,000 pregnant women, providing better healthcare conditions for both mothers and children alike.

Based on the initial results, work is underway to expand the programme through *WawaRed Plus*, which goes beyond the pregnancy phase and provides support to mothers for at least the baby's first year of life, with reminders of appointments, vaccinations, recommendations for care, feeding, development, etc.

### Other Important Projects

In Mexico, we have started a rural telephony project that started in February 2013 with the presence at the International Franchise Fair 2013 in Mexico, and during the early months of the year, the programme was promoted in different forums like the FIF in Guadalajara and Expo PyMes 2013. Over the course of the year, this project has benefited 6 municipalities in the 2 states in which it has been implemented, with a total of 22,000 people.

Last year we also carried out important projects for financial inclusion in Brazil, such as the Zuum service via MFS, a joint venture between Telefónica Vivo and MasterCard, which is based on a pre-paid cellular current account, designed specifically for a large part of the Brazilian population that does not have the payment functions of a bank account. It has been calculated that 36% of the population of Brazil does not have a bank account, 4 out of 5 people use cash as their principal method of payment, and just 13% of the population uses credit cards as the principal means of payment. But while Zuum promotes social inclusion, at the same time it is also exploring a business opportunity. At the end of 2013, 223,000 people were using the service.



**16,000** people in the Amazon have telecommunications services



**9,000** fishermen will have quality training in the Bahia region (Brazil)



**5,000** Pregnant women in Peru will have access to the healthcare system thanks to WawaRed

## SOCIETY

# Response to emergency situations

Good management of the technology behind Telefónica's products and services is a key element in the improvement of the effectiveness of safety and alert teams in both environmental and social emergency situations

Telefónica works to achieve excellence in emergency coordination and management, providing communications infrastructure and know-how

## Natural disasters

The Telefónica Group develops and improves business continuity plans in all of the countries in which it operates. These plans ensure a series of communications services that operate as normally as possible in case of any contingency. These plans respect international standards and are prepared taking into account the characteristics and risks of each region. Their implementation normally involves the creation of communication platforms to provide support for the operations and speed up recovery if systems crash in catastrophic situations. Also, since it is present in different countries, local operators can support each other whenever necessary.

→ **Mexico.** In September 2013, Hurricanes *Ingrid* and *Manuel* left the country with a significant number of contingencies, deaths, and damaged infrastructure that affected 371 municipalities in the area. In this humanitarian emergency, Telefónica strengthened the service of its network with additional batteries and allowed free calls in the customer service centres, among other services, to facilitate the communications of those affected by the hurricanes. These services reached the entire target population and more than 500 calls were received by the telephone attention lines.

→ **Spain.** Minutes after the railway tragedy in Santiago de Compostela, our Operations teams mobilised and a crisis team was formed. Twenty-four landlines were installed in record time and made available to family members; all of the city's base stations were reprogrammed in emergency mode to give priority to voice; open WiFi lines were installed; emergency service numbers such as 061, 112, and the SERGAS telephone numbers were monitored and reinforced. Families were also provided with chargers for their mobile phones so that they would not lose their communications at any time. The necessary technical resources were also deployed to allow the communications media to carry out their reporting tasks with no problems.

## Social alerts

Telefónica works to achieve excellence in emergency coordination and management, providing its communications infrastructure and know-how as an emergency-services integrator, which means that it can offer an integrated system that is adapted to the specific needs of the centre, integrating with its own systems, processes, and procedures.

The emergency centres implemented by Telefónica have won several EENA (European Emergency Number Association) awards. In 2009,

for *Excellence*; in 2010, for *Best Technological Integration of Emergency Services*, and in 2012, for *Best Emergency Centre*. In 2014, we have been nominated in the category of *Best Emergency Centre*.

The mobile telephone application *Libres*, developed by Telefónica Spain, and compatible with any smartphone, for the prevention of gender-based violence, was downloaded 4,000 times in the first month following its presentation. The system offers a variety of information on the resources that are available to any woman who suffers abuse, to start the process of escaping from their delicate situation. Structured into eight fields, the *Libres* application offers a test with simple questions to identify situation of abuse, includes a link to a series of basic steps to begin to leave behind the effects of gender-based violence, and provides contact with 016 or 112 in case of emergency.

The application also provides information on self-protection measures and includes a list of testimonials from women who managed to get out of situations of gender-based violence and who are now living new lives. The content of *Libres* is also complemented by educational material on violence against women, in order to increase awareness.

Telefónica also collaborates with the Emergency Number Association (EENA) on the *European Common Emergency Number Day*, which is aimed at increasing awareness that it is possible to contact the police, ambulances, and fire department from any country in Europe by simply dialling from any phone or phone booth.

In Central America, Telefónica Costa Rica collaborated on the *Hackathon against Domestic Violence*, organised by the World Bank with the support of SecondMuse, which was held in our corporate offices with the participation of 40 people. Technology experts and programmers, together with other experts, worked in groups over the course of two days to produce prototypes of technological solutions and different proposals to combat early violence in couples, improve institutional monitoring of women at risk, identify alternatives to physical punishment, and detect intra-family violence in the university student population.



## SOCIETY

## Volunteers

*If you have the will to change the world, all you need is a chance to do it. Here we all help to build those opportunities*

In 2013, a total of 26,614 employees of the Group dedicated 195,906 hours to charitable projects

Fundación Telefónica, in collaboration with the Human Resources, Sustainability, and Social Responsibility areas, gives life to the idea of creating opportunities to change the world through Telefónica's Corporate Volunteer programme. An opportunity that our employees can take advantage of to make charitable initiatives in 24 countries a reality. Telefónica's Volunteers channel and promote the social action of the Group's employees who want to contribute part of their resources, knowledge, time, and energy to benefit the community and its underprivileged groups.

In 2013, there were 26,614 active Telefónica volunteers, who gave a total of 195,906 hours.

Some of our most successful projects in 2013 included:

#### 'Vacaciones solidarias'

*Vacaciones Solidarias* (Vacations for Charity) is a volunteer programme with international cooperation in which Telefónica volunteers participate for two weeks in different projects that are being carried out in different Latin American countries.

These projects were prepared in collaboration with organisations in Fundación Telefónica's *Proniño* programme, which aims to help eradicate child labour in Latin America.

#### Mentoring as part of the Think Big programme

In 2013, 1,102 employees volunteered over the course of the year to serve as mentors to young people in Telefónica's *Think Big* programme. This project is aimed at young people between 15 and 25 years of age and is intended to train them in social and project-management skills.

These mentors were selected from among Telefónica's professionals, with the following required profile:

- Ability to motivate
- Perseverance
- Solidarity
- Humility
- High degree of integrity and confidentiality
- Capacity to approach mentorship conversations without pre-judging
- Emotional maturity and patience
- Flexibility and creativity
- Respect for the capabilities of others
- Courage to question victim-centred attitudes



**More info**  
At the 'Yo Digo Aquí Estoy' website



SOCIETY

# Social action at Telefónica

Telefónica has maintained the percentage dedicated to social action almost unchanged: 0.23% of Group revenue, 98% of which was in financial contributions

10 million euros was spent on actions and initiatives aimed at improving people's socio-economic conditions

In 2013, Telefónica allocated 128,885,493 euros to social action, according to the externally verified LBG standard methodology. This sum represents a fall of -18.5% over the previous year although its percentage of the Group's consolidated revenue is practically unchanged: 0.23%, two points lower than the previous year. Nearly all (98%) of this figure was in financial contributions.

The LBG Model is an innovative methodology that allows the contributions, achievements and impact of a company's social action to be measured, managed, assessed and communicated in a way directly comparable with other actors.

### Socio-economic development

Actions and initiatives aimed at improving people's socio-economic conditions: around 10 million euros compared to 12.2 million in 2012.

#### Most noteworthy projects

→ **Educational innovation programmes of Fundación Telefónica**

**Beneficiaries:** 7,986 teachers in Fundación Telefónica Classrooms, 14,537 teachers trained in educational innovation, more than 50,000 people trained in digital culture.

'Innovation in 21st-Century Skills' is the educational innovation space where the most relevant experiences of new educational models for the century are demonstrated. It covers learning methodologies that foment the skills of the 21st century, with special emphasis on digital skills. It allows activities in the innovative classrooms and teachers' work to be monitored transparently, by assessing and quantifying the results obtained, in collaboration with academic agents external to the project. The laboratories *El Tiempo* and *Mi móvil al servicio de la comunidad* ('The Weather' and 'My mobile at the Service of

the Community') have been set up and converted into activities replicable in other educational centres with success.

→ **Sponsorship of 'Mobile World Capital Barcelona'**

The objective is to generate the best conditions for companies and agents from different sectors to carry out digital transformation, and for all this to yield an impact on the community.

The Mobile World Capital Barcelona Foundation, set up on 13 March 2012 and responsible for managing the capital status project, is governed by a board made up of the Ministry for Industry, Energy and Tourism, the Cataluña regional government, Barcelona City Council, Fira de Barcelona (the city exhibition centre) and GSMA, a body that represents the interests of more than 800 mobile operators and over 200 mobile ecosystem companies all over the world.

### Art and Culture

Actions and initiatives aimed at the promotion of and access to art and culture for the whole of society: 17.3 million euros compared to 22.9 million in 2012.

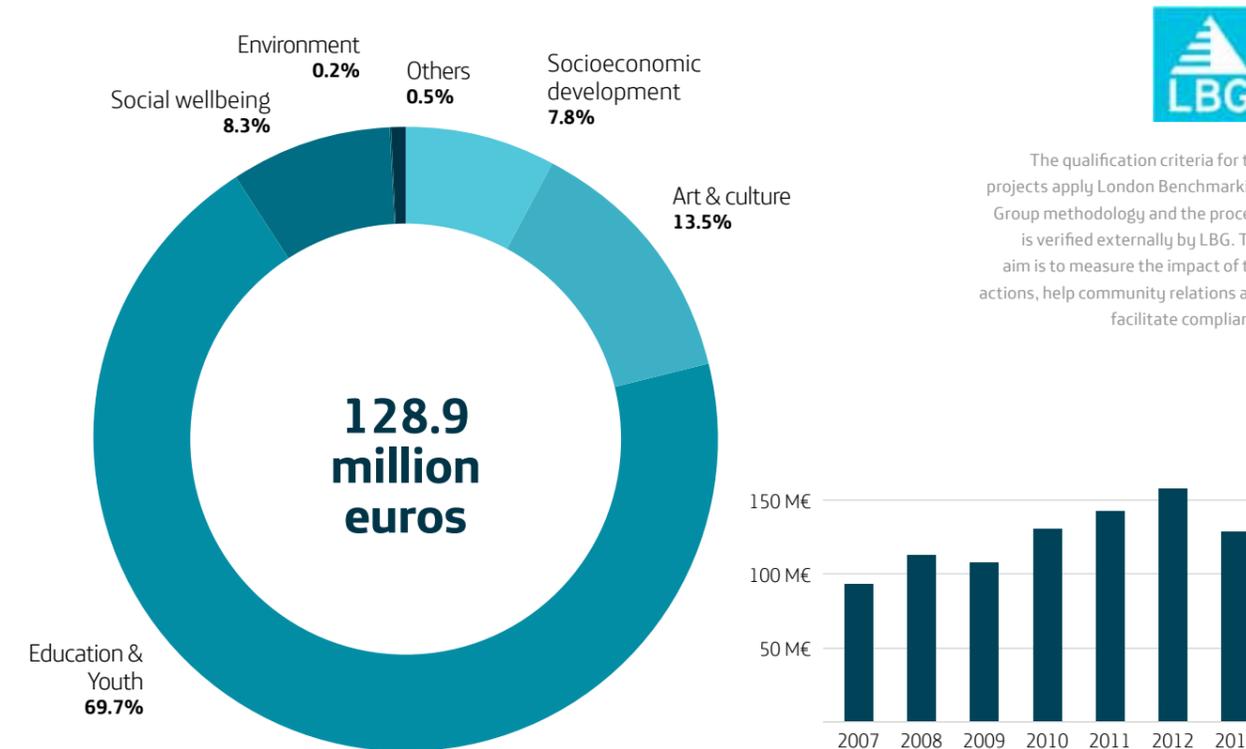
**Beneficiaries:** nearly 1 million attendees at exhibitions and events.

The Digital Art and Culture division of Fundación Telefónica creates, disseminates and shares cultural and technological knowledge related to the content, languages, formats and channels of the digital society.

Artistic and cultural activity mainly takes place around the Fundación Telefónica Spaces in Buenos Aires, Lima, Madrid and Santiago. These are culturally lively centres, spaces open to everybody in which there are exhibitions, debates, concerts, workshops and sound and light installations.

### Social action

In 2013, Telefónica dedicated 128.88 million euros to social action, 18.5% less than the year before, representing 0.23% of the Group's revenues. Financial contributions amounted to 98% of this figure.



The qualification criteria for the projects apply London Benchmarking Group methodology and the process is verified externally by LBG. The aim is to measure the impact of the actions, help community relations and facilitate compliance

<http://www.yodigoaquestoy.com/empresas-yodigo/>

#### Most noteworthy projects

→ **Art and Technology - Fundación Telefónica**

The Fundación Telefónica Space in Madrid has followed a theme of exhibitions based on the work of internationally renowned photographers, such as the images of cinema and pop stars by the Briton Terry O'Neill, graphical reflection on women and Islam by Shirin Neshat and the traditional naturalism of the Galician Virxilio Vieitez. In addition, digital art was also a protagonist, with the installation *data.path* by the Japanese Ryoji Ikeda, an exclusive electronic tunnel created from the images and sounds of *Big Data*.

Among the most important projects in 2013 in Latin America were the exhibition *World Press Photo 2013*, in Chile; the event *Art and optics: The speed of communications*, in Lima, and the Technology Fair in Buenos Aires.

→ **Digitalization of the National Library of Spain**

Telefónica is undertaking the project to digitalize the heritage of the National Library of Spain: books, manuscripts, maps, photographs, etchings... and to publish them on the Internet in the Hispanic Digital Library of the National Library. The aim of the project is to publish these holdings on the Internet and to raise the content in Spanish of the same, by adding over 25 million pages from different kinds of works that can be freely consulted by anybody who so wishes.



Más información  
En la web de  
Fundación Telefónica



Investment in actions and initiatives designed for the integration of the young in general, and to education in particular, reached 89.8 million euros



### Education and youth

Actions and initiatives aimed at the integration of youth in general, and to education in particular: 88.8 million euros compared to 101.9 million in 2012.

#### Most noteworthy projects

##### → 'Proniño' programme

**Beneficiaries:** 471,848 girls, boys and adolescents helped in ten years, and 1,932 members of NGO staff trained.

The latest report from the International Labour Organisation (ILO), published in 2013, estimates that 168 million children in the world are involved in child labour, amounting to around 11% of all children. From within this figure, nearly 18 million children are from Latin America and the Caribbean, of which more than 9.5 million carry out work considered as hazardous.

At Fundación Telefónica we contribute via the *Proniño* (for children) programme for the eradication of child labour in Latin America, supporting quality schooling using the help of technology. We protect children and prepare future citizens for the digital society.

##### → VII International Education Encounter 2012-2013

This macroevent was set in motion in April 2012 to answer the question *What should education be like in the 21st century?* It lasted 18 months and covered 9 countries, attracting 50,000 teachers in its online facet and over 9,000 attendees at its 70 physical events, gathering contributions from 300 speakers of international level along the way.

Educational experts of the calibre of Roger Schank, Alberto Cañas, David Albury, Stephen Downes and Juan Domingo Farnós made contributions to this collective reflection in the 2013 phase, with their unorthodox and at times disruptive visions.

The final product of the VII Encounter was the digital publication *20 keys to education for 2020*, which by the end of 2013 had been downloaded from the Fundación Telefónica website 13,687 times.

##### → Fundación Telefónica App Awards

The Fundación Telefónica App Awards is a competition to publicise the creativity of young programmers of applications for the mobile operating system Firefox OS. The winners have received work placements at various Telefónica Group companies, as well as places at level 2 of the Think Big scheme, because one of the aims of this initiative is to boost young people's professional opportunities. This action fits within the general objective of encouraging the study of STEM (Science, Technology, Engineering, Mathematics) subjects among the young as a way to increase their employability.



### Social welfare

Actions and initiatives whose object is to improve the conditions and quality of life for at-risk groups in the community: 10.7 million euros compared to 11.3 million in 2012.

#### Most noteworthy projects

##### → Ability Awards

The Club Ability is a common interest network that tries to share and improve the best practices identified through the Telefónica Ability Awards in a consistent way, in the different categories: *Senior Management Commitment and Employee Leadership; Recruitment and Selection; Accessibility; Customer Orientation; Professional Development and Training, and Prevention and Retention.*

The 48 Ability Companies and Organisations who were finalists in the Awards have shown that Spanish companies are undertaking pioneering initiatives these days that deserve to be shared and better known. The Club has therefore become a collaborative space to exchange best practices, helping these organisations to face new challenges and continue improving.

Club Ability is a source of knowledge and advice which helps other companies and organisations to integrate disability into their business processes.

##### → Atam

**Beneficiaries:** nearly 16,000 people in Spain.

ATAM, the social arm of Telefónica, with expertise in people, disability and dependency, is a registered non-profit organisation declared of Public Utility by the Cabinet in 1977.

This current year, 2013, we have been celebrating its 40th anniversary. The weight of so many years has given the Association an accumulated wealth of experience in addressing its social aim: prevention of disability and provision of support to allow the social integration of people with disabilities.

Today, 34 Telefónica companies belong, and there are over 52,000 members among current, retired and pre-retired staff and former workers of these companies. Telefónica and the members contributed over 14 million euros in the year 2013, representing 82% of the total income of the Association.

#### Others

Actions and initiatives whose object is improvements in various fields not covered by the preceding categories:

0,65 million euros vs 8,6 million in 2012.

To improve conditions and quality of life for at-risk groups in the community, 10.7 million euros was allocated

SOCIETY

# Support for entrepreneurship: Open future\_

Telefónica supports young and new entrepreneurs through Open Future platform projects including Wayra, Talentum, Think Big, Campus Party and others

Open Future is the initiative that encompasses all Telefónica projects aimed to support young entrepreneurs to promote their projects at all stages of growth. Open Future aims to use the experience, engagement with financial communities and the market size of Telefónica to guide the development of viable projects to innovation, using a model that gives visibility to the talents and connects with investors.

To facilitate market access for the new young entrepreneurs, Telefónica has launched numerous initiatives in recent years, such as Think Big, Talentum, Campus Party, Wayra, Telefónica Ventures and Amérigo.

With help from its partners, Telefónica aspires to create a global hub to promote talent and innovation



With this platform, Telefónica offers entrepreneurs comprehensive and ongoing support for projects, with a single model, ranging from the earliest stages where the project is just an idea, to the most advanced stages of the commercial launch of the start-up. In addition, we can reach more people and make our efforts more global, with more impact and talent inclusion, thanks to Telefónica's partnerships.

Telefónica has a strong belief that technological innovation and the promotion of talent is the best tool to boost economic growth and employment in all markets. Open Future is the platform that will capitalize on every opportunity offered by the innovation ecosystem that Telefónica has created. This growth will benefit all and everyone will be able to *Be more\_*.

Talentum			Wayra	Think Big	Campus Party	Crowdworking
<i>talentum</i> Schools	<i>talentum</i> Startups	<i>talentum</i> Universities				
from 5 to 25 years old		up to 30				
<ul style="list-style-type: none"> <li>available in 8 cities in Spain</li> <li>6 technological trains</li> <li>11 Movistar stores</li> <li>target to 2015: impact 5,000 children and teenagers</li> </ul>	<ul style="list-style-type: none"> <li>4,000 candidates</li> <li>8% selected</li> <li>300 Talentum Startups</li> <li>20 collaborating accelerators</li> <li>20 universities</li> <li>3 firms</li> <li>3 foundations</li> <li>3 municipalities</li> </ul>	<p><b>Spain</b></p> <ul style="list-style-type: none"> <li>217 scholarships in 2013</li> <li>557 new hires in 2013*</li> <li>100 scholarships planned for 2014</li> <li>300 new hires planned for 2014</li> </ul>	<ul style="list-style-type: none"> <li>more than 1,300 entrepreneurs in the Wayra community</li> <li>315 startups accelerated</li> <li>22,080 projects received since 2011</li> <li>14 academies in 12 countries</li> </ul>	<ul style="list-style-type: none"> <li>3,338 projects developed</li> <li>260 events</li> <li>54,577 participants</li> <li>more than 1,000 volunteers collaborating as mentors</li> <li>6.9 million euros invested</li> </ul>	<p><b>Brazil</b></p> <ul style="list-style-type: none"> <li>more than 7,600 innovators</li> <li>\$5,000 for each project selected</li> </ul> <p><b>Colombia</b></p> <ul style="list-style-type: none"> <li>more than 300 innovators</li> </ul> <p><b>UK</b></p> <ul style="list-style-type: none"> <li>more than 10,000 innovators</li> <li>8 stages and close to 250 speakers</li> </ul>	<p><b>Chile</b></p> <ul style="list-style-type: none"> <li>1,500 m<sup>2</sup> in Telefónica Open Future building in the city center of Santiago de Chile</li> <li>100 people daily</li> <li>300 annual projects</li> <li>4 events a week</li> </ul> <p><b>Ecuador</b></p> <ul style="list-style-type: none"> <li>430m<sup>2</sup> in Quito</li> <li>40 users</li> <li>10-12 projects</li> </ul> <p><b>Spain</b> (opening soon)</p> <ul style="list-style-type: none"> <li>970m<sup>2</sup> in Isla Cartuja in Seville</li> <li>450m<sup>2</sup> in the Culture City of Santiago de Compostela</li> </ul>

\* From the 569 scholarships awarded in 2012.

SOCIETY

# Support for entrepreneurship: Wayra

*Wayra is the accelerator programme for the launch of ideas promoted by Telefónica, created to find and nurture the best talent in technology. 'Wayra' invests, on average, in one new project every three days, and creates almost three new jobs every day*

Wayra wants new companies which operate in strategic areas for Telefónica to manage to consolidate themselves in the shortest possible time

Wayra is the instrument that we put in the hands of emerging innovation and start-ups, so that they benefit from the global expansion and market leadership of our company. Entrepreneurs see in this union immense potential to distribute their ideas in the markets in which Telefónica is present with over 320 million customers, as well as having access to its vast network of partners and businesses around the world. For Telefónica, Wayra is the perfect place to identify talent and help it to become competitive in the shortest time possible. Many of the projects that Wayra accelerates are aimed at key strategic areas for business, from OTT applications to cloud computing to financial services.

About to serve three years of operational life, Wayra has 14 fully operational academies for entrepreneurs in 12 countries. Thus, its presence in Germany, Argentina, Brazil, Colombia, Chile, Spain (Madrid and Barcelona), Ireland, Mexico, Peru, United Kingdom, Czech Republic and Venezuela, means that Wayra is an accelerator with a truly global spirit.

The academies are spaces for meeting and work, and architecturally designed in line with the latest trends in co-working. They offer access to the best technology and mentoring, interaction with other projects and facilities for connectivity to the other countries where Wayra is present. So far, Wayra has already accelerated more than 300 companies over its operational lifetime, with an average of one every three days. These companies are themselves catalysts for employment and business, as they quickly seek new professions and technical resources, such as developers and specialists in design and user experience.

During 2013, Wayra called together hundreds of venture capitalists in more than 10 cities at this kind of event, demonstrating the potential of the companies in its portfolio. In November, it held its second international *demoDay* simultaneously in London and São Paulo, which was attended

by over one hundred investors, business angels and renowned entrepreneurs from Europe, Latin America and the United States. There, 16 start-ups representing nine countries had the opportunity to present their products and related investment opportunities to the international investment community.

Nevertheless, the work of an accelerator does not culminate in the graduation of its companies, but rather continues with the ongoing search for more and better talent. From 2013, Wayra has been recruiting start-ups and entrepreneurs through a new scheme for proposals that no longer distinguishes between countries. Wayra will make three calls for proposals every year which will offer, openly and simultaneously, places at the various academies to any entrepreneur in the world who wishes to apply with a project. This new model has arisen from the need to keep up with the pace at which new technologies are emerging – now that they are decentralised and can occur anywhere in the world – and provide tools so that the academies can accelerate these projects with greater agility and flexibility.

## Wayra in figures

More than 315 accelerated start-ups out of a total of more than 22,080 projects received since 2011. The admission rate at Wayra is lower than that of Harvard (approximately 1.8%).

The 14 academies are present in seven countries in Latin America (Brazil, Argentina, Colombia, Mexico, Peru, Chile and Venezuela) and in five countries in Europe (Spain, UK, Germany, Ireland and the Czech Republic), covering a total population of 108 million.

With a total area of over 10,000 square metres devoted to accelerating projects and innovation, the academies together represent a space that exceeds the area of two FIFA standard football fields.



More than 22,080 ideas and projects have been received, making it one of the largest acceleration and trend detection programmes in the world. This represents the presentation of one project per hour since the launch of Wayra in 2011.

Wayra has a portfolio of more than 315 companies grouped into 20 digital industries. The funds committed by Telefónica in early-stage companies accelerated by Wayra come to €12.6

million, while third parties (public funds, private and angel investors) have provided funding of approximately €32 million.

Eight out of 10 start-ups have launched their products or are in the beta phase. Six out of 10 are already selling their services to clients and users (2014).

Funds committed by Telefónica for Wayra projects come to €12.6 million

## The Wayra programme in figures\*

€13.6M investment by Wayra in start-ups (not including accelerator services)	€36M investment by third parties (funds, business angels and others) in start-ups accelerated by Wayra
39% of start-ups later obtain external financing during their acceleration cycle in Wayra	€357K average investment round for graduate start-ups
2014 admission rate: 3%	+2,500 people in its global expert network (entrepreneurs, partners, advisors, mentors)
+145,000 followers of Wayra and its academies in Twitter	+380,000 video views of start-ups in YouTube (equivalent to more than 312 days)

### Global partners



\* Data as of mid-2014.

Key figures	2013
Number of academies	14
Number of firms accelerated	300
Funds committed (€ million)	12.6

SOCIETY

# Support for entrepreneurship: Talentum\_

Through its 'Talentum' programme, Telefónica creates work and digital apprenticeship opportunities for thousands of young people and university graduates



'Talentum Startups' wants to become known as a driver of talent and reflect the presence of women in ICT careers

*Talentum Schools* is a Telefónica initiative with the aim of promoting the development of technology creators in children and adolescents, aged 14 to 18 years, developing their creativity and innovativeness.

The initiative, which follows the approach of "learning by doing", is carried out in open and free workshops in Movistar stores, which are complemented by a follow-up on the online platform Talentum Schools. The activities offered cover various areas such as programming, robotics, augmented reality or developing mobile apps.

The programme is currently being developed in eight Spanish cities (Madrid, Barcelona, Valencia, Seville, Bilbao, Zaragoza, Palma de Mallorca and Granada) and during 2014 we will continue the expansion of the programme to new stores and cities across the country.

With this initiative, Schools Talentum aims to generate technology creators while discovering and

promoting talent and providing participants with motivational tools to develop their creativity and innovation.

A year after the launch of Talentum Startups, it has become a programme of open innovation whose pillars are young talent, technology and entrepreneurship.

The Talentum Startups program invests in young people, enhance innovation and entrepreneurship as engines of growth. University students participating in the programme have the opportunity to develop professionally in high-technology innovation and face their professional future from a very different perspective. At the same time, the Talentum Startups programme is a major boost for the entrepreneurial ecosystem, because those start-ups are strongly reinforced in their technological part with what is currently most valued: technology resources.



Talentum Startups is a programme for the best, for university students who pass a rigorous selection process conducted by top professionals. Programme participants come from all regions, and so far have had the opportunity to participate in over 20 different locations across the country. It is an open innovation programme with the collaboration of more than 50 public and private institutions and corporations: accelerators, universities, foundations, corporations, municipalities, etc.

Talentum Startups is a Telefónica's programme for open innovation. In 2013, Ericsson was the first large corporation who joined the programme. For this year 2014, we will have new upcoming additions that will allow us to scale the programme and increase the number of young people participating.

Talentum Startups is a programme to support college careers in technology and the

entrepreneurial ecosystem. Talentum Startups targets university students of technology selected throughout Spain, who are offered a work experience in high-technology innovation. It is twofold:

→ *Talentum Startups Short Track*, designed for techies (developers, programmers, etc.) with an entrepreneurial spirit. We support the development of their own projects to develop the first prototype: mentoring, endowment, hardware, training, etc.

→ *Talentum Startups Long track*. The Talentum Startups develop technology start-ups in a technology accelerator.





SOCIETY

# Support for entrepreneurship: Campus Party

Campus Party is the meeting of talent and ICT challenges, which is sponsored by Telefónica since 1999 to develop digital ideas to help improve people build a better life

Telefónica believes that technology is the solution to the great global problems and they require the creation of a sustainable, replicable ecosystem of social innovation

In 2013 we sponsored meetings in São Paul (Brazil), Boyacá (Colombia) and London (UK) so as to bring disruptive talent together and closer to Telefónica.

At the Campus Party in São Paulo, the competition *Transforming Technologies Challenge* was a high point, as a way to support business ideas related to healthcare, education, volunteering, income generation, natural disasters and NGOs. From among all the projects, 10 were selected, which received a grant of up to 5,000 dollars to bring their idea to fruition.

Telefónica Vivo also worked on the *Smart Cities* theme at its *hackathons* (hacker marathons) throughout 2013, in three editions: *Vivo Hackathon Intelligent Cities* (at Campus Party Brazil 2013), *Firefox OS Pernambuco for All* (Campus Party Recife 2013) and *Hackathon USP Cities*. Nine of the projects presented won prizes.

As part of the activities of the Campus Party in London, *Hacking For Something Better* (H4SB) took

place. The aim of H4SB is to help to build a better and more sustainable world through technology. Its inspiration comes from the *Sustainable Development Objectives (2015-2030)* promoted by the United Nations, which continue the work started by the *Millennium Objectives (2000-2015)*.

At *HackForGood* two types of social hacker are defined: the *Social Challengers* and the *Social Makers*. *Social Challengers* are those who are familiar with and sensitive to such social problems as youth unemployment, disability, active aging and new forms of social participation. They act by means of 'challenges'. A 'challenge' is a call to action to the *Social Makers* for them to build solutions.

The *Social Hackers* who have been working with Telefónica are multidisciplinary. In fact, one of the aims of *HackForGood* is to prompt a real synergy of ideas and disciplines. Some of those already registered with us are real *techies*. Others are social scientists, engineers, psychologists, designers, doctors, journalists, etc. Together

they make up a rich ecosystem of social hackers: ordinary people who share an awareness of and interest in collaborating in the quest for solutions to problems with high social impact.

The aim of this Telefónica initiative is to show that technology is at the heart of solving the great problems of the planet and that the creation of a sustainable, replicable ecosystem of social innovation is one of the keys.

At the London Campus Party, the *datathon Data for Social Good* was also held. On this occasion, participants had access to aggregated, anonymised data on flows of people in the London area, together with other data from the UK *Open Data Institute*. Participants could use this information to invent and create applications for the good of society. For instance, the risk to people who visit a certain area arising from the closure of fire stations was studied.

As a precursor to all this, the *hackathon H4G* had already begun in March. This centres on social innovation, and new ideas, services and applications will be developed to help to solve social problems, satisfy existing needs, create new communities, developing collaborations among public and private institutions and the third sector, etc.: everything that contributes to creating a better world.

Campus Party was the ideal scenario to share initiatives like *FI-WARE* and hold a competition to develop *FI-WARE app hackathons*, where major prizes were given to the winners. The *campuseros* were also given a presentation on *Wayra*, the Telefónica startup accelerator, and some of these incipient businesses had a chance to show off their successes and experiences.

## Challenges

To develop, in the *HackForGood* environment, new ideas, services and applications that help to solve social problems, satisfy existing needs, create new communities, developing collaborations among public and private institutions and the third sector, along each of the theme lines:

- Youth unemployment
- Disability
- Active ageing
- New ways to participate in social innovation



## Best practice

### Social hacker? Join the 'HackForGood' craze

Have you heard of social hackers? These are people aware of society's problems and challenges, who use their abilities and those in the ecosystem around them to search for innovative solutions.

HackForGood is a marathon meeting of social hackers that took place in 2013. HackForGood is a social innovation hackathon. Its main aim is to develop applications and solutions in response to challenges posed in four areas, using ICT:

- Youth unemployment
- Active ageing
- Disability
- New forms of social innovation

These are areas that pose veritable challenges for our society in order to improve leisure, education, accessibility, personal autonomy and health of the elderly.

HackForGood also wants to throw open a final theme that looks at challenges related to other social groups or that allows experimenting with technology in some way different.

To participate, visit the HackForGood blog or join the conversation on Twitter with the hashtags #h4g and #HackForGood. Go on, we're waiting for you!

The largest

Internet event in the world

5,000 \$

to move each winning project forward

SOCIETY

# Support for entrepreneurship: Think Big

The Think Big programme is the route we at Telefónica have chosen to help prepare young Europeans for the personal and professional challenges they will face in the future, by developing their business and digital skills

In 2013, this scheme, in which six countries participate, recorded its highest number of successfully completed projects

In Spain the first call was launched in 2012 and the second was launched a year later, expanding the number of selected candidates 120 to 300. In general, the number of projects supported has grown during 2013 in all participating countries (on top of Spain, the United Kingdom, Germany, Ireland, Czech Republic and Slovakia). In addition, the Think Big Schools initiative, focused on younger students, has expanded from the UK to other countries, organizing numerous sessions that have increase the visibility and impact of Think Big.

During 2013, the Telefónica Foundation invested 6.9 million euros in the programme and backed the development 3,338 projects. Much of this budget was allocated to training young people, this being one of the fundamental pillars of Think Big. Each participating team received instruction in a series of core competencies for its development, with over 260 events organised in the six countries named above.

Furthermore, the Programme has the strong backing of Telefónica employees, with over 1,000 volunteers collaborating in some way (mentoring, donations, training, etc.). All of them contribute to the impact achieved on society, made real in the 54,578 young participants in the program during the year.

**Prometteo** Prometteo, which is a web platform for travellers with auditory disabilities, is one of the outstanding projects of the most recent edition of

Think Big in Spain, and it has now passed through both levels of financing (400 and 3,000 euros). Its leader, Sara, confesses to being passionate about accessibility and hopes that the service will grow and help this group to enjoy the pleasure of travelling without restrictions.

The platform is based on a social web and an accessible mobile application that contain informative videos about different places of interest, in sign language. Its aim is to break down the existing barriers to communication, making access to tourism, leisure and culture easier for all. Cities, museums and hotels can use the system to provide specially adapted information to people with auditory disabilities, so improving their customer service.

**Milestones**

→ 2013 has been a year of growth for Think Big. During the year, the brand was reinforced and the impact the scheme has on young Europeans was consolidated

**Challenges**

- To create an integrated operation and in line with the Digital Telco strategy and the other entrepreneurship schemes of Telefónica
- Financing of 2,000 projects in Spain, Germany and the UK.

	2013
Investment (million euros)	6.9
Projects developed	3,338
Events	260
Participants	54,577



Green ICT & environment\_

Environmental management\_

Energy & climate change\_

Electromagnetic fields\_

Green ICT services\_

Smart Sustainable Cities\_

Global environmental leadership\_

# 7. Planet\_





PLANET

# Green ICT & environment

Green ICT can generate value for our Company in terms of reducing costs and generating new income

We carry out our materiality analysis as part of our commitment to sustainability reporting

Our strategy on Green ICT and Environment is designed to promote the sustainability of our operations, our customers and the cities in which we operate. We envisage Green ICT as an additional set of processes and activities that can generate value for our Company in terms of reducing costs and generating new income.

This year, the environmental information given in the Telefónica Sustainability report emphasises environmental materiality issues, which are managed along 6 lines of action:

- Environmental management
- Energy & climate change
- Green ICT services
- Smart Sustainable Cities
- Electromagnetic fields
- Global environmental leadership

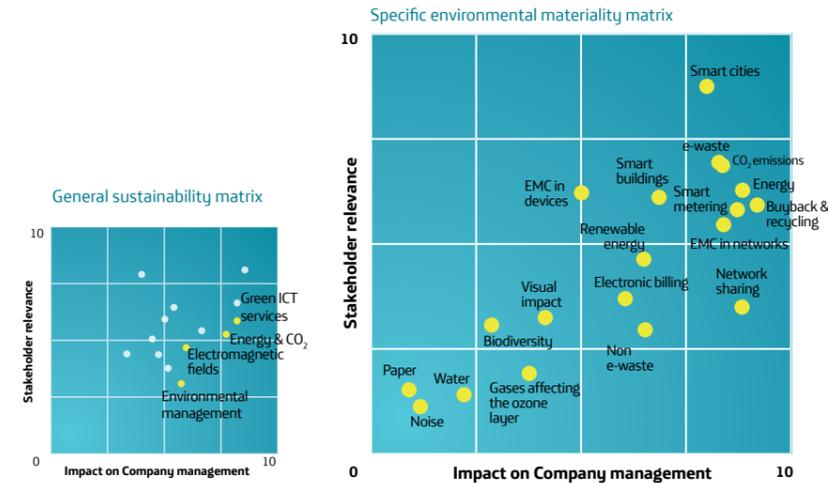
## Environmental materiality

We carry out our materiality analysis as part of our commitment to sustainability and reporting on our activity. This analysis includes - along with the materiality of general sustainability - an evaluation of the broader environmental questions for Telefónica. This process has led us to important environmental aspects relevant to our Company: electromagnetic fields, Green ICT services, energy and CO<sub>2</sub>, and waste management.

We have been working on a global methodology on materiality where we include environmental issues. This methodology for evaluating relative importance has taken into account as material environmental aspects, the relevant environmental risks for Telefónica all over the world, and the environmental trends in the ICT sector.



## Materiality matrix



PLANET

# Environmental management

We include the environment into our business model and we work to adopt environmental criteria in our operations in order to reduce environmental risks and promote operational eco-efficiency

We are geographically very dispersed, so we have a particular need for uniform environmental management processes

We have an environmental policy applicable to all Telefónica companies and a global environmental management system that lets us ensure compliance with local environmental legislation and improve our management processes continually. While the environmental impacts of our operations are not intensive, we are highly dispersed geographically, making environmental management based on uniform processes highly necessary, and we group this effort around 5 principles:

- Measurement of environmental performance
- Global management of environmental risks
- Compliance with environmental regulations
- Environmental management system
- Eco-efficiency

**Environmental KPIs:** we measure our environmental performance using the relevant global management indicators (KPIs), applicable to all of Telefónica's operators. Based on these, we take decisions, identify potential environmental risks and measure the environmental impact of our operations in economic terms. [More info](#)

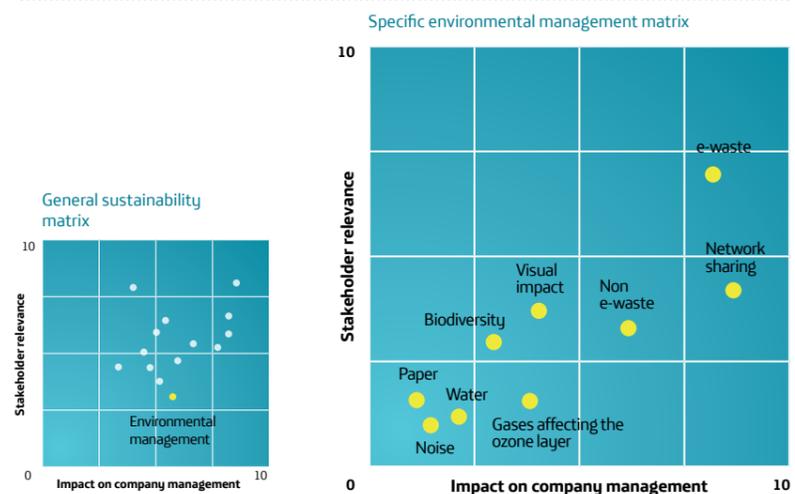
**Environmental risks:** we handle our environmental risks in terms of the global risk management model. Among the most notable



risks could be the existence of environmental liabilities, inadequate waste management, or the effect of climate change in our operations. Every year we place an economic value on our environmental risks.

**Legal compliance:** we comply with environmental legislation applicable to our operations. Should there not be appropriate legal frameworks, we work with the authorities and the sector to encourage standards and regulations that guarantee the environmental sustainability of our activities within reasonable management parameters.

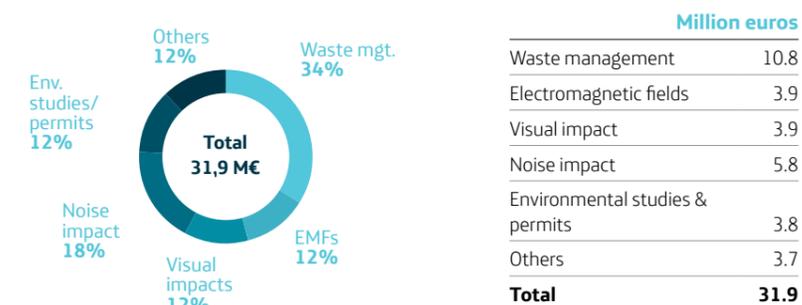
## Materiality matrix



**Global environmental management system (EMS):** Nowadays, more than 60% of our companies, representing 70% of total turnover, have environmental management systems that comply with the ISO 14001 standard and which have been certified by an external party. In addition, we are working to consolidate the environmental teams in the countries of the Group so as to improve the systems incrementally and build up the management capability in companies that are still implementing the system.

**Eco-efficiency:** Our continuous improvement processes are based on eco-efficiency principles, that is, optimising the internal processes that could have an impact on the environment, reducing the consumption of resources or reducing the generation of waste. This management is linked to economic valuation of costs, investments and income from environmental management at global level, which in 2013 reached 32 million euros.

## Environmental management expenditure & investment



### Environmental management system

Company	ISO 14001 Certific.	Company	ISO 14001 Certific.
Telefónica España*	☺	Telefónica México	☺
TIWS	☺	Telefónica Nicaragua	☹
Telefónica S.A.	☺	Telefónica Panamá	☹
Telefónica Argentina	☺	Telefónica Perú	☺
Telefónica Brasil	☹	Telefónica Venezuela	☹
Telefónica Chile	☹	Telefónica Uruguay	☹
Telefónica Colombia	☺	Telefónica Germany	☺
Telefónica Ecuador	☺	Telefónica UK	☺
Telefónica El Salvador	☹	Telefónica Ireland	☺
Telefónica Guatemala	☹	Telefónica Czech Rep. & Slovakia	☺

\* Includes Telefónica Soluciones

### Responsible network deployment

We manage the environmental aspects associated to our network infrastructure. Our environmental management is based on processes: before, during and after the deployment of our fixed and mobile networks. We work on the precautionary principle and in compliance with local environmental legislation.

In natural protected areas and of high environmental sensitivity we carry out detailed impact studies. We work on obtaining environmental permits for our operations, waste management, noise control, reduction of visual impact and monitoring electromagnetic fields.

For the deployment of new optical fibre or LTE networks, we make the optimal selection of sites for deployment, always encouraging infrastructure shared with other operators and technical evaluations to reduce the environmental impact of our infrastructure.

We also manage the electromagnetic fields (EMF) in our network, as another aspect of our Global Environmental Management System. This forces us to engage in public participation and community information during deployment, as well as to carry out measurements in the base stations. [More info](#)

### Responsible network deployment in figures, 2013

#### Planning

- 8,700 environmental permits obtained to deploy the network
- 3.8 million euros on environmental studies and obtaining environmental permits

#### Construction

- 576 visual impact actions
- 3.9 million euros invested in visual impact actions
- 34,421 sites shared with other operators

#### Operation

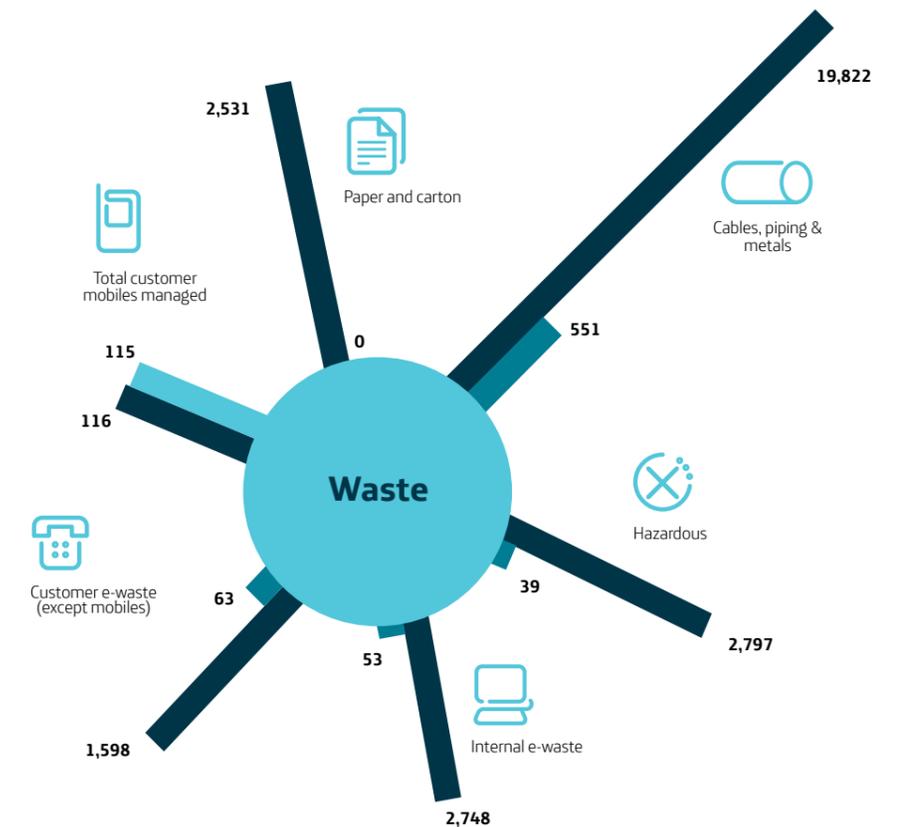
- 5.8 million euros invested in noise abatement
- 24,750 EMF measurements
- 3.9 million euros invested in EMF measurement

#### Decommissioning

- 20,372 tonnes of operational waste managed (cables, pipes, etc.)
- 1,672 tonnes of operational e-waste managed
- 37 million of revenues from operational waste management

### Waste (tonnes)

- Recycled
- Tip or destruction
- Reused



### Best practice



#### Iquitos: Responsible network deployment in Peru

During 2013 Telefónica Peru worked to bring broadband Internet and 3G mobile service to the capital of the Oriente department of Peru, Iquitos, with a project that crossed the extensive Amazon jungle. The route of the project was designed so as to skirt, without crossing, the Natural Reserves of Pacaya Samiria (the largest natural reserve in the country) and Alpahuayo Mishana. Passing close to a large environmentally sensitive area, an intensive programme of work was required, and this commenced in 2012. It included talks with the Peruvian Ministry for the Environment, a detailed environmental impact study, an environmental permit for the operation, energy generation using renewable energy systems, adaptation of the work so as to avoid the rainy season, and a broad process of citizen participation to explain the project to local communities.

[More info](#)

### Best practice

#### Beacon project: Shared infrastructure in the United Kingdom

Telefónica UK and Vodafone UK have reached a network infrastructure sharing accord, leading to the creation of a map of 18,500 shared locations, which will offer joint 2G and 3G coverage in the country, with the objective of covering 98% of the population by 2015.

Telefónica UK has been advised by the global Networks and Operations department. Technology providers are Huawei, NSN and Ericsson and is expected the project would reduce the visual impact of the infrastructure. The project will allow reductions in the costs of operations, in obtainment of environmental permits, deployment of new infrastructure and electricity consumption. It is expected that there will be a fall of about 13% in electricity consumption, considering that around 2000 sites will be dismantled.



### Operational eco-efficiency

**Efficient use of water.** Water consumption at Telefónica is controlled at the level of offices as we do not use this resource in our networks. During 2013, there was a reduction of 20% in total consumption, mainly because of actions on saving, the simplification of the number of buildings in Brazil and awareness-raising campaigns for employees.

**Efficiency in paper consumption.** During 2013, the Company's offices used 1,089 tonnes of new paper and 409 tonnes of recycled paper. We follow various practices at Telefónica aimed at reducing paper consumption, such as: centralised printing at specific sites, setting of printing quotas, and fomenting the use of recycled paper in offices.

**Efficiency in waste management.** Waste generation is one of the main environmental facets of our activity. The types of waste are

varied, but all are handled separately according to the risk they pose, and they are dealt with by duly authorised companies in compliance with environmental legislation; the order of priority in handling is: reduction, reuse and recycling. The most important are network and office electrical and electronic equipment, and the most hazardous is basically batteries in our case. In 2013 we handled 30,432 tonnes of waste (recycling and reuse) and we generated 40 million euros of income from sale of waste.

**Energy and CO<sub>2</sub> management.** The carbon management and the efficient use of energy in Telefónica are managed by the Climate Change and Energy Efficiency Office. We work in energy efficiency projects, renewable energy and emissions reduction activities in our value chain. See Energy and Climate Change chapter.

### Best practice

#### Less paper at Telefónica Germany

New more efficient printing equipment has been installed at Telefónica Germany, which will also save energy. The new equipment works with a printing security card, personal to each employee, without which printing is not possible and which lets the device automatically eliminate print jobs that have not run from its spool. As part of its paper-saving policy, Telefónica Germany has reduced the number of printing, scanning and fax units by at least 50%.



### Best practice

Telefónica Peru has carried out a project called Embajador Verde Recicla ('the green ambassador recycles'). The aim of the project was to publicise the existence of the external scheme *Reciclame* (recycle me) for collecting mobiles, chargers and accessories, to motivate our collaborators to recycle so as to look after the environment, raise awareness of the importance of recycling disused mobile devices and manage to increase the amount of equipment sent for recycling.

This project was structured as a test of skill between teams made up of Telefónica Peru collaborators from different departments. The aim of the competition was to collect the largest number of disused mobiles, batteries and other accessories. [More info](#)

### E-waste management

We have an integrated policy for managing electrical and electronic waste (e-waste) based on the "3R" principles of eco-efficiency: Reduce, Reuse and Recycle. The principles of e-waste management at Telefónica are:

- Promote e-waste management models based on eco-efficiency principles and in accordance with the legislation in force.
- Support standards that reduce the generation of e-waste and improve the eco-design of this kind of equipment for telecoms services.
- Develop equipment purchase policies for our operations that facilitate reuse and recycling at the end of its useful life.
- Inform our customers and offer them environmentally responsible options for disposing of their unused devices.
- Monitor correct e-waste management by suppliers and authorised handlers.

In 2013, Telefónica disposed, for recycling, of around 2,800 tonnes of e-waste from networks and offices. This waste was delivered to qualified handlers, under a model of economic recuperation for recycling and reuse of materials.

The schemes designed by Telefónica are characterised by their promotion of joint work between specialised waste handlers and logistics companies, as well as manufacturers of mobile devices, with the intention of ensuring "extended responsibility" for efficient e-waste management. Among the challenges for Telefónica is that of correct handling of customer e-waste, before, during and after use.

In 2013, we put our emphasis on regulations and standards for correct e-waste management, above all in Latin America, given that not all our countries have suitable legislation in this area. We held two workshops on this subject: one in El Salvador [More info](#) and another in Ecuador. [More info](#)

Following these principles, we have developed systems of e-waste management for obsolete network equipment and we have had recycling and reuse programmes for customer equipment, including mobiles, ever since 2006.

### Sources of e-waste in Telefónica

 <p><b>Fixed &amp; mobile network operations</b></p> <ul style="list-style-type: none"> <li>■ Switchboards, transmission</li> <li>■ Antennas</li> <li>■ RF equipment</li> </ul>	 <p><b>Offices &amp; logistics</b></p> <ul style="list-style-type: none"> <li>■ Computers</li> <li>■ Telephones</li> <li>■ Obsolete equipment</li> </ul>	 <p><b>Residential &amp; corporate customers</b></p> <ul style="list-style-type: none"> <li>■ Telephones</li> <li>■ Routers</li> <li>■ Switchboards</li> <li>■ Computers</li> </ul>
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Delivery to qualified waste managers  
Collection of equipment by manufacturers  
e-waste recycling & reuse programmes

### Greening our value chain

**Environmental control to providers.** We are extending our environmental monitoring to suppliers and contractors to ensure correct environmental management at Telefónica. For this, as well as incorporating environmental clauses into all our contracts, we carry out activities of training and communication, and also audits to monitor our supply chain. The global environmental management system demands the performance of internal and external audits which ensure compliance with legal requirements and the environmental procedures defined by the Company at a global level. Indeed, Telefónica includes monitoring suppliers as part of our processes of environmental auditing. Further, we manage sustainability in the supply chain through a specific programme for the same.

**Our employees.** We are aware of the importance of our employees as a pillar in the correct environmental behaviour and performance of the Company. So, during 2013 we have continued to make efforts to involve all our staff in this and have carried out various activities.

- New Telefónica Green Intranet: In 2013, we launched the new global Green Intranet directed at employees, where they can find complete environmental information about the Group.
- Environmental training: in 2013, employees received 20,000 hours of environmental training.
- Environmental volunteering: thanks to the volunteering scheme of Fundación Telefónica, over 100 activities of environmental volunteering took place, involving more than 1950 Telefónica volunteers.

Our global environmental management system requires us to carry out internal and external audits of our suppliers



### Best practice

#### Environment Day 2013, Telefónica District Plantation

Various Telefónica volunteers embarked on a day of planting trees, shrubs and aromatic plants in the area next to the corporate headquarters in Telefónica District. That day these eco-volunteers contributed to improving the landscape and the environment. [More info](#)

PLANET

# Energy & climate change

We work to reduce our energy consumption and carbon footprint through developing energy efficiency activities and identifying CO<sub>2</sub> emission reduction opportunities



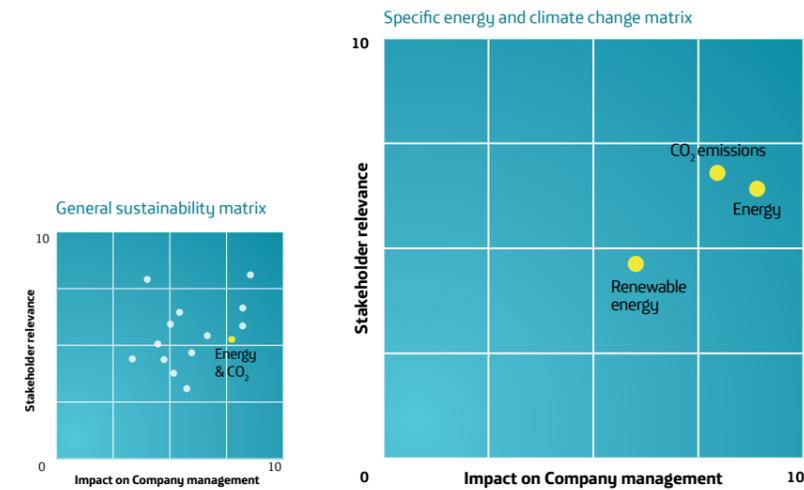
Through the Climate Change and Energy Efficiency Office we work to reduce our energy consumption and carbon footprint, promoting energy efficiency activities in each of our operations, identifying CO<sub>2</sub> emissions reduction opportunities and making tangible the results of this effort.

This work allows us to reduce our energy costs, improving our competitiveness by being able to offer customer service for the best price. In addition we help our partners generate business, as they are essential for the development and implementation of energy efficiency projects.

## Energy efficiency in Telefónica



## Materiality matrix



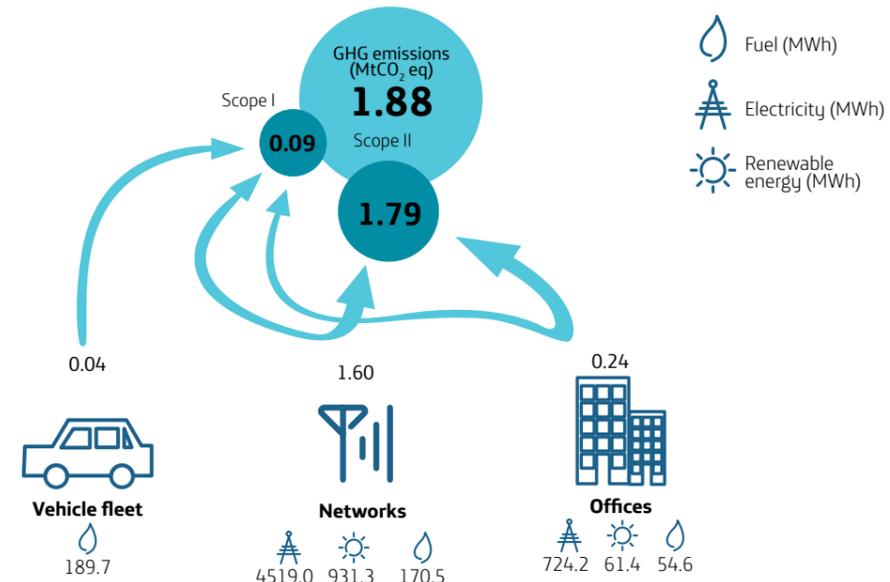
## Energy and emissions inventory

Every year we quantify Telefónica's energy consumption and calculate our carbon footprint using a global model based on the GHG Protocol of the ISO 14064 standard and the recommendation ITU-T L.1420 "Methodology for measuring energy consumption and GHG emissions due to ICT in organisations" from the ITU. We also carry out an independent energy

and emissions data verification process under the auspices of AENOR. This allows us to identify improvements in our processes and to manage energy and carbon transparently.

The Corporate Office carries out this annual accounting procedure for energy and emissions at global level and for each of the operators of the Group, using a unified methodological approach.

## Telefónica\* Energy & Emissions Inventory



\*Energy and emissions data being verified by specialists.

## Best practice

### Data Center - Alcalá

In April 2013 Telefónica inaugurated the 'Alcalá Data Center' outside Madrid, an innovative data center with maximum capacity for the digital services of the future. Classed as one of the most efficient in Europe, this innovative data center, which will serve as the base for the cloud services offered by Telefónica all over the continent, will carry on growing progressively until completion to then become the most efficient and ecological giant in the world, with a total of 23 IT rooms and capable of saving 75% on energy consumption compared with other conventional data centers. It will satisfy the most demanding requirements for excellence by international standards (Green IT), with the latest electrical and cooling infrastructure. For instance, it will achieve a PUE (a unit of measurement for energy efficiency) of 1.3, compared with the average current 2.4 for such installations.

[More info](#)



**More info**  
 Vídeo: [Alcalá Data Center](#)



Telefónica Energy Managers @ 2014 Energy and Climate Change Global Workshop Panama City.  
[More information](#)

## Activities & results

To reduce GHG emissions, we are working along three lines of action:

- Reduction of electricity consumption through projects that improve energy efficiency: we have carried out 16 global energy efficiency projects, yielding savings of 9.1 GWh of electricity use and reducing its cost by 4.7 million euros.
- To reduce the use of fossil fuels in operations, offices and vehicle fleets, substituting them by more efficient and cleaner sources of energy, using vehicles that consume less such as hybrids or electric cars, and reducing the distance travelled by improved fleet management. We have achieved a 15% reduction in fuel consumption in networks and vehicles thanks to energy-saving measures and monitoring consumption.

→ Encouraging the use of renewable energy, mainly in those places where the mains electricity is difficult to access. We have acquired 5% more of our energy from renewable sources than the previous year. Currently, about 15% of the electricity consumed by Telefónica comes from renewable sources, so avoiding the generation of over 280,000 tonnes of CO<sub>2</sub>-equivalent.

Similarly, we share the best practices with other companies of the Group and recognise the best projects each year publicly.

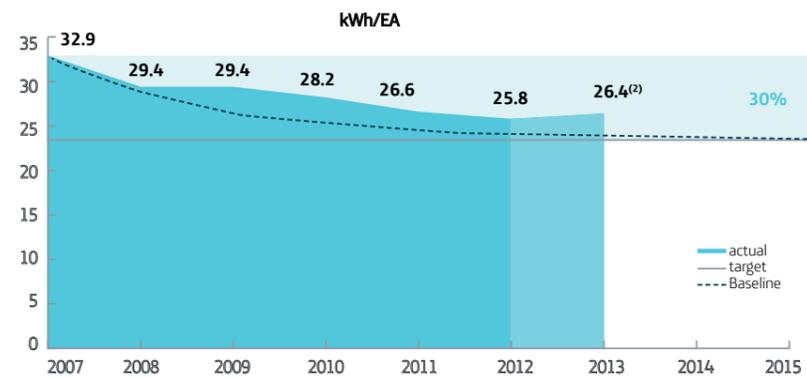
We held the 'V Telefónica Workshop on Energy and Climate Change in Panama, where over 100 people gathered, including energy managers, technological partners and other special guests. The teams from Germany, Mexico and Brazil were recognised as the best managers and developers of energy efficiency and renewable energy projects at global level: <http://www.rcysostenibilidad.telefonica.com/blogs/2013/12/04/los-equipos-de-alemania-mexico-y-brasil-logran-los-premios-de-nuestro-reto-de-eficiencia-energetica/>

## Energy and CO<sub>2</sub> targets

Telefónica, through the Office of Climate Change and Energy Efficiency, set three global targets

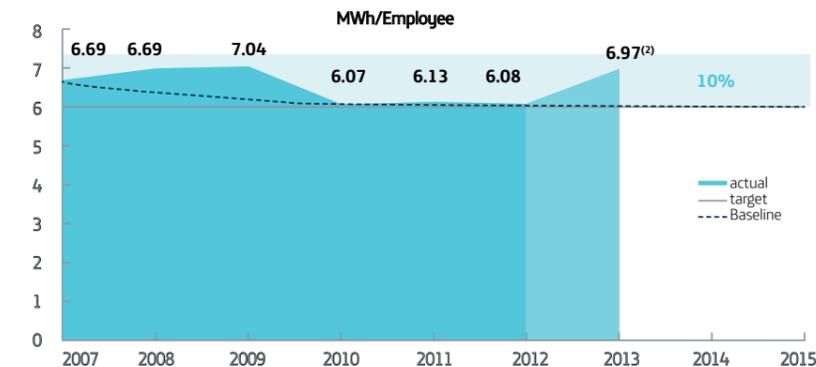
on energy and CO<sub>2</sub> in order to promote, monitor and manage the work carried out to reduce our energy consumption and carbon footprint.

### 30% Energy consumption in networks Equivalent access<sup>(1)</sup> 2007-2015



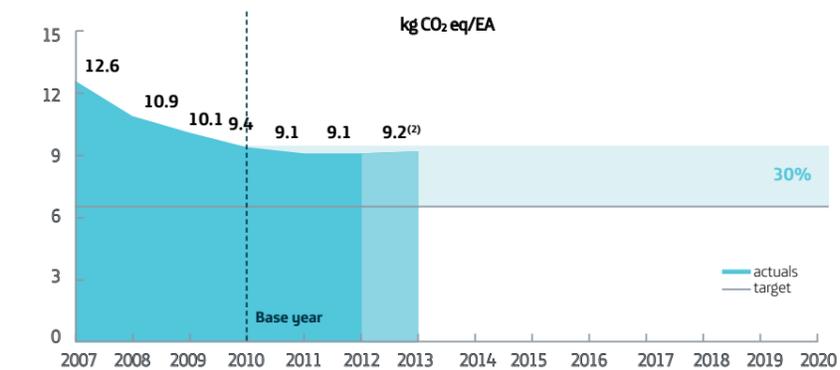
Energy consumption in networks continues growing due to the deployment of new network technology to deliver new digital services and the increasing of data consumption in the recent years. The moderate rise of our equivalent accesses and the implementation of energy efficiency activities in networks bring us closer to achieving the goal.

### 10% Electricity consumption in offices Employee 2007-2015



Despite the improvement of energy efficiency in offices, we still monitor the power consumption per employee every year due to the simplification of organizational structure carried out in several companies.

### 30% CO<sub>2</sub> emissions Equivalent access<sup>(1)</sup> 2010-2020



Our CO<sub>2</sub> emissions have remained stable in recent years, about 1.8 million metric tons, due to the reduction of fossil fuel in operations and vehicles fleet and the implementation of energy efficiency projects in networks and offices.

In Europe and Latin America, the electricity emission factor is still increasing, where 90% of our emissions come from, which significantly affects our target.

<sup>(1)</sup> Equivalent Accesses: The sum of the total accesses (broadband, fixed voice, mobile voice, TV, etc.) weighted by the relative power consumption.  
<sup>(2)</sup> Energy & emissions data of 2013, under process of external verification.

PLANET

# Electromagnetic fields

We are aware of the general concern in society regarding this subject, so we provide updated and transparent information; we work in the development of sectoral standards and comply with international regulations

EMF management at Telefónica is based on a coordinated effort between different departments of the Company at global and local level

Telefónica is aware of the general concern regarding electromagnetic fields (EMF). Our evaluation of this issue is based on what the experts say: the scientific studies carried out so far have not established any risk to health from exposure to the radio frequencies from mobile telephone equipment, provided that the levels recommended by the World Health Organisation (WHO) are respected, and these are given in the ICNIRP recommendations.

EMF in Telefónica are managed within an integrated approach that focuses in giving answers to the concern of our customers and users. We emphasise our management on EMF on mobile telecommunications antennas, mobile devices and smart meters. We prioritize the process of network deployment on a local level, based on global management principles. Thus, the minimum commitments on EMF, common to all the operators of Telefónica Group are:

- To comply strictly with the law and recognised international standards and guidelines, for all products and services.
- To encourage legislation based on international guidelines from the International Committee on Non-Ionizing Radiation Protection (ICNIRP), especially in those cases where there is no local regulation, and which is in keeping with these for reasons of uniformity and to eliminate barriers for network deployment.
- To support and publicise independent scientific research of high quality on mobile communications, recognised by the WHO.
- To communicate all the Company's actions in this regard openly and transparently to our clients and the public in general.

We carry out EMF management at Telefónica by coordination between different departments of the Company at global and local level, including the departments of operations, institutional relations, communication, regulatory and legal units, and environmental and corporate sustainability teams, among others.

Likewise, we participate actively in workgroups like the GSMA and the ITU to exchange best practices in EMF management, developing standards for the sector and sharing useful information for our customers and interested groups. We also support independent scientific research in this area.

### EMF in networks

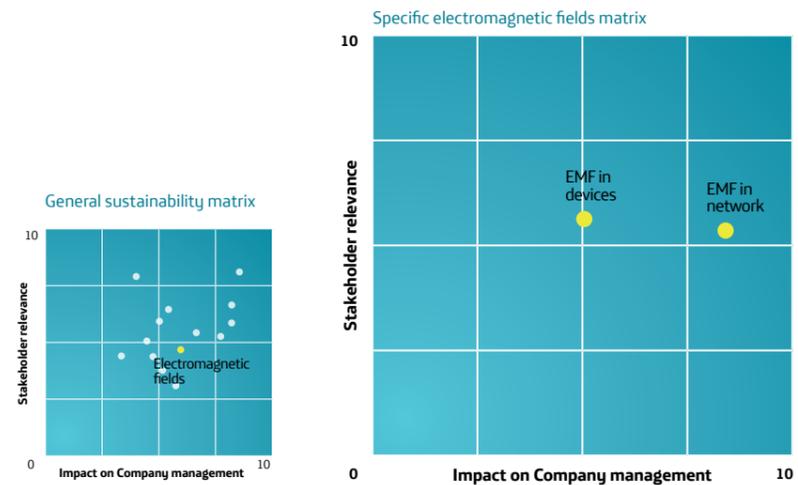
All our base stations have been installed in accordance with the criteria of the ICNIRP and the WHO recommendations. We comply with these limits in all our operating countries, even those where there are no regulations in this matter. In addition, the Telefónica global environmental management system obliges us to carry out activities of public participation and communication, as well as carry out measurements at the base stations which are later audited for compliance with ICNIRP levels. All our stations operate well below the set limits.

In 2013, Telefónica carried out about 25,000 EMF monitoring measurements, representing an investment of 3.9 million euros globally.

### EMF in mobile devices and smart meters

In 2013, the social concern about the exposure to EMF has been extended to mobile devices and smart meters. It is noteworthy that there is legislation international controlling these levels of exposure. All devices Telefónica puts on the market meet these standardized criteria.

## Materiality matrix



Full information about electromagnetic fields at Telefónica

PLANET

# Green ICT Services

Our Green ICT Services help to optimise the use of scarce resources like energy and water, and manage aspects of the environment such as waste, the climate, air quality, etc

Green Services lead to environmental benefits from the savings they generate, and so we need standards to measure these savings

We provide services based on ICT that promote a low-carbon economy and environmental sustainability of our customers and cities. Our "Green ICT" Services help to optimise the use of scarce resources like energy and water, and manage aspects of the environment such as waste, the climate, air quality, etc.

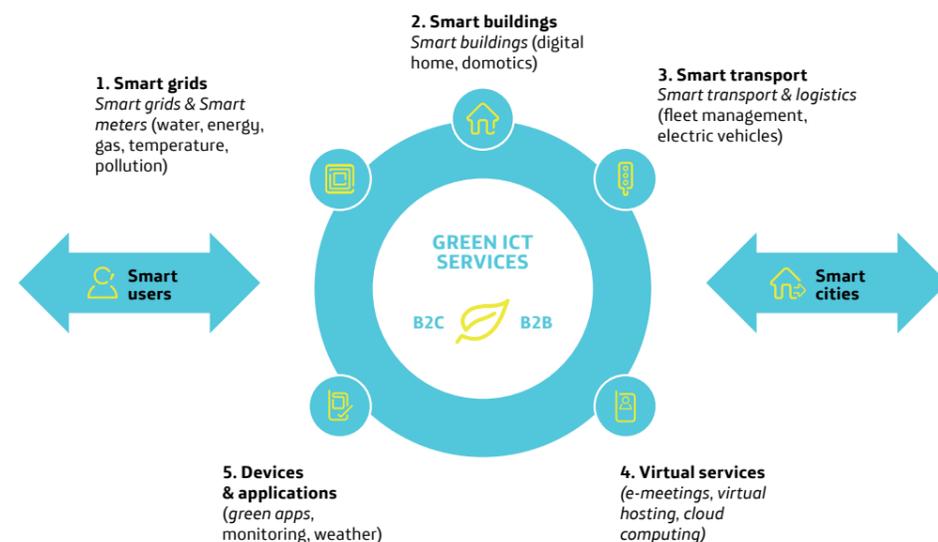
Telefónica's aim is to go beyond connectivity and it is focussed on providing services that convert the environmental benefits of our solutions into value. Green Services generate environmental benefits because of the savings on resources that arise (energy, water, less waste, time, etc). Therefore it is important to measure the savings using standards that allow comparison and replication of these services at a global level.

## Green Services to B2B customers - Corporate and Business clients

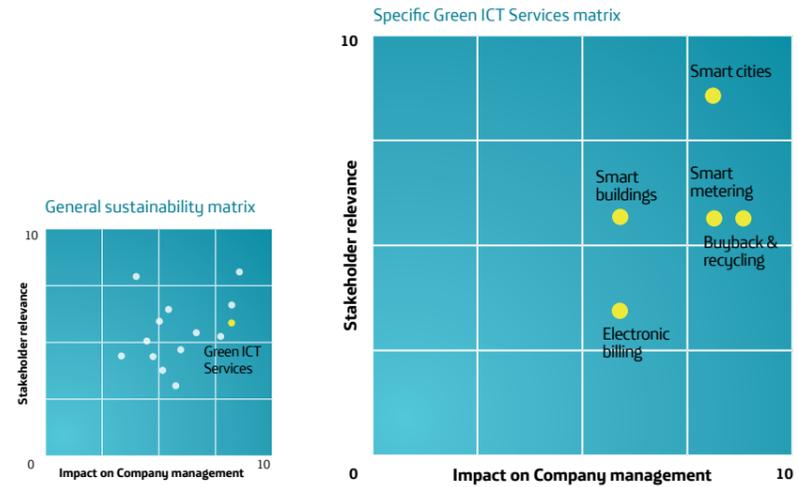
We work to deliver Green ICT Services to our Business to Business (B2B) customers and we help to promote an eco-efficient economy low in carbon and also help to make sectors like transport, construction, industry and service companies (utilities) more efficient.

Being a Digital Telco, we are putting a lot of effort into including green ICT solutions formally in our catalogues of products and services, in joint work with the departments of Marketing, Innovation and Business Development at global and local level. Most of these services are already in use in the Group's various operations around the world.

## Telefónica's Green ICT Services



## Materiality matrix

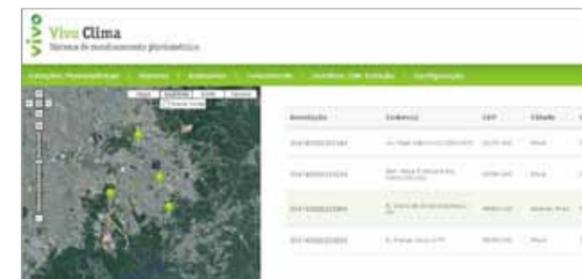


## Best practice

### Expansion of the Vivo Clima service of Telefónica in Brazil

Antonio Carlos Valente, chairman of Telefónica in Brazil, signed a technical cooperation agreement with the Ministry for Science, Technology and Innovation, and the Brazilian national center for natural disaster monitoring and alert (Cemaden), to broaden the scope of the VIVO Clima meteorological monitoring system. This signing represents the continuation of the pilot project that began last year in the city of Mauá, in the region of Sao Paulo.

The service provides real-time information on levels of precipitation in different geographical areas. VIVO Clima uses rain gauges installed on Telefónica's mobile base stations in Brazil which remit their data to the Company's M2M management platform. [More info](#)



### Smart meters in the UK

Telefónica UK has been designated as the connectivity provider for smart metering services in that country, which will generate income of nearly 1800 million euros for us over the next 15 years. Our operator has been awarded two of the three regions in the country for the provision of communications services within the overall Smart Meter Implementation Programme (SMIP). This initiative is the most ambitious smart meter scheme in the world, and envisages the installation of over 53 million smart meters by 2020.

[More info](#)



### Green services to residential customers: B2C

Telefónica's operating business reinforced their 'green experience' activities at a local level for our residential customers (B2C) Business to Customer. Various initiatives such as, for example, activities at the point of sale, provision of virtual services like electronic billing and promotion of recycling and reuse, above all of mobiles, should all be mentioned. In our countries, different environmental activities have been carried out for customers under our Movistar, O2 and Vivo brand names.

### Digital services and electronic billing

All the countries where we operate have systems of commercial efficiency, digital signature and electronic billing. During 2013, we reached the figure of 43 million customers using the electronic billing service, which let us reduce consumption of paper for bills by 18% at global level and leads to important savings for the Company. These practices also extend to our corporate and business clients.

### Eco-shops and "green" customer service

In some shops specific points have been set up in our shops with environmental information for our customers and incentives to participate. During 2013, countries such as Venezuela and Germany included environmental initiatives in the stores and customer attention services.

### Best practice



#### Green Corners (Esquinas Verdes) in Venezuela

Telefónica Movistar Venezuela has developed a programme of 'green corners' in its most emblematic shop locations in the country to inform customers about waste collection points for disused mobile terminals. There are 20 collection points, 5 of them in alliance with the Ministry for the Environment of Venezuela. During 2013, we collected 4 tonnes of waste. The company that handles this waste is KBL of Venezuela, who will carry out its export and recycling once the required volume has been accumulated, jointly with the German company Aurubis.



#### Green shops in Germany

Telefónica O2 Germany has introduced paper bags in place of plastic ones in all its shops, for delivering products to customers. The bags are made from FSC-certified paper (FSC: Forest Stewardship Council). They are now available in all our own shops, third-party and specialist shops. Similarly, the 'O2 Guru' informs customers about the environmental benefits of the bags, recycling alternatives and any other environmental information they need. This simple action has generated savings of up to 20,000 euros per year.



### Best practice

#### Commercial eco-efficiency in Brazil

A customer registration and digital signature solution was introduced in all Telefónica Vivo shops, providing a paperless sales service by means of a tablet. The aim of this initiative was to reduce the costs of operation, the use of paper in document management, and customer waiting time, and so to raise the time available during which users can acquire new services and devices. This is a pioneering solution for the telecoms market in Brazil. Thanks to this initiative, Telefónica Vivo has obtained savings of about 1.5 million euros per year in documents management and a 70% reduction of printed paper for mobile and portability services.

### Best practice

#### Devices without charger in the United Kingdom "Charger Out of the Box"

One of the most important initiatives by Telefónica O2 UK during 2013 was the sale of mobile phones with no charger. It is assumed that the great majority of customers already have a charger compatible with their terminal. So, Telefónica UK is campaigning for mobile manufacturers not to sell their devices with a charger. This encourages lower generation of customer waste as this kind of device is not included with the sale of terminals. In 2013, Telefónica O2 UK launched this initiative in conjunction with HTC, with great success.

[More information](#)



#### Efficient devices

Telefónica is working to bring the best and most efficient mobile devices to our customers. Currently, Telefónica O2 UK and Germany give their customers information about the environmental characteristics of their devices, referring to the 'eco-rating': an internal methodology for measuring the environmental impact of mobile devices, which is currently undergoing the ITU standardisation process and led by Telefónica.

#### Recycling and reuse of customer devices

Since 2005, Telefónica has been carrying out customer device management activities in compliance with the relevant environmental regulations and with voluntary customer loyalty initiatives. These activities are focused on the

recycling, reuse or final disposal of devices belonging to mobile, fixed line or internet customers.

During 2013, we handled 1,892 tonnes of e-waste from customers, of which 231 tonnes corresponded specifically to reuse and recycling processes for mobile devices and accessories.

We believe in shared responsibility for environmental management of customer devices, so that we try to keep our clients informed and provide them with environmentally responsible options when it comes to disposal of their disused devices. In all the countries in which we operate, we have customer waste management schemes, above all for mobile service customers.

#### Telefónica mobile phone recycling and reuse programmes

	Recycling	Reuse
<b>movistar</b>		
Spain	✓	✓
Ecuador	✓	
Argentina	✓	✓
Chile	✓	✓
Colombia	✓	
Costa Rica	✓	
Mexico	✓	
Nicaragua	✓	✓
Peru	✓	
Panama	✓	✓
Venezuela	✓	
El Salvador	✓	
<b>vivo</b>		
Brazil	✓	✓
<b>O2</b>		
United Kingdom	✓	✓
Czech Republic		✓
Germany	✓	✓
Ireland	✓	✓

### Best practice



#### O2 Recycle in Germany

**4.9**

tonnes for recycling and reuse



#### Green Movistar in Ecuador

**8.8**

tonnes for recycling



#### 'Recycle your cellphone' with Telefónica Vivo in Brazil

**7.9**

tonnes for recycling

## PLANET

# Smart Sustainable Cities

*We provide ICT solutions for the sustainability challenges of "smart cities" and as a differentiating element we have an open and transversal technological platform*

Our smart city platform allow us to assume market leadership

Sustainability of urban areas is a vital issue, as 70% of the world's population will live there by 2050. Currently, urban areas emit 71% of greenhouse gases and account for between 60% and 80% of world energy consumption. ICT can provide solutions to make them more efficient and sustainable by means of so-called smart cities.

At Telefónica, we offer solutions to the challenges of smart cities, and as a differential element, we have a transversal and open technological platform for the development and integration with applications from other companies. Similarly, we work at a global level with the various departments and companies of the Group to position Telefónica as a leader in the provision of ICT services that promote the sustainability of cities. We encourage processes of innovation, technological development and standardisation for sustainable smart cities.

## Business development for smart cities

We provide the best technology and services for smart cities. So, in recent years, and especially in 2013, we have been working to consolidate what we offer customers. Our aim is to emphasise value in the offers made to clients, which include eco-efficiency principles in the management of resources in cities.

In Spain, we have been working on smart cities projects for several years, including the technical advice and support for RECI (the Spanish smart city network), and the choice of Telefónica as technological platform provider for the Valencia Smart City.

We also work in the delivery of smart city services in Latin América. In Brazil we are participated in the Sao Paulo pilot project for the services of education, tourism, health and the public services of street lighting, security, traffic and parking.



facilities, environment, cleaning, waste collection, lighting, crane service, parks and gardens and meteorology. All these services are monitored permanently and connected via the latest optical fibre technology, guaranteeing almost unlimited bandwidth and speed. [More info](#)

## Standardisation for smart sustainable cities

Our Smart City value proposal is fundamentally based on the tangible benefits and savings on resources (energy, water, waste, time, etc.) associated with the deployment of ICT services, and an integrated management platform. To this end, we are working to develop global standards for smart cities and sustainability, by so as we contribute with our experience and work to establish uniform measurement methodologies that let us assess the impact of ICT solutions implemented in cities.

- ITU Focus Group Smart Sustainable Cities: Telefónica is the leader and Chair of this international working group whose objective is to increase the role of ICT in the environmental sustainability of cities. [More info](#)
- ITU-T Study Group 5 and Question 18: We are contributing to the development of a methodology to assess the environmental impact of ICT in cities, which is part of the sector's standards for evaluating the carbon footprint of ICT. [More info](#)
- AENOR Technical Smart Cities Standards Committee (AEN/CTN 178): AENOR (the Spanish national standards authority) with the support of the Secretary of State for Telecommunications and the Information Society. We participate in this committee, which aims to define standards for Spain that encourage smart cities and contribute to the ISO infrastructure and performance standards for smart cities. [More info](#)

## Technological innovation for smart cities

The Telefónica platform, developed by Telefónica R&D, is the first created that conforms to the FI-WARE platform standard promoted by the European Commission for the deployment and development of applications in the Internet of the Future. It is cloud-based, open, and allows the city data to be managed with flexibility, reliability, security and efficiency, from a single point of access. It simplifies decision-making and improves the efficiency of municipal service management by means of a complete control panel.

The traditional services - traffic, transport, parking, water management and treatment, parks and gardens, cleaning, waste management, commerce, lighting, emergencies, security, health - can be managed, provided and optimised from any device at any time or place, thanks to this platform.

By putting its smart cities platform into service, Telefónica has managed to get ahead of the market and offer the first commercial platform conforming to these standards.

## Best Practice

### FI-WARE Platform and Smart Santander

During 2013, the European Commission project FI-WARE, led by Telefónica, concluded. It has managed to create the Smart Santander project, which is the largest smart city scheme in the world. With over 20,000 sensors, it offers a test bank that the European Union has classified as essential because it offers a unique platform for experimentation on a large scale in real conditions.

FI-WARE offers APIs (Application Programming Interfaces) whose specifications are public and royalty-free, backed by the availability of a reference implementation in open source code, thus speeding up the appearance of new providers on the market. Telefónica R&D has contributed to the reference implementation with a significant number of FI-WARE platform modules.

Thanks to its open nature, application providers can choose who will provide and operate the environment that will host their applications.

FI-WARE  
[More info](#)



PLANET

# Global environmental leadership

*Telefónica is working towards a global position on environmental matters along with the ICT sector and all the companies of the Group*

Telefónica has been recognized as one of the most committed companies in the fight against climate change

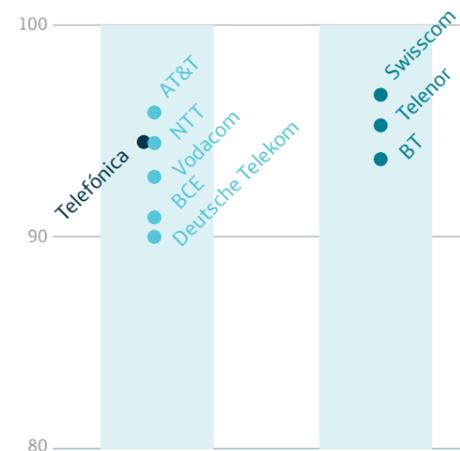
We believe in the ICT potential to promote environmental sustainability. Telefónica's green positioning is based on three principles that include a joint effort among the global green team, operating businesses and the ICT sector:

- Trust and Transparency
- Green ICT standards
- Public Advocacy strategies.

**Trust and transparency.** Our investors, analysts and NGOs have acknowledged our achievements.

- Telefónica was among the 5 leading telecoms companies for the fourth consecutive year in the Carbon Disclosure Project (CDP). [More info](#)
- We are one of the 10 best telcos in the world by sustainability criteria, including the environment, according to the DJSI. [More info](#)
- We are one of the top 5 companies most committed to fighting climate change in the recent rankings of the British NGO Environmental Investment Organisation (EIO). [More info](#)
- We are one of the 20 best companies in the "Cool IT Leaderboard 6" ranking by Greenpeace, in which the efforts by companies to promote a low-carbon economy and reduce emissions of greenhouse gases (GHG) are evaluated. [More info](#)

## Carbon Disclosure Project Leadership (CDPL) Index - Telecommunications Sector



**Green ICT standards.** We continue to work on Study Group No. 5 of the International Telecommunications Union (ITU) to promote green ICT standards to measure the environmental impact of ICTs.

- We worked on the development of the ITU L1430 Methodology to measure the impact of green ICT services, and we chair the workgroup responsible for developing the methodology for mobile phones, 'Eco-rating'. [More info](#)

- We also chair the Smart Sustainable Cities Focus Group of the ITU. [More info](#)

- We hosted the most important green ICT standards event in the world: the 3rd Green Standards Week, at our corporate headquarters in Madrid, with the participation of nearly 400 people. [More info](#)



Green Standards Week, 2013. Madrid



3rd ITU Green Standards Week, Madrid 2013.



1st International forum on Electronic Waste and Electromagnetic Fields, Quito, 2013.



GSMA: Beyond coverage. The opportunity for mobile operators to improve access to energy in Latin America



[More info on the GSMA study](#)

**Public advocacy:** we are working on increasing the contribution of the ICT sector and Telefónica to promoting the environmental sustainability of technology users and cities. During 2013, we took an active part in the following groups:

**ITU:** We are active in Study Group No. 5 on the development of green ICT standards and positioning of the ICT sector at an international level on issues like e-waste and electromagnetic fields, and organised various events and activities:

- We held the 3rd Green ICT Application Challenge jointly with the ITU for the third consecutive year. The winning application was GreenPlay, a game for learning how to manage waste in cities. [More info](#)
- Workshop on E-waste in Central America. San Salvador – El Salvador. We are promoting efficient management of e-waste in the region. [More info](#)
- Workshop on Smart Sustainable Cities in Latin America. In Sao Paulo Brazil: Together with Telefónica Vivo, we held a workshop to promote environmental sustainability of the cities of Latin America through ICT. [More info](#)

→ Workshop on E-waste and Electromagnetic Fields in Quito-Ecuador. We sponsored the largest event on managing electrical and electronic waste and electromagnetic fields in Latin America, jointly with Telefónica Movistar Ecuador, the ITU and the Ministry for the Information Society of Ecuador. [More info](#)

**GSMA:** We are working with the GSMA to promote the environmental sustainability of mobile communications all over the world:

- In conjunction with the GSMA, the Inter-American Development Bank (IDB) and Telefónica Movistar Nicaragua, we carried out the study "Beyond Coverage: The opportunity for mobile operators to improve access to energy in Latin America". [More info](#)
- Energy Efficiency Benchmarking in Mobile Networks: For the fourth consecutive year, we have been working with the GSMA to identify new opportunities to optimise energy consumption on our networks, thanks to the energy efficiency comparative analysis service. [More info](#)

We are also working with other institutions to encourage the use of ICT for environmental sustainability, energy efficiency and as a tool in the fight against climate change.

**GeSI:** The Global E-Sustainability Initiative, where we are covering the groups on Climate Change, Energy Efficiency, and Environmental Monitoring in the Supply Chain, among others. [More info](#)

**ETNO:** Within ETNO (European Telecommunications Networks Operators), we are working on the Energy Task Force to promote the most energy-efficient practices in networks at a European level.

**European Round Table of Industrialists (ERT):** We are participating in the ERT group on Energy and Climate Change, where we are trying to identify the risks and opportunities that European policies on energy and climate change can have in competitiveness of our companies. [More info](#)

**Business Platform for Energy Efficiency in Spain:** In our home country, Spain, we are working on energy efficiency projects with the largest companies in the country. [More info](#)

### Telefónica in strategic fora and working groups



Telefónica  
sustainability  
indicators\_

Awards and  
acknowledgements\_

GRI G3.1 & G4  
references\_

Compliance with  
Global Compact\_

Review and external  
validation of the  
Report\_

Glossary of terms\_

Summary of Best  
Practices\_

Thanks\_

# 8. Annexes\_



# Telefónica Sustainability indicators

## € Economic efficiency

	Unit	2012	2013	% Var.
Telefónica revenues	Million Euros	62,356	57,061	-8.5%
Technological innovation	Million Euros	5,771	6,142	6.4%
Fiscal contribution <sup>(1)</sup>	Million Euros	13,806	14,060	1.8%
Total salary costs	Million Euros	8,569	7,208	-15.9%
Investment in infrastructure <sup>(1)</sup>	Million Euros	9,458	9,395	-0.7%
Volume of purchases awarded	Million Euros	27,958	26,537	-5.1%
R&D investment	Million Euros	1,072	1,046	-2.4%
Local suppliers	%	80.3	83.9	4.5%
No. of employees dismissed for non-compliance with Business Principles	Units	2	3	50.0%
No. of corruption incidents investigated by the Business Principles' Office	Units	1	1	0.0%
Employees trained in Business Principles	%	55.3	63	13.9%
No. of audits of risk suppliers	Units	1,701	1,545	-9.2%

## 👤 Social aspects

Total physical workforce	Persons	133,263	126,730	-4.9%
Fixed workforce	Persons	126,123	118,937	-5.7%
Absenteeism rate <sup>(2)</sup>	Days	5,556	5,599	0.8%
No. of training hours	Thous. hours	6,026	2,983	-50.5%
Women in workforce	%	37.9%	38.3%	1.0%
Female managers	%	19.3%	21%	8.7%
No. of people with disabilities	Persons	1,070	961	-10.1%
Total social investment (LBG)	Thous. Euros	158,061	128,885	-18.5%
Volunteering hours	Hours	186,592	195,906	5.0%

## 🌿 Environmental aspects

	Unit	2012	2013	% Var.
<b>Responsible network roll-out</b>				
Visual impact actions	Units	677	576	-14.9%
Shared infrastructure	Units	32,932	34,421	4.5%
Electromagnetic field measurements	Units	16,585	24,750	49.2%
Environmental investment and management	Million Euros	33.0	31.9	-3.3%
<b>Resource consumption</b>				
Total paper consumption (commercial and office activities)	Tonnes	11,854	10,139	-14.5%
No. of e-bill customers	Thousands	17,272	43,617	151.9%
Water consumption	m <sup>3</sup>	5,581,053	4,447,575	-20.3%
<b>Waste</b>				
Total waste managed (operations, offices and customers)	Tonnes	30,581	30,432	-0.5%
Generator group battery waste (operations and offices)	Tonnes	1,766	2,819	59.6%
Waste electrical and electronic devices (operations and offices)	Tonnes	1,593	2,801	75.8%
Customer waste electrical and electronic devices	Tonnes	1,350	1,892	40.1%
Recycling and reuse of customer mobile phones and accessories	Tonnes	216	231	6.9%

## ☀️ Energy and CO<sub>2</sub> inventory <sup>(3)</sup> <sup>(4)</sup>

<b>Energy</b>	MWh	6,421,528	6,648,339	3.5%
Fuel	MWh	480,845	410,207	-14.7%
Biofuel	MWh	6,880	4,595	-33.2%
Electricity	MWh	5,933,803	6,233,537	5.1%
Energy from renewable sources	MWh	943,814	990,260	4.9%
<b>Greenhouse gas emissions</b>	tCO <sub>2</sub> eq <sup>(5)</sup>	1,824,521	1,889,466	
Direct emissions (scope I)	tCO <sub>2</sub> eq	112,092	95,537	-14.8%
Indirect emissions (scope II)	tCO <sub>2</sub> eq	1,712,429	1,793,929	4.8%
Emissions avoided <sup>(6)</sup>	tCO <sub>2</sub> eq	308,167	283,614	-8.0%

<sup>(1)</sup> This figure differs from the one published in the section, Telefónica as a driving force of progress, in the communities in which it is present. It is expressed here on an accrual rather than a cash basis.

<sup>(2)</sup> Absenteeism rate (AR). AR = total no. of days lost through absenteeism during the period/ total no. of days worked by the workforce as a whole.

<sup>(3)</sup> Inventory based on ISO 14 064, GHG Protocol & ITU-T L.1420.

<sup>(4)</sup> 2012 energy and emissions data verified in 2013. 2013 energy and emissions data currently being verified.

<sup>(5)</sup> CO<sub>2</sub>eq = CO<sub>2</sub>, CH<sub>4</sub> & N<sub>2</sub>O.

<sup>(6)</sup> Emissions avoided thanks to purchase of renewable energy.

ANNEXES

# Awards and acknowledgements

Telefónica's way of doing business has received awards and recognition in various parts of the world

**Mexico**

■ **Recognition of Best Practices in CSR 2013 from The Mexican Center for Philanthropy (Cemefi)**  
In the Value Chain category for its *Aliados (Partners)* project to promote the sustainable management of partner companies and third parties

**Colombia**

■ **Social Investment Award - Pioneer Awards 2013**  
Recognition from the United Nations Global Compact for the project *Aquí estoy y Actúo* (Here I Am Taking Action) to help companies to prevent child labour in their value chain

**Venezuela**

■ **1st place Great Place to Work**  
Recognition as 'Best Company to Work For' due to its work environment, corporate policies and the perception that employees have of their company

**Peru**

■ **Special Mention, 'Socially Responsible Company Peru 2021'**  
Recognition of the company as an organisation committed to socially responsible management as part of its business culture and strategy

**Brazil**

■ **Special Education Award from ARede**  
For the *Fundación Telefónica Classrooms* project to improve initiatives for social inclusion and visibility using information and communication technology (ICT)

**Latin America**

■ **4th place Great Place to Work**  
Recognition as 'Best Company to Work For' due to its work environment, corporate policies and the perception that employees have of their company

**United Kingdom**

■ **The Best Use of Twitter in a Graduate Recruitment Campaign**  
'Best Use of Twitter in a Graduate Recruitment Campaign' awarded by the consulting firm MR Adcomms to the *Talentum* initiative

**European Union**

■ **Best Innovation Project World Research and Innovation Congress**  
For the HELP programme (Home-based Empowered Living for Parkinson's Disease Patients), which aims to improve the quality of life for Parkinson's patients, through a monitoring system and the remote, real-time, automatic adjustment of medication

**Czech Republic**

■ **3rd place, TOP responsible company**  
Recognition for the work of companies in designing and implementing sustainable initiatives that contribute real value to society, the economy and the environment

**España**

■ **Business Sponsorship and Patronage Award**  
'Jobs and Knowledge' category for the Wayra project

■ **Forum for Corporate Responsibility for Entrepreneurs**  
Award for outstanding work in Corporate Social Responsibility for the Wayra programmes to support entrepreneurs

■ **8th Garben Training and Enterprise Award**  
Award for 'Best Training Work at a Large Company' for the Universitas Telefónica initiative

■ **Internet Award 2013, 'Best Economics-related initiative' category**  
For Wayra for supporting and promoting technological start-ups

■ **University of Cantabria Award for Business Collaboration**  
To Telefónica I+D for the long and fruitful collaboration with this institution and the Cantabrian community.

■ **CDP Climate Disclosure Leadership**  
The only Spanish telco in the Climate Disclosure Leadership Index Iberia 125 (CDLI) of CDP, aimed at 722 investors representing \$87 trillion in assets

■ **4th Corresponsables Awards, 'Large Company' category**  
Award for M-Inclusion, the pioneering mobile inclusion platform for Europe and Latin America

■ **Autelsi Prize 2013**  
Award for M-Inclusion in the 'Social and Environmental Commitment' category for its contribution to inclusion and social entrepreneurship

**Global**

■ **Nº 4 in the 'Fortune' magazine 'Most Admired Company' ranking**  
Telefónica was ranked fourth among the World's Most Admired Telecommunications Operators, and was the top non-American company in overall score on this list

■ **Sustainability leaders 2014 RobecoSAM Bronze Class**  
Selected as one of 10 companies in the DJSI World for its sustainability

■ **Successful Case Study in the 'Manual for Enterprises on Corruption, Ethics and Compliance'**  
The TEF Business Principles Office has been included as a success story in the *Anti-Corruption Ethics and Compliance Handbook for Business* promoted by the OECD, the United Nations Office on Drugs and Crime (UNODC) and the World Bank

■ **25th place in the 'Best Companies to Work For 2013'**  
Telefónica is among the 25 best companies to work for in the world, according to the 3rd edition of the worldwide ranking *Best Multinational Workplaces* prepared by the Great Place to Work consulting firm, and is the top-ranked international telco in this field

**Awards**



Member of the top category, DJSI World Index, 86 points



Listed for twelve consecutive years



Nº 5 in the telco industry



Sustainability Leaders Bronze class



Prime Rating



5th telco out of 112 operators



Excellence Investment Register



# GRI references G3.1\_

## STANDARD DISCLOSURES PART I: Profile Disclosures

### 1. Strategy and Analysis

Profile Disclosure	Description	Reported 2013	Location	Explanation for omission
1.1	Statement from the most senior decision-maker of the organization.	YES	Letter from the Chairman	
1.2	Description of key impacts, risks, and opportunities.	YES	Corporate responsibility and sustainability as part of the Telefónica vision	

### 2. Organizational Profile

Profile Disclosure	Description	Reported 2013	Location	Explanation for omission
2.1	Name of the organization.	YES	Principles for the 2013 Sustainability report	
2.2	Primary brands, products, and/or services.	YES	Principles for the 2013 Sustainability report	
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	YES	Financial report	
2.4	Location of organization's headquarters.	YES	Principles for the 2013 Sustainability Report	
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	YES	Report boundary and structure	
2.6	Nature of ownership and legal form.	YES	Principles for the 2013 Sustainability report and Corporate Governance report	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	YES	Customer satisfaction	
2.8	Scale of the reporting organization.	YES	Report boundary and structure	
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	YES	Report boundary and structure	
2.10	Awards received in the reporting period.	YES	Awards and acknowledgements	



### 3. Report Parameters

Profile Disclosure	Description	Reported 2013	Location	Explanation for omission
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	YES	Principles for the 2013 Sustainability report	
3.2	Date of most recent previous report (if any).	YES	Principles for the 2013 Sustainability report	
3.3	Reporting cycle (annual, biennial, etc.)	YES	Principles for the 2013 Sustainability report	
3.4	Contact point for questions regarding the report or its contents.	YES	Principles for the 2013 Sustainability report	
3.5	Process for defining report content.	YES	Principles for the 2013 Sustainability report	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	YES	Report boundary and structure	
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	YES	Report boundary and structure	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	YES	Report boundary and structure	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	YES	Report boundary and structure	
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	YES	Report boundary and structure	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	YES	Report boundary and structure	
3.12	Table identifying the location of the Standard Disclosures in the report.	YES	Report boundary and structure	
3.13	Policy and current practice with regard to seeking external assurance for the report.	YES	Principles for the 2013 Sustainability report	



#### 4. Governance, Commitments, and Engagement

Profile Disclosure	Description	Reported 2013	Location	Explanation for omission
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	YES	Corporate Governance report	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	YES	Corporate Governance report	
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	YES	Corporate Governance report	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	YES	Corporate Governance report	
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	YES	Corporate Governance report	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	YES	Corporate Governance report	
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	YES	Corporate Governance report	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	YES	Ethics and compliance	
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	YES	Corporate responsibility and sustainability structure in Telefónica, S.A.	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	YES	Corporate responsibility and sustainability structure in Telefónica, S.A.	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	YES	Corporate responsibility and sustainability as part of the Telefónica vision	
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	YES	Social action at Telefónica	
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	YES	Materiality and stakeholder engagement	
4.14	List of stakeholder groups engaged by the organization.	YES	Materiality and stakeholder engagement	
4.15	Basis for identification and selection of stakeholders with whom to engage.	YES	Materiality and Stakeholder engagement	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	YES	Materiality and stakeholder engagement	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	YES	Materiality and stakeholder engagement	



#### STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)

G3 DMA	Description	Reported 2013	Location	Explanation for omission
DMA EC	Economic dimension	YES	Throughout the report	
DMA EN	Environmental dimension	YES	Throughout the report	
DMA LA	Labour dimension	YES	Staff	
DMA HR	Human rights dimension	YES	Human Rights	
DMA SO	Society dimension	YES	Throughout the report	
DMA PR	Product responsibility dimension	YES	Responsible management	

#### STANDARD DISCLOSURES PART III: Performance Indicators

##### Economic

Performance Indicator	Description	Reported 2013	Location	Explanation for omission
<b>Economic performance</b>				
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	YES	Driver of progress	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	YES	Environmental management	
EC3	Coverage of the organization's defined benefit plan obligations.	YES	Telefónica as a responsible investor	
EC4	Significant financial assistance received from government.	YES	Financial report	
<b>Market presence</b>				
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	YES	Fair pay and performance recognition	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	YES	Driver of progress	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	YES	Attracting and retaining talent	
<b>Indirect economic impacts</b>				
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	YES	Innovation at Telefónica	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	YES	Driver of progress	



<b>Environmental</b>				
Performance Indicator	Description	Reported 2013	Location	Explanation for omission
<b>Materials</b>				
EN1	Materials used by weight or volume.	YES	Environmental management	
EN2	Percentage of materials used that are recycled input materials.	YES	Environmental management	
<b>Energy</b>				
EN3	Direct energy consumption by primary energy source.	YES	Energy and climate change	
EN4	Indirect energy consumption by primary source.	YES	Energy and climate change	
EN5	Energy saved due to conservation and efficiency improvements.	YES	Energy and climate change	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	YES	Green ICT Services and Sustainable Smart Cities	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	YES	Energy and climate change	
<b>Water</b>				
EN8	Total water withdrawal by source.	YES	Environmental management	
EN9	Water sources significantly affected by withdrawal of water.	NO	Not applicable	This indicator is not applicable for the Company's activities as a whole
EN10	Percentage and total volume of water recycled and reused.	YES	Environmental management	
<b>Biodiversity</b>				
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	YES	Environmental management	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	YES	Environmental management	
EN13	Habitats protected or restored.	NO	Not applicable	This indicator is not applicable for the Company's activities as a whole
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	YES	Planet	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	NO	Not applicable	This indicator is not applicable for the Company's activities as a whole



Performance Indicator	Description	Reported 2013	Location	Explanation for omission
<b>Emissions, effluents and waste</b>				
EN16	Total direct and indirect greenhouse gas emissions by weight.	YES	Energy and climate change	
EN17	Other relevant indirect greenhouse gas emissions by weight.	YES	Energy and climate change	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	YES	Energy and climate change	
EN19	Emissions of ozone-depleting substances by weight.	YES	Energy and climate change	
EN20	NOx, SOx, and other significant air emissions by type and weight.	NO	Not applicable	This indicator is not applicable for the Company's activities as a whole
EN21	Total water discharge by quality and destination.	NO	Not applicable	This indicator is not applicable for the Company's activities as a whole
EN22	Total weight of waste by type and disposal method.	YES	Environmental management	
EN23	Total number and volume of significant spills.	NO	Not applicable	This indicator is not applicable for the Company's activities as a whole
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	NO	Not applicable	This indicator is not applicable for the Company's activities as a whole
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	NO	Not applicable	This indicator is not applicable for the Company's activities as a whole
<b>Products and services</b>				
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	YES	Green ICT services	



EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	YES	Environmental management
<b>Performance Indicator</b>	<b>Description</b>	<b>Reported 2013</b>	<b>Location</b>
<b>Compliance</b>			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	YES	Environmental management
<b>Transport</b>			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	YES	Environmental management
<b>Overall</b>			
EN30	Total environmental protection expenditures and investments by type.	YES	Environmental management

**Social: Labour Practices and Decent Work**

<b>Performance Indicator</b>	<b>Description</b>	<b>Reported 2013</b>	<b>Location</b>	<b>Explanation for omission</b>
<b>Employment</b>				
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	YES	Staff	
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	YES	Staff	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	YES	Working environment and commitment	
LA15	Return to work and retention rates after parental leave, by gender.	NO	Not applicable	Maternity leave procedures always include automatic reincorporation, later departure from the company being voluntary on the part of the employee, without the need to communicate the cause to the company
<b>Labor/management relations</b>				
LA4	Percentage of employees covered by collective bargaining agreements.	YES	Freedom of association and social dialogue	
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	YES	Freedom of association and social dialogue	



<b>Performance Indicator</b>	<b>Description</b>	<b>Reported 2013</b>	<b>Location</b>	<b>Explanation for omission</b>
<b>Occupational health and safety</b>				
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	YES	Health and safety	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	YES	Health and safety	
LA8	Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	YES	Health and safety	
LA9	Health and safety topics covered in formal agreements with trade unions.	YES	Health and safety	
<b>Training and education</b>				
LA10	Average hours of training per year per employee by gender, and by employee category.	YES	Training and talent management	
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	YES	Training and talent management	
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	YES	Fair pay and performance recognition	
<b>Diversity and equal opportunity</b>				
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	YES	Management of diversity	
<b>Equal remuneration for women and men</b>				
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	YES	Management of diversity	



## Social: Human Rights

Performance Indicator	Description	Reported 2013	Location	Explanation for omission
<b>Investment and procurement practices</b>				
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	YES	Sustainability in the supply chain	
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	YES	Sustainability in the supply chain	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	YES	Ethics and compliance	
<b>Non-discrimination</b>				
HR4	Total number of incidents of discrimination and corrective actions taken.	YES	Ethics and compliance	
<b>Freedom of association and collective bargaining</b>				
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	YES	Human Rights	
<b>Child labour</b>				
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	YES	Human Rights	
<b>Forced and compulsory labour</b>				
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	YES	Human Rights	



Performance Indicator	Description	Reported 2013	Location	Explanation for omission
<b>Security practices</b>				
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	NO		We include percent trained in Business Principles over total workforce
<b>Indigenous rights</b>				
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	YES	Sustainability in the supply chain	
<b>Assessment</b>				
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	YES	Sustainability in the supply chain	
<b>Remediation</b>				
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	YES	Ethics and compliance	



## Social: Society

Performance Indicator	Description	Reported 2013	Location	Explanation for omission
<b>Local communities</b>				
S01	Percentage of operations with implemented local community engagement, impact assessments, and development programmes.	YES	Social action at Telefónica and Volunteers	
S09	Operations with significant potential or actual negative impacts on local communities.	YES	Environmental management	
S010	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	YES	Environmental management	
<b>Corruption</b>				
S02	Percentage and total number of business units analyzed for risks related to corruption.	YES	Ethics and compliance	
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	YES	Ethics and compliance	
S04	Actions taken in response to incidents of corruption.	YES	Ethics and compliance	
<b>Public policy</b>				
S05	Public policy positions and participation in public policy development and lobbying.	YES	Materiality and stakeholder engagement	
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	YES	Ethics and compliance	
<b>Anti-competitive behavior</b>				
S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	YES	Ethics and compliance	
<b>Compliance</b>				
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	YES	Financial report	



## Social: Product Responsibility

Performance Indicator	Description	Reported 2013	Location	Explanation for omission
<b>Customer health and safety</b>				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	YES	Electromagnetic field	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	YES	Ethics and compliance	
<b>Product and service labelling</b>				
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	YES	Responsible management	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	NO		
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	YES	Responsible management	
<b>Marketing communications</b>				
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	YES	Responsible management	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	NO		
<b>Customer privacy</b>				
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	YES	Privacy: an open and secure Internet for all	
<b>Compliance</b>				
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	YES	Financial report	



# GRI references G4\_

## General Standard Disclosures

			Contained in Sustainability report
<b>Strategy and analysis</b>			
1	Statement from the most senior decision-maker of the organization.	Letter from the Chairman	YES
2	Description of key impacts, risks, and opportunities.	Corporate Responsibility and Sustainability as part of the Telefónica vision	YES
<b>Organizational profile</b>			
3	Name of the organization.	Principles for the 2013 Sustainability Report	YES
4	Primary brands, products, and/or services.	Principles for the 2013 Sustainability Report	YES
5	Location of organization's headquarters.	Principles for the 2013 Sustainability Report	YES
6	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Principles for the 2013 Sustainability Report	YES
7	Nature of ownership and legal form.	Principles for the 2013 Sustainability Report	YES
8	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Integrated Report	
9	Scale of the reporting organization.	Telefónica indicators	YES
10	Size and composition of workforce.	Staff	YES
11	Percentage of employees covered by collective bargaining agreements.	Freedom of association and social dialogue	YES
12	Organization's supply chain.	Sustainability in the supply chain	YES
13	Significant organizational changes during the reporting period.	Report boundary and structure	YES
14	Precautionary approach.	Environmental management in Telefónica	YES
15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	Stakeholder engagement	YES
16	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	Stakeholder engagement	YES



			Contained in Sustainability report
<b>Identified material aspects and boundaries</b>			
18	How report content was defined.	Principles for the 2013 Sustainability Report	YES
19	List of material aspects.	Materiality: focus on the key issues	YES
20	Aspect boundary within the organization.	Report boundary and structure	YES
21	Aspect boundary outside the organization.		
22	Restatements.	Report boundary and structure	YES
23	Significant changes in Scope or Boundary.	Report boundary and structure	YES
<b>Stakeholder engagement</b>			
24	List of stakeholders.	Stakeholder engagement	YES
25	Basis of identification for stakeholders.	Stakeholder engagement	YES
26	Approach to stakeholder engagement.	Stakeholder engagement	YES
27	Key topics and concerns raised by stakeholders.	Stakeholder engagement	YES
<b>Report profile</b>			
28	Reporting period.	Principles for the 2013 Sustainability Report	YES
29	Date of most recent previous report.	Principles for the 2013 Sustainability Report	YES
30	Reporting cycle.	Principles for the 2013 Sustainability Report	YES
31	Contact point.	Principles for the 2013 Sustainability Report	YES
32	GRI 'in accordance' option.	GRI references	YES
33	External assurance.	Review and external validation of the Report	YES



			Contained in Sustainability report
Governance		Section	
34	Governance structure of organization.	Annual Corporate Governance and Compensation report	YES
35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	Corporate Responsibility and Sustainability Structure in Telefónica, S.A.	YES
36	Executive-level position or positions with responsibility for economic, environmental and social topics.	Corporate Responsibility and Sustainability Structure in Telefónica, S.A.	YES
37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics.	Corporate Responsibility and Sustainability Structure in Telefónica, S.A.	YES
38	Composition of the highest governance body and its committees.	Annual Corporate Governance and Compensation report	YES
39	Report whether the chair of the highest governance body is also an executive officer.	Annual Corporate Governance and Compensation report	YES
40	Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members.	Annual Corporate Governance and Compensation report	YES
41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed.	Annual Corporate Governance and Compensation report	YES
42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	Corporate Responsibility and Sustainability Structure in Telefónica, S.A.	YES
43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.		
44	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics.		
45	Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities.	Corporate Responsibility and Sustainability Structure in Telefónica, S.A.	YES
46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	Corporate Responsibility and Sustainability Structure in Telefónica, S.A.	YES
47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	Corporate Responsibility and Sustainability Structure in Telefónica, S.A.	YES
48	Highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material aspects are covered.	Letter from the Chairman	YES
49	Process for communicating critical concerns to the highest governance body.		
50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.		
51	Remuneration policies for the highest governance body and senior executives.	Annual Corporate Governance and Compensation Report	YES
52	Process for determining remuneration. Report whether remuneration consultants are involved in determining remuneration and whether they are independent of management.		
53	How stakeholders' views are sought and taken into account regarding remuneration.		



			Contained in Sustainability report
Governance		Section	
54	Ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees.		
55	Ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees.		
56	Organization's values, codes of conduct and codes of ethics.	Ethics and compliance	YES
57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organizational integrity, such as helplines or advice lines.	Ethics and compliance	YES
58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour.	Ethics and compliance	YES

### Ethics and integrity

### Specific standard disclosures

			Contained in Sustainability report	
Economic dimension		Section		
DMA	Disclosures on economic management approach.	Corporate responsibility and Sustainability as part of the Telefónica vision	YES	
Economic performance	EC1	Direct economic value generated and distributed.	Driver of progress	YES
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.		
	EC3	Coverage of the organization's defined benefit plan obligations.	Driver of progress	YES
	EC4	Financial assistance received from government.	Financial report	YES
Market Presence	EC5	Ratios of standard entry-level wage by gender compared to local minimum wage at significant locations of operation.	Fair pay and performance recognition	YES
	EC6	Proportion of senior management hired from the local community.		
Indirect Economic Impacts	EC7	Development and impact of infrastructure investments and services supported.		
	EC8	Significant indirect economic impacts, including the extent of impacts.		
Procurement Practices	EC9	Proportion of spending on local suppliers at significant locations of operation.	Driver of progress	YES
<b>Environmental dimension</b>				
DMA	Disclosures on environmental management approach.	Corporate responsibility and Sustainability as part of the Telefónica vision	YES	
Materials	EN1	Materials used by weight or volume.	Environmental management in Telefónica	
	EN2	Percentage of materials used that are recycled input materials.		YES



Environmental dimension		Section	Contained in Sustainability report	
Energy	EN3	Energy consumption within the organization.	Energy and climate change	YES
	EN4	Energy consumption outside the organization.	Energy and climate change	YES
	EN5	Energy intensity.	Energy and climate change	YES
	EN6	Reduction of energy consumption.	Energy and climate change	YES
	EN7	Reductions in energy requirements of products and services.		YES
Water	EN8	Total water withdrawal by source.	Environmental management in Telefónica	YES
	EN9	Water sources significantly affected by withdrawal of water.		YES
	EN10	Percentage and total volume of water recycled and reused.		YES
Biodiversity	EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Environmental management in Telefónica	YES
	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Environmental management in Telefónica	YES
	EN13	Habitats protected or restored.	Environmental management in Telefónica	YES
	EN14	Total number of IUCN red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.		
Emissions	EN15	Direct greenhouse gas (GHG) emissions (scope 1).	Energy and climate change	YES
	EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2).	Energy and climate change	YES
	EN17	Other indirect greenhouse gas (GHG) emissions (scope 3).	Energy and climate change	YES
	EN18	Greenhouse gas (GHG) emissions intensity.	Energy and climate change	YES
	EN19	Reduction of greenhouse gas (GHG) emissions.	Energy and climate change	YES
	EN20	Emissions of ozone-depleting substances (ODS).		
	EN21	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions.		
Effluents and Waste	EN22	Total water discharge by quality and destination.	Environmental management in Telefónica	
	EN23	Total weight of waste by type and disposal method.	Environmental management in Telefónica	YES
	EN24	Total number and volume of significant spills.	Environmental management in Telefónica	YES
	EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention.	Environmental management in Telefónica	YES
	EN26	Size, protected status, and biodiversity value of water bodies and related habitats significantly affected.		
Products and Services	EN27	Extent of impact mitigation of environmental impacts of products and services.	Green ICT services	YES
	EN28	Percentage of products sold and their packaging materials that are reclaimed by category.	Green ICT services	YES
Compliance	EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Environmental management in Telefónica	YES



Transport	EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce.	Energy and climate change	YES
Overall	EN31	Total environmental protection expenditures and investments by type.	Environmental management in Telefónica	YES
Supplier Environmental Assessment	EN32	Percentage of new suppliers that were screened using environmental criteria.	Environmental management in Telefónica	YES
	EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken.	Environmental management in Telefónica	YES
Environmental Grievance Mechanisms	EN34	Number of grievances about environmental impacts filed, addressed, and resolved.	Environmental management in Telefónica	YES
Social dimension		Section	Contained in Sustainability report	
DMA		Disclosures on social management approach.	Corporate responsibility and Sustainability as part of the Telefónica vision	YES
Labour practices and decent work	LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region.		
	LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.		
	LA3	Return to work and retention rates after parental leave, by gender.		
	LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.		
	LA5	% of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	Health and safety	YES
	LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	Health and safety	YES
	LA7	Workers with high incidence or high risk of diseases related to their occupation.		
	LA8	Health and safety topics covered in formal agreements with trade unions.	Health and safety	YES
	LA9	Average hours of training per year per employee by gender, and by employee category.		
	LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Training and talent management	YES
	LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.	Fair pay and performance recognition	YES
	LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Management of diversity	YES
	LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Management of diversity	YES
	LA14	Percentage of new suppliers that were screened using labour practices criteria.		YES
	LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken.	Sustainability in the supply chain	YES
	LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms.	Sustainability in the supply chain	



Social dimension		Section	Contained in Sustainability report	
Human rights	HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or underwent human rights screening.	Sustainability in the supply chain	YES
	HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations.	Ethics and compliance	YES
	HR3	Total number of incidents of discrimination and corrective actions taken.	Ethics and compliance	YES
	HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.	Sustainability in the supply chain	YES
	HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	Sustainability in the supply chain	YES
	HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of all forms of forced or compulsory labour.	Sustainability in the supply chain	YES
	HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations.		
	HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken.		
	HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.	Human rights	YES
	HR10	Percentage of new suppliers that were screened using human rights criteria.	Sustainability in the supply chain	YES
	HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken.	Sustainability in the supply chain	YES
	HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms.	Ethics and compliance	YES



Social dimension		Section	Contained in Sustainability report	
Society	S01	Percentage of operations with implemented local community engagement, impact assessments, and development programmes.	Social action at Telefónica	YES
	S02	Operations with significant actual and potential negative impacts on local communities.		
	S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	Human rights	YES
	S04	Communication and training on anti-corruption policies and procedures.	Ethics and compliance	YES
	S05	Confirmed incidents of corruption and actions taken.	Ethics and compliance	YES
	S06	Total value of political contributions by country and recipient/beneficiary.	Ethics and compliance	YES
	S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Financial report	
	S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Financial report	
	S09	Percentage of new suppliers that were screened using criteria for impacts on society.	Sustainability in the supply chain	YES
	S010	Significant actual and potential negative impacts on society in the supply chain and actions taken.	Sustainability in the supply chain	YES
	S011	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms.		
Product responsibility	PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.		
	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services.		
	PR3	Type of product and service information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements.		
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.		
	PR5	Results of surveys measuring customer satisfaction.	Customer satisfaction	YES
	PR6	Sale of banned or disputed products.		
	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.		
	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Privacy: an open and secure Internet for all	YES
	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.		



# Compliance with Global Compact'



## Human Rights



<b>Principle 1</b>	Business should support and respect the protection of internationally proclaimed human rights	Management of Human Rights and Children's Rights Ethics and Compliance
<b>Principle 2</b>	Businesses should make sure they are not complicit in human rights abuses	Management of Human Rights and Children's Rights

## Labour



<b>Principle 3</b>	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	Freedom of Association and Social Dialogue
<b>Principle 4</b>	Businesses should uphold the elimination of all forms of forced and compulsory labour	Working Environment, Work-Life Balance and Commitment Fair Remuneration and Recognition at Work Health, Safety and Welfare at Work
<b>Principle 5</b>	Businesses should support the effective abolition of child labour	Social Action Sustainability in the Supply Chain Management of Human Rights and Children's Rights
<b>Principle 6</b>	Businesses should uphold the elimination of discrimination in respect of employment and occupation	Management of Diversity

## Environment



<b>Principle 7</b>	Businesses should support a precautionary approach to environmental challenges	Environmental Management
<b>Principle 8</b>	Businesses should undertake initiatives to promote greater environmental responsibility	Global Environmental Leadership, Environmental Management, Energy and Climate Change
<b>Principle 9</b>	Businesses should encourage the development and diffusion of environmentally friendly technologies	Green Services and Smart Cities

## Anticorruption



<b>Principle 10</b>	Businesses should work against corruption in all its forms, including extortion and bribery	Ethics and Compliance
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# Review and external validation of the Report



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Ernst & Young, S.L.  
Torre Picasso  
Plaza Pablo Ruiz Picasso, 1  
28020 Madrid

Tel.: 902 365 456  
Fax: 915 727 300  
ey.com

## INDEPENDENT REVIEW REPORT ON TELEFÓNICA S.A.'S 2013 CORPORATE SUSTAINABILITY REPORT

To the Institutional Affairs Committee of Telefónica, S.A.

**Scope of work**

We have reviewed the contents of Telefónica, S.A.'s 2013 Corporate Sustainability Report (the Report) which was prepared in accordance with:

- The Global Reporting Initiative (GRI) Preparation Guide (version 3.1).
- The principles stated in the AA1000 Assurance Standard Guide issued by AccountAbility (Institute of Social and Ethical Accountability).

The scope determined by Telefónica for the preparation of this report is defined in the section "information consolidation scope" of the accompanying report.

The preparation of the accompanying report, as well as the information contained therein, is the responsibility of the Institutional Affairs Committee of Telefónica, S.A. They are also responsible for defining, adapting, and maintaining the management and internal control systems from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

**Criteria**

Our review was carried out based on:

- Standard ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), with a limited scope of assurance.
- AA1000 AccountAbility Assurance Standard 2008, with a moderate level of type 2 assurance.
- The Guidelines for reviewing Corporate Responsibility Reports, issued by the Official Register of Auditors of Accounts (ICJCE).

**Applied procedures**

Our review consisted in requesting information from Telefónica's Corporate Sustainability and Reputation Management and the various managers of business groups participating in the preparation of the Report, and applying certain analytical procedures and sampling review tests as described in general terms below:

1. Interviews with the persons in charge of Telefónica's Corporate Responsibility and Reputation Department and a selection of managers and key management personnel involved in the report's preparation. The purpose of these was to obtain awareness of the opinion of Corporate Sustainability objectives and policies, as well as how they are put into practice and integrated into Telefónica's strategy.
2. Review of the principal processes and systems through which Telefónica establishes its commitments with stakeholders, along with the relevance and integrity of the information included in the Report.
3. Analysis of the adaptation of the structure and content of the report as indicated in G3.1 Global Reporting Initiative (GRI).
4. Checks, on a sample basis, of the quantitative information included in the Report, as well as its adequate compilation from data supplied by information sources. The review tests have been defined to provide assurance levels in line with the criteria described in this report. The review was carried out based on Telefónica's operations in Spain, Brazil, Argentina, Peru, Colombia, Mexico, Chile, Venezuela, Ecuador, Panama, Germany, and United Kingdom.

This review is considerably less in scope than a reasonable assurance report. Therefore, the degree of assurance is also less extensive. This Report should in no case be considered an audit report.

These procedures were performed on the information contained in the accompanying Report, except for the information relating to energy consumption and emissions, about which we do not express a conclusion.

**Independence**

We have performed our work in accordance with the standards of independence required by the Code of Ethics of the International Federation of Accountants (IFAC).

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Torre Picasso  
Plaza Pablo Ruiz Picasso, 1  
28020 Madrid

Tel.: 902 365 456  
Fax: 915 727 300  
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**Conclusions**

As a result of our review of the accompanying Corporate Sustainability Report, and the scope indicated in "Applied procedures" above, we conclude that:

- No matter came to our attention that would indicate that the Report had not been prepared according to the Guidelines included in the Global Reporting Initiative (GRI) Preparation Guide for Sustainability Reports.
- No matter came to our attention that would lead us to believe that the remaining information and indicators included in the accompanying Report contain significant errors, or that the Report has not been prepared in accordance with the principles established in standard AA1000 APS (2008), such as:
  - ✓ **Inclusiveness:** The mechanisms are in place to identify stakeholders, as well as to gain an awareness and understanding of their expectations, as explained in the "Interaction with stakeholders" section of the accompanying Report.
  - ✓ **Relevance:** Relevance is analyzed and a survey conducted to select the most significant matters to be included in the Report, as described in its "Materiality: focused on key matters" section.
  - ✓ **Responsiveness:** Telefónica has the necessary mechanisms to design, develop, evaluate, and communicate the responses necessary to meet the principal expectations of stakeholders, which are reflected in the "Achievements and Challenges" sections included in the various sections of the accompanying Report

**Recommendations**

We also presented Telefónica's Corporate Sustainability and Reputation Management with our recommendations regarding areas of improvement related to the application of standard AA1000 APS (2008), as well as to actions taken with main stakeholders. The most significant recommendations are summarized below:

**a) Inclusiveness:**

In 2013, measures were taken to enhance the dialog channels with stakeholders on both a corporate level and in the different countries where Telefónica operates. We recommend better use of the information gathered from these channels to determine sustainability objectives.

**b) Relevance:**

In 2013, Telefónica developed a corporate methodology to identify material aspects based on the principles established by version G4 of the GRI. Our recommendation is that Telefónica continue adapting the process of identifying the most significant risks to the needs of each company.

**c) Responsiveness**

The proposal of new challenges which were published in the report demonstrate Telefónica's commitment to respond to stakeholders' expectations. Our recommendation is that Telefónica define the objectives identification process more clearly to ensure that they are directly in line with these interest group's expectations.

We also suggest the following for actions related to the various dimensions referred to in the Report:

**1) Economic aspects:**

In 2013, Telefónica developed information relating to taxes and fees, as well as standards of conduct, which reflects its commitment to transparency. Our recommendation is that Telefónica improve the information relating to complaints and claims.

**2) Environmental issues:**

In 2013, Telefónica continued supporting the implementation of "Green ITC" standards to measure the environmental impact of ITC. Our recommendation is that Telefónica continue to develop its "Green Services" and measure its impact on society.

**3) Social issues:**

In 2013, Telefónica continued working on its commitment to society, pushing forward innovation projects and the "Wayra" and "Think Big" ventures. It was also involved in child protection projects. Our recommendation is to establish methods to measure the impact of these projects in the Company.

This report has been prepared solely for the the Institutional Affairs Committee of Telefónica, S.A., in accordance with the terms set out in our engagement letter.

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(signed in the original issued in spanish language)

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## LBG Assurance Statement: Telefónica

Corporate Citizenship has been asked to provide assurance on Telefónica's application of the LBG measurement model for the year to 31st December 2013.

The LBG model provides a robust and credible framework which measures the real value and impact of corporate community investment to both business and society. It moves beyond charitable donations to include the full range of contributions (in employee time, in-kind, and in cash) made to community causes.

Our work has been limited to assuring the correct application of the LBG model. This is the seventh year that Telefónica has used the LBG model and it continues to be an active member of the LBG España group.

In our opinion, Telefónica continues to show that it understands the LBG model and that it applies its principles to the measurement of community activities at home and abroad. Below we identify some improvements that can be made as the company develops its application of the model in the future.

### **Commentary**

Telefónica continues to set a standard by consistently and comprehensively applying LBG methodology to calculating its total community investment. We trust that in future Telefónica will increase its use of LBG to extend the reach of its application to capturing staff paid time dedicated to volunteering fully, and to reporting it in future years.

We note that a number of changes have been made to the programmes to increase the effectiveness of the impact that they have. We believe that in due course Telefónica should report on the outputs and impacts of some of its more significant programmes to enable more complete insight into the lasting contribution that it makes through these programmes.

*Corporate Citizenship*

Corporate Citizenship

15 April 2014

[www.corporate-citizenship.com](http://www.corporate-citizenship.com)



# Glossary of terms

Term	Definition
<b>A</b>	
AA1000	Set of accountability processes for verification (AA1000AS) and engagement (AA1000SES).
Absenteeism rate (AR)	Calculation of the days of absenteeism, expressed as a percentage of the number of days of work anticipated for the entire workforce in the period covered in the report.
ARPU	Average Revenue Per User, which is the mean or average revenue per user which is achieved, over a given period, by a service company with a wide user base. It is calculated by dividing the total income earned in the period by the total number of active users of the company. It is a unit of measurement mainly used by telecommunication companies.
ASPAYM Granada	Association for people with spinal cord injuries and severe physical disabilities in Granada. ASPAYM is dedicated to the care of people with spinal cord injuries and other severe disabilities. It is involved in developing and managing facilities and services for members of the association, and all those areas that can improve their social integration ( <a href="http://www.medulardigital.com/">http://www.medulardigital.com/</a> ).
<b>B</b>	
B2B	Business-to-Business.
B2C	Business-to-Consumer.
<b>C</b>	
CDP	Carbon Disclosure Group. Index composed of two indices showing, to 551 institutional investors with assets totalling \$71 trillion, the transparency and performance of companies on issues of climate change.
CENTAC	<i>Centro Nacional de Tecnologías de la Accesibilidad</i> (National Centre for Accessibility Technology). CENTAC is a centre dedicated to promoting the development of accessibility technologies in business, industrial and service areas in order to facilitate access to these and improve the quality of life of older people and people with disabilities, and their families ( <a href="http://www.centac.es">www.centac.es</a> ).
CERMI	<i>Comité Español de Representantes de Personas con Discapacidad</i> (Spanish Committee of Representatives of People with Disabilities). CERMI is the platform for representation, defence and action for Spanish citizens with disabilities – more than 3.8 million men and women, and their families – who, being fully aware of their situation as a disadvantaged social group, have decided to join together, through organisations of which they are members, to progress in recognition of their rights and achieve full citizenship with the same rights and opportunities as the other members of society ( <a href="http://www.cermi.es">www.cermi.es</a> ).
Cloud	Processing and mass storage of data on servers that host user information.
Cloud Computing	Internet-based computer system using remote data centres to manage information services and applications. Cloud computing allows consumers and businesses to manage files and use applications without having to install them via any computer with online access.
CNSE and CNSE Foundation	<i>Confederación Estatal de Personas Sordas</i> (National Confederation of Deaf People) and its Foundation. The CNSE Foundation and its work in defending the rights of all deaf people, with the added value of sign language, while empowering and enabling them, as well as strengthening their associations and promoting social change to ensure effective inclusion. ( <a href="http://www.cnse.es/">http://www.cnse.es/</a> and <a href="http://www.fundacioncnse.org/">http://www.fundacioncnse.org/</a> ).
COSO	Committee of Sponsoring Organizations of the Treadway Commission. This is a private voluntary organisation dedicated to guiding, on a global basis, executive management and governance entities toward the establishment of more efficient business operations on ethical issues, issues of internal control and risk, fraud and financial reporting.
<b>D</b>	
Data Protection Regulation of the European Union	EU REGULATION No. 611/2013 OF THE COMMISSION of 24 June 2013 on the measures applicable to the notification of personal data breaches under Directive 2002/58/EC of the European Parliament and of the Council on privacy and electronic communications.
Digital inclusion	Processes to democratise access to information technologies and communication, so as to allow the insertion of everyone in the information society.
DJSI	Dow Jones Sustainability Index. Set up in 1999, this is a family of stock market indexes which evaluate the sustainability performance of the 2,500 largest companies listed on the Dow Jones Index in the US and is a global benchmark for investors interested in the long-term behaviour of the companies they invest in.



Term	Definition
<b>E</b>	
EZE	Overview of the process, from beginning to end.
Eco-efficiency	Creation of more goods and services using fewer resources and generating less waste.
ECTA	European Competitive Telecommunications Association.
e-Health	The use in the health sector of digital information transmitted, stored or collected electronically in order to support healthcare both locally and remotely.
EMF	ElectroMagnetic Fields.
ETNO	European Telecommunications Network Operators Association, the main association of communications network operators in Europe.
European Cybersecurity Month	Annual initiative that the European Union Agency for Network and Information Security (ENISA) at the European Commission promotes in October in the EU and internationally. Under the slogan "Online security requires your participation", it aims to promote cybersecurity awareness among citizens, change their perception of cyberthreats and provide updated information on security through education, best practices and security competitions.
European Voice	Created by The Economist Group, this is the leading source of news and analysis on key EU policies, laws and institutions.
<b>F</b>	
FEAPS	<i>Confederación Española de Organizaciones en favor de las Personas con Discapacidad Intelectual o del Desarrollo</i> (Spanish Confederation of Organisations for Persons with Mental or Developmental Retardation). FEAPS works to support and provide opportunities for people with intellectual disabilities and their families to develop their quality of life project and to promote their inclusion as full citizens in a fair and caring society ( <a href="http://www.feaps.org">www.feaps.org</a> ).
FIAPAS	<i>Confederación Española de Familias de Personas Sordas</i> (Spanish Confederation of Families of Deaf People). FIAPAS works to represent and defend the rights and overall interests of people with hearing impairments and their families ( <a href="http://www.fiapas.es">www.fiapas.es</a> ).
<b>G</b>	
Gases whose presence in the atmosphere contribute to the greenhouse effect	
GeSI	Global e-Sustainability Initiative. Initiative sponsored by service providers of information and communication technologies, which aims to encourage debate on the topic of sustainability, inform the public about the sustainable activities of its members and promote information and communication technologies that can encourage Sustainable Development.
GHG	GreenHouse Gas.
GHG Protocol	GreenHouse Gas Protocol. This is the international tool used to calculate and communicate emissions inventories.
Global Compact	Voluntary UN initiative which aims to promote social dialogue for the creation of a global corporate citizenship to reconcile the interests of companies with the values and demands of civil society, UN projects, trade unions and non-governmental organisations (NGOs), in which the companies undertake to align their operations and strategies with ten universally accepted principles in four thematic areas, namely human rights, labour, environment and anticorruption.
GRI	Global Reporting Initiative. Organisation and set of instructions on corporate sustainability reporting.
GSMA	Association of mobile operators and related companies devoted to supporting the standardising, deployment and promotion of the GSM mobile phone system.



Term	Definition
<b>I</b>	
ICT	Information and Communication Technology.
Incidence rate (IR)	Number of accidents in relation to the total time worked by the total workforce in the period covered in the report. IR = (total no. of accidents/total hours worked) x 200,000.
ISO 14001	International standard for the development and implementation of Environmental Management Systems.
ITU	International Telecommunication Union, which is the United Nations agency responsible for information and communication technology. The ITU coordinates the shared global use of the radio spectrum, promotes international cooperation in the use of satellites and promotes infrastructure standards that encourage development.
<b>K</b>	
KPIs	Key Performance Indicators.
<b>L</b>	
LBG	London Benchmarking Group, which provides companies with a model to classify and manage their initiatives in the community. This is a methodology for the measurement, management and communication of corporate social action.
Lost day rate (LDR)	This is the impact of occupational accidents and diseases and as such reflects the number of days off work of the employees concerned. It is expressed by comparing the total number of days lost to the total planned working hours for the entire workforce during the period covered by the report.
<b>M</b>	
M2M	Machine-to-Machine, a generic term that refers to the ability to exchange data between two remote machines, so that through this exchange it is possible to control and monitor automatically processes in which machines are involved.
Materiality	Processes of qualitative and quantitative analysis and analysis of debates to determine whether a matter is material, i.e. whether it reflects the significant economic, environmental and social impacts of the organisation, as well as those aspects that significantly influence the assessments and decisions of stakeholders.
Millennium Development Goals	Declaration signed in 2000 by 189 heads of state and government from around the world during the Millennium Summit of the United Nations that aims by 2015 to end the poverty in which more than a billion people worldwide are living. To this end, 8 human development goals were established.
<b>N</b>	
NGA	Next-Generation Access, it describes the improved benefits to telecommunications access by replacing copper with fibre optics.
<b>O</b>	
Occupational disease rate (ODR)	Relationship between the number of cases of work-related illness and the total time worked by the entire workforce throughout the period covered by the report.
OECD	Organization for Economic Cooperation and Development. Intergovernmental organisation whose primary mission is to provide assistance to member countries to achieve economic growth based on sustainable development.
ODMs	Original Design Manufacturers.
ONCE and Fundación ONCE	<i>Organizacion Nacional de Ciegos Españoles</i> (Spanish Organisation for Blind People) and its foundation. ONCE and its foundation are made up of a set of institutions whose aim is to achieve the full autonomy and social integration of people with blindness and visual impairment, and committed through solidarity to groups of people with other disabilities, through training, employment and actions to promote accessibility ( <a href="http://www.once.es">www.once.es</a> and <a href="http://www.fundaciononce.es">www.fundaciononce.es</a> ).
Organic Growth	In financial terms, constant average exchange rates for January-December 2010 are assumed and the impact of changes in the scope of consolidation and the impact of hyperinflation are excluded.
OTT	Over-the-Top and commonly known as a value-added service. OTT refers to the service that is used on the data network by your service provider.



Term	Definition
<b>S</b>	
SDC	<i>Servicio de Defensa del Cliente en España</i> (Spanish acronym for the Customer Protection Service in Spain).
SRI	Socially Responsible Investment. This involves the incorporation of ethical, social and environmental criteria in the process of investment decision making, in a way that is complementary to the traditional financial criteria of liquidity, profitability and risk.
<b>T</b>	
Telefónica Global Services (TGS)	A company registered in Munich, Germany, since 2010. This is the global sourcing unit for all Telefónica Group companies worldwide. TGS works with representatives from all of Telefónica's operating businesses worldwide and centrally manages negotiations with suppliers in the various global categories.
Time to Market	Time taken by a product from the moment it is conceived until it is placed on sale.
<b>U</b>	
Underlying Growth	Figures reported, excluding exceptional impacts and spectrum acquisition.
UNHCR	The United Nations High Commissioner for Refugees (UNHCR) is the United Nations agency responsible for protecting refugees and people displaced by conflict or persecution and for promoting lasting solutions to their situation through voluntary resettlement in their country of origin or in the host country.
UNICEF	United Nations Children's Fund. UNICEF carries out its work in 191 countries through country programmes and National Committees. UNICEF was established by the United Nations on 11 December 1946 to respond to the emergency needs of children in Europe and China during the post-war period. The full name was United Nations International Children's Emergency Fund. In 1950, its mandate was expanded to address the long-term needs of children and women in developing countries worldwide. UNICEF was integrated permanently into the United Nations in 1953; at the time, its name was shortened and renamed the United Nations Children's Fund. However, it maintained its original acronym, UNICEF.
<b>W</b>	
WEEE (e-waste)	Waste Electrical and Electronic Equipment.



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## Authors

Alberto Andreu, Silvia Guzmán, Emilio Vera, Nuria Pizarro, Daniela Torres and Susana Gallego.

We are interested in any opinions and comments, so please feel free to contact us at:

- [responsabilidadcorporativa@telefonica.es](mailto:responsabilidadcorporativa@telefonica.es)
- [www.rcysostenibilidad.telefonica.com/es](http://www.rcysostenibilidad.telefonica.com/es)
- [www.rcysostenibilidad.telefonica.com/blogs](http://www.rcysostenibilidad.telefonica.com/blogs)
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- [www.facebook.com/rcysostenibilidad](http://www.facebook.com/rcysostenibilidad)

Or, if you prefer, write to us at our postal address:  
Reputación y Sostenibilidad Corporativas Telefónica, S.A.  
Distrito Telefónica. Ronda de la Comunicación S/N  
Edificio Oeste 2. Planta 1. 28050 Madrid.

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