2014

Sustainability Report

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Telefónica

2014

Sustainability Report



Telefónica

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The Telefónica Annual Report 2014 comprehends the *Integrated Report*, the *Annual Corporate Governance Report / Annual Report on the Remuneration of Directors*, the *Financial Report* and the *Sustainability Report.*
If you would like to access them directly, please click on their covers.



Integrated Report



Sustainability Report

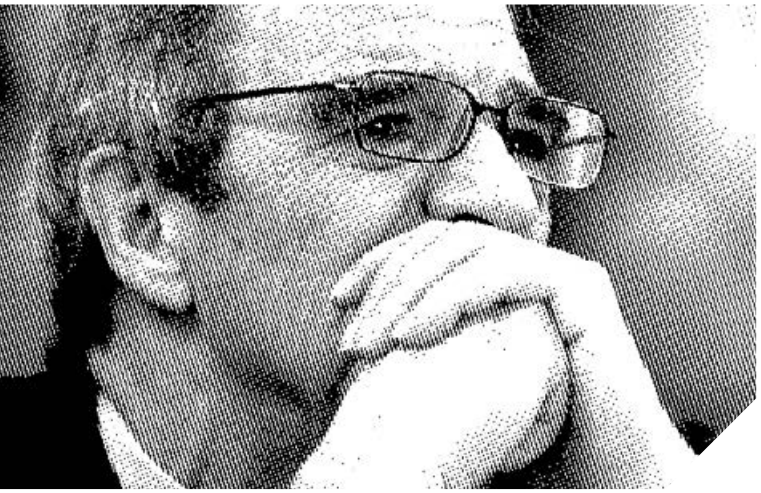


Financial Report



Annual Corporate Governance Report / Annual Report on the Remuneration of Directors

Letter from the *Executive Chairman*



"Our Sustainability strategy allows us to take advantage of the opportunities that new technologies offer, in order to reduce digital divides"

Dear friends,

It is a pleasure for me to address you once again to introduce Telefónica's Annual Sustainability Report. This Report, which we have been publishing for over ten years, responds to our commitment for information and transparency to the various stakeholders that the Company deals with.

By publishing this document, Telefónica is anticipating compliance with Directive 2014/95 of the European Union with regard to "disclosure of non-financial and diversity information by certain large undertakings and groups", which should be implemented by member States shortly.

Our sustainability strategy allows us to take advantage of the opportunities offered to us by new technologies in order to reduce the digital divides and efficiently manage the inherent impact of economic, environmental and social development of our Company.

At Telefónica we are convinced that technology should be open to everyone, so that we can all BE MORE. Therefore, we want to contribute to the development of society, accessibility and protection of the environment through our technological innovation impact, while at the same time we generate more sustainable products and services for our customers.

This Report addresses the advances and challenges that Telefónica faces in the three basic dimensions of sustainability: economic, social and environmental.

In terms of economic impact, I would like to highlight the technological innovation of our sustainable products and services, from Green products to Smart Cities. With respect to our supply chain, at Telefónica we continue to support local providers. Thus, in 2014 we allocated 85% of our purchase volume to local suppliers

Telefónica establishes in its Privacy Policy, approved by the Board of Directors, the guidelines that Group companies must follow to protect the privacy of all those people who trust us with their personal information.

Regarding social impact, our commitment to health and safety at work is outstanding. All of Telefónica Group companies have obtained the health and safety certification according to the OHSAS 18001 standard. Furthermore, let me stress our firm commitment to digital education, a key lever for the development of individuals and society as a whole. In addition, we have various initiatives in place such as Talentum, Telefónica Open Future... that drive youth employment and have enabled 9,047 young people under the age of 30 to join our Company.

G4-1, G4-48

Telefónica continues their support to local providers, allocating 85% of its purchase volume in 2014 to local suppliers

The Company has reduced CO_2 emissions by more than 100,000 tonnes thanks to efficiency projects over the last four years

According to Fortune magazine, Telefónica is the most admired Telecommunications Company in Europe, and third in the world

In relation to the responsible use of the Internet, we launched in Movistar the interactive Familia Digital portal, which establishes best practices and allows parents and teachers to exchange experiences. In parallel, we have launched sustainable innovation projects such as Reto Ability, developed by Telefónica Open Future, to promote innovation in accessibility.

Finally, in relation to the environment, Telefónica has been working for years to reduce the impact of our activity while simultaneously working towards solutions to environmental challenges using digital technology. Hence, thanks to our energy and emissions targets, we have reduced CO_2 emissions by more than 100,000 tonnes on the back of efficiency projects over the last four years. M2M services and Smart Cities, which have grown 40% in the last year, are already offering tangible results in environmental enhancements to other sectors.

At Telefónica we believe it is very important to offer comprehensive information on the progress of the most important topics to our Company stakeholders, through our sustainability policies and under the criteria of reporting guidelines, such as the GRI and United Nations Global Compact.

In 2014, all of this has allowed our Company to be the most admired Telecommunications Company in Europe and third in the world, according to Fortune magazine. We are among the five leading telecommunications companies in the Carbon Disclosure Project and continue to be one of the most valued companies by specialised analysts, being part of the Dow Jones Sustainability Index Europe, FTSE4Good, Sustainalytics and MSCI, among others.

Allow me to remind you that Telefónica is today a fundamental player within the digital ecosystem and is strengthening its firm commitment to sustainability as a vital part of business. I would like to conclude by expressing my gratitude to our stakeholders for their constant support, collaboration, and dialogue. Their thoughts and proposals have helped us, year after year, to shape a more sustainable company.

Thank you,

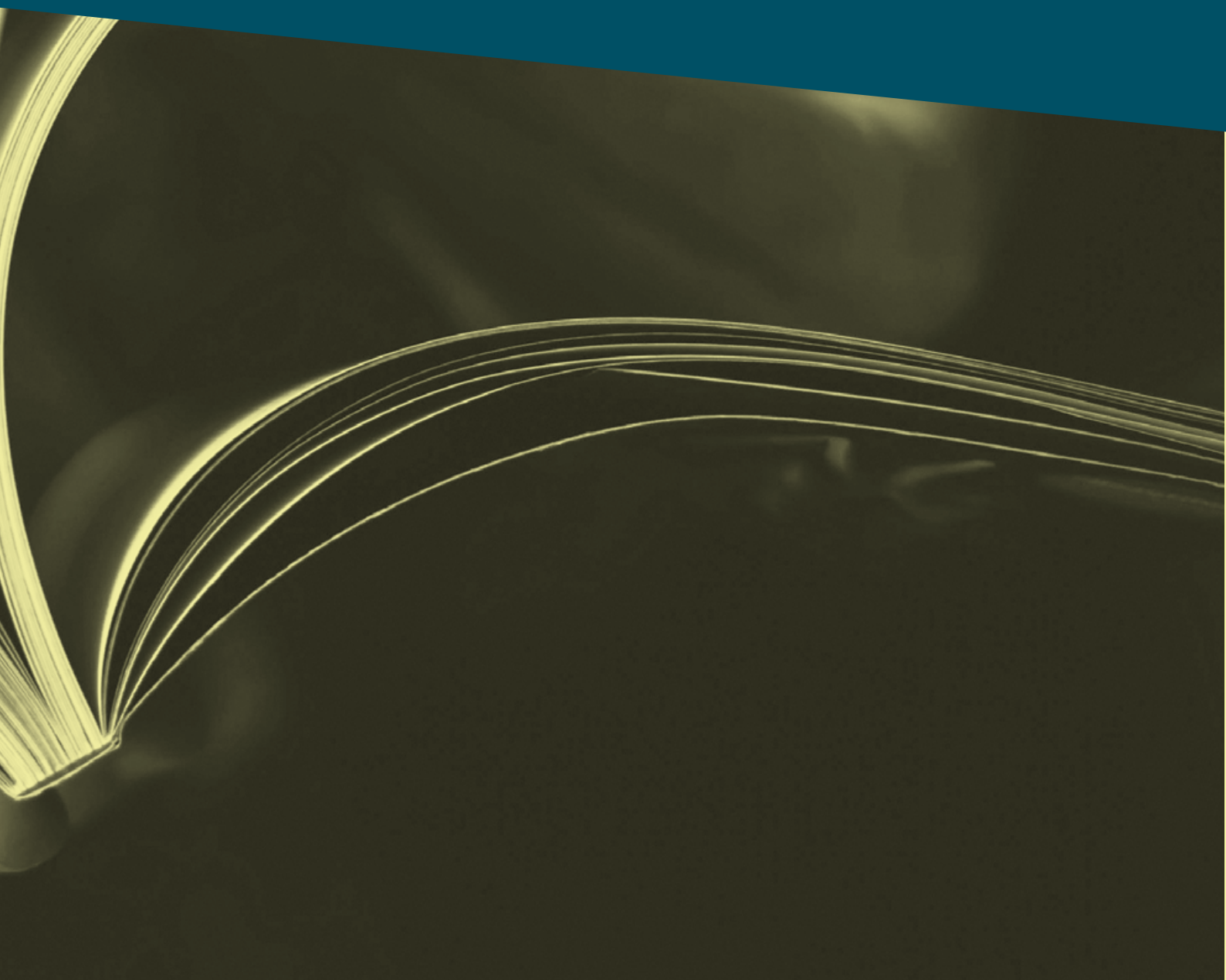


César Alierta
Executive Chairman

G4-2

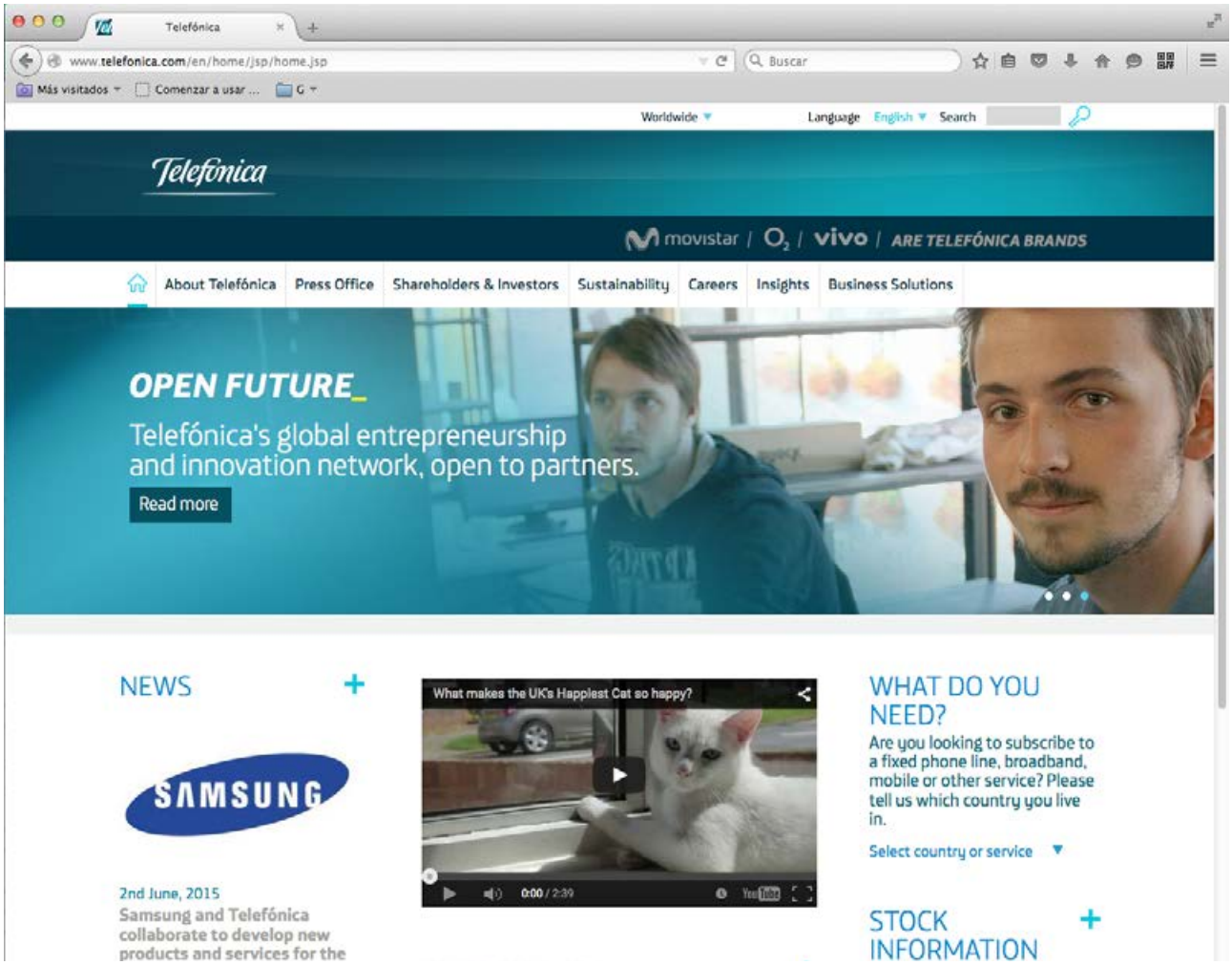
1. About this Report





Company profile

With operations in 17 countries and 341 million accesses, Telefónica, one of the largest telecommunications companies in the world by capital stock, continues its transformation into a Digital Telco thanks to the best networks and an innovative offer of digital services.



Telefónica is one of the largest telecommunications companies in the world in terms of capital stock and number of clients. Supported by the best fixed, mobile and broadband networks, as well as by an innovative offer of digital services, the Company is **becoming a Digital Telco**, which puts it in a very favourable position to be able to satisfy the needs of its customers and capture growth in new revenues.

With our headquarters in Madrid, we operate in 17 countries and, with a customer base of 341 million accesses, have a strong presence in Spain, Europe and Latin America, where most of our growth strategy is centred.

Our profile is one of the most international in the sector, with over 76% of business generated outside the domestic market. Movistar (for Spain and Latin America, except Brazil), Vivo (in Brazil) and O2 (in the United Kingdom and Germany) are the main brands under which the commercial offer is structured.

Telefónica is a wholly private company which has 1.3 million direct shareholders and is listed on the continuous market of the Spanish Stock Exchange, as well as on the London, New York, Lima and Buenos Aires Stock Exchanges.

G4-3, G4-4, G4-5, G4-6, G4-7, G4-8, G4-28

Main Indicators



Revenue during 2014 fiscal year



Employees at 31 December 2014



Countries in which it operates



Capital stock at 31 December 2014



Net debt

The list of companies that form the Telefónica Group, their description, main corporate purpose, country, share capital, percentage of effective participation of the Telefónica Group and the company or companies through which participation in the Group is obtained can be seen in Annex VI of the Report on Financial Studies that can be found on the corporate website.

In this document, Telefónica presents its Report on Corporate Sustainability for the 2014 fiscal year, where economic, environmental and social advances achieved during this period are listed, as well as advances in human rights, anti-corruption and diversity management. The content herein is supplemented with the Company Sustainability information that is periodically updated on the website, as well as with the Integrated Annual Report, the Corporate Governance and Compensation Report, and the Consolidated Statement of Annual Accounts and the corresponding Management Report for the period. These documents are linked to this Report for easier access.

Telefónica publishes this Report annually and presents it in every General Shareholders' Meeting.

G4-9, G4-28, G4-29, G4-30

Principles for the *preparation of this Report*

Telefónica presents its 2014 Sustainability Report, a document that sets out the progress achieved during the year in economic, environmental and social terms.



Telefónica hereby reports on its commitment to the following international standards:

- The United Nations Universal Declaration of Human Rights.
- The International Covenant on Civil and Political Rights.
- The International Covenant on Economic, Social and Cultural Rights.
- Convention on the Rights of the Child.
- Convention on the Rights of Persons with Disabilities.
- International Labour Organisation Conventions.
- The Basel Convention (on hazardous waste).
- The Sarbanes-Oxley Act (US).
- ISO Standards.
- International guidelines (ICNIRP).

VOLUNTARY STANDARDS

Furthermore, Telefónica has voluntarily subscribed to the following standards related to CSR content and management systems:

- The United Nations Global Compact.
- GRI G4.
- OECD Guidelines for Multinational Enterprises.
- Conthe Code.
- UN Principles for Responsible Investment (UN PRI).
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.
- Global e-Sustainability Initiative (GeSI).
- London Benchmarking Group (LBG).
- Low-carbon economy.
- Collaboration with ETNO (European Telecommunications Network Operators Association), ITU (International Telecommunication Union) and GSMA (World Association of Mobile Telephone Operators).
- Carbon Disclosure Project.
- *Autocontrol*'s Code of Good Advertising Practice.

This Report has been prepared in line with the general G4 'In accordance' principles, as laid out by the Global Reporting Initiative (GRI). Telefónica is using the "In accordance – Comprehensive Option" of GRI-G4. This option was subsequently subjected to external verification by EY.

Below, there is an explanation of how its standards have been applied, along with details of those which determine content and quality, and which ensure a balanced and reasonable presentation of the organisation's performance. This whole process has been carried out taking into account both the experience and purpose of Telefónica, and the usefulness for its stakeholders. In addition, the review carried out by EY has been performed in accordance with the principles defined by the AA1000AS Standard (2008), whose purpose is to "ensure the quality of the organisation's Sustainability Report and of the processes, systems and competences that serve as the basis for its implementation by the entire organisation."

Both the principles dictated by the Global Reporting Initiative (GRI) and those defined by AA1000AS (2008) are the standards which are most often compared and used in the preparation of sustainability and corporate social responsibility reports.

G4-15, G4-32, G4-33

IN ACCORDANCE WITH THE GLOBAL REPORTING INITIATIVE (GRI)

PRINCIPLES FOR DETERMINING ITS CONTENT

Stakeholder participation
In the chapter, 'Interaction with stakeholders', the stakeholders are identified and an explanation is given as to how Telefónica has responded to their reasonable interests and expectations.

Context of sustainability
Telefónica contributes to the progress of the communities in which it operates and to their social and environmental sustainability, for the entire value chain: from working with our suppliers, marketing sustainable products and services, and showing respect for consumer rights.

Materiality
Those aspects which reflect the significant economic, environmental and social impact of the Company, and which substantially influence stakeholder assessments and decisions are considered. To this end, a materiality analysis at corporate, local and regional levels, has been carried out.

Completeness
Material aspects and their coverage, scope and time are indicated so as to reflect their significant effects in terms of the economy, the environment and society. Thus, stakeholders can analyse Telefónica's performance during the corresponding period.

PRINCIPLES FOR DETERMINING ITS QUALITY

Balance
This testimony reflects both the positive and negative aspects of the Company's performance in order to foster a well-founded assessment.

Comparability
The information contained herein is presented in a systematic manner in order to enable stakeholders to analyse the Company's evolution and performance, so that it can be compared to that of other organisations.

Precision
This Report is precise in qualitative and quantitative terms, so that stakeholders can assess the organisation's performance.

Timeliness
This Report is presented on the occasion of the convening of the Ordinary Telefónica Shareholders' Meeting, with the purpose of adhering to the schedule so that stakeholders may have the information necessary at the meeting to be able to make informed decisions.

Clarity
The information is presented in a manner which is understandable to stakeholders who have a reasonable knowledge of the Company and its activities. Also, the information regarding indicators is presented in three-year periods.

Reliability
The contents of this Report have been subject to external review by EY, as reflected in the attached independent assessment report.

IN ACCORDANCE WITH AA1000 (APS)

Inclusivity
This refers to the participation of stakeholders in the development and achievement of a responsible and strategic response regarding sustainability.

Relevance
By means of this, Telefónica has identified the importance of each subject to stakeholders.

Responsiveness
This is Telefónica's reaction to the demands of its stakeholders, demonstrated by the Company's milestones achieved and challenges set in terms of sustainability.

G4-33

Structure and scope *of consolidation*

The information in this Report, produced annually, summarises the development of the Telefónica Group in terms of Corporate Sustainability.



Gran Vía in Madrid (Spain), with a view of the Telefónica building in the background

In October 2014 Telefónica Deutschland finalised the acquisition of E-Plus

The scope of consolidation of material information is indicated in the table 'Report structure and scope of consolidation'.

Relevance of core Telefónica businesses in the Company scope

	Revenue (€)	% of the total	Individuals	% of the total
T. Europe + T. Latin America	48,993	97.30%	104,511	81.6%
Other companies	1,384	2.70%	19,189	18.4%

⇨ In 2014, certain variations occurred in the scope of consolidation of the Telefónica Group:

- On 15 July 2014, the sale of 100% of the stake in Telefónica Ireland was completed, once the pertinent regulatory authorisations were obtained, and as such was removed from the scope of consolidation in order to facilitate comparison with the following years.
- On 28 January 2014 the sale of 65.9% of the Telefónica Czech Republic stock was completed, having obtained the required regulatory authorisations, consequently causing a decrease in the scope of consolidation of this Report.
- On 1 October 2014 Telefónica Deutschland finalised the acquisition of E-Plus, as a result of which all its shares, business and personal are integrated into the scope of the German operator of Telefónica Group.

Therefore, information pertaining to E-Plus in Germany has been included in this Report, while information pertaining to Ireland, the Czech Republic and Slovakia has been left out, for all data from 1 January 2014. Information corresponding to previous years has not been redefined.

The complete list of all the companies that comprise the Telefónica Group is published in Annex VI: 'Main companies in the Telefónica Group' of the Consolidated Financial Report which accompanies this Report and can be found on the Corporate website.

G4-13, G4-18, G4-22, G4-23

SOURCE OF INFORMATION IN THIS REPORT

- **Corporate Governance and shareholders**
  Drawn from the same sources used to prepare the information included in the 2014 Annual Report on Corporate Governance.

- **Economic and financial information**
  Drawn from the same sources used to prepare the information included in the 2014 Financial Report, audited by EY.

- **Innovation**
  Consolidated through the corporate area of the CCDO, both in R+D and open innovation. The data in these sections are sourced from procurement systems and are reinforced without applying a proportionality test.

- **Customers**
  Sourced from Telefónica S.A. management control systems and country operations. The total number of Company accesses does not have to equal the partial sum of accesses from country to country since, for the sake of homogenisation, the area of Corporate Management Control standardises some criteria of counting accesses. The standardisation criteria are explained in the relevant chapter.

- **Employees**
  Figures come from the Corporate Human Resources management systems. In this Report, the concept of individuals is used instead of employees; the latter term is usually used in financial reports. In instances in which the information is consolidated, the number of employees is used as a proportionality factor. The section dedicated to them includes the entire economic scope of the Telefónica Group, except in the Employee Health and Safety chapter, in which the rates reported correspond only to the Group's telecommunications business. This is to facilitate comparison with other companies in the sector, as it is produced taking into account the sector specific circumstances and legislation (e.g. listing occupational diseases).

- **Environment and climate change**
  The information is drawn from the Environmental and Operations departments of each country via on-line questionnaires and other information media. The data is consolidated by simple sum and, in the case of climate change, emission factors of the GHG Protocol are taken into account.

- **Suppliers**
  Sourced from the procurement system through the sales departments. The consolidation of information is carried out without applying any criteria as a proportionality factor and is presented disaggregated by country or business area. The chapter dedicated to them includes the entire economic scope of the Telefónica Group. It is important to emphasise the difference between the supply data in the consolidated accounts of the financial statements (on an accrual basis and in accordance with the countable scope of consolidation of the Telefónica Group) and the criterion for allocated purchases used in different parts of this Report, which refers to the purchases that are approved in this period, regardless of their accounting criterion or accruals and deferrals as an expense.

- **Digital inclusion**
  The information comes from local operators' systems in each country and from Fundación Telefónica.

- **Social action**
  The data comes from the management control systems and sponsorship committees of FundaciónTelefónica, ATAM and the Telefónica Group, and is integrated under LBG monitoring, altogether in an information medium.

- **Exchange rates**
  All the information in this Report is presented in current euros, unless otherwise stated. The exchange rates applied correspond to those used in all financial statements published by the Company (balance sheet, consolidated and individual accounts) in order to facilitate the integral relationship between financial and non-financial variables.

EXCEPTIONS TO THE SCOPE OF CONSOLIDATION OF THIS REPORT

Certain operators' data is excluded when the Company percentage in them is far below 50%.

- China Unicom: Telefónica has a strategic stake of 5.01%.

- Telecom Italia: Telefónica has an indirect stake of 10.50%.

- On 4 July 2014 Telefónica completed the acquisition of 22% of the share capital of Distribuidora de Televisión Digital, S.A. (DTS), the owner of Mediaset España Comunicación, S.A. With this acquisition, the Telefónica Group's stake in DTS reaches 44%.

Throughout this Report, links to other information are included that provide greater detail on certain subjects covered herein. However, the information in these links is not an integral part of this Report.

For deeper analysis of the topics of Corporate Governance and Telefónica's financial performance, in certain places this Report references the following to complement the information given by Telefónica: the Consolidated Financial Statement Reports (Consolidated Annual Accounts) and the 2014 Consolidated Management Report, the Annual Accounts and the 2014 Management Report, the 2014 Annual Corporate Governance Report, and the 2014 Annual Report on the Remuneration of Directors.

Report structure and scope of consolidation

			Core	Other subsidiaries	Corporate centres	Outside the organisation
Telefónica Sustainability Model	Sustainability strategy and governance		▲	▲	▲	▲
	Interaction with our stakeholders		▲		▲	▲
	Materiality		▲		▲	▲
	Commitment to society	Social cash flow	▲	▲	▲	▲
		Commitment to our communities	▲	▲	▲	▲
		Contribution to public administrations	▲	▲	▲	▲
		Telefónica as a responsible investor		▲	▲	
Responsible management	Ethics and compliance		▲	▲	▲	
	Employment practices	Workforce	▲	▲	▲	
		Health, safety and occupational well-being	▲		▲	
		Acquisition, training and retention of talent	▲	▲	▲	
		Fair remuneration and recognition of work	▲	▲	▲	
		Work environment, conciliation and commitment	▲	▲	▲	
		Freedom of association and social dialogue	▲		▲	
	Diversity management		▲	▲	▲	▲
	Commitment to our customers	Customer satisfaction	▲			▲
		Connectivity at our customers' service	▲	▲	▲	
		Large customers	▲		▲	▲
	Management of the supply chain		▲	▲	▲	▲
	Commitment to the environment	Environmental strategy	▲	▲	▲	▲
		Environmental management	▲		▲	▲
		Energy and climate change	▲		▲	▲
		Management of electromagnetic fields	▲			▲
	Response to emergency situations		▲		▲	▲
	Volunteering		▲	▲	▲	▲
Digital trust	Telefónica's digital agenda				▲	▲
	Privacy and security		▲	▲	▲	▲
	Good use of the Internet by children		▲	▲	▲	▲
Sustainable innovation	Innovation		▲	▲	▲	▲
	Sustainable products and services	Digital inclusion	▲		▲	▲
		Universal Service	▲			
		Disability and dependence	▲		▲	▲
		Digital education	▲	▲	▲	
		eHealth	▲		▲	
		e-Government	▲	▲	▲	▲
		Green Services	▲			▲

'Core': includes information on the companies that offer telecommunications services to customers in Argentina, Brazil, Central America, Chile, Colombia, Ecuador, Germany, Mexico, Peru, Spain, the United Kingdom, Uruguay and Venezuela.
Other subsidiaries: includes information on Telefónica Group companies that offer services other than telecommunications.
Corporate centres: includes information on corporate support units to the Telefónica Group companies.
Outside the Organisation: includes information on customers or suppliers that fall outside of the Telefónica Group structure and Fundación Telefónica in the commitment to our communities.

G4-6, G4-8

2. Telefónica sustainability model





Strategy and governance *of sustainability*

Our vision is for technology to be within everybody's reach, so that we can do more, live better and be more.

We want to help make this vision a reality by responding to what our customers, our investors and society in general, ask of us.

Our clients want simpler, good quality products that make life easier, and above all else they value our transparency and integrity in our dealings with them. Furthermore, they value the innovation and security that we offer in the services that we provide and the way that we collect and handle their personal information.

Our investors demand that we follow a sustainable strategy that guarantees our long-term profitability.

And finally, the societies in which we operate ask that we not only act as a responsible company, but also that we contribute to the social and economic development of the communities that we are part of.

In order to respond to these expectations, the economic, social and environmental sustainability aims should go hand-in-hand with the business aims of the Company itself, being incorporated into the processes and goals of the various areas of business so that they, ultimately, end up forming part of the Company's DNA.

To achieve this, our operational approach is based on the identification of three levels of commitment which cover the entirety of the Company's value chain: (1) compliance and risk management, (2) sustainable productivity and (3) sustainability as a lever for growth:

Our operational approach is based on three levels of commitment: compliance and risk management, sustainable productivity and sustainability as a lever for growth

1. On the first level, we guarantee compliance with our international, national and local regulatory framework, coordinating it on a corporate level in order for us to anticipate the legislative trends or changes in an environment where economic, social and environmental matters are increasingly subject to regulation.

2. On the second, we are working to improve our productivity by transversally incorporating sustainability criteria into all our processes, be they operations, human resources, acquisitions, commerce or innovation. We start by focusing on our response to clients' expectations, prioritising work to improve the quality of our products and services, the value propositions that we offer and our customer service processes. However, our continuous improvement goes beyond this, with the aim of producing efficiencies and increasing the value of our products and services through a long-term commitment to key aspects of our business activity, such as talent management, energy efficiency, environmental management of our processes and facilities, sustainable management of our supply chain, the strict assumption of our fiscal responsibility and, in general, a culture of ethics and integrity that should permeate all of our procedures, both internal and external.

3. Finally, the third level is where sustainability is made more visible to our clients because this is where our vision takes shape through the establishment of social or environmental benefits linked to the products and services that we make available to our business and individual clients. We do not just want to keep fulfilling a series of minimum criteria in terms of the social and environmental commitments that are being more and more widely demanded by our clients, be they public administrations, multinationals, large companies, or, to a lesser extent, but increasingly, small and medium companies and individuals. We are working towards making the digital environment more open and secure, and we are contributing to the goal of situating technological opportunities within everybody's reach, advancing geographic, social and personal accessibility to technology.

GROWTH

PRODUCTIVITY

RISK MANAGEMENT



HOW SUSTAINABILITY IS GOVERNED IN TELEFÓNICA

The highest body responsible for sustainability in the organisation is the Board of Directors, through its Institutional Affairs Committee, whose mission it is to adopt and monitor the Corporate Sustainability Plan. In 2014, the Committee met six times to examine topics related to the sustainability of the Company.

At an executive level, the General Board of Sustainability and Corporate Ethics is responsible for promoting and coordinating the strategy in terms of sustainability. This board reports directly to the General Board of Public Affairs and Regulation.

Finally, there is a body that covers the entire Company, the Office of Business Principles and Sustainable Trade, which is responsible for the implementation of the plan in all the Company's activities. Through their top representatives, the following areas are part of this Department: Human Resources, Internal Auditing, Secretary General, Chief Commercial Development Officer, and the General Board of Sustainability and Corporate Ethics on a permanent basis, as well as the departments of Sales, Operations, Communication etc. on a sporadic basis, when the matter in question directly relates to their role.

This Office of Principles is replicated at a country level, across almost all Telefónica operators.

Institutional Affairs Committee

Name	Position	Type
Mr Julio Linares López	Chairman	Other external
Mr José Fernando de Almansa Moreno-Barreda	Member	Other external
Mr Alfonso Ferrari Herrero	Member	Independent
Mr Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr Antonio Massanell Lavilla	Member	Proprietary
Mr Francisco Javier de Paz Mancho	Member	Independent

Acknowledgements

Our efforts in turning sustainability into an inherent element of the Company strategy is yielding rewards, with recognition from prestigious national and international indices and organisations, including the DJSI, Sustainalytics, FTSE, CDP and MSCI. Among the awards received are TOP Sustainability in Brazil, CEMEFI in Mexico and the Andesco Commitment to Society Award in Colombia.

However, we are very conscious that this is a process of continuous improvement, where there is always room for betterment and in which coordination and support at a corporate level are key so that we can be more sustainable in all the markets in which we operate.

G4-35, G4-36, G4-37, G4-42, G4-45, G4-46, G4-47

Interaction with *our stakeholders*

The relationship, both direct and indirect, with stakeholders, including customers and employees, is increasingly important for the Company, as it enables key topics to be identified in order to achieve both our sustainability objectives and our commitment to business success.



Value creation for all those involved in the operation of the business is essential for establishing common objectives and handling complex problems that directly or indirectly affect our Company. The relationship and ongoing dialogue with our stakeholders enables us to identify key topics to be addressed in order to meet the Company's sustainability objectives, at the same time as responding to the commitment to the business success that we have achieved with our shareholders.

OUR STAKEHOLDERS

All of our sustainability projects are founded upon a common base: detecting the topics that most concern our stakeholders or interest groups. To keep abreast of these needs, we have established channels of communication through which we share all topics related to sustainability with these stakeholders.

We actively collaborate with various specialised stakeholders to improve this exchange, including customers, governmental bodies, numerous NGOs, academics and scientists, employees, consumers and investors, among others. This ongoing activity helps us to identify the importance and impact of the needs of each group and allows us to look for targeted and positive results.

EXTERNAL RELATIONSHIPS

Telefónica also participates in numerous external initiatives that we consider strategic in terms of social responsibility related to new technologies. We want to be part of the most important debates about the roles that a company such as ours can play on a sectoral, global and local scale, in the development of projects or in any other kind of membership. We achieve this through varying forms of participation, be they adhering to declarations of principles written by external bodies, supporting causes that we believe in or participating in the governing bodies of agencies and entities that promote these values.

ONLINE INTERACTION

New technologies have provided us with a multitud of tools that can be included under the headings 'Employees 2.0' and 'Social networks' and which facilitate interaction with all our stakeholders.

G4-24, G4-25, G4-26, G4-27, G4-50

Dialogue, commitment and interaction between Telefónica and its stakeholders

Identified stakeholder	Dialogue methodology	Some examples of commitment and interaction
Customers	Through the channels of dialogue that we create at the time of the sale and through the customer care services, from monitoring satisfaction and the Customer Ombudsman Service, to marketing campaigns and market studies, debate forums and meeting zones. This is all in order to understand the experience of using our products and services in terms of sustainability and corporate responsibility.	Customer Care Spain Gurú Solution Technical assistance and immediate advice Customer Ombudsman Service Telefónica Brazil O2 Community Customer Care Mexico Customer Care Argentina Telefónica, on Twitter O2, on Twitter
Employees	Through the annual survey of all our professionals, which includes specific questionnaires on matters of sustainability, internal round-table discussions on Business Principles, a range of internal channels for different complaints, the Telefónica Intranet, blogs and Twitter accounts and those of its subsidiaries; also, through all the debate forums of the training courses, online platforms, Yammer, etc.	Telefónica Universitas, on Twitter Telefónica, award for Best Practices in Internal Communications Telefónica Senior Portal
Shareholders	Through regular meetings, both individual and collective, with institutional investors and sector analysts. Additionally, through online channels to learn which issues are most important to the investment community, especially SRI (Socially Responsible Investment) institutions and/or through specific responsible investment projects with signatories of the Principles for Responsible Investment (PRI).	Telefónica Shareholders and Investors Shareholders' Corner Forums and events for Shareholders and Investors European Sustainable Investment Forum (Eurosif)
Suppliers	Through the biannual survey of supplier satisfaction and the quality evaluations included within the quality systems of the various operators.	Telefónica Suppliers EcoVadis. Sustainable Supply Management
Sectoral organisations	We actively participate in forums and associations that discuss those topics specific to sustainability and corporate responsibility that affect our sector, with the aim of improving measurements, standardising indicators and sharing best experiences.	CTIA. The Wireless Association ETSI. World Class Standards Global Business Dialogue on e-Society (GBDe) GSMA International Telecommunication Union (ITU) Hispano-American Association of Research Centres and Telecommunications Companies (AHCIET)
International organisations	The discussion is usually structured by geography, grouping participants according to their sphere of action: local, regional, national and global. In each field of activity we maintain a fluid dialogue with those in charge of telecommunication, innovation, consumption, educational, social, regulatory and economic issues, etc.	World Economic Forum The World Bank International Labour Organisation World Health Organisation United Nations European Internet Forum PNUD
Non-governmental organisations	Telefónica collaborates with over 25 NGOs through the Premium messenger service, giving the NGO 100% of the money donated by the customer through solidarity SMSs. Dialogue with the NGOs is ongoing. They provide the main opinions on products and services developed by Telefónica for those with disabilities.	Fundación ONCE Cruz Roja UNICEF Oxfam Intermón World Vision Plan International Fundación CNSE Confederación Española de Organizaciones en favor de las Personas con Discapacidad Intelectual o del Desarrollo (FEAPS) Comité Español de Representantes de Personas con Discapacidad (CERMI)
Professional public	The opinions of expert communities on topics of sustainability and corporate responsibility are very useful for identifying relevant subjects.	United Nations Global Compact CDP. Driving Sustainable Economies GeSI. Global e-Sustainablity Initiative Greenhouse Gas Protocol Global Reporting Initiative Integrated Reporting LBG

G4-50

Associations that Telefónica works with on sustainability matters

AENOR, a Spanish entity that develops standardisation and certification activities to improve quality in companies and the well-being of society.

This association comprises over 50 telecommunications operators in 20 countries in Latin America and Spain.

Business Call to Action aims to accelerate progress towards the Millennium Development Goals (MDGs).

The CEOE is a representative institution for Spanish companies.

The Centre was built with one fundamental objective: to become a technical reference in the analysis of youth phenomena.

CITEL is the advisory entity of the Organisation of the American States in subjects related to telecommunications/ICT.

The Confederación Estatal de Personas Sordas (National Confederation of Deaf People) is a not-for-profit, state-level social action NGO.

The European Com mission is the institution that embodies the executive branch of EU power.

CAF is a development bank made up of 19 countries and 14 private banks from the region.

A relevant group for the main Spanish corporations, Corporate Excellence aspires to becoming a technical benchmark.

CSR Europe is the international network for companies leading the promotion of Corporate Social Responsibility in Europe.

EcoVadis aims to improve the environmental and social practices of companies.

ERT is an informal forum bringing together around 50 Chief Executives and Chairmen of major multinational companies of European parentage.

ETNO is the association that includes all the main European operators.

ETSI, the European Telecommunication Standards Institute.

4G Americas is a wireless industry trade association focused on the Americas.

The Global Apprenticeships Network (GAN) is a business-driven alliance with the overarching goal of encouraging and linking business initiatives on skills and employment opportunities for young people.

G4-16

The Global e-Sustainability Initiative (GeSI), is a source of information on resources and best practices to achieve integrated social and environmental sustainability through Information and Communication Technology (ICT) companies.

The United Nations Global Compact is an international initiative that promotes the implementation of ten universally accepted principles in the areas of Human Rights, Labour Standards, the Environment and the Fight against Corruption.

The Global Network Initiative (GNI) is a non-governmental organisation for censorship on the Internet by government authorities and the protection of privacy and the rights of individuals on the Internet.

Global Reporting Initiative (GRI) is an organisation whose aim is to promote the development of sustainability reports in all types of organisations.

The GSMA represents the interests of mobile operators worldwide.

The IADB supports efforts in Latin America and the Caribbean to reduce poverty and inequality.

The International Integrated Reporting Council (IIRC) is a joint global initiative of regulators, investors, companies, issuers of accounting standards and professional accounting organisations.

The ITU (International Telecommunication Union) is the United Nations' specialised agency for Information and Communication Technology (ICT).

The United Nations is an international organisation founded by 51 countries that undertook to maintain international peace and security and promote social progress, improving living standards and human rights.

The aim of the OECD is to promote policies that improve the economic and social well-being of people worldwide.

An organisation dedicated to the social and labour inclusion of people with disabilities.

The World Bank is a vital resource of financial and technical assistance for developing counties worldwide.

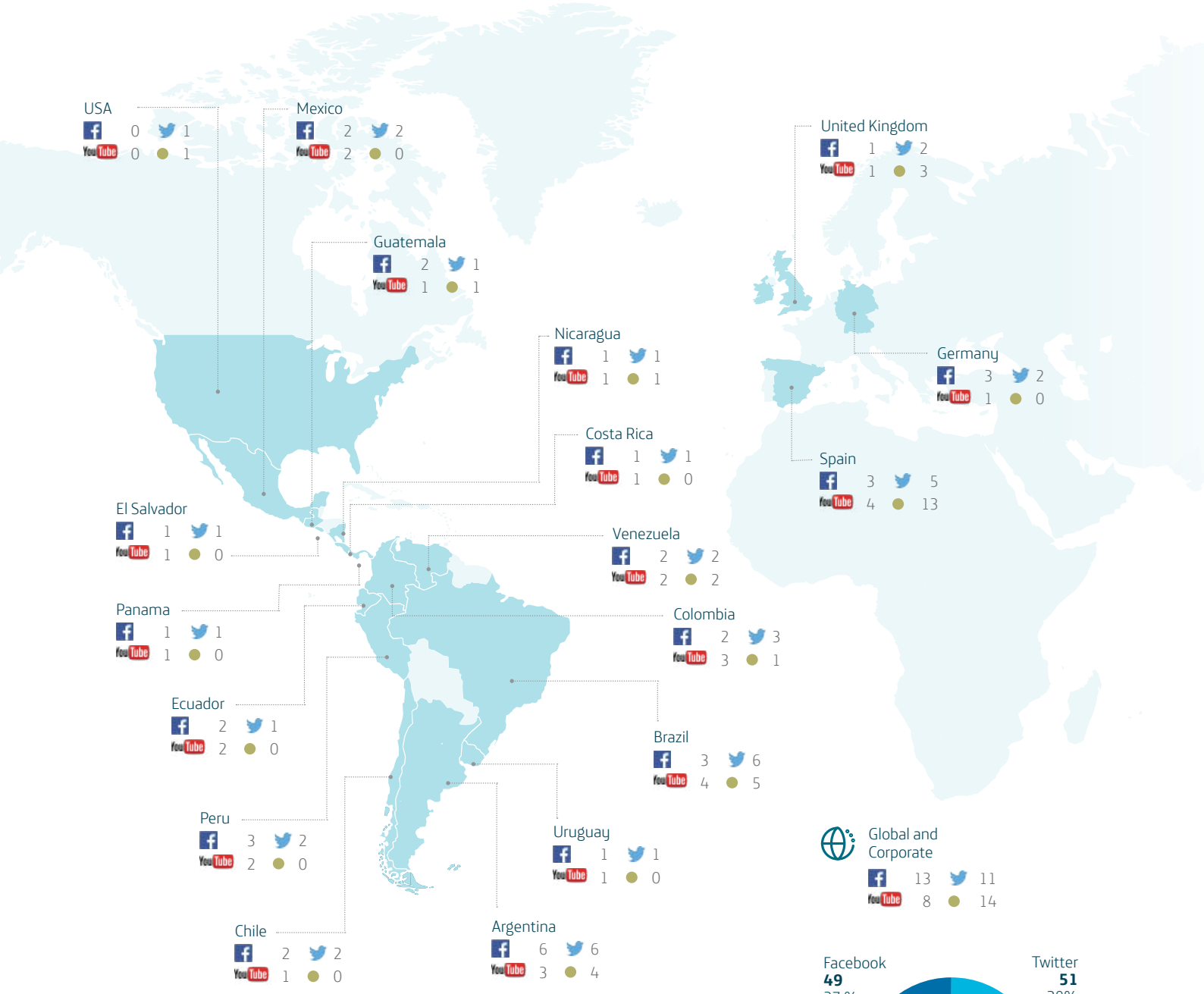
The World Economic Forum is an international institution committed to improving the state of the world through public-private cooperation.

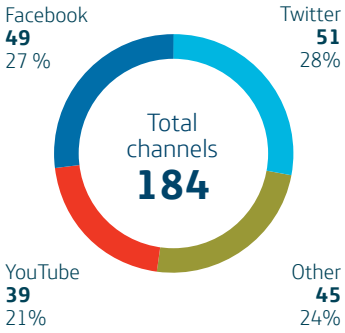
Telefónica participates in sustainability issues alongside Local Associations in all the markets in which it operates, for example: Pantallas Amigas, SPAINSIF...

G4-16

Telefónica's Social Media Channels of Sustainability

Facebook YouTube Twitter Other





Topics that have provoked most interest on our website

- **Energy efficiency**
- **Social innovation**
- **Corporate Social Responsibility**
- **Disability**
- **Digital inclusion**
- **Education**
- **Entrepreneurship**
- **Climate change**
- **ICT for children**
- **eHealth**

GERMANY

In April 2014, Telefónica Deutschland organised a multi-stakeholder dialogue gathering in Berlin, under the slogan: *'Smart World - All smart, everything better?'*. The main aim of the event was to encourage dialogue on data privacy and discuss opportunities, challenges and innovation in this field, with representatives from associations, startups and political figures.

EMPLOYEES 2.0

Telefónica employees have access to the website **Telefónica and Communication 2.0**, where the responsible use of social media channels is promoted through recommendations for action, an online course and the Company policy for social networks.

This has been expressed through an internal network, **Yammer**, which currently has over 77,000 employees registered and an average of 2,000 professionals joining monthly. At the close of this Report, Yammer had over 400 active communities of interest in the main network (Global Network).

Currently all the global channels of internal communication in Telefónica are bidirectional and gather the opinions and assessments of the professionals. In 2014, the most viewed articles in the online daily bulletin were those related to benefits for employees (offers, raffles, grants, etc.) and the organisation and results of the Company. The most viewed articles in the online corporate magazine were related to Telefónica's strategy for becoming a Digital Telco.

Knowledge transfer in Telefónica is supported on **eKISS**, a platform with over 63,883 documents and 96,637 views in 2014. The online portal has also offered various conferences, which have registered 6,417 visits.

SOCIAL NETWORKS

Building on these platforms, we have a social media ecosystem comprised of Twitter, Facebook, YouTube and Google+ channels, as well as RConversa, a digital dialogue platform on which we encourage discussion forums with different stakeholders.

Throughout 2014, the Twitter channel @RCySost continued its rise as a reference channel in terms of corporate responsibility and sustainability on a global level. Currently it is part of the SustMeme CSR & Business social media ranking, which analyses the 500 most influential users worldwide in these topics. Furthermore, it also has a prominent position in the TOP250 RSEranking, which focuses on the Spanish speaking community.

Materiality

The materiality analysis process which we carry out annually enables us to identify issues of particular importance in terms of their impact on Company strategy and of their relevance to our stakeholders, which helps in the establishing of priorities and courses of action.

Every year at Telefónica we carry out a materiality analysis process in order to identify those issues which require special attention. To that end, we follow the guidelines of the G4 version of the GRI Guide regarding how to identify material issues which must be included in the annual sustainability statements. In this way we enable the comparison and comprehensive identification of issues.

We have also based our analysis on the materiality analysis designed by the Global e-Sustainability Initiative (GeSI) in November 2014, which is specifically for the whole value chain of the ICT hypersector. As can be seen via this link, the GeSI analysis preselects 55 potentially material issues, divided into eight categories: digital inclusion, employees, climate change, supply chain, customers, privacy, governance and impact on communities.

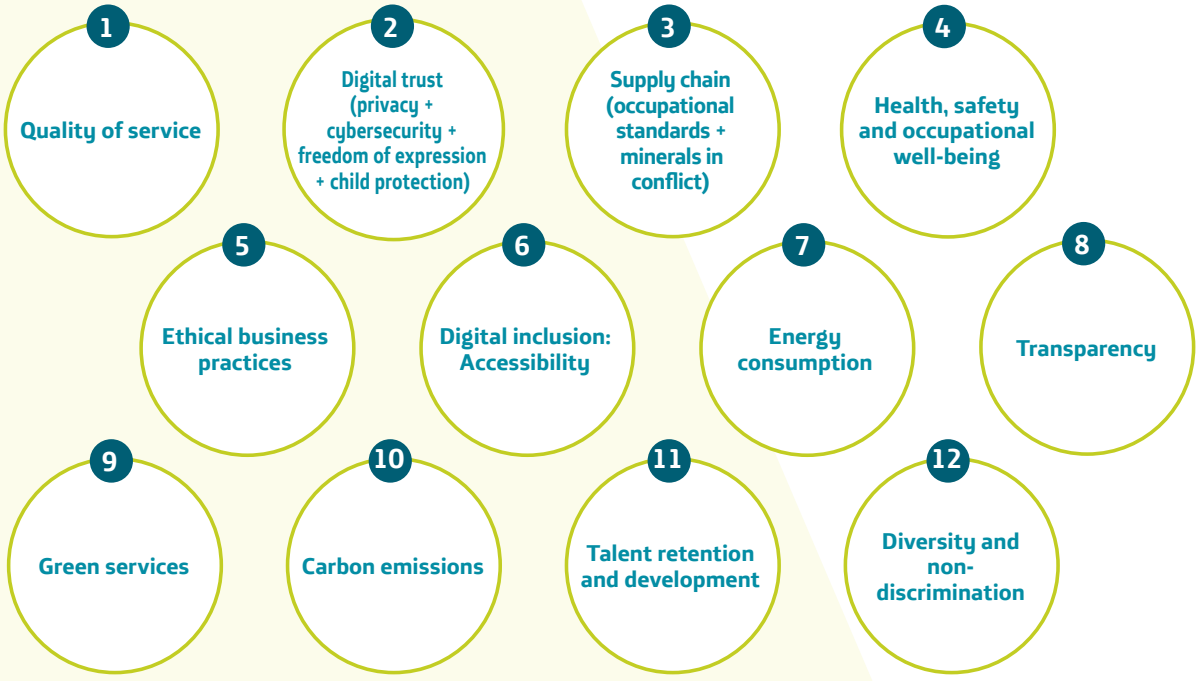
At Telefónica we called upon all the stakeholders related to the Company to help us preselect these 55 material issues which have a key impact on our activity. The stakeholders who collaborated on the project are: Alcatel-Lucent, Amdocs, AT&T, Bell, Bkash, Bolo Phi, Bosch, BSR, BT, Calvert, Deutsche Telekom, Ericsson, ETNO, Everything Everywhere, Forum for the Future, GeSI, Green Electronics Council, Greenpeace, GSMA, HP, Huawei, Institute for Public and Environmental Affairs (IPE), Institute of Contemporary Observation (ICO), ITU, KPN, Nokia, OTE, SACOM, SAM Robeco, SASB, Seagate Technology, Skyworks Solutions Inc., Solving the e-Waste Problem (StEP), Sony Mobile, Sprint, Swisscom, TDC Group, Telecom Italia, Telefónica, Telenor, TeliaSonera, Telstra, The Consultative Group to Assist the Poor (CGAP), The Energy and Resources Institute (TERI), The Sustainability Consortium, United Nations University, Verizon, VimpelCom, Vodafone, World Resources Forum and WWF.

The results of the external and internal analysis enable us to establish the level of total importance of the material issues for Telefónica, as shown below, to group them according to field - financial, environmental or social - and present them graphically in the matrices which can be seen on the page to the right.

All these issues are material within the organisation. With regard to the scope of the information on external issues, please see the chapter on 'Structure and scope of consolidation'. To learn more about the variations in material relevance by location, please refer to the online version of this Report, where the different materiality tables are available to select and consult according to country.

Main material issues for Telefónica

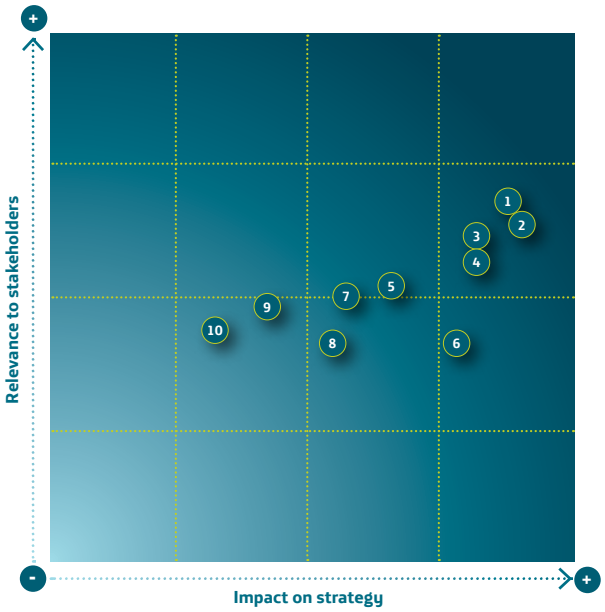
The thorough analysis revealed information which is key to a company in which the interconnection between environmental, social and economic factors is increasingly intense, and concluded that the most important aspects are:

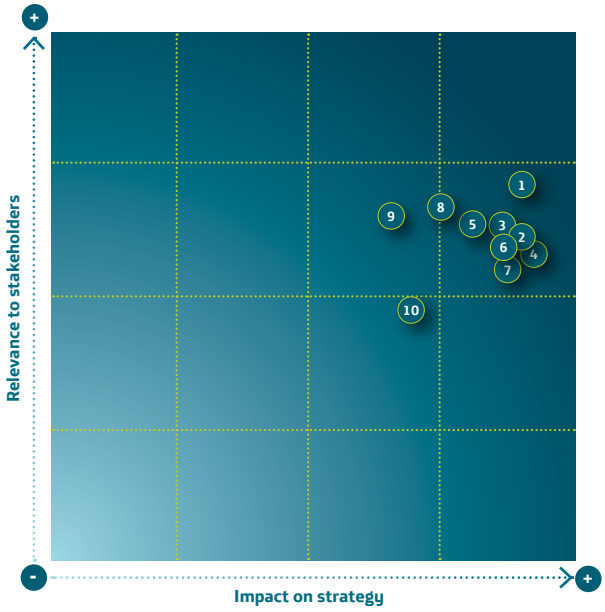


G4-19, G4-20, G4-21

Financial Affairs Matrix

1. Quality of service
2. Data security
3. Ethical business practices
4. Transparency
5. Tax contributions
6. Public policy and relations with public bodies
7. Impact on communities
8. Impact on customers' lifestyles
9. Innovation
10. Corporate governance



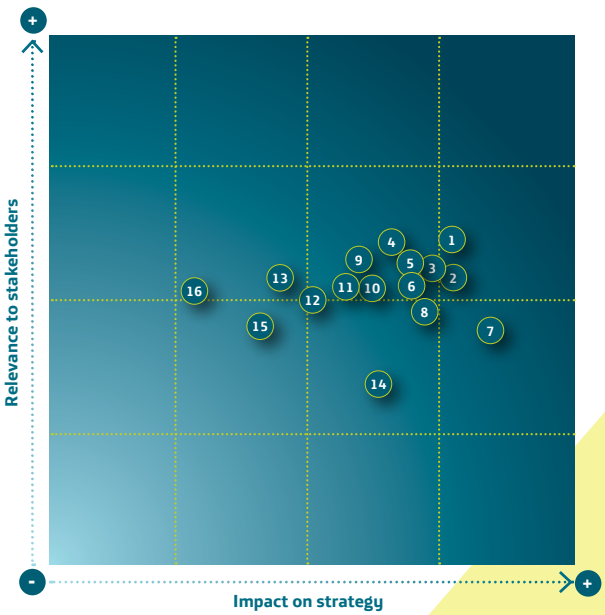


Social Affairs Matrix

1. Privacy
2. Online cybersecurity
3. Occupational standards in the supply chain
4. Freedom of expression
5. Child protection
6. Health, safety and occupational well-being
7. Accessibility
8. Minerals in conflict
9. Talent acquisition and development
10. Diversity

Environmental Affairs Matrix

1. Energy consumption
2. Green and Smart services
3. Carbon emissions
4. Reuse and recycling of devices
5. Waste electrical and electronic equipment (WEEE)
6. Electromagnetic fields in networks
7. Responsible network roll-out
8. Infrastructure sharing
9. Environmental management systems
10. Environment and climate change
11. Electromagnetic fields in devices
12. Adaptation to climate change
13. Water
14. Fluorinated gases
15. Renewable energy
16. Paper



COMMITMENT TO SOCIETY

Social *cash flow*

At Telefónica we strive to be a driver of economic, social and technological development in the communities in which we are present.

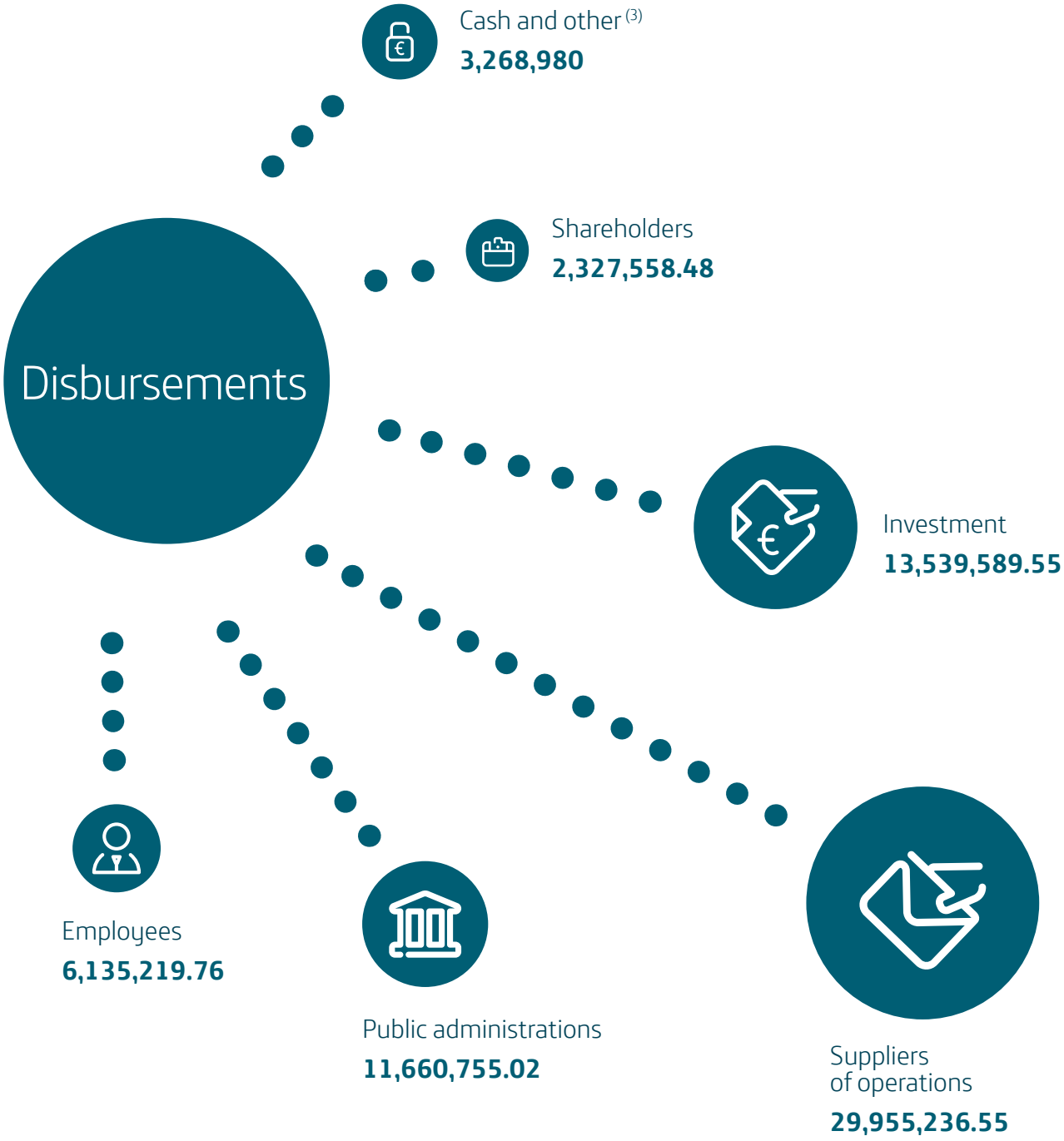
Telefónica contributes significantly to the economic and social development of the communities in which it operates, mainly thanks to the technological innovation inherent in its business model. In spite of the difficulties of the environment, the total revenue of the Company in 2014 amounted to more than €65 billion (due not only to income, but also to its disinvestments or raising of share capital).

This income allowed payments to be made to local and global stakeholders, both public and private, internal and external to the Company, to a value equivalent to a little more than 0.5% of the combined GDP of the countries in which Telefónica works.



Despite the difficult circumstances, the company's revenue in 2014 amounted to €65 billion

G4-DMA Indirect Economic Impacts



(1). Includes permanent financial disinvestment revenue.
(2). Includes capital increase revenue, cash transactions and receipts of dividends from other investees.
(3). Includes net cash flows due to financing operations and other cash transactions.

Contribution to local progress

Revenue | Provisioning | Salaries | Tax Contributions | Investment

All economic data in millions of euros

	Economic Impact	Revenue/GDP (%)	Magnitudes	
Spain 2014				
Revenue	12,209	1.2%	Employees	35,006
Payments	2,936.9 2,646.4 3,074.0 1,732.0		Local suppliers	1,706
			% Local purchases	91.5%
			Accesses (thousands)	41,202.7
Germany 2014				
Revenue	5,904	0.2%	Employees	11,015
Payments	2,128.6 841.8 677.6 849.0		Local suppliers	492
			% Local purchases	60.97%
			Accesses (thousands)	47,661.5
United Kingdom 2014				
Revenue	7,021	0.4%	Employees	7,904
Payments	3,466.9 592.2 507.9 755.0		Local suppliers	350
			% Local purchases	67.9%
			Accesses (thousands)	24,726.4
Argentina 2014				
Revenue	3,219	0.9%	Employees	17,238
Payments	748.6 668.5 977.2 676.0		Local suppliers	1,057
			% Local purchases	86.8%
			Accesses (thousands)	26,637.6
Brazil 2014				
Revenue	11,373	0.7%	Employees	20,567
Payments	2,648.0 1,108.9 5,009.6 2,933.0		Local suppliers	2,030
			% Local purchases	99.8%
			Accesses (thousands)	95,554.5
Chile 2014				
Revenue	2,087	1.0%	Employees	4,686
Payments	651.8 217.9 220.2 429.0		Local suppliers	660
			% Local purchases	74.5%
			Accesses (thousands)	13,893.8

G4-EC7, G4-EC8, G4-EC9

Contribution to local progress

Revenue Provisioning Salaries Tax Contributions Investment

All economic data in millions of euros

	Economic impact	Revenue/GDP (%)	Magnitudes	
Colombia 2014				
Revenue	1,689	0.6%	Employees	3,812
Payments	444.0 131.0 346.6 496.0		Local suppliers	502
			% Local purchases	74.9%
			Accesses (thousands)	15,691.6
Ecuador 2014				
Revenue	493	0.7%	Employees	1,385
Payments	121.5 53.8 81.3 102.0		Local suppliers	297
			% Local purchases	70.4%
			Accesses (thousands)	5,055.6
Mexico 2014				
Revenue	1,652	0.2%	Employees	2,967
Payments	644.5 156.6 129.4 252.0		Local suppliers	538
			% Local purchases	89.2%
			Accesses (thousands)	23,224.7
Peru 2014				
Revenue	2,539	1.6%	Employees	9,520
Payments	663.3 368.4 587.7 421.0		Local suppliers	1,051
			% Local purchases	73.9%
			Accesses (thousands)	21,976.8
Uruguay 2014				
Revenue	236	0.6%	Employees	601
Payments	67.5 20.0 39.8 31.0		Local suppliers	279
			% Local purchases	33.0%
			Accesses (thousands)	1,883.8
Venezuela & Central America 2014				
Revenue	1,421	0.3%	Employees	7,437
Payments	383.5 136.8 307.8 435.0		Local suppliers	1,239
			% Local purchases	90.2%
			Accesses (thousands)	23,239.2

G4-EC7, G4-EC8, G4-EC9

COMMITMENT TO SOCIETY

Commitment to *our communities*

At Telefónica, we believe in a united and digital world. For this reason, we are improving the development opportunities of individuals, mainly through educational, social and cultural projects adapted to the challenges of the digital world.

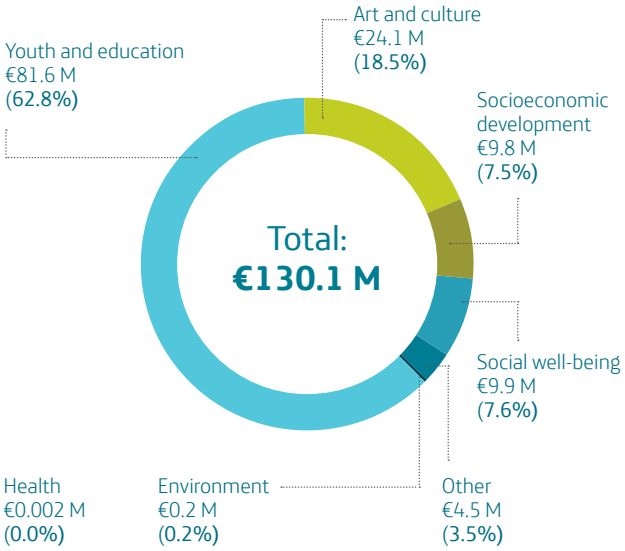


G4-EC8

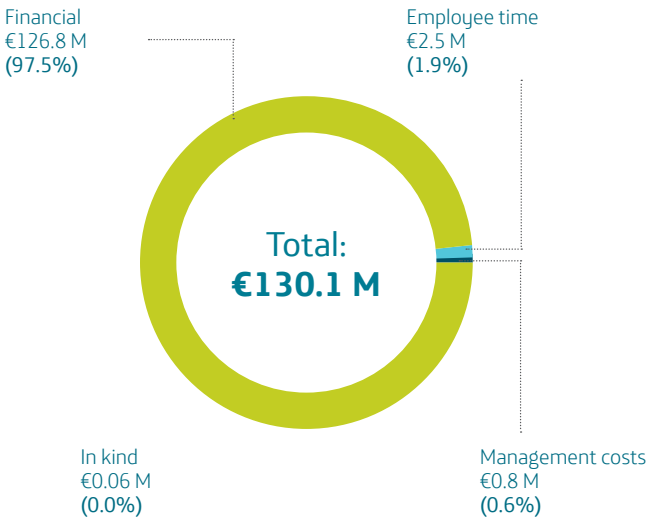
In 2014, according to externally verified LBG standard methodology, Telefónica allocated 130.1 million euros to social actions. This figure represents an increase of 0.94% on the previous year, and it also increases as a percentage of the Group's revenue, with a slight rise from 0.23% to 0.26%.

Over 97% of this figure corresponds to monetary contributions.

Contribution to social actions in 2014



Form of contribution in 2014



Contributions to social action

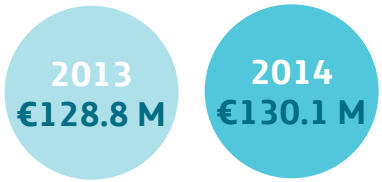


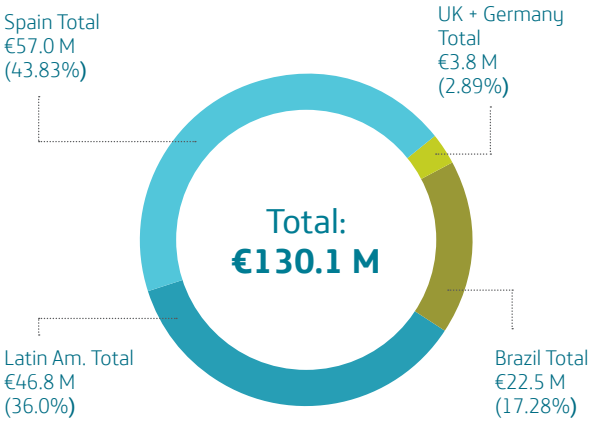
Table of contributions by activity type

Charity
€1,841,160

For the community
€85,918,000

For business areas
€42,208,616

Table of contributions by geographic area



The LBG Model is an innovative methodology that allows the measurement, management, evaluation and reporting of contributions, achievements and impacts of corporate social action in the community, in a way that is comparable to other companies.

G4-EC8

COMMITMENT TO SOCIETY

Contribution to *public administrations*

The current economic environment has put the tax contribution of large multinationals at the centre of the debate (fair share). At Telefónica, the value of our tax contribution is a priority and a matter of prestige. The total tax contribution rose to 12,057 million euros.

Transparency above all. With this aim, we have developed Business Principles for tax compliance, based on which we commit to acting with honesty and respect for the law in the management of fiscal affairs.

Furthermore, in 2010 the Board of Directors approved our adherence to the Code of Good Tax Practices developed by the Large Businesses Forum along with the Spanish Tax Authority, in order to avoid the use of opaque structures for fiscal purposes.

Therefore, we do not use corporate structures to conceal or reduce the transparency of our activities from tax authorities or any other interested party. Nor are we present in any of the jurisdictions included in the list of tax havens legally established by Spain according to the 1st additional provision of Law 36/2006 on Measures for the Prevention of Fiscal Fraud in the wording updated by the Final Provision 2 of Law 26/2014 of 27 November.

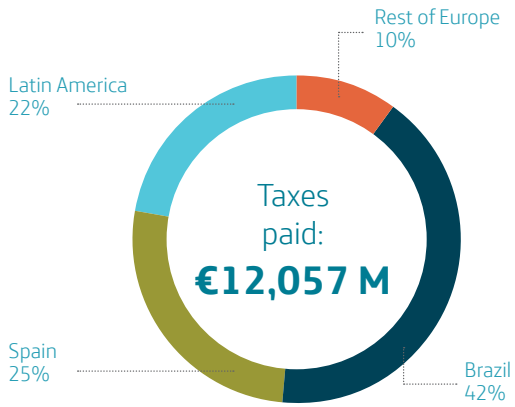
2014 TAXES

In 2014, our total tax contribution has risen to 12,057 million euros. Brazil and Spain were the jurisdictions that contributed most to tax payments. This shows that for every 100 euros of our turnover, 23.9 euros were allocated to the payment of taxes, of which 7.1 euros were taxes incurred and 16.9 euros were taxes levied.

Based on the methodology of the distributed value produced by the CTT of PwC, for every 100 euros of value distributed by Telefónica in the 2014 fiscal year, 50 euros were allocated to tax payments. According to the CTT methodology by PwC, a company's distributed value is the sum of the following elements: shareholder value (eg. dividends, reserves, etc.), wages and salaries (net of taxes collected from employees), net interest and taxes (incurred and levied).

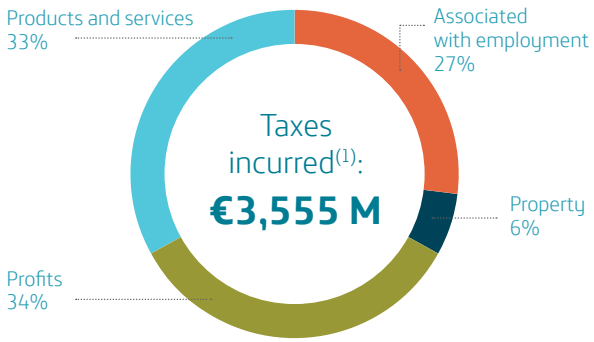
CONTRIBUTION TO SOCIETY

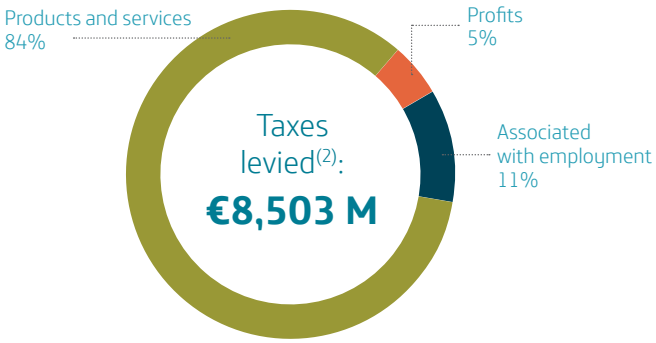
Distribution of taxes paid by geographic area



Brazil and Spain were the jurisdictions that contributed most to the payment of taxes in 2014. For every 100 euros of Telefónica's turnover, 23.9 euros were allocated to taxes

Breakdown of the total tax contribution worldwide





Breakdown of Telefónica's global tax contribution

In thousands of euros

Country	Taxes incurred (1)	Taxes levied (2)	Total contribution
Brazil	1,087,052	3,922,561	5,009,613
Spain	944,386	2,129,657	3,074,043
Argentina	383,429	593,779	977,208
Germany	172,131	505,419	677,550
Peru	292,773	294,968	587,741
United Kingdom	82,107	424,839	506,946
Colombia	167,771	178,792	346,563
Central America	185,302	122,519	307,821
Chile	55,040	165,121	220,161
Mexico	28,094	101,292	129,386
Ecuador	65,455	15,823	81,278
Ireland	29,218	16,707	45,925
Uruguay	23,537	16,311	39,848
Czech Republic	1,502	1,035	2,537
Other	36,913	13,780	50,724
TOTAL	**3,554,710**	**8,502,603**	**12,057,344**

(1) Taxes incurred: taxes paid by Telefónica to administrations of the different states in which it operates and that cause the Company to assume an effective cost.
(2) Taxes levied: taxes managed by Telefónica that have been entered on behalf of other contributors as a result of the economic activity of the Company; that is, tax revenues obtained due to the economic value generated by this economic activity.
(3) Total contribution: the total contribution measures the total impact represented by the payment of taxes to the different administrations in a direct or indirect manner as a result of the Company's economic activity.



COMMITMENT TO SOCIETY

Telefónica as a *responsible investor*

Socially responsible investment is the basis of modern management. In this context, Telefónica depends on Fonditel for its pension plans.

Fonditel Pensiones manages the pension plans of Telefónica employees. Its investment policy is governed by responsible investment criteria and a commitment to the environment, society and good governance. These are what are technically known as ESG criteria.

Socially Responsible Investment (SRI) is the cornerstone of modern management. It is based on the theory of shared value, in which one seeks to maximise one's own profits, but only by means of investments and activity which also benefit society.

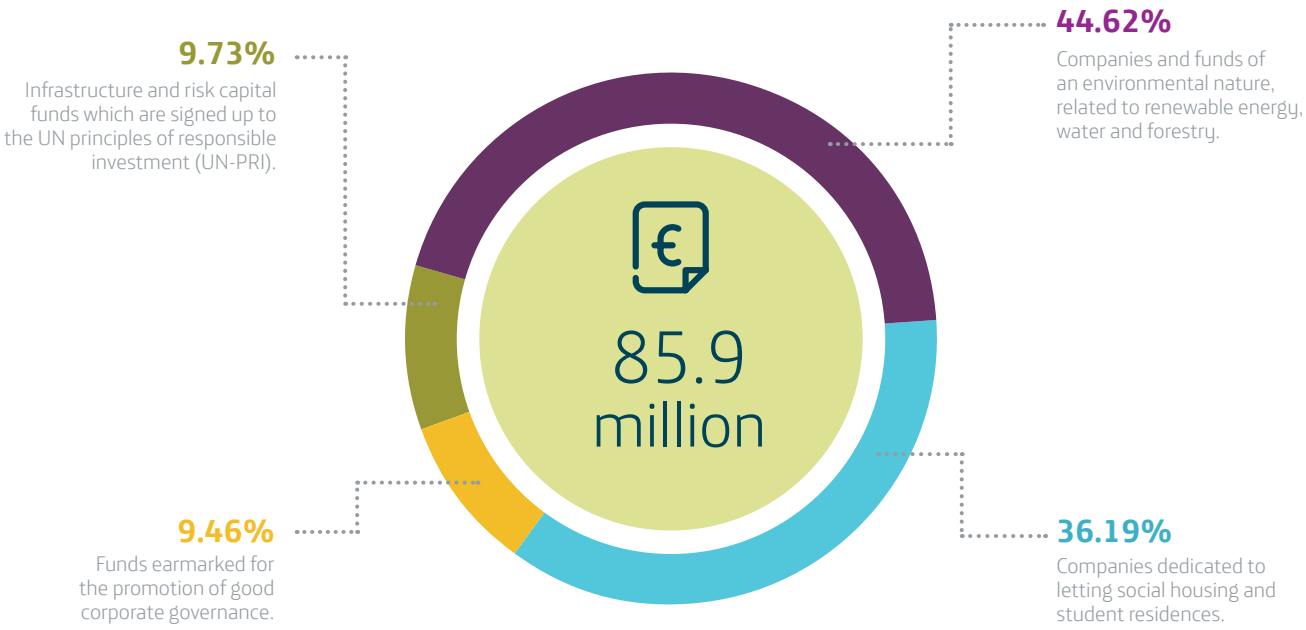
In order to apply these principles properly, Fonditel has made a commitment to human resources and specialised materials. Furthermore, it has a specific methodology for the use of due diligence in the analysis of investments from the SRI perspective, and a specific best practice indicator or benchmark. Socially responsible investment policy is subject to the approval and voting of board members and is validated by Transparency/PRI reports.

Furthermore, in 2014, Telefónica España's Employee funds, Pension fund and Fonditel B, were assessed by

SRI principles are contained in many national and international regulations, which Fonditel is governed by:

- Guidelines for Multinational Enterprises belonging to the Organisation for Economic Co-operation and Development (OECD).
- The Tripartite Declaration of Principles concerning Multinational Enterprises.
- OECD Good Governance Principles.
- Social Policy: International Labour Organisation (ILO).

Pension funds managed by Fonditel in 2014 represent 2.52% of its total assets, which are:



an independent external consultant specialised in ESG criteria. This expert has undertaken to supervise the consistency of Telefónica's investment policy. To this end, in its analysis, the consultant has utilised external tools and specialised ratings. Among the entities consulted are leading specialists in the market, such as Sustainalytics and MSCI.

The commitment to responsible investment is not only based on investment policy. Fonditel also actively participates in national and international forums which promote this practice. Some key examples of these are the following:

- **Participation in Telefónica Employee Pension Plan Conference**
- **Participation in 2014 SRI Week**
- **Participation in Eurosif 2014 European SRI Study Survey**
- **SPAINSIF**. Fonditel is one of the founding members of the Spanish Socially Responsible Investment Forum (SPAINSIF).

UN Guiding Principles on Business and Human Rights.

UN Principles for Responsible Investment (UN PRI) and the UN Global Compact initiative.

The Unified Good Governance Code of the Spanish National Stock Market Commission (Spanish initials: CNMV).

3. Responsible management





Ethics and *compliance*

Our Business Principles govern all our actions, both internally (employees) and externally (shareholders, customers, suppliers and society).

Telefónica prioritises ethical behaviour in all of its operations. Therefore, our Business Principles define the standards and guidelines that we hope our employees, suppliers and partners apply to their daily work.

BUSINESS PRINCIPLES

In May 2014 the **Office of Business Principles** launched an obligatory online training activity on Business Principles. By December 2014, over 59,000 professionals had passed the course. This figure represents 48.22% of the workforce.

The Business Principles have been regularly distributed among Group employees. On-site training activities were also developed to elaborate on some of the principles and contribute to their implementation according to the requirements of each area or department.

Business Principles Channel

All employees have the option of, anonymously or personally, asking questions, seeking advice and raising issues related to the Business Principles and associated regulations with the Governance bodies. On the Business Principles Channel, available through the Intranet, communications are received and processed in line with the principles of respect, confidentiality and comprehensiveness.

In 2014, a total of 72 communications were registered through this Channel. Of these, 55 ended with the inquiry being closed and 20 were proven to be justified. None were related to corruption or discrimination cases. Among the measures taken as a result of this communication path, there have been four disciplinary dismissals and one warning.

INTEGRITY AND TRANSPARENCY

At Telefónica, we are governed by a commitment to a 'zero tolerance' approach to corruption and fraud. Accordingly, we developed our framework for action based on:

⇨ **Regulations.** Our principle of integrity sets guidelines on the matters of conflicts of interests, gifts and invitations, political neutrality and the ban on making donations to political parties and other organisations whose activity is clearly linked to political activity.

Telefónica is a registered lobbyist in the voluntary register of the European Union, reporting lobbying expenses during 2014 of 2 million euros and 5.029 million in subsidies received.

⇨ **Organisational elements.** Telefónica relies on a series of specific committees and units that help guarantee the appropriate level of control and transparency:

- Committees that report to the Board of Directors:
  - Audit and Control Committee.
  - Institutional Affairs Committee.
- Specific Organisational units:
  - Internal audit units in all countries where the Group has significant interests. Inspection unit specialised in fraud prevention work and investigating complaints.
  - Payment intervention unit in the most important companies.
  - Global management and local units for sustainability.
  - Corporate risk management unit that centralises and reports the risk information received in local risk management areas, implemented in the main Group operators.
  - Business Principles Offices in all countries, composed of those in charge of the departments of the Secretary General, Auditing, Human Resources and Sustainability.

⇨ **Risk management.** Telefónica constantly monitors the biggest risks that could affect the main companies in the Group. For this, the Company has a Corporate Model of Risk Management based on COSO (Committee of Sponsoring Organisations, of the Treadway Commission), which allows an assessment of both the impact and the probability of the occurrence of various risks.

The most significant risks and uncertainties facing the Company, which could affect its business, financial situation, reputation, corporate image and brand, and its income are included in the Financial Report.

As of December 2014, over 59,000 professionals have passed the 'Business Principles' course (equal to 48.22% of the entire workforce)

G4-49, G4-56, G4-57, G4-58, G4-SO3, G4-SO4, G4-SO5, G4-SO6, G4-LA16, G4-DMA Anti-corruption

⇨ **Monitoring activity in 2014.** In executing its 2014 annual work plan, the Internal Audit team produced 739 reports within the Group:

- 27% were financial audits or audits of information systems, essentially devoted to the revision of the existence and efficiency of controls governing the financial processes that support information on the Group's main accounts. Most of these annual reviews are obligatory for the Telefónica Group, due to the requirements of the Sarbanes-Oxley Act, which governs companies that, like Telefónica, are listed on the New York Stock Exchange, and also based on the regulations set by the Spanish Stock Market. It should be noted that the Group has released a certificate without significant weaknesses.
- 12% were projects aimed at the prevention of fraud, investigating complaints and reviewing individuals' actions.
- Another 13% analysed, wholly or in part, processes related to costs and investment (procurement, payments to third parties, employee payments, storage logistics and management, investment processes and the management of assets, discounts and refunds to clients).
- 6% of the reports sought to verify the proper compliance of other legal obligations (in relation to labour, data protection, fiscal matters, etc.).

The result of these investigations enabled numerous instances of misuse and misappropriation of Company assets to be detected, which has led to the dismissal of 44 employees. None of the cases involved the Group's senior management. In general, the Board's response to these cases has been prompt and appropriate, which facilitates the maintenance of a good overall environment of internal control.

85% of employees think that Telefónica acts ethically and responsibly. This question is included in the annual survey on employee commitment and environment

2014 Milestones	Compliance	2015 Objectives
Review of the ethics code in accordance with best business practices and in compliance with existing legislation.	In process	Completion of the project to review the ethics code in accordance with best business practices and in compliance with existing legislation.
Development and adoption of standards that guarantee optimal levels of corruption and fraud control.	In process	Development and adoption of standards that guarantee optimal levels of corruption and fraud control.
Launch of a new training course in Business Principles and fulfilment of the aims set by the Office of Business Principles.	Completed	Business Principles awareness campaign for employees. Between 70% and 90% of employees will receive training in our Business Principles in 2015/2016.

BEST PRACTICE

NEW TRAINING ACTIVITY IN BUSINESS PRINCIPLES

In May 2014 we launched a new obligatory online training activity for all employees. It is available in English, Spanish and Portuguese and was developed in HTML 5 technology (which allows access from all digital devices: computers, mobiles, tablets, etc.). Two versions were programmed: one generic and the other aimed at the departments of trade and sales.

The training is divided into five modules lasting 25 minutes each. Through these modules, training is acquired in the principles of honesty and trust, respecting the law, integrity and requesting advice.



To pass this course, each employee must correctly answer at least 80% of the questions in the tests at the end of each module.

EMPLOYMENT PRACTICES

Workforce

To maximise performance in the digital transformation we need to be able to count on the best team of professionals. Therefore, good management that fosters a deep involvement from the teams is essential, as is an understanding that every role is important in reaching goals.

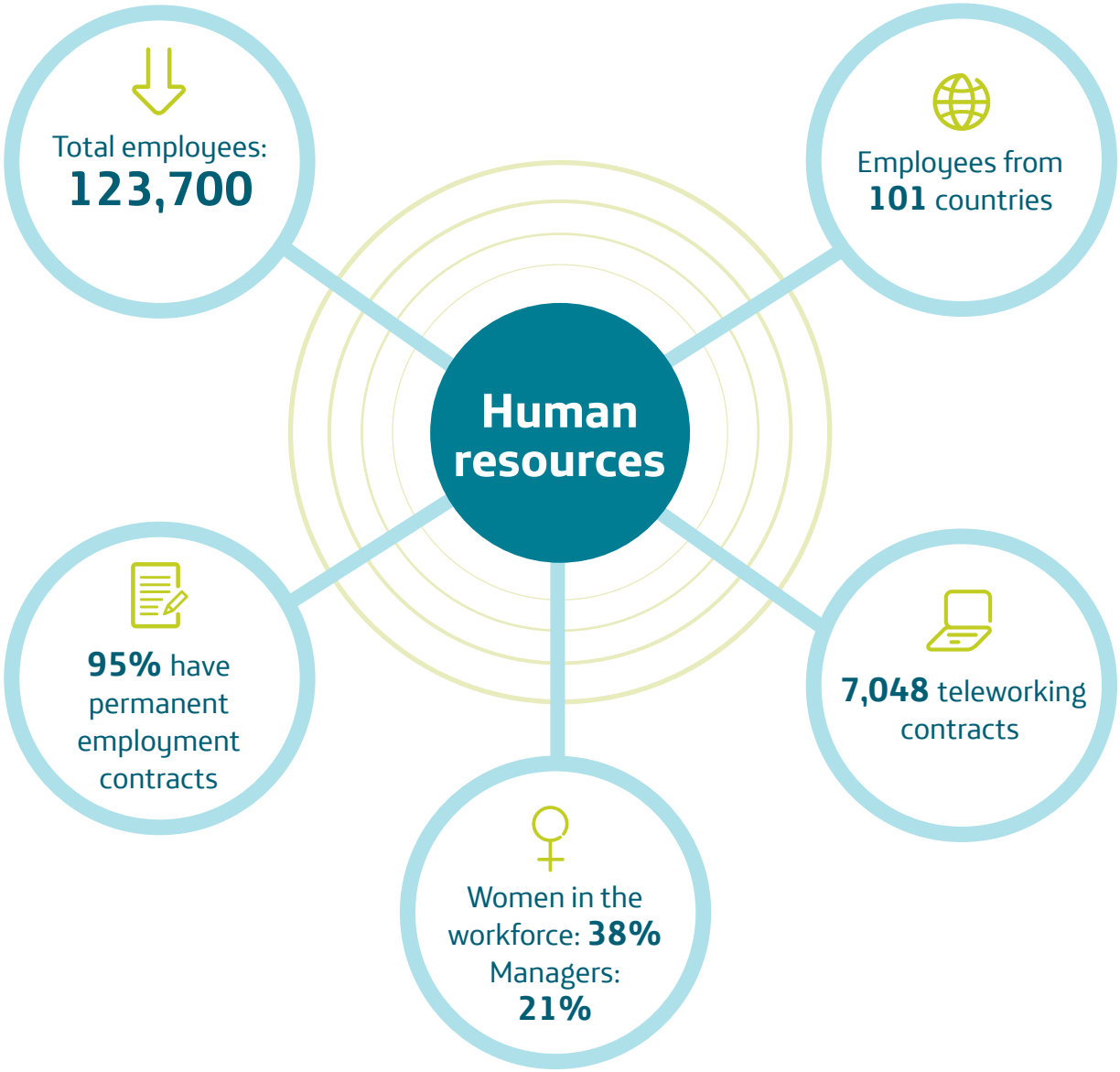


The average age of the staff is **39** and fewer than 1% are managers

HUMAN RESOURCES

At Telefónica we know that the key to our transformation and leadership is having the best team of professionals. As well as hiring the best profiles, we have developed a form of management that maximises their expertise and our results. This is achieved by involving the team in the Company's digital transformation, sharing principles about how to do things and understanding that everyone plays an important role in attaining the entire organisation's objective of achieving long-term success and sustainability.

G4-10



To this end, people management in Telefónica is based on four fundamental pillars that support the strategic transformation programme, **Be More**:

1. HAVE THE BEST HUMAN RESOURCES

At the end of 2014, Telefónica had 123,700 employees, with an average age of 39, and fewer than 1% of whom were managers. The workforce has decreased (including E-Plus) by 2.4% compared with the previous year due to the drive for simplification and the organisation's efficiency. The aim is to maintain the innovative capacity of Telefónica in spite of the difficult environment surrounding the sector.

We have 101 different nationalities in the Telefónica Group's team of workers. Latin America continues to account for the largest percentage of the workforce.

Spain is the country that has the most employees, with 35,006, followed by Brazil with 20,567, Argentina with 17,238 and Germany with 11,015 (including E-Plus).

95% of the staff have permanent employment contracts, which shows our support for sustainable employment policies. In 2014 there were 77,051 employees with negotiated agreements (62.3% of the total), which shows an increase on 2013, when there were 76,987 employees.

38% of the workforce are women. Meanwhile, the number of managers in 2014 remained at 21% of the total, a figure that in the past four years has increased by over 1.5 percentage points.

In line with our commitment to conciliation with our workers, we are encouraging the formalisation of teleworking contracts, which in 2014 amounted to 7,048.

G4-10

Total number of employees

2013
2014



Mexico
2,969
2,967

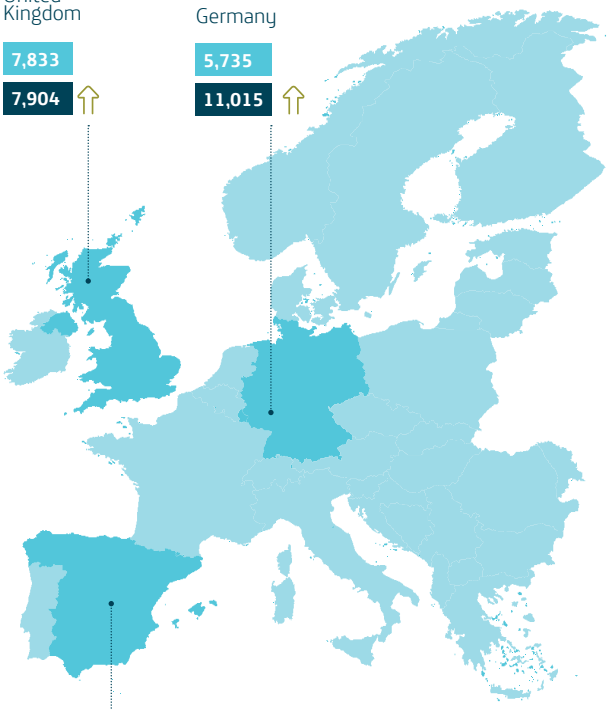
Nicaragua
405
321

Guatemala
501
443

El Salvador
328
301

Costa Rica
251
237

Panama
438
372



United Kingdom
7,833
7,904

Germany
5,735
11,015

Spain
34,604
35,006

Other
8,625
1,562



Colombia
3,613
3,812

Ecuador
1,365
1,385

Peru
9,824
9,520

Chile
4,911
4,686

Venezuela
6,903
5,763

Brazil
20,878
20,567

Uruguay
408
601

Argentina
17,139
17,238

Telefónica Total
126,730
123,700



2. DESIGN A SIMPLER ORGANISATION

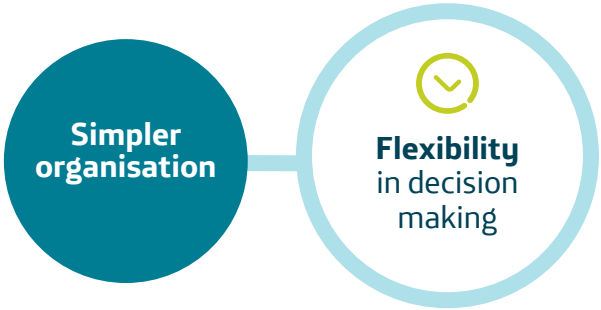
At Telefónica, we have unified all the existing corporate centres of the Company. The new structure and model of governance introduced led to a reduction in the time needed to make decisions on global initiatives and projects, and also brought various local operations to the Company's decision centres.

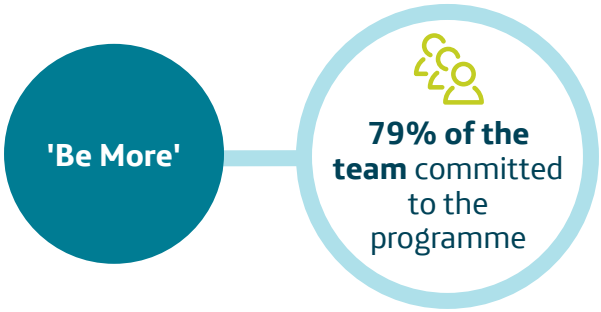
3. BE MORE: SUITABLE COMPANY CULTURE

In 2014 we continued to focus our efforts on conveying to the entire organisation the need for transformation and therefore guaranteeing the commitment and alignment of employees to the global transformation programme, Be More. As a result of the above, over 78% of our employees are aware of the transformation programme and believe that it is driving the transformation of the Company. Meanwhile, the level of commitment increased for another year, reaching 79% (+1 p.p.).

4. PROMOTING TALENT

At Telefónica we continue to drive the transformation of the Company with the aim of advancing in the challenge of consolidating ourselves as a Digital Telco. Therefore, we are focusing on attracting and developing the desired leaders and professionals and maintaining high levels of commitment and energy throughout the team, as well as reinforcing the globalisation of Company management through three worldwide coordination hubs: Madrid, London and São Paulo.





Turnover rate at Telefónica

	2013	2014
Total	21.31	38.8
Voluntary	10.75	7.6

Note: The total turnover rate includes 9,473 departures that were administrative changes within Telefónica, corresponding to the movement of 6,057 employees from Telesp to Vivo in Brazil and 3,416 from the fixed to the mobile telephone company in Peru. Excluding this effect, the turnovexr totals 22.8%, very close to the 2013 rate.

EMPLOYMENT PRACTICES

Health, safety and *occupational well-being*

Employee health, safety and well-being is one of our main priorities at Telefónica. It is implemented via the occupational risk prevention management system, which affects both the Group and the companies whose work forms a part of its processes and services.



The number of Group companies with **OHSAS 18001 certification** increased **in 2014**

The promotion of health in the workplace means something more than simply meeting the legal requirements for health and safety; it also means actively assisting employees to enhance their well-being. The promotion of health in the workplace has many positive consequences in employees' professional and personal lives.

MANAGEMENT BODY

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

HEALTH PROMOTION DURING 2014

During 2014 various campaigns to promote the health of our employees have been carried out, including campaigns within the Health Examination framework to prevent certain diseases (colorectal cancer, prostate disease, gynaecological conditions, cardiovascular risks) and annual campaigns for flu vaccinations and the promotion of a healthy lifestyle (exercise, a balanced diet and giving up smoking). Furthermore, and as part of the same 'Feel Good' programme, the 'District Challenge' initiative has been established, which aims to encourage the healthy living habits of 350 employees in the *Distrito Telefónica* office.

CONTINUING IMPROVEMENTS IN PREVENTIVE MEASURES IN TELEFÓNICA GROUP REGIONS

⇨ **Europe:**

- In 2014, Telefónica UK successfully renewed its OHSAS 18001 certification for all its operations. It has also initiated a training programme, aimed at its store and assistant leaders, in proper health and safety management in their shops.
- In Germany, the BEM programme is in the process of development (Programme of Reintegration after Long Periods of Sick Leave).

⇨ **Latin America:**

- In Argentina, 188 evacuation drills have been carried out across the country. In the field of contractor management, 694 checks on working conditions were performed.
- In Colombia, an audit on the Health and Safety at Work Management System was carried out by the Colombian Safety Council, achieving a result of 93/100. This is the eighth consecutive year in which Telefónica has demonstrated its commitment.
- In Ecuador, the Strategic Plan for Health and Safety at Work was implemented, and was regulated by the Employment Ministry and the Ecuadorian Social Security Department.
- In Mexico, the corporate 'Feel Good' welfare programme was launched at Telefónica, which encourages collaborators and their associates to participate in a health, nutrition and physical activity plan.
- At the fourth National Conference on Occupational Health and Safety for the communication sector, Telefónica Nicaragua was granted recognition for its outstanding management of work at height with regard to safety and its commitment to promoting safe work in all company departments.
- In Venezuela, the Occupational Health and Safety Policy was prepared, based on OHSAS 18000, as well as the Industrial Safety Policy for contractors who are work and service providers.
- Telefónica Brazil has conducted safety inspections at 19 associate companies. As regards training, it has held courses on the prevention of accidents in facilities and services with electrical risks for 391 collaborators from the internal plant and network departments.

Telefónica has set the benchmark nationally for the integrated management of the health and safety of its workers

REPRESENTATION OF WORKERS IN JOINT HEALTH AND SAFETY COMMITTEES

The Health and Safety model established in the different Telefónica regions shows high worker representation and participation through the corresponding Health and Safety committees.

These committees enable established objectives to be implemented and consolidated by means of continuous analysis and monitoring of programmed preventive activities. In 2014, Telefónica had 195 official joint Health and Safety committees, which represent 94.99% of the workers in the telecommunications business.

Of the health and safety issues covered by formal agreements with the workers' representation bodies in 2014, we would like to highlight those for preventive planning and medical health screening protocols.

Among the professional activities that are performed at Telefónica, no particular incidence or high risk of certain diseases is apparent. In 2014, there were 218 episodes of occupational diseases detected among the 123,700 employees of the Group, and there was only one victim of a vehicle accident (a male), which resulted in a fatality.

Rate Evolution

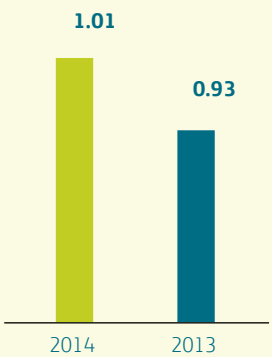
In order to facilitate transparency and comparison with other companies in our sector, only Telefónica's core businesses have been included in the ratios: in addition to the fixed and mobile telecommunications in the countries in which we operate, all the activities in Spain, the Company's corporate centre, are included. Employees occupied in activities not related to the main activity of our Company (primarily those of Atento and Terra in Latin America) have been excluded from the calculation of these ratios. In the same way, ATAM social inclusion recruitment companies have not been taken into account because the comparability of Telefónica with other operators would be distorted if activities whose main objective is the integration of people with disabilities were considered.

	Incidence rate		Serious accident ratio		Average duration rate	
	2014	2013	2014	2013	2014	2013
Spain	7.28	6.96	274.58	227.00	37.74	32.63
Brazil	0.87	1.22	12.57	92.55	14.44	76.17
Germany	1.18	2.14	9.11	27.64	7.75	12.92
United Kingdom	3.05	2.51	71.66	63.26	23.52	25.24
Latin America	18.95	19.05	476.79	489.65	25.15	25.70

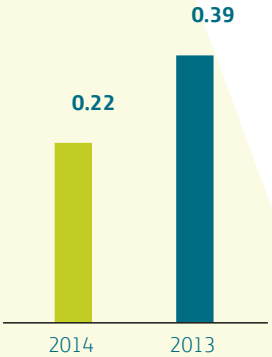
Note: The indicators for Brazil cannot be used for comparison purposes due to modifications in the accounting criteria.

2014 Global GRI indicators

Accident rate



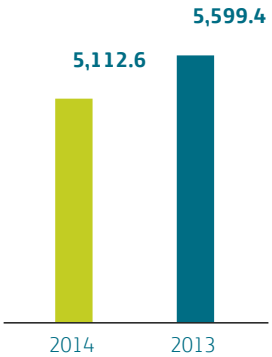
Rate of occupational diseases



Rate of lost days

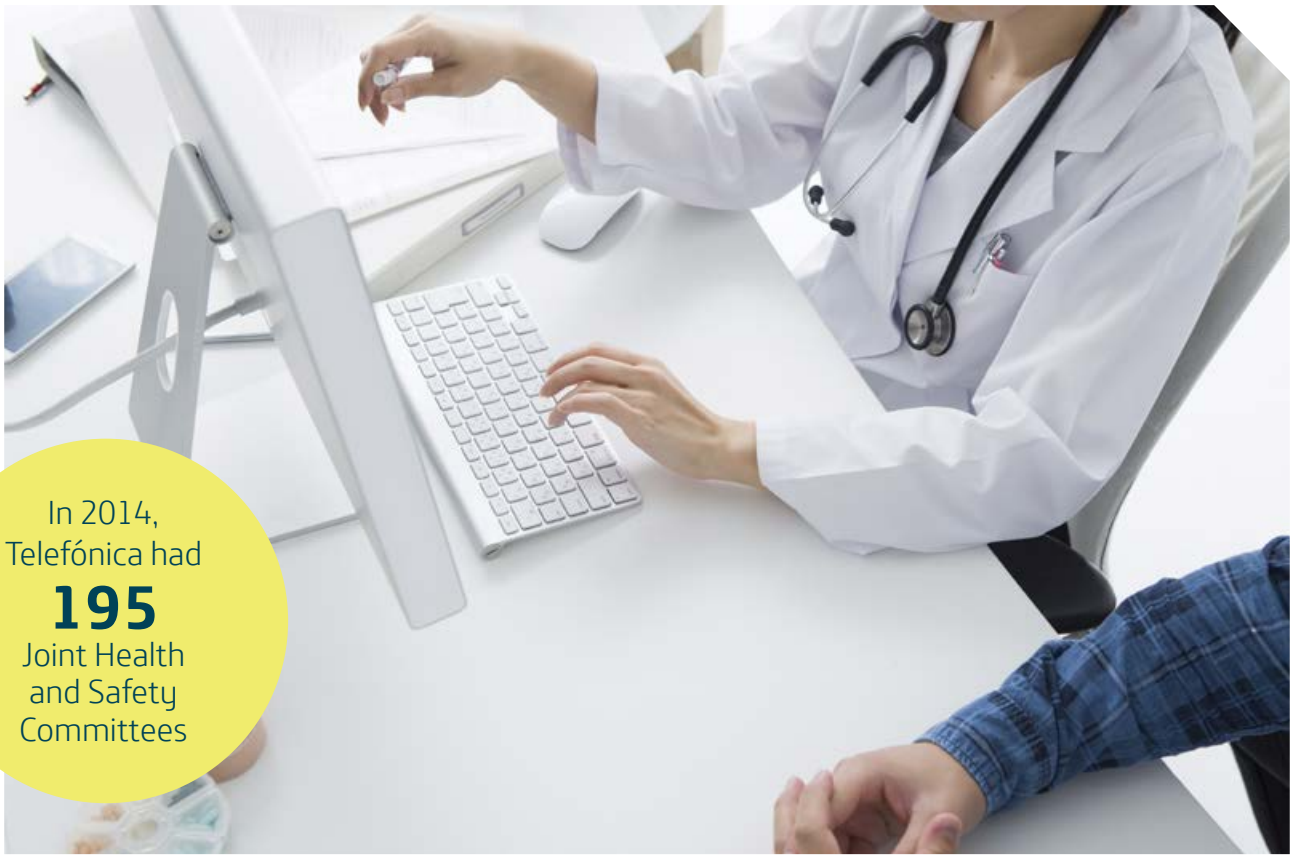


Absenteeism rate



Note: The rate of lost days for 2013 has been recalculated.

G4-LA5, G4-LA6, G4-LA7, G4-LA8



In 2014, Telefónica had **195** Joint Health and Safety Committees

2014 MILESTONES

The following milestones reached in 2014 are noteworthy:

1. **OHSAS Audit of the Health and Safety Management System**
   In April 2014, all 36 companies in the Telefónica Group obtained the OHSAS 18001 standard in Health and Safety Certification.

   Telefónica sets the benchmark nationally in terms of the integrated management of the Health and Safety of its workers. The management system's common foundation enables it to be implemented on an individualised basis, aided by the internal synergies between Group companies.

   The process has involved the participation of more than 300 professionals from different departments.

   The standard requires annual monitoring by means of internal and external audit processes in order to find proposals for improvement and consolidation of the system.

2. **Business activity coordination**
   One of the requirements established by current regulations is the monitoring of associate companies' occupational risk prevention systems.

Since Telefónica is a major driver of business, a large number of companies and workers are associated with it. Because of this, the Group has established mechanisms for the development of business activity coordination which enable both risk information to be compiled and work to be monitored.

Noteworthy examples of this are:

- **Website:** on which the documentation relating to both the associate company and the workers who provide services for Telefónica is located. This resource contains the training certificates, the delivery of Personal Protective Equipment, which is regularly checked, and so on.
- **Business activity coordination meetings:** held periodically with associate companies. At these meetings, working procedures and accident records are reviewed and guidelines for improvement are set.
- **Supervisory audits:** different places where work is being done for Telefónica are visited in order to verify that employee working conditions conform to those established by the regulations in force.

EMPLOYMENT PRACTICES

Acquisition, training and *retention of talent*

Human Resources aspires to create the best team for change, building talent for the future. Therefore, in 2014, over 3.7 million hours were devoted to training in the Group.



Training at Telefónica is completely aligned with the Company's strategic plans. It is the best way of ensuring that we have the best talent, with the necessary abilities to guarantee our transformation project and future strategy.

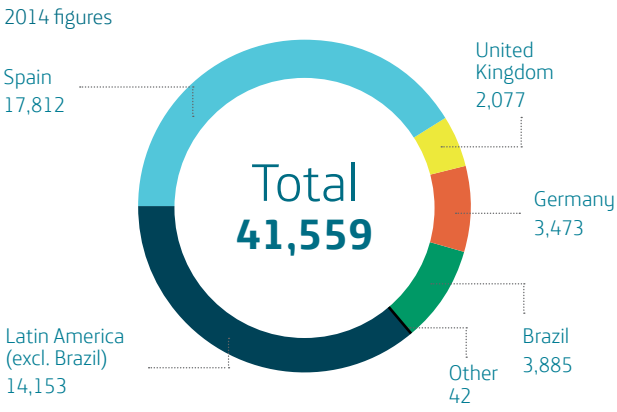
In 2014, over 3.7 million hours of training were given in the Group. The training opportunities are structured through different tools: on-site training (**Universitas** and specialised courses) and online training (e-learning programmes).

Approximately 80% of the training currently carried out in Telefónica is linked to business strategy and 20% forms part of our employees' free choice offer.

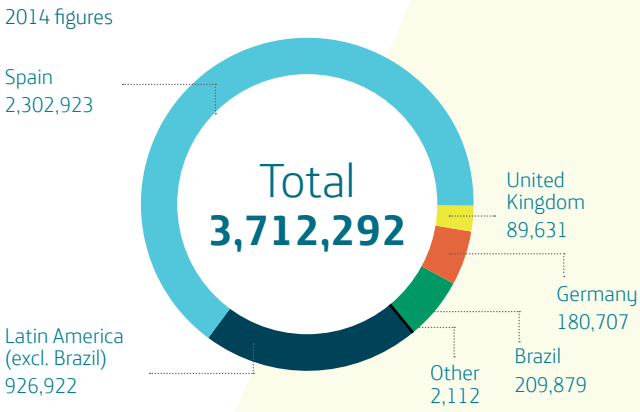
With regard to training through individual development plans (IDP), we have put in place the mechanisms that allow us to, continuously and online, identify training needs, enabling us to provide a comprehensive and immediate response when these needs arise.

G4-LA9, G4-DMA Training and Education

Total cost of training (thousands of euros)



Number of hours of training



TELEFÓNICA ESPAÑA: SCHOOLS OF EXCELLENCE

One of the differential projects linked to professional development that we have at Telefónica España is the **Schools of Excellence** project. Its aim is to boost the development of our professionals, strengthening talent through cutting-edge training programmes in line with the strategic aims of the Company. This is the best way of ensuring we have the key skills needed for our transformation. Since 2009 and as of year-end 2014, over 3,964 of our professionals at Telefónica España have participated in this project in one of our two schools:

The School of Business Excellence: aims to provide our professionals with in-depth knowledge of business management and marketing, as well as driving them towards the highest level of focus and excellence in customer care.

The School of Technical Excellence: aims to drive the technical leadership and transformation of the network, services and systems, as well as promoting an understanding of the technology from a customer viewpoint.

The programmes are designed from the perspective of training courses, combining different strategies and training support methods that facilitate learning and better assimilation of the contents. Additionally, they complement other high-value training activities such as round-table discussions, permanent classrooms, lecture series, technological conferences, etc.

This training model was awarded the **Premio Cegos** for the 2014 Best Practice in Training and Development.

G4-LA9

The schools of excellence drive the development of our professionals and advance their talent through cutting-edge training programmes

Internal Social Network through the Yammer platform. At Telefónica, through the Yammer platform, we have developed an internal social network to maximise the relationship between employees and promote productivity in our workforce. In 2014, we have continued to dedicate ourselves to its consolidation. It is a technological website (Enterprise Social Network) based on a system that enables the Company to facilitate a transversal collaboration, through which information and knowledge are shared and which contributes to the change and transformation of Company processes. It is open to all employees, who have freedom to create communities.

UNIVERSITAS TELEFÓNICA

Universitas Telefónica is the meeting place for our professionals, where talent for the future is built. Training is given on campus in Barcelona and programmes are also run in other geographic locations, which are rolled-out under the 'On the Road' initiative.



In 2014, Universitas impacted 6,512 employees, 57% more than in 2013. 60 programmes were run (a 40% increase) and 65% of teaching staff were Telefónica employees

The Telefónica culture and its values are an intrinsic part of all programmes; best practices are shared and the Company's challenges and strategy are examined. The aim is to accelerate the transformation of our business through the training of our professionals.

Universitas has reinvented its business model by offering on-demand courses. Universitas participants benefited from its new advisory service for designing and developing programmes, training actions and tailored meetings. The team responsible for the Universitas programmes are experts in leadership, restructuring, managing change, innovation, e-commerce and e-learning. Moreover, they are professionals aligned with the business priorities and the vision of **ExCom** (the Executive Committee). Their level of involvement in the design process is flexible to business needs. And these vary: from complete accommodation services to the development or teaching of a tailored programme.

In 2014, Universitas impacted 6,512 employees, 57% more than in 2013. It ran 60 programmes, 40% more than the previous year. 65% of the teaching staff were Telefónica employees, while in 2011 this figure was only 5%.

Accomplishments

Universitas reduced the general cost per participant by 31% compared with 2013.

Its budget increased by 11% compared to 2013. Its impact reached 57% more Group employees. This growth is essentially due to the 'Universitas On the Road' Project, for which a specific programme has been designed, called 'Leading the Transformation', which enabled the 'spirit' of Universitas to be brought to 11 Latin American countries: Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Peru, Uruguay and Venezuela.

Despite the reduction in costs and the increased number of employees, we have managed to maintain our historic evaluation record. The programmes were rated 4.6 out of 5 and the general experience on campus 4.8 out of 5.

We have designed a MOOC (massive open online course) on leadership in times of change. Its keynote speakers are Bernardo Quinn, Telefónica's Global Chief Human Resources Officer, and Nando Parrado, survivor of the tragic plane crash in the Andes in 1972. The launch was in February 2015.

G4-LA10



CORPORATE E-LEARNING (ONLINE A+/UNIVERSITAS)

2014 saw the consolidation of the e-learning training model at Telefónica as shown by the excellent workforce penetration data and the assessment issued by users in various questionnaires for this purpose.

2014 was also the year of consolidation of the **Virtual Classrooms**, with an increase in participation and in user assessments: the increase is from 98,528 hours in 2013 to 224,055 hours in 2014, which represents an increase of over 56%.

The e-learning offer has therefore become a very important feature in the development of our professionals, as well as in achieving the aim, driven by the Company, of becoming the first Digital Telco. Our model is based on open and collaborative training.

TALENT MANAGEMENT

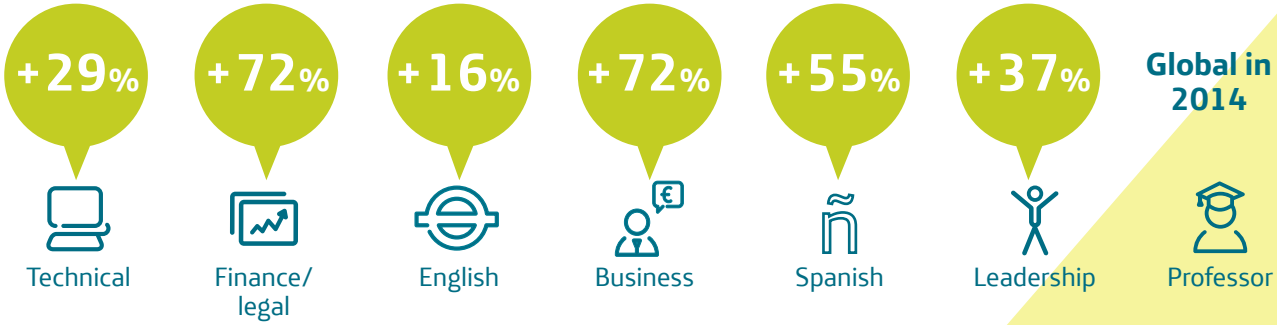
At Telefónica we understand that people are the Company's greatest asset. Therefore, one of our main management focuses is promoting initiatives that boost the professional development of our teams.

Achievements

The main achievements in terms of e-learning in 2014 were:

- ⇨ Almost 70% of employees accessed the platform.
- ⇨ 48.2% of the current workforce passed the Business Principles course. This is over 59,000 employees.
- ⇨ Nearly 80% believe that the courses provide useful knowledge and tools for their current or future development.
- ⇨ Almost 60% of students rate the courses they did as excellent.
- ⇨ Consolidation of the Social Learning model, with greater participation and involvement by students who attended 1,760,044 hours of training in 2014 (25% more than in 2013) and 255,002 hours of non-formal training which the students freely access through the multimedia library.
- ⇨ An increase in the number of users at all Telefónica schools compared to the number of students in 2013.

Increase in users



G4-LA10

Accordingly, we implement and favour programmes that help us identify and evaluate the talent in our organisation, as well as develop our professionals' key abilities in order to successfully tackle the Company's transformation process.

Aspects such as processes to evaluate talent and skills and the development programmes derived from them form the cornerstone of our professional development model.

The identification and evaluation of talent allows us to draw up a map of managerial talent for the whole Company, as well as a structured succession plan. These are fundamental tools in differential management and in the promotion of a meritocracy culture that can facilitate decision-making in aspects such as development, organisation, remuneration, etc.

In 2014 a talent review was performed on over 91% of the Group managers. This process promotes the Be More transformation programme, which evaluates the attitudes that we want in the Company (Discover, Disrupt and Deliver) for the entire collective and also business skills for those collectives assigned to professional careers.

Every year, this initiative reaches 2,000 professionals at different levels within the Company.

Additionally, it highlights the evaluation of skills that we encourage for more than 23,000 professionals. This process promotes the Company's Be More culture, with the fundamental aim of guaranteeing communication, conversations about development and feedback between managers and their teams.

DEVELOPMENT PROGRAMMES

The initiatives for the assessment and identification of talent advance the professional development of our employees by offering a platform that is in line with the needs of the business and the needs of individuals. The aim: to guarantee the key profiles for the future of the Company.

Highlighted features include:

- ⇨ Personalised development programmes for managers and high-profile heads. Example: **Talentia**, aimed at female managers of people with potential.
- ⇨ Programme for young professionals.
- ⇨ Commercial quarry.
- ⇨ New appointments.
- ⇨ Internal mentoring programme: advances Telefónica's own management style and contributes the necessary tools for managing teams, business vision and alignment with the strategy.

YOUNG TALENT

Telefónica strives to attract young people from the generation of digital natives, indispensable in a sector as dynamic as ours. In 2014, a total of 9,047 young people under 30 were hired throughout the Group, 3.5% more than the previous year. In the selection process, the most important considerations were their ability to anticipate the challenges of change, their interest in the client and their ability to work as part of a team.

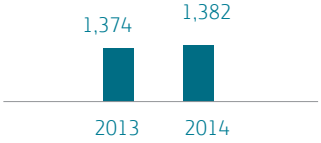
In line with the drive for young talent, our global scholarship programme included 1,382 young people during 2014.

In the Talentum Universities, Telefónica España has a long-term (12 month) internship programme in collaboration with Fundación SEPI. It is aimed at young university graduates under 30 years of age, helping to facilitate their integration into employment through practical training. The internship programme was developed at Telefónica España and possible permanent incorporation into the Company is envisaged on completion. So far, 97% of participants have been hired, filling 298 vacancies in 2014. During the same year, Talentum Universities granted 110 internships.

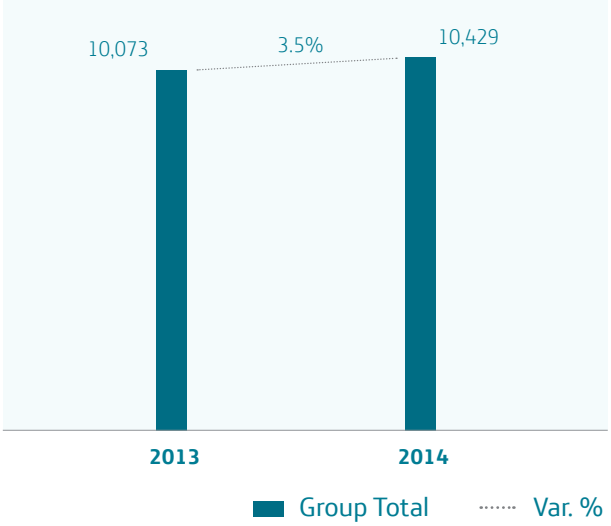
Hirings under 30



Internships



Total



BEST PRACTICE

The digital development of our employees, in line with a strategic focus, simplifies the training process and boosts self-development. This procedure ensures that the training is dynamic, collaborative, better-organised and has a single access for all users.

STRATEGIC TRAINING WORKSHOPS ON THE BE MORE PROGRAMME

2014 saw the continuation of the **Be More** strategic training workshops that started in August 2013. The aim is to transfer the Telefónica vision and strategy to all its middle management.

The workshops consisted of four blocks:

1. A revolution towards a digital world.

2. Capturing opportunities.

3. Our vision and values.

4. Attitudes needed in our transformation.

Approximately 50% of people that attended the workshop completed the satisfaction survey with a rating of 9.2 out of 10. The impact of the entire training process was measured in the work environment survey of November 2014. The result was very satisfying: 93% of Company employees are familiar with the Be More transformation programme and 78% believe that this will be the programme to guide us towards transformation.

MOOC 'Be More Experience'

Between February and March 2014, the first MOOC (Massive Open Online Course) of the Be More Experience was run as a complement to the on-site Be More workshops. The highest participation was registered in Latin American countries, including, in order of participation, Guatemala, Ecuador, Colombia, Nicaragua and Chile. However, given the large volume of employees in the Spanish office, it was Spain that registered the largest number of users: 2,183.

TEDX LONDON



Telefónica continued its partnership with TED, the prestigious global foundation dedicated to sharing ideas that warrant being spread. This was the third consecutive year of collaboration, following successful events in Madrid and São Paulo.

London hosted the event which registered the highest participation so far: almost 100 employees from 15 countries participated in the convention. A dozen presented their groundbreaking concepts in an event hosted by Ronan Dunne, CEO of Telefónica UK. A total audience of 11,000 employees followed the day via live streaming. This initiative attempts to reinforce the key messages of our 'Be More Company Belief' and put our employees at the helm of the Transformation Programme.

EMPLOYMENT PRACTICES

Fair remuneration and *recognition of work*

At Telefónica we believe in fair remuneration for work, because this is how we attract, retain and motivate our professionals. Total remuneration, the personalised system, rewards for targets and social benefits are concepts that are aimed at satisfying the needs of our employees.



The aim of the Telefónica remuneration policy is to attract, retain and motivate professionals so that, together, we can face the challenges of transformation in the sector. Telefónica's commitment to employees is laid out in our Business Principles, guaranteeing fair compensation that is appropriate to the labour market in which we develop our operations.

TOTAL REMUNERATION

At Telefónica we have defined the concept of 'total remuneration' to refer to the different forms of benefits that employees can obtain in the Company as a whole.

Within this concept we include what we could call traditional remuneration (basic salary, variable remuneration, sales incentives, long-term benefits and equity programmes) and benefits (pension plans, holidays, life and health insurance, a company car, etc.). However it also involves other forms of compensation, such as career opportunities and development (training programmes in Universitas, the corporate university, the online A+ training platform, the possibility of international mobility and recognition programmes such as RecognizeD, launched as a pilot in the United Kingdom). The Company culture of social programmes is included as well, through the Fundación Telefónica, teleworking and the occupational health and welfare campaigns.

The **Employee Share Plans** play an important role in the concept of total remuneration. Receiving shares aligns the interests of the employees with those of the shareholders and, at the same time, generates a feeling of greater belonging and more direct involvement in the results of the Entity. Our long-term incentives in shares philosophy seeks to reach all Group employees, on a world scale and at all levels of the organisation. For this purpose, different plans based on Telefónica shares have been designed and implemented, and are available in note 19 of the Financial Report.

Receiving Company shares aligns the employees' interests with those of the shareholders and generates a feeling of belonging that is beneficial for the Entity

The highest governing body of the Telefónica Remuneration Policy is the Appointments, Remuneration and Corporate Governance Committee. Its functions are centred on the remuneration policies of the Chairman, the CEO, the Board of Directors and senior management of the Company. The Telefónica Executive Committee approves the specific budgetary item for the realisation of the salary review process, and then the Global Remuneration team is in charge of ensuring the proper resolution of local budgets. To do this, this team uses the macroeconomic information from every country (inflation, growth and unemployment), information from salary surveys (it uses a single provider for all countries, plus specific information in every market depending on their special characteristics), analysis of internal equity (controlling the payments to those jobs that are comparable in terms of the role and responsibilities, through salary structures that help analyse and maintain equitable salary intervals) and the moment of business in every operation.

All the remunerations and compensations of the Board of Directors are published in the Remuneration Report.

PERSONALISED REMUNERATION SYSTEM

At Telefónica, as in previous years, employees have a personalised remuneration system available to them. It allows them to voluntarily allocate part of their fixed cash remuneration to contracting a series of products and/or services, and therefore adapt their remuneration to their personal and family needs at all times.

The tax benefits of this model are clear:

- Contracting products has a more beneficial tax treatment for income tax than receiving money via the payroll.
- Furthermore, buying through the Company involves a considerable saving in contracting services and products. Given the economies of scale, when contracting on a community and/or Group level, the reduction in price is considerable.
- Flexibility, in adapting to the personal and family needs of the employee at any one time.
- Convenience in carrying out the selection of providers, negotiation and management through the Company.

REWARDS FOR TARGETS

At Telefónica we reward the achievement of targets (both business and individual). To take a specific example, in our biggest market, Spain, the total percentage of professionals receiving variable remuneration is 43.1%, corresponding to 39.3% of men and 52.3% of women. This variable remuneration is calculated annually as a percentage of the fixed salary, a percentage linked to achieving the Telefónica Group targets and a percentage dependent on achieving the targets of the region and/or country.

Moreover, the Company has a Global Remuneration Policy which aims to achieve homogeneity and alignment in remuneration practices throughout the entire Group. In turn, the local remuneration teams ensure the alignment of normal practices in every area of activity. We have single providers for all markets and the launch of retention programmes has a global implementation. At Telefónica, all the variable remuneration systems include at least one CSR aim for the employees: customer satisfaction.

Telefónica employees have a **personalised remuneration system**

SOCIAL BENEFITS

The social benefits for Telefónica employees vary from country to country and, essentially, include the following:

- **Health, life and accident insurance.** The fund is paid into to cover the risk of death or total incapacity for any work. Double will be paid out in the event of death or total disability for all work as a consequence of an accident.
- **Pension plan** with contributions made by the employee and the Company.
- **Child and school aid** that varies depending on the age of the children.
- **Total incapacity for usual employment.** In our agreement we include a plan for financial compensation in all cases of time off from the Company due to the declaration of total permanent incapacity for usual employment.
- **Teleworking.** Our employees have the possibility of working from home once a week, with prior authorisation.
- **Advances** of up to three months.
- **Holiday plans and study plans** for children of employees, with the possibility of accessing help for children that study in a different locality to the family home, according to the requirements established for this.
- **Maternity supplements** during maternity leave: if applicable, the Company supplements maternity allowance up to 100% of the net salary of the employee.
- **Social welfare.** A specialised personal support service aimed at employees that may need this help, and which can have an impact on their work, family and social environment.
- **Intensive shorter days in summer and yearly for part of the team, voluntary part-time, unpaid leave.**
- **Flexibility in excercising various authorisations.**

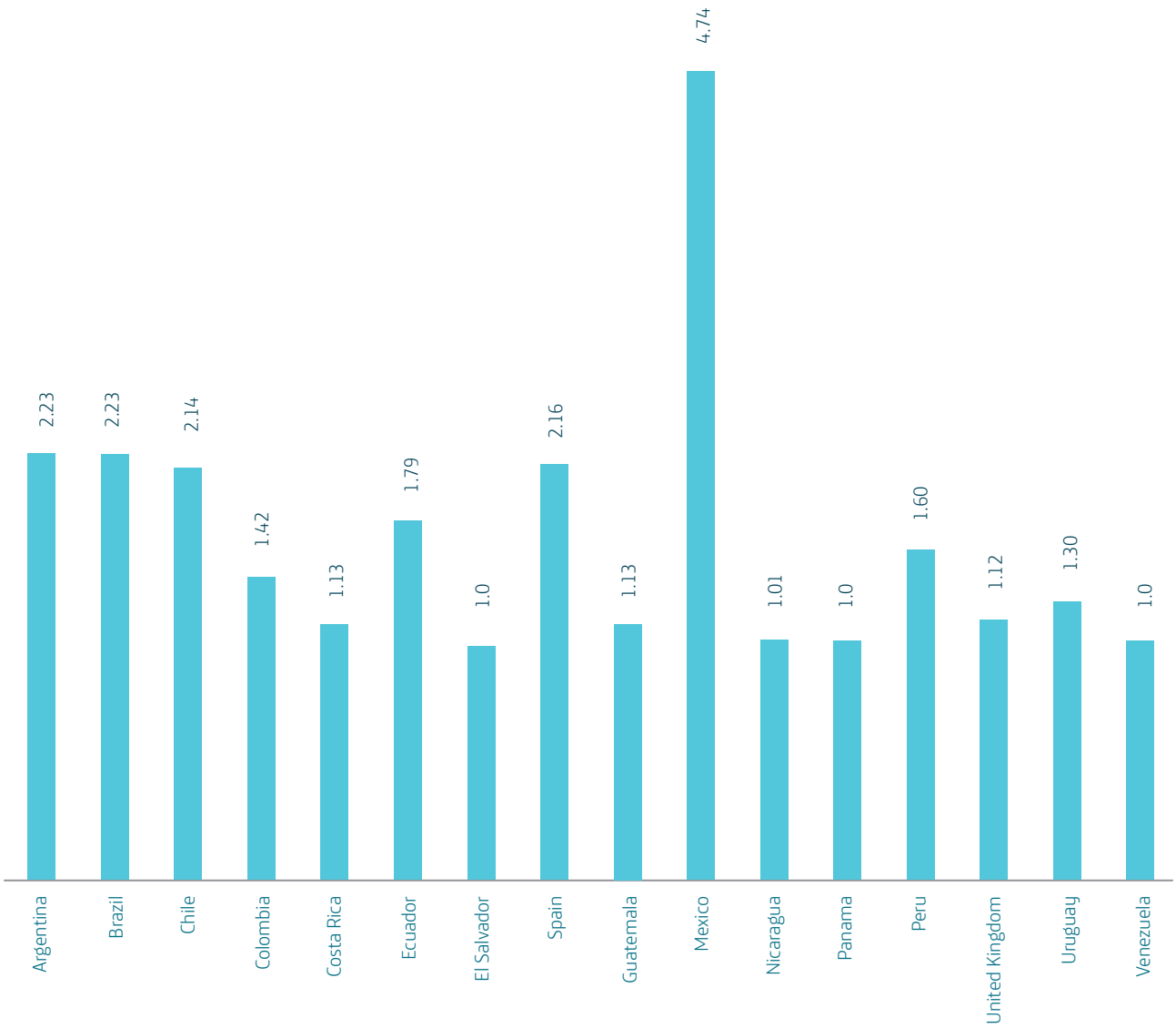
G4-LA11

The aim of the Global Remuneration Policy at Telefónica is to achieve homogeneity in remuneration practices across the entire Group

At Telefónica **we reward** the **achievement of targets** (both business and individual)

Telefónica minimum salary vs minimum salary in every country

Number of times



G4-EC5

EMPLOYMENT PRACTICES

Work environment, *conciliation and commitment*

Aligning expectations and recognising problems are the keys to keeping our professionals motivated, which, in turn, is essential in order to offer a high level of commitment and an excellent service to our customers.



The Global Environment and Commitment Index rose in 2014 to **79** points

The training and development of our professionals is framed within a cycle that begins with the setting of targets, continues with an evaluation of the performance and ends with the design of a personalised development plan.

ENVIRONMENT AND COMMITMENT SURVEY 2014

At the end of 2014, we once again issued the Environment and Commitment Survey, one of the most important tools that we have for learning the opinions of all our employees on different aspects of the organisation. The results obtained have allowed us to identify and launch possible routes towards improvement in each of the areas that make up the Company.

This most recent Environment and Commitment Survey was performed by 80,940 employees, which accounts for 77% of the workforce, one point fewer than the consultation undertaken the previous year.

The **2014 Global Environment and Commitment Index** which is uniformly applied to the Group - has remained high at 79 points out of 100, one more than in the previous year. It should be noted that the strongest aspects are:

Image and pride of belonging: **88**

Leadership dimension of direct manager: **83**

Focus on our customers: **82**

With these results an analysis was performed following the Employee Effectiveness Framework (EEF) model, which combines two variables: commitment and organisational support.

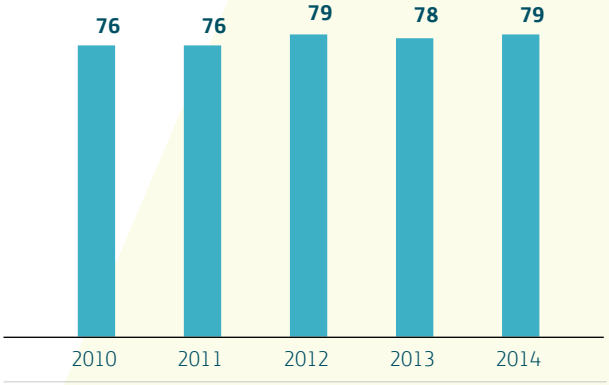
This enables a study to be carried out on a departmental level and specific measures to be implemented for improvement in these two aspects, focusing on each variable according to the result obtained in that area, in order to increase employee satisfaction.

At Telefónica we know that the real benefits of performing environment and commitment surveys are produced when employee feedback translates into effective action.

Summary of results of the Global Survey on the Work Environment

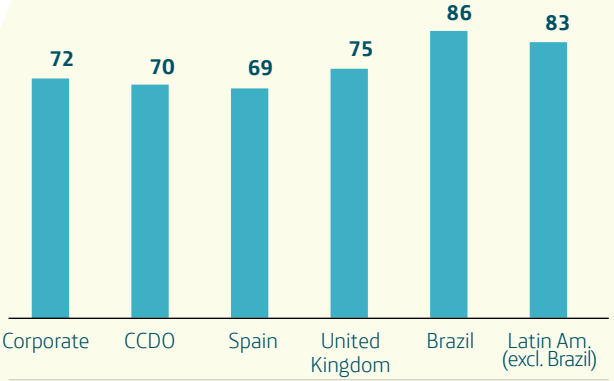
Telefónica Overall ICC Rating

From 0 to 100 points



Rating in significant business areas (1)

From 0 to 100 points



(1). The significant operating locations correspond to the core business units as defined as core in the chapter 'Structure and scope of consolidation'.

Results obtained by aspect

From 0 to 100 points

	2012	2013	2014
Pride of belonging	88	87	88
Leadership of direct manager	82	82	83
Focus on the customer	82	80	82
Daily work	79	79	80
Professional development	75	73	75
Leadership of management	69	67	70
Company reputation	-	-	85

For the fourth consecutive year, Telefónica lies among the 20 best companies to work for worldwide

EXTERNAL RECOGNITION

⇨ **'Great Place to Work'**

In 2014 Telefónica again occupied notable positions on the lists of the best places to work, which are produced by the Great Place to Work® (GPTW) institute, an international benchmark with over 25 years' experience in the analysis and assessment of workplaces. In preparing its rankings, the institute performs surveys of the work environment among employees, in which it analyses the practices and policies for the management of people and companies.

Telefónica was placed, for the fourth consecutive year, among the 20 best multinationals in the world to work for. Specifically, we stood in 14th place. It is a privilege and a challenge that inspires us to demonstrate on a daily basis that we are worthy of this award.

In Latin America Telefónica occupies an even higher position: eighth place in the ranking.

GREAT PLACE TO WORK®

GPTW results in Latin American countries where Telefónica operates

2011	Rank in the country
Nicaragua	1
Uruguay	1
Venezuela	1
Ecuador	2
TM Argentina	3
El Salvador	4
Chile	4
Colombia	5
Panama	5
TISA	8
Guatemala	11
TASA	12
Mexico	13
Peru	15
T. Vivo	22
Telesp	78

2nd place GPTW Latin America

2012	Rank in the country
Panama	1
Venezuela	1
Uruguay	1
Ecuador	1
Nicaragua	2
Chile	3
Colombia	3
TISA	4
El Salvador	7
Argentina	9
Guatemala	13
Mexico	18
T. Vivo	18
Peru	18

2nd place GPTW Latin America

2013	Rank in the country
Venezuela	1
Ecuador	1
Colombia	2
Panama	2
Nicaragua	2
El Salvador	7
Guatemala	8
Argentina	10
T. Vivo	13
Costa Rica	15
CAM	15
Peru	16
Mexico	17

4th place GPTW Latin America

2014/15	Rank in the country
Ecuador	1
Colombia	3
Venezuela	3
Chile	5
T. Vivo	11
Peru	13
Argentina	14
Mexico	16

8th place GPTW Latin America

We believe that the changing values in society, the changing roles in the family environment and women's access to the labour market should not hinder conciliation

⇨ **'Best Companies for Leadership'**
Telefónica also figures among the top 15 companies in the global ranking by Fortune magazine, 'Best Companies for Leadership'. This year, 2,100 organisations from 115 countries took part in the study.

⇨ **Merco Report**
For another year, Telefónica has been selected among the most attractive companies for talent in Spain according to the Merco Report. Our Company features among the top 100 best companies to work for in Spain, occupying sixth position in the ranking, two places above the position we achieved last year. Moreover, we are the top company in the Telecommunications Sector and we are fifth in the overall ranking, if we compare ourselves to companies with over 15,000 employees, according to the data from the 9th Edition of the Business Study.

The values that contributed to our obtaining this position once again are:

- The quality of working at Telefónica (salary, professional development, motivation, recognition, relationship with middle management and conciliation).
- The pride of belonging to a brand like Telefónica (image in society, attraction of talent, recommendation, business success and attractive sector).
- Internal reputation of the Group.

To achieve this position, the opinions of many sectors of professional society were taken into account, such as: human resource managers, experts in talent management and headhunters, the general population, students in business schools, final year university students and, lastly, a comparative analysis of management policies (benchmarking).

CONCILIATION

At Telefónica we believe that the conciliation of personal, family and work life is essential for our employees' performance and, therefore, we have been committed to conciliation for 20 years. We believe that the transformation that our society has undergone in recent decades - the changing roles in the family environment and women's access to the labour market - provides an opportunity to make equal opportunities a fundamental part of the Company's labour strategy.

Among the numerous actions in terms of conciliation at Telefónica, we can highlight:

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

Moreover, our employees enjoy flexibility in taking holidays and can align them with the school holidays.

Finally, among the work benefits, our employees enjoy childcare bonuses. At Distrito Telefónica (Spain), the Company headquarters with over 10,000 employees, there is also a crèche service for employees.

Likewise, we have a Committee for Equal Opportunities comprising Company and workers' representatives, that has the working aim of encouraging measures that favour the conciliation of work life with family and personal life.

Telefónica is one of the **15** best companies for leadership

BEST PRACTICE

In 2014 we can highlight, at Telefónica Deutschland, the introduction of the community of mothers and fathers, which now has over 500 Company members. The network is active in the organisation of conferences, holiday activities for children, a Children's Day and cooperation with the Think Big Schools programme.

In Germany the Betreut.de service for families also stands out. It is a portal for our employees that allows them to increase their ability to work flexible hours, helping with caring for children, the elderly, etc. Both activities seek to support and recognise the needs of all our employees to conciliate work and family life.

EMPLOYMENT PRACTICES

Freedom of association *and social dialogue*

In December 2014, Telefónica renewed the Global Agreement signed with Union Network International (UNI) in 2000. The new agreement takes into account progress in the field of corporate responsibility, in accordance with the United Nations' Guiding Principles on Business and Human Rights, which make clear that companies are to respect human rights in all their operations.

On 1st December 2014, at Telefónica we renewed the agreement with Union Network International (UNI), thus confirming our commitment to the International Labor Organisation's (ILO) regulations concerning freedom of association and the right to collective bargaining. In virtue of this agreement, we strengthen our commitment to uphold and respect fundamental and union rights.

In 2014 the number of employees that had signed negotiated agreements amounted to 77,051, representing 62.3% of workers.

Concluding the professional classification model allowed Telefónica to advance in terms of its efficiency and productivity goals, and improve employability

COLLECTIVE BARGAINING IN EUROPE

Telefónica Europe (TE) has a European Work Committee (EWC) that informs employees and requests their feedback in order to promote dialogue and the exchange of opinions on transnational matters. Each business operation has a specific number of worker representatives elected to carry out said role. The selection of representatives is carried out in accordance with each country's regulations and practices. Among those elected, the EWC appoints a president, at present Christoph Braun (Germany), and a secretary, a post currently held by Angie Prangall (United Kingdom).

The European Work Committee is made up of ten worker representatives: five in the United Kingdom and five in Germany. Additionally, the European Work Committee elects five members for a Special Committee (SC). The latter meets frequently with Telefónica's Central Committee to discuss the most pressing issues, such as developing a new CER agreement after the expiry of the current one.

The European Work Committee meets every six months to discuss transnational matters, as well as all other issues brought up in connection with Telefónica's operations in Europe. These matters generally concern changes in structure and organisation, Telefónica's economic and financial situation in Europe, the introduction of new work methods and technologies, mergers, transfers or redundancies, and social and human resources policies which include matters concerning health, safety and equal opportunities.

The EWC's last meeting was held at the Company's headquarters in Madrid. Issues dealt with included the global simplification model; the new global HR system – *SuccessFactors* –, 'Business Intelligence & Big Data'; the 'German Transformation Update', as well as a business update presented by the Company's Director of Global Resources, Guillermo Ansaldo.

COLLECTIVE BARGAINING IN SPAIN

During 2014 important advances were made at Telefónica España in the area of collective bargaining, and agreements were adopted to conclude the professional classification model and to create the new position of communications operator. Such agreements have allowed the Company to advance in terms of its efficiency and productivity goals, and to improve employability among workers. Furthermore, progress has been made in the development of agreements to facilitate the convergence of labour conditions between workers at the fixed and the mobile operators (unification of budgets for social funds, unification of circumstantial income earned during the holidays for certain salary items, modification of the variable remuneration model, etc.).

Additionally, at the meeting of the Permanent Negotiations Committee in December 2014, it was decided not to extend the Collective Agreement in force, in order to continue advancing in the flexibility and efficiency measures laid out in the Company's strategic plan.

G4-11, G4-DMA Freedom of Association and Collective Bargaining

We are strengthening our **commitment** to uphold and respect **fundamental and union rights**





The European Work Committee is a vehicle for **information** and **dialogue** between the Company and its employees

COLLECTIVE BARGAINING IN LATIN AMERICA

2014 also saw a lot of progress made in terms of work agreements in Latin American countries.

Peru. Collective agreements were signed following direct negotiation with all the union organisations (four fixed-line telephony organisations and three mobile telephony organisations), except in one case, which led to an arbitration process that concluded with a ruling in favour of the Company's position.

Brazil. Support for workers during the implementation of the BPO project, when several of T-gestiona and Finance Management's activities were transferred to our partner, Accenture.

This support came in the form of a negotiation with the workers' union, aimed at minimising risks connected to redundancies (approximately 1,000 contracts were terminated). Support was also provided for the negotiation of administrative agreements with employees who had left the Company, through a committee called 'Comissão de Conciliação Prévia (CCP)', on the subject of payment of

Telefónica meets all agreements foreseen in the Workers' Statute concerning substantial changes in labour conditions

work funds owed, when these have been duly indicated by the employee and confirmed by their supervisor, thus decreasing the risk of future work-related legal suits.

Collective agreements were negotiated in relation to the Profit Participation Package (PPP), based on the same models used during the past two years. Agreements were also negotiatied in relation to salary reinstatement, resulting in monthly instalments for Health Plans being introduced in some municipalities and current discounts being increased in all others, thus reducing costs by granting this benefit.

Colombia. In 2014 a process was carried out to directly link analysts belonging to the face-to-face care channel, with the aim of obtaining high levels of productivity and quality concerning the sale and warranty period of products and services, thus reducing occupational risks within the context of Colombian labour law.

Meetings were held regularly by the Work Mediation Committee and Copasst (the Joint Committee on Occupational Health and Safety), to monitor and manage the cases presented therein.

The Department of Labour Relations minimised risks in distribution channels (Commercial Brokerage), including all matters connected to HR and labour legislation in contractual terms.

Argentina. The year's most important achievements in this country were the signing of the collective work agreements for mobile activity with FOPSTTA, FOEESITRA, UPJET and FATEL which are currently in the process of being standardised by the appropriate authorities, thus extending union representation for this activity nationwide. Elsewhere, dialogue has been inititated with the unions for fixed activity concerning a Company proposal to unify sales offices. In the same vein, the signing of a framework agreement for a Quality and Prevention plan for technical domains is expected shortly. Additionally, the Company is holding conversations with the unions concerning the impact that each of them might have as a result of the upcoming implementation of our Team Management and Time Management projects.

ADVANCE NOTICE PERIODS CONCERNING EMPLOYEES AND ELECTED REPRESENTATIVES

Telefónica meets all agreements foreseen in the Workers' Statute (WS) concerning substantial changes in labour conditions, taking into account the distinctions determined by law:

a) Changes affecting individuals: Decisions that substantially modify individual labour conditions must be notified by the Company to the affected worker and his/her legal representatives at least 15 days prior to coming into effect.

b) Changes affecting collectives: These must be preceded by a consultation period with workers' legal representatives, lasting no longer than 15 days. The decision is to be notified to workers by the Company's management once the consultation period has ended and if no agreement has been reached, and it will come into effect in the 7 day period following the date at which it was notified.

In the case of Spain, regulation additionally establishes that when restructuring takes place within the organisation, the Company's management is to inform the relevant Work Committee 15 days in advance of the restructuring being effected, so that it may issue the required report.

On the other hand, conventional rules establish that work restructuring motivated by technological, economic, technical, organisational or production-related innovations, is not a valid reason for contractual termination by means of the procedures provided by articles 51 and 52-c) of the WS. In case it were necessary to restructure activities and said process were to have a direct impact on the volume of employment, no workers connected to such activities will be forcibly reassigned without prior agreement with workers' representatives.

In Spain, in the event of restructuring processes that affect work organisation, the Inter-Centres Committee must be informed in advance. The Collective Agreement establishes that work re-organisation motivated by technological, economic, technical, organisational or production-related causes, are not a valid reason for contractual termination by means of the procedures provided by the WS. Furthermore, on the subject of activity restructuring, in the event of this occuring and affecting the volume of employment, forums for dialogue and negotiation will be established with workers' representatives.

Lastly, concerning the rights recognised for workers' representatives, the agreements establish that CE, employee delegates and CI, are to issue a prior and mandatory report whenever there are substantial changes concerning work organisation, which is to be transmitted at least one week in advance. In both cases, and in accordance with Spanish law, were there to be substantial changes in collective employment conditions, it is obligatory to inform workers' representatives at least 15 days in advance.

Diversity *management*

Heterogeneity of our workers stimulates innovation and creativity, as well as offering a true reflection of the composition of our customers. Managing this diversity helps us offer products and services that satisfy, to a high standard, the needs of the whole world.



"We promote equal opportunities and treat everyone fairly and impartially, regardless of race, colour nationality, ethnic origin, religion, gender, sexual orientation, marital status, age, disability or family responsibilities".
This is the fundamental right to equality as laid out in our Business Principles.

And it is on these bases that we manage the diversity at Telefónica. It is a diversity that dominates our organisation, as we have employees in more than 21 countries (three of which are represented on the Board of Directors), operations in 17 and 101 different nationalities represented across our workforce. This professional and cultural richness gives our Company a competitive advantage, as it facilitates our relationship with all our customers and helps us to offer products and services that satisfy their needs, to a very high standard, while at the same time positively impacting our revenue.

Strategy
To create a sustainable and diverse workforce we must approach this challenge from different angles, at the same time as effectively driving cultural change within the Company. Heterogeneity of our workers also promotes innovation and creativity, and is the most reliable reflection of our customers. For this reason, at Telefónica we have developed a strategy in which diversity and inclusion are adapted to our business vision. This strategy is based on three pillars:

G4-DMA Diversity and Equal Opportunity

⇨ **Discover.** Diversity is an added value.
Diversity among our workers brings us a competitive advantage in terms of discovering the needs of our customers and responding to them.

⇨ **Disrupt.** Diversity among our workers increases our innovative capacity.
The perspectives and ways of thinking of workers from diverse origins help us to achieve positive changes in our organisation and working methods. We attract, recruit and retain diverse talent with different ideas that help us create new products, services and markets, and expand existing ones.

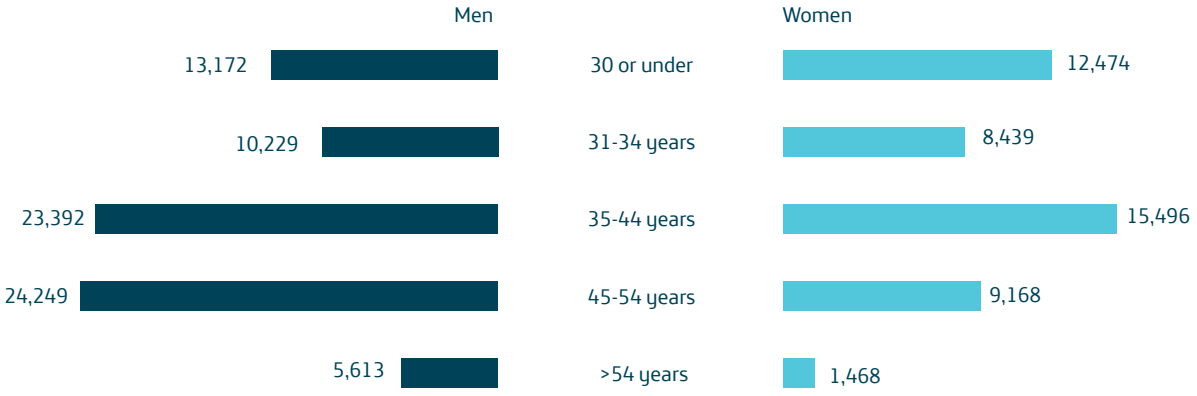
⇨ **Deliver.** The fundamental factor for success is not merely the presence of diversity, but know how to translate the differences in the service that exist into excellence in business results. At Telefónica we transmit this need to our managers and offer them all our support for the creation and management of a diverse workforce on all levels.



Number of nationalities in the Company

	2013	2014
In the workforce	105	101
On the Board of Directors	3	3

Age **pyramid** of Telefónica employees



G4-LA12, G4-DMA Diversity and Equal Opportunity

An Telefónica we advocate for the equality of men and women, and take concrete measures towards this.
In Spain the following actions stand out:

1. Equality plans. We advance in the line of work and commitment that began 20 years ago, proposing actions for improvement adapted to new legal requirements in those areas of action where we continue to progress. The pillars are the following:

⇨ Commitment and awareness of management.

⇨ Communication and publicity.

⇨ Employment and recruitment.

⇨ Promotion, training and professional development.

⇨ Conciliation of personal, family and work life.

⇨ Prevention and exclusion of harassment.

2. Protocol for the prevention of workplace, sexual and gender-related harassment. Telefónica España, beyond the strict regulatory compliance imposed by legal requirements, champions, in its Principles of Corporate Responsibility, non-discrimination and equal opportunities. It is categorically against any practice that could indicate conducts or practices of workplace, sexual or gender-related harassment, and has implemented a protocol for the prevention of these types of cases, enabling identification and combating of any behaviour or conduct that could be considered a case of harassment.

3. Creation of disclosure spaces such as the Equality site. Through the Intranet, all employees can access the disclosure and communication space that provides direct access to the Equality Plans, harassment protocols and the commitments endorsed by management and workers' representatives in this matter. On this site, up-to-date information can also be found on the work that is being performed in the area of equality.

Furthermore, the following Company-wide actions also stand out:

1. **Diversity Council:** Telefónica promoted, in its capacity as a member of the Council and in the area of Europe, practices that allow all our employees the same opportunities for growth and professional development.

2. **Specific training programmes**

   ⇨ The Women in Leadership programme

In September 2012 we launched this programme to put Global and CCDO female managers in contact with each other. Its focus was extended in 2013 and 2014 and, thanks to its success, there are plans to run it again on two more occasions in 2015. Furthermore, the programme has been extended to Latin America and other divisions of Telefónica.

The aim of this initiative is to strengthen the abilities of the women, their confidence and their personal improvement qualities, and establish a solid network of female managers at Telefónica and raise their visibility. It also attempts to create an environment in which they can share experiences related to the organisational culture and look for mentors and sponsors that can support them.

The programme has been hugely successful, not only with ever more positive reviews in all departments, but also with changes in the roles of 71% of the participants in the course of 15 months, from July 2013 to October 2014.

Aim of the initiatives
The general aim of the initiatives is to pursue improvement objectives and, at the same time, to give continuity to the existing Company equality and conciliation policies that exceed basic compliance with the existing legislation.

⇨ Advance the development of good practices that favour the full labour integration of women.

⇨ Boost, from the various already established forums, measures that favour the conciliation of the work, family and personal life of the entire workforce.

⇨ Assure that the training and development possibilities are in keeping with criteria for equality between men and women.

⇨ Promote women's access to management roles within the Company, improving the gender equality in this environment.

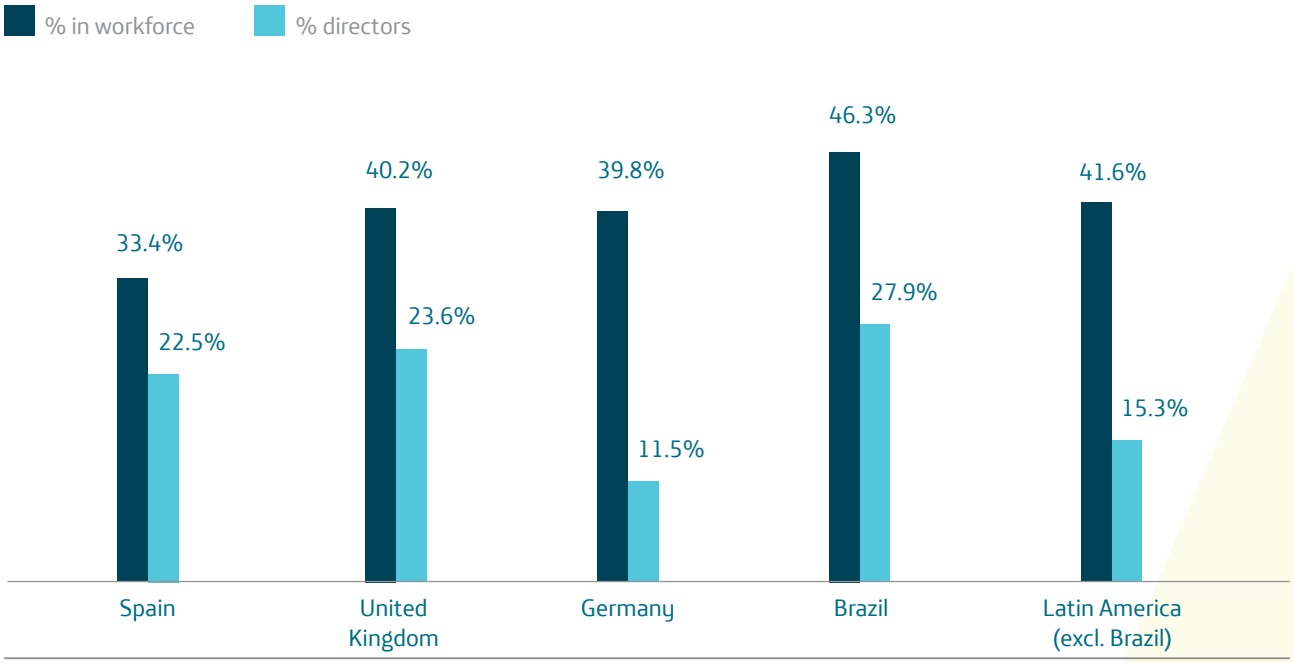
⇨ Increase the probabilities of both men and women bringing the best of themselves to the roles that they play within the organisation.

⇨ Reinforce the Telefónica Group commitment to Corporate Social Responsibility in order to improve the quality of life for employees and their families and to promote the principle of equal opportunities.

Female representation in the Telefónica Group

	2013	2014
% women in the workforce	38.3%	38.0%
% female directors	21.0%	20.6%

Presence of women in the Telefónica Group by geographical area



Salary deviation between men and women: percentage of the average women's salary compared with the men's average

Basic salary

	Total	Spain	Brazil	Germany	United Kingdom	Mexico	Argentina	Colombia	Chile
Directors	91.1%								
Managers	90.5%	96.0%	95.5%	92.3%	93.6%	91.2%	97.0%	96.9%	85.3%
Middle management	89.3%	95.3%	87.0%	84.1%	107.7%	92.4%	89.5%	90.0%	84.5%

Total salaries

	Total	Spain	Brazil	Germany	United Kingdom	Mexico	Argentina	Colombia	Chile
Directors	90.5%								
Managers	89.2%	95.9%	95.5%	90.1%	94.5%	91.2%	96.0%	98.1%	84.6%
Middle management	88.9%	96.4%	87.3%	82.8%	94.0%	92.4%	89.2%	92.1%	84.2%

Nota: Percentage calculated from data sent by each country.

At Telefónica we advocate equality between men and women, adopting concrete measures such as equality plans, protocols for the prevention of harassment and disclosure spaces

Commitment to diversity in society
From Telefónica's department of Sustainability, together with the Human Resources department, we organised a cycle of interviews under the heading 'La mujer en la empresa' (Women in Business). The aim is to make our contribution to the debate on the future of women in work, conciliation and their role in the digital economy, within the context of an estimated 900,000 vacancies in digital employment in Europe in 2015.

G4-LA12, G4-LA13, G4-DMA Equal Remuneration for Women and Men



We have always been aware of the need to advance on the path to diversity, and even more so, if possible, in relation to the labour integration of people with disabilities and dependants. For this reason, in 1977, Telefónica founded a non-profit organisation for people with disabilities, which was declared a Public Utility by the Council of Ministers in the same year as its creation. The stock of over 40 years' experience has given ATAM the ideal tools for the development of its aim: the social integration of people with disabilities, placing emphasis on the abilities of the person and his or her environment. In 2014, over 17,000 people in Spain benefited from its work.

In 2014, one of the labour integration projects for people with disabilities, to be highlighted is the updating of the Mercadis employment opportunity portal, which channels the management of vacancies and applications for employment. Since inception it has accumulated over 34,000 candidates and more than 1,800 companies. This year it registered 2,462 candidates and managed 427 offers.

The activity of SERVITELCO, the leading Special Employment Centre in Spain also stands out in the provision of Multichannel Contact Centre services. The ATAM companies, which operate in the capacity of special employment centres, have 751 employees, 88.12% of whom have varying types and degrees of disability.

We award inclusion with the 'Telefónica Ability Awards'

These awards recognise those companies and institutions that develop sustainable business models for the inclusion of people with disabilities, be they employees, providers or customers.

Over three editions, Telefónica has awarded entities that have distinguished themselves through their work on inclusion in their value chains.

Other lines of action implemented within Telefónica to respond to concerns about diversity have been:

- **Workshops to support intercultural work.** For many people in our global department, it can be difficult to work with different cultures and assume the different ways of working. Both TGS and CCDO held workshops in 2014 to deal with these difficulties, to improve understanding and to guarantee that the most diverse departments benefit from the array of styles and experiences that they incorporate.

- **Moving behaviours and cultures beyond subconscious prejudices.** Throughout 2014, Telefónica maintained the programme that attempts to raise awareness of the value of a diverse team and also the existence of subconscious assumptions and stereotypes that can prevent us from forming the most diverse teams possible. It focused on managers and the main operational groups, such as the departments of Human Resources, Development and Talent and Resources, to guarantee transparent and egalitarian processes in all the phases of a worker's life cycle.

In 2014, over 17,000 people benefited from the work of ATAM, the non-profit association founded by Telefónica in 1977 for people with disabilities

Disability indicators

	2013	2014
Percentage with a disability (1)	3.2%	2.25%
Volume of contracting for social providers	4,272,983	4,179,703
Website level of accessibility (W3C)	AA	AA
Dialogue established with organisations representing people with disabilities	ONCE, CERMI, CNSE, FIAPAS, FEAPS, ASPAYM Granada and CENTAC	FEDACE, Neuroalianza, COGAMI, ALCER, ASPACE, F. Ingeniería Biomédica, FETCO, CERMI, FEAPS and ONCE
Products and services that incorporate principles of universal accessibility and design for all	Invoices in Braille or large letters, LSE platform, accessible terminals, ATAM (LAVECO, MONDECO, SERVITELCO, DO2, SOSTENIBLE)	Invoices in Braille and large letters and other accessible products and services. See chapter on 'Disability and dependence'.
Investment in social innovation and disability (2)	8,688,997	8,411,085
Telefónica volunteers that participate in initiatives where people with disabilities are beneficiaries	3,051	1,251
People with disabilities benefiting from volunteer initiatives	16,397	5,799

(1). Spain. Revised text of the General Law on Rights of Persons with Disabilities and their Social Inclusion.
(2). Data verified according to LBG criteria.

CHALLENGES FOR 2015

Telefónica has adhered to the Plan Inserta for the entry of people with disabilities into work.

COMMITMENT TO OUR CUSTOMERS

Customer *satisfaction*

Our aim is to always give our users the best digital offer: an experience based on constant connectivity and a network of products, services and solutions that maintain our position as leader in many of the countries where we operate.



Telefónica customer satisfaction in 2014:
7.09

At Telefónica we focus on providing users with the best experience. We work with top-level partners and collaborators to build a work ecosystem that allows us to develop the best digital offer, ensures security and, at the same time, helps improve the environment and experience for customers.

Our objectives are the following:

1. **To bring technology to where users need it in order to enable them to be permanently online**
2. **To offer a value proposition focused on their requirements through products, services, solutions and applications developed on the best network**

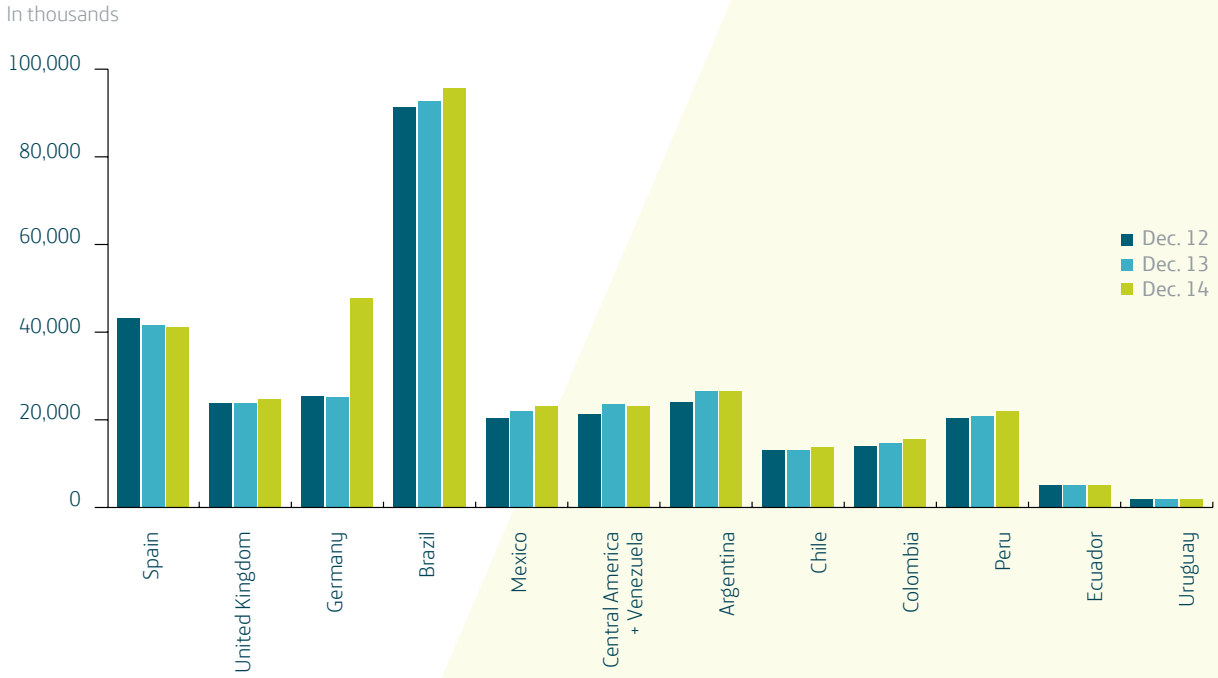
In 2014, the total number of accesses grew by 6% to 341 million. This increase was made possible through the incorporation of E-Plus to Telefónica Deutschland, as well as by the solid growth of Telefónica in Latin America, Brazil and the United Kingdom. Excluding the E-Plus accesses from the 2014 base and the Telefónica Czech Republic and Telefónica Ireland accesses from the 2013 base, the organic growth was 2%.

Mobile accesses grew to 274.5 million and increased by 8% on 2013, 2% in organic terms, supported by the strong growth of mobile contracts. The strong growth rate of smartphones, which reached 90.4 million, 39% more than in the previous year, stands out. The total penetration of these intelligent devices has increased by eight percentage points in the last year, accounting for 35% of total accesses. This data reflects the success of the Telefónica strategy, focused on the growth of data services.

Retail broadband accesses reached 17.7 million, a year-on-year organic increase of 1%.
Fibre accesses to December 2014 were 1.8 million (2.1 times those in December 2013).

Pay TV accesses reached 5.1 million and registered an annual organic net income of 1.6 million accesses (over 6 times more than the previous year).

Total customers



SATISFIED CUSTOMERS

To measure our customers' satisfaction, we use the **CSI (Customer Satisfaction Index)**, an indicator that is periodically reported to the Board of Directors.

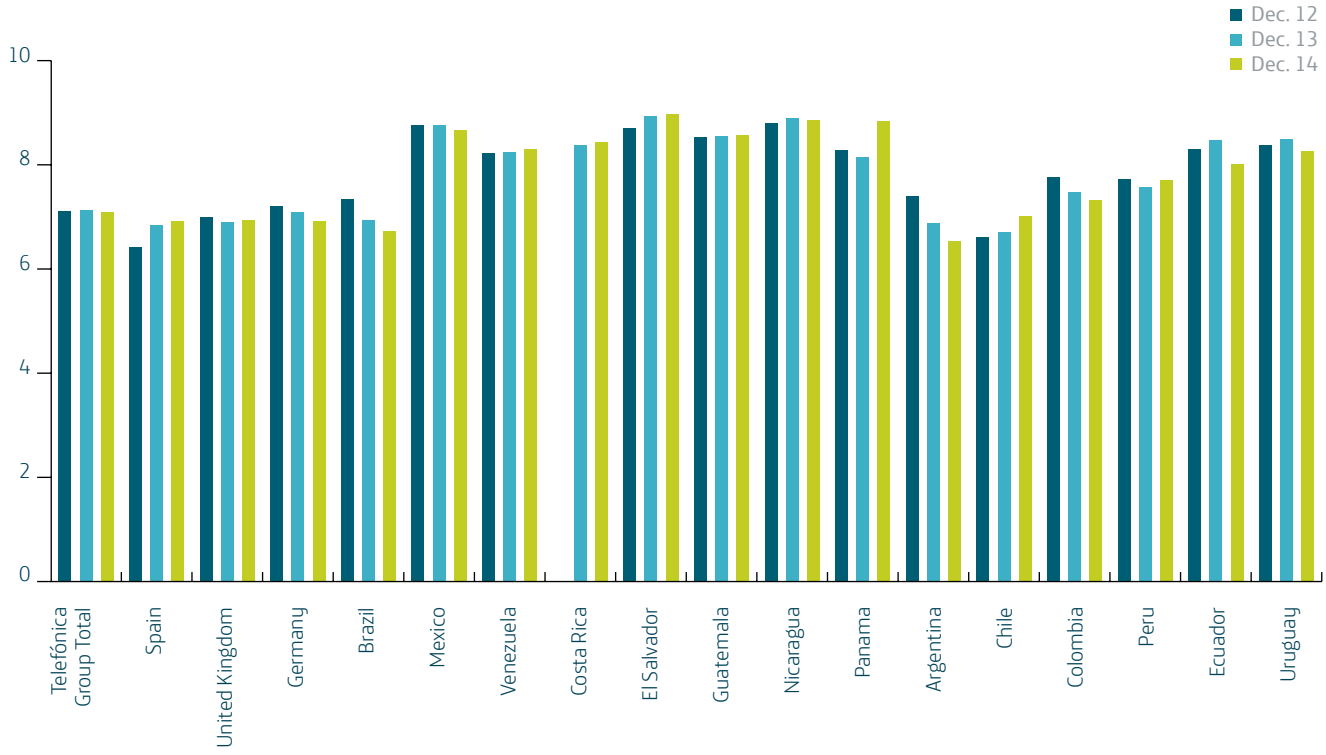
Moreover, the Company has a specific committee of the Board of Directors which is dedicated to Service Quality and Customer Service. This committee meets quarterly to strengthen the Group's focus on customers.

In 2014, the CSI achieved a score of 7.09 out of 10, slightly below the score achieved in 2013 (7.14 out of 10), due to the shift in Germany (-0.19) and Brazil (-0.21), offset by the improved performance of Spain (+0.08) and the United Kingdom (+0.04).

Latin America remained stable due to the good progress of Chile, Peru and Venezuela counterbalancing the performances of Argentina, Ecuador and Uruguay.

Customer satisfaction

From 0 to 10



In Spain, the Association of Internet Users (AI) has placed Movistar as the fixed access market leader with 8.08 points: 1.32 points more than Telecable, ranked second with 6.76 points. Next were Ono (6.67), Euskaltel (6.65), Orange (6.44), Vodafone (6.36), R (6.14) and Jazztel (6.11 points).

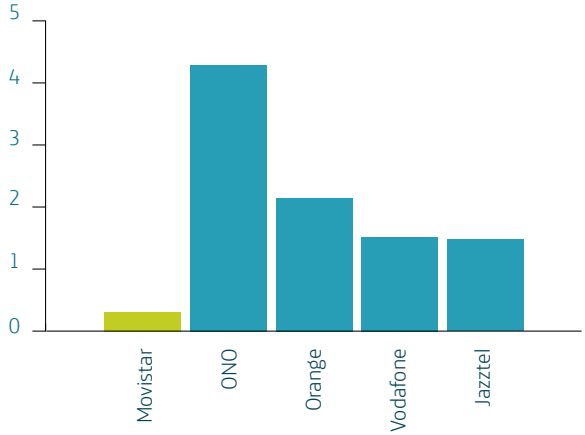
The parameters in which Telefónica España achieves a higher score from AI are those of fixed broadband quality and the convergence offer.

COMPLAINTS

The Telecommunications Customer Care Office (OAUTEL, by its Spanish acronym) recorded a rate of 0.31 complaints per 10,000 customers, far below the rest of the competitors in Spain, according to one study by the Association of Internet Users.

Complaints to operators about the Internet

Per every 10,000 customers



G4-PR5



Outside Spain, the main efforts to improve customer service have been in Brazil.

Thanks to this effort, in 2014, the contact rate was reduced and resolution during the initial contact has increased. This has produced very positive results in reducing the demand for enquiries and complaints in our Headquarters. We are also leaders in the index of solved support in the telecommunications sector in the ranking published by Procon-SP Capital Foundation, with 90.9% resolutions. Furthermore, Vivo has the highest position in relation to the Care Performance Index (IDA) among the four main national players in mobile operations (SMP). The Company has been ahead of the other competitors in 66 of the 67 months of measurement, with data until June 2014, the latest month of the indicator published by the Regulatory Agency (ANATEL).

CHALLENGES FOR 2015

Among the most significant challenges that we must overcome at Telefónica in order to improve our commitment to our customers are:

- The improvement of our digital channels.
- The development of our future stores, with a far more interactive, digital and accessible shopping experience.

COMMITMENT TO OUR CUSTOMERS

Connectivity at our *customers' service*

At Telefónica we know that connectivity is at the centre of consumers' digital experience. This is why we aim to provide the best digital solutions, so that they can get more out of it.

The growing importance of the cloud as a centre of operations and connections between terminals and services has presented a great opportunity for our Company. It enables us to provide omnipresent connectivity, and, at the same time, offer ICT and video service packages. Our objectives in this area are:

⇨ To be a trusted partner for our customers in this new digital era, for both individuals and companies.

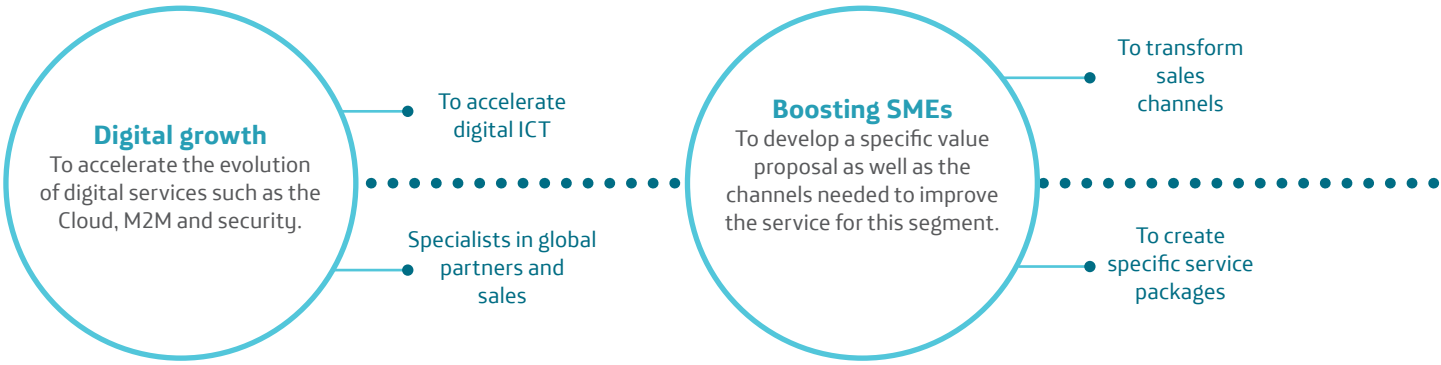
⇨ To generate a sustainable growth in revenue for Telefónica in the short, medium and long term. To this end, we are promoting initiatives in five key areas for Telefónica:

- Residential consumers: connectivity and new digital services.
- Video services.
- Communication services and new digital services for businesses: corporations, SMEs, multinationals and public administrations.
- New Communication and Innovation Services. Our commitment to innovation is aimed at positioning our Company and our customers at the forefront of the next generation of communication and digital services.
- We aim to get to know our customers better so that we can provide them with a service which is increasingly customised and differentiated.

We want to be a trusted partner for our customers in this new digital era, for both individuals and companies

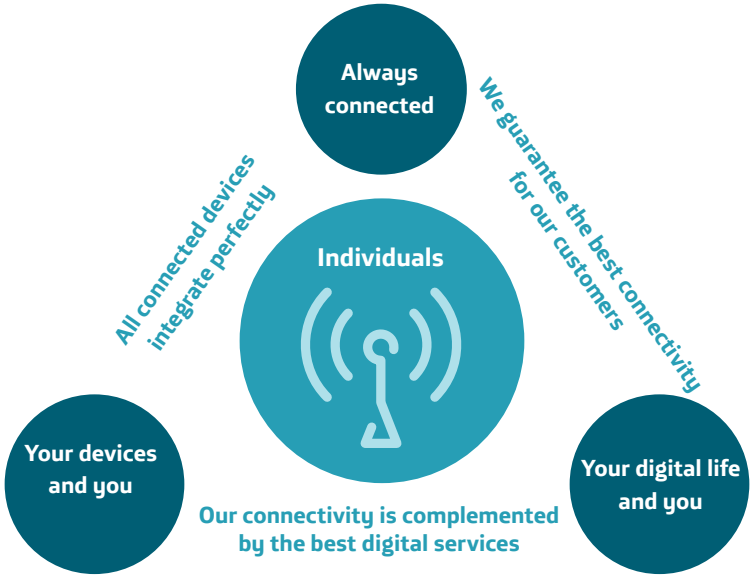


Priorities for the global Company



Residential consumers

Our approach







To strengthen our offer for corporations
To innovate regarding the best services for landlines and mobiles.

- Managed WAN, VPN evolution and indoor coverage
- Your business: always connected with the best solutions

Operating Model
To create a first class operating model in order to serve our business customers better and more efficiently.

- Commissioning of an efficient operating model
- Cutting-edge B2B IT architecture

COMMITMENT TO OUR CUSTOMERS

Large *customers*

We cement our relationships with the companies we work with upon the pillars of competitiveness and transparency. In order to respond to their development needs, Telefónica Business Solutions makes our most innovative technology available to them.



Sustainability in relationships with large customers is an important factor for Telefónica. A successful relationship with the companies that we work with allows us to lay a foundation for long-term progress based on competitiveness and transparency that can ultimately be translated into benefits and revenue.

Therefore, in the Company we have developed **Telefónica Business Solutions** in response to the needs of the large companies that we deal with. Through Telefónica Business Solutions, we promote new opportunities at a local and international level for companies that wish to expand at the same rate as the world extends its borders. Moreover, we make our most innovative technology available to them, such as the fibre network, which is present in over 40 countries and offers direct connectivity between Latin America, USA, Europe and Asia.

Management of relationships with large customers is based on the development of good practices and operational improvements based on international data security standards, the protection of personal information, management of data associated with financial transactions, quality and the preservation of a telecommunications ecosystem that is secure from end-to-end. Accordingly, in the area of network security, we have a team of professionals that ensures Telefónica's commitment to quality, loyalty

Our team of professionals guarantee the Telefónica commitment to quality, loyalty and responsibility

and responsibility, and an internal security team, CSIRT (Computer Security Incidence Response Team), dedicated to guaranteeing the protection of the Telefónica international network and its services, which gives an adequate response to any incident of security, abuse or fraud.

The services offered by Telefónica Business Solutions focus on roaming companies and wholesalers on a global level within the Telefónica Group. This formula helps companies, carriers, ISPs and content providers to keep their business operational anywhere, regardless of their location.

In addition, we have developed a working methodology called **Telefónica PMI**(1), which is a proposal that defines a common service model based on international standards, with which the roles and responsibilities of the people involved in the service are clearly set and are accepted and known throughout the Company. The aim of this project culture is to have a more efficient cost, to improve profit margins, increase sales and significantly shorten service delivery times.

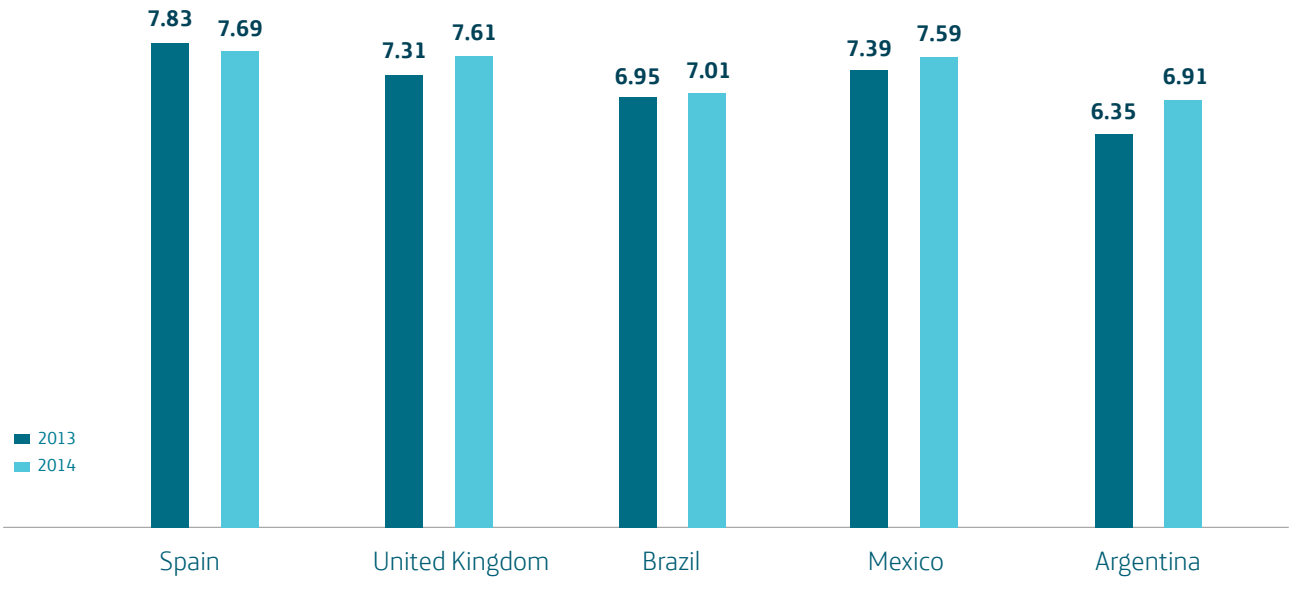
With the PMI(1) we attempt to inspire and support, as well as coordinate, a number of rules and formulae, in order to boost the competitiveness and creativity of those managing the service for a customer, focusing on achieving their satisfaction and ensuring the maximum value of the entire portfolio of projects through an efficient use of resources. Essentially, we try to create a common philosophy across the entire Company regarding the treatment of customers, ensuring that the methodology is a vital element in achieving the success of a project.

(1). Project Management Institute

Telefónica Business Solutions services help to keep the businesses **operative** anywhere

We can measure the result of the customer satisfaction index among large companies in the relevant markets, which are shown in the table below.

Index of customer satisfaction among large companies



ADVANCES IN 2014

In 2014, the Telefónica Business Solutions network received Tier-1 recognition with the end-to-end management of global communications. This international network is interconnected with the main Internet operators and transports over 4.5 Tbps of traffic. It supports the transit of over 20,000 million international voice minutes each year and has more than 300 direct routes with international operators. Furthermore, it has over 200 agreements with local, mobile and integrated operators.

Its Sam-1 cable, which is over 24,000 km long, encircles the South American continent and is owned by Telefónica. It also owns the fast and ultramodern 6000 km-long submarine PCCS (Pacific Caribbean Cable System) cable, which significantly improves connectivity in Latin America.

On top of this, our commitment for 2015 is to transfer the methodology and working mecanisms to all the companies we work with, be they large customers or SMEs.

EVENTS

During the year two events aimed at large customers were organised with the goals of increasing relationships of commitment and bringing our solutions closer to their needs: Telefónica Leadership Conference and Quality Week.

Leadership Conference for large customers

Telefónica Leadership Conference is an annual event aimed at customers. The 2014 conference carried the slogan: "Innovating in a digital world" and was attended by over 650 executives from 20 countries in four continents, representing 300 companies.

Telefónica Leadership Conference



- Multinational corporation customers
- Company and government customers
- Leading industry analysts
- Telefónica executives
- Technology providers / Sponsors





In the 2014 Leadership Conference, the former US president, Bill Clinton thanked Telefónica for the work carried out in Latin America promoting digital inclusion

The aim of this annual gathering is to learn and strengthen relationships of commitment through a working system of plenary sessions, meetings, interactive panels and private networks.

At last year's Leadership Conference, Bill Clinton, president of the United States from 1993 to 2001, was interviewed via high definition satellite. Clinton shared with the audience his personal opinion on education, globalisation and leadership, and thanked Telefónica for their work in Latin America promoting digital inclusion.

Quality Week
In November 2014, we organised the Quality Week at Telefónica. The aim of the event was to convey the importance of quality in the daily work of the Company. For this, we created an ambitious programme of talks given by expert speakers on the topic, as well as various workshops.

Our large customers also played a main role, as another aim of this event was to strengthen our commitment to them. Their testimonials served to help us reflect on our opportunities for improvement and to highlight what our strengths are as one of their main partners.

During that week, we asked ourselves: "What can we do to make our customers' experience unique?", "How can we leave a mark of quality on everything we do?" and, above all, "What do our customers perceive?".



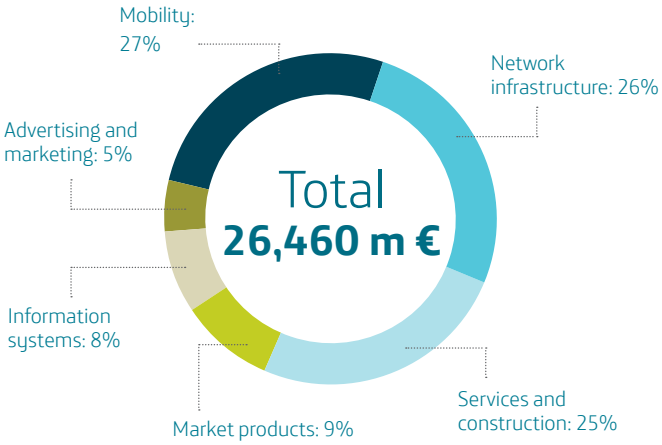
The purpose of the Quality Week was to **strengthen** our commitment to large customers

Management of the *supply chain*

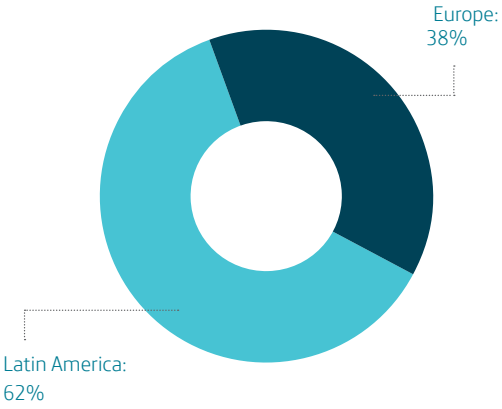
Telefónica is conscious of its responsibility within the supply chain, both due to its international presence, and the impact and volume of its suppliers. For that reason, our commitment to sustainability is present through the entire process in relation to our suppliers.

General information

Allocations by product line



Allocations by region

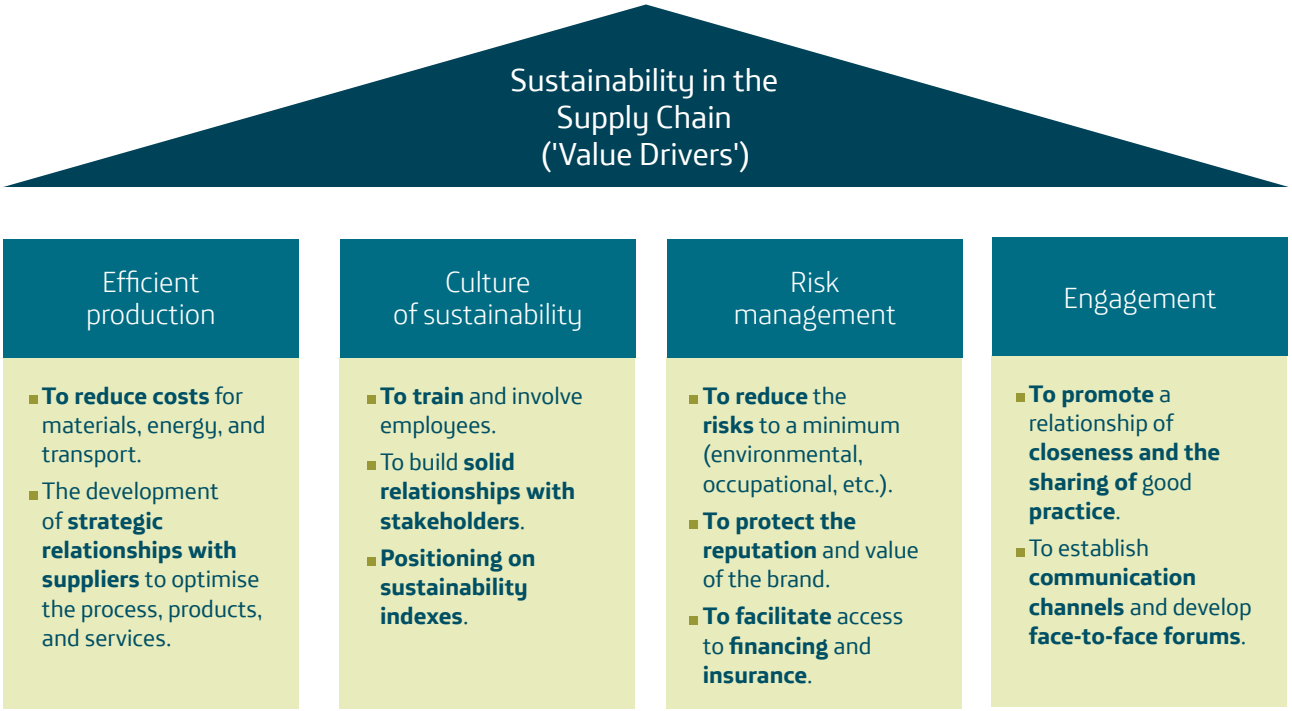


26,460 million euros allocated in 2014 to more than **12,400 suppliers**

Our **Top Ten suppliers** in **2014** were: Apple, Samsung, Ericsson, Huawei, Atento, Nokia Networks, Microsoft Mobile, Sony Ericsson, Inversiones Memory-Tech and Publicis Group

23,000 global purchasing processes managed by **Telefónica Global Services**, for a total of over 16,828 million euros

G4-12



Aspects of particular relevance for our business

The identification and management of risks associated with the supply chain is an inherent responsibility for each company, which at Telefónica we assumed, publicly and actively, in 2010 through our Commitment to sustainability in the supply chain. Since then our efforts have been focused on:

EFFICIENT PRODUCTION

We continually strive to improve our purchasing processes using electronic tools which help us to be more efficient, agile, and transparent.

⇨ Electronic catalogues, in addition to increasing efficiency in the supply chain, ensure that we meet the conditions of negotiation, providing agility and transparency in the management of orders, deliveries and invoicing, and avoiding conflicts which could lead to delays in the supply process.

⇨ In 2014 over 32,000 million euros were negotiated electronically.

⇨ Orders, assignment letters and contracts for a value of close to 22,000 million euros were issued electronically.

⇨ 794,559 invoices were issued electronically; some 33% more than in 2013.

⇨ Advances were made in the interconnection of systems of Group companies with those of our suppliers, surpassing 13,783 orders.

⇨ More than 8,800 suppliers were trained in the management of electronic negotiations, orders and invoices, compared with over 2,000 suppliers trained in the previous year.

CULTURE OF SUSTAINABILITY

We are demonstrating our commitment to a sustainable business model through various aspects:

a) We are committed to being an engine for development in countries where Telefónica is present.

- 85% of the volume of purchases is allocated to local suppliers.

b) We make an effort to understand the perceptions and priorities of our suppliers.

We have carried out a survey of our main suppliers in order to understand their levels of satisfaction and identify those aspects which are valued positively, and those which show room for improvement.

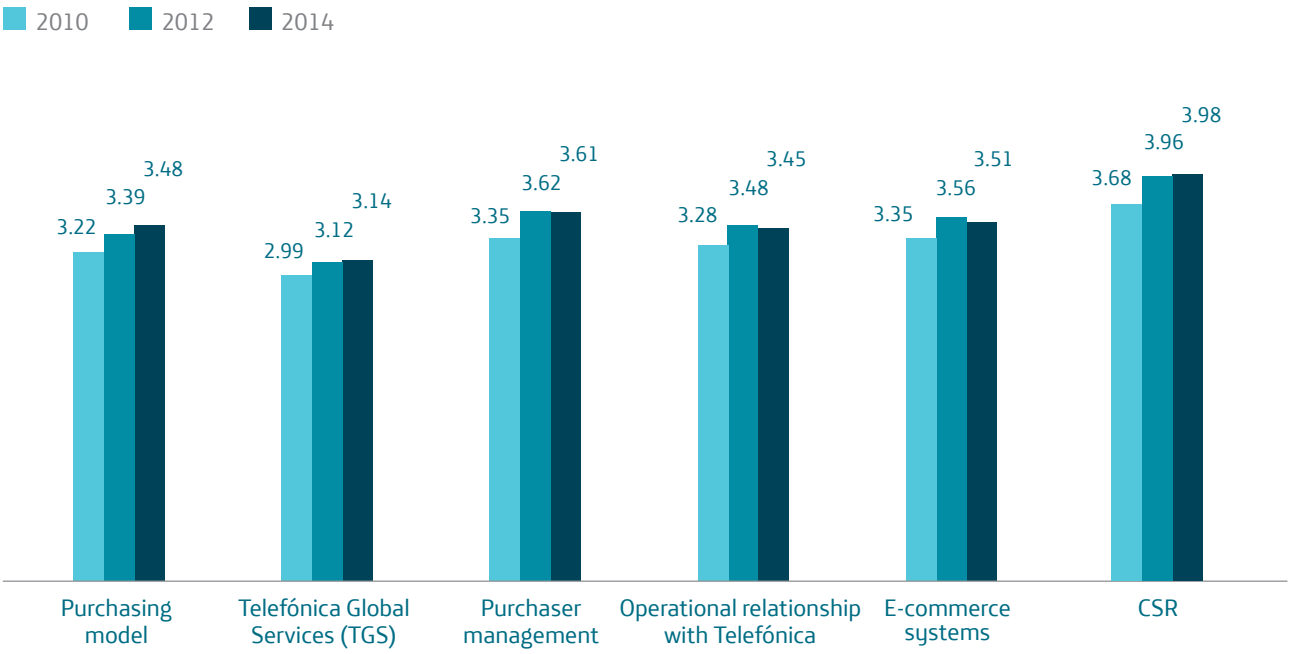
G4-12, G4-DMA Procurement Practices

In order to prepare this process, before launching the survey, two focus groups were set up with key suppliers, with the aim of understanding what their priorities were in their relationship with Telefónica. These meetings allowed us to obtain feedback in order to improve the survey and thus facilitate the development of possible action plans for those aspects showing room for improvement.

- We launched a survey aimed at over 4,000 suppliers, and obtained a participation level of around 30%.
- The ratings (on a scale of 0 to 5) barely showed a change with respect to the previous survey carried out in 2012, with the corporate responsibility aspect once more being the most highly rated.

85%
of the volume of purchases is allocated to local suppliers

Results of the supplier satisfaction survey



Within the positively rated aspects are: the principles of the Telefónica purchasing model; the policy of responsibility in the supply chain; the honest and transparent behaviour of the purchasers; the electronic formalisation of commitments and electronic invoicing; and support for users of e-commerce tools.

The suppliers identified the following aspects as having room for improvement: the need for single channels of communication to resolve doubts and better coordination between the technical and purchasing areas.

To promote a culture of sustainability within our value chain is one of the foundations of our way of doing business

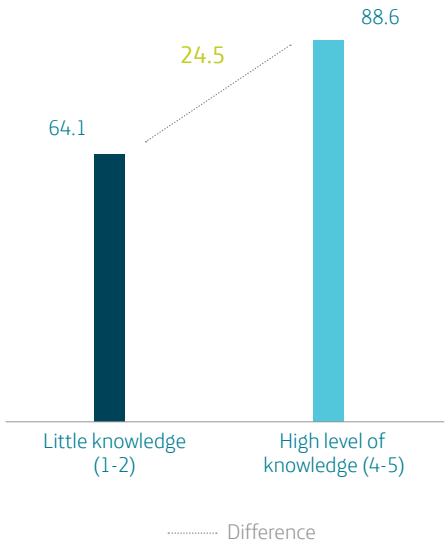
BEST PRACTICE

OUR SUPPLIERS POSITIVELY VALUE OUR COMMITMENT TO SUSTAINABILITY

In addition to measuring the satisfaction of our suppliers, we also measured the reputation of the Company among this group of stakeholders.
In 2014, Telefónica enjoyed a solid reputation among its suppliers, with a rating on the Pulse indicator of 77.4 points (according to the model developed by the Reputation Institute).

Among the aspects analysed it is worth pointing out how the supplier's knowledge of our policy of responsibility in the supply chain is a key aspect in their significantly higher rating of the reputation of the Company. Between those suppliers who knew about it and those who had little knowledge of the policy, there is an overall difference of over 20 points.

Overall reputation among suppliers



c) We are encouraging the commitment of our suppliers to our Business Principles.

To promote the culture of sustainability within our value chain is one of the foundations of our way of doing business. We believe that only by being more and more demanding with regard to compliance by our suppliers with our essential values, such as our Business Principles, will we be able not only to identify and manage possible risks, but also to encourage a culture which promotes the social and environmental commitment of all our partners.

To do this, we require 100% of our suppliers to develop their businesses applying similar ethical standards which ensure compliance with basic human and employment rights, together with respect for the environment.

Therefore, to be a Telefónica Group supplier, the corresponding company must declare and guarantee that they do not employ child labour, that no situations of forced labour exist within their company, nor working conditions which endanger the lives of their workers, and that they comply with environmental legislation which is applicable to their business activities.

In addition, suppliers must assume specific higher commitments in relation to the type of product or service they offer. In contracts with suppliers and in the basic purchasing conditions we include a link to the most recent version of each of our policies, which are available to everyone on the Supplier Portal.

In this way, through the Policy of Responsibility in the Supply Chain we set out the attitudes and standards that we expect from our suppliers in the area of sustainability.

We have various tools to promote and evaluate our suppliers' compliance with the requirements derived from these Principles and Policy:

- Minimum requirements clauses.
- 360º evaluations by independent organisations.
- Monitoring of the levels of compliance through risk audits for suppliers, and development of the corresponding improvement plans.
- Training and awareness programmes on sustainability criteria.

If a supplier does not reach the required level, or is incapable of providing the information required, then an internal process begins with the ultimate aim of getting the supplier to guarantee compliance with our standards.

In extreme cases, when this is not possible, based on the initial agreement signed by both parties, the relationship with the supplier is suspended until it can demonstrate that it has rectified the situation and reached the required levels.

G4-LA14, G4-HR1, G4-HR4, G4-HR6, G4-HR10, G4-SO9, G4-EN32, G4-EN33

BEST PRACTICE

TELEFÓNICA BUSINESS SOLUTIONS PROMOTES COLLABORATION WITH ITS SUPPLIERS

Telefónica Business Solutions, conscious of the important role played by suppliers in the provision of its services, has focused its attention on improving and coordinating its processes and relationships with them. One of the basic areas for improvement is the communication and collaboration between all the agents in our supply chain, in order to provide the customer with a high-quality service which meets his or her expectations and demands.

Collaboration with the supplier has acquired strategic value, as it facilitates an alignment between the commitments taken on by Business Solutions with respect to the customer, and the requirements necessary for the services provided by the suppliers. In this way the requirements demanded by our customers can be passed on to our suppliers, guaranteeing compliance by both parties.

In order to set up this collaboration in an effective way, Business Solutions has initiated a process of compliance monitoring for all its suppliers, in principle, based on three perspectives:

- Safety measures for personal data protection, with the aim of checking whether or not the measures imposed by the contract in relation to the contracted service match those which the supplier has in place in reality. This check also promotes compliance with the audit checks in relation to the Spanish Data Protection and Information Security Law, among others.
- Continuity plans, with the aim of checking whether or not the business continuity plans are aligned with those established by Business Solutions.
- Checks on the certifications of each supplier, with the aim of confirming these certifications, together with their scope and description, in relation to Quality, Information Security, Data Protection, the Environment, Occupational Safety and actions for continuous improvement in each of the fields in which the supplier is certified for the services provided.

The planning, execution and monitoring of these actions make up one of the main lines of action on which Business Solutions has focused its efforts, so that the control of the supply chain facilitates effective decision-making, providing agreements and benefits for all members, not only in economic matters, but in terms of competitive positioning.

BEST PRACTICE

COMMITMENTS UNDERTAKEN BY TELEFÓNICA UK THROUGH ITS THINK BIG BLUEPRINT PROGRAMME

Since 2012, Telefónica UK has been working, within the framework of the **Think Big Blueprint**, on the publicly assumed commitments which affect the purchasing process through specific requirements demanded of its suppliers, which are:

- To have a Sustainability Plan in place, together with sustainability certificates for their products.
- To comply in advance with legislation in reference to the elimination of dangerous substances. During 2014, Telefónica UK worked with its main suppliers on the production and launch of a list of dangerous substances, which will be included as an evaluation requirement from 2015 for the purchase of terminals, tablets, accessories and network infrastructure equipment.
- To increaserenewable energy purchasing levels, in line with market availability, and commit to continuous improvement in matters of energy efficiency.
- To commit to supporting the Telefónica **GoThinkBig** programme, oriented towards improving skills in young people in order to face a rapidly changing society. In that respect, in the latest local survey of our main suppliers in 2014, we saw an increase of 10% in the number of our suppliers that run programmes providing young people with work experience and learning opportunities, going from 40% to 50%.
- To revise its purchasing process so that it allows greater participation for SMEs and social organisations. In 2014 the second Purchaser Forum was held, with the aim of providing new opportunities for SMEs and social organisations to meet our purchasers and their main suppliers, and to learn what we buy, how we buy and how they can become part of our supply chain.

Thus, we can highlight the following results arising from the new Telefónica UK contracts:

- More than 1,147 jobs have been created or maintained.
- More than 138 internship contracts have been signed or maintained.

RISK MANAGEMENT

Telefónica is working on the prevention and reduction of possible negative impacts generated by its business. In 2014 we continued with the implementation of our risk control and monitoring methods for our suppliers' activities - for their business activity and/or for the volume of allocation -.

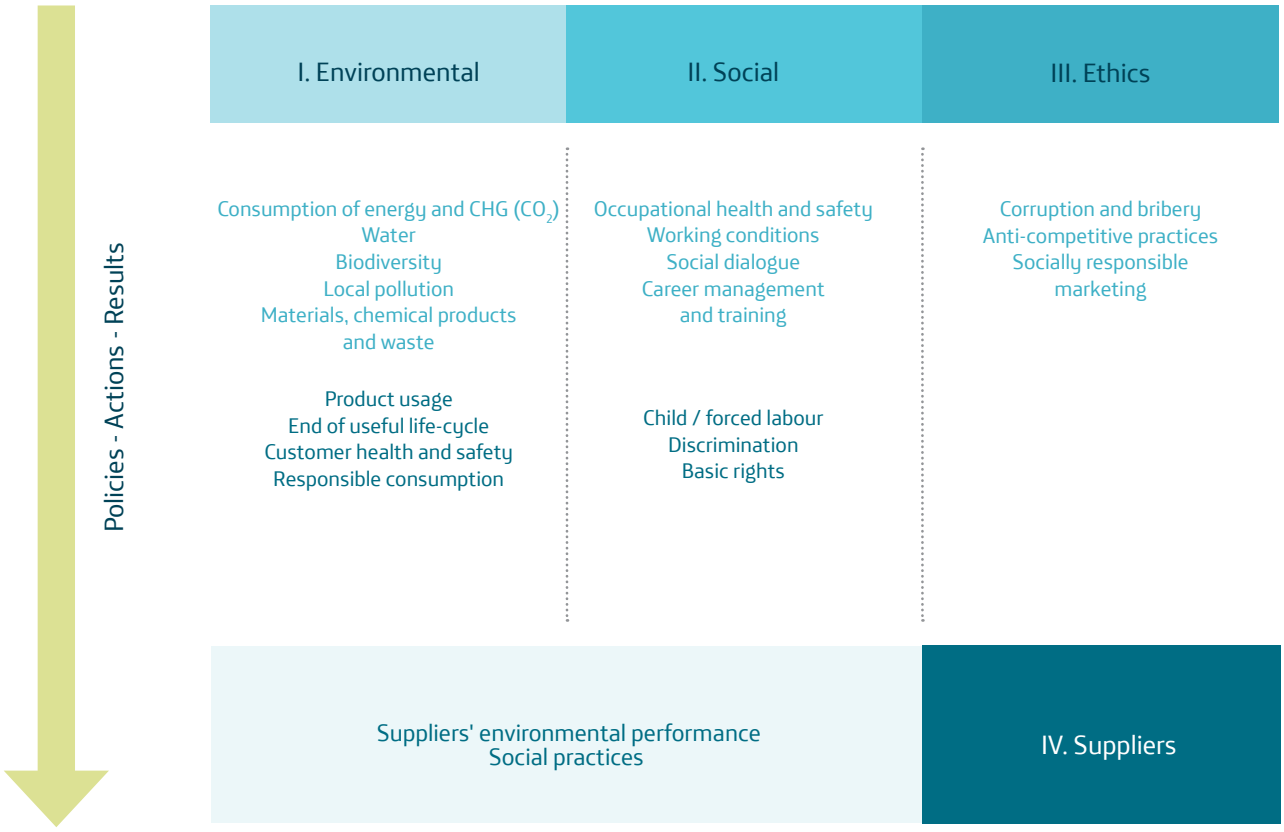
⇨ We have evaluated 120 key suppliers through the external, independent evaluation organisation EcoVadis, based on 21 sustainability criteria.

- Little more than 30% showed any weakness (medium risk) in their management of corporate responsibility, and above all in the sustainable management of their own supply chains, thus identifying possible areas of improvement for the supplier.
- Among key suppliers, 21 of them have active corrective action plans, which amount to 257 corrective actions in total.

It is worth pointing out other relevant indicators which reflect how our supply chain has integrated more and more sustainability aspects within its management.

- 41% have OHSAS 18001 or equivalent certification, thus demonstrating the capacity of the organisation to meet the requirements of legislation regarding safety and health.
- 73% of our suppliers have complaints procedures in place.
- 66% of the suppliers evaluated have the ISO 14001 certification in environmental management.
- 73% report on the use of energy or GHG emissions.

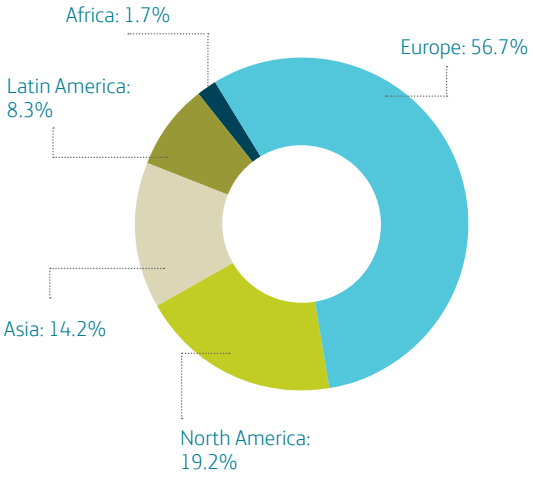
Sustainability criteria analysed during supplier evaluations



G4-DMA Supplier Assessment for Labour Practices

66%
of suppliers have the ISO 14001 certificate in environmental management

Suppliers evaluated by region (Holdings)



⇨ We have implemented an Annual Audit Plan, defined in accordance with the risks of each region/country and the type of supplier.

Spain
To guarantee greater control over activities with an environmental risk, at Telefónica we carried out in 2014 the first 'end-to-end' audit of the main supplier of the 'renew and recycle' service for mobile phones in Spain.

The service's systems of operation were checked from drop-off in the shop to the the recovery and servicing plant, as well as the systems for the parts sent to the recycling plant, with on-site audits by an independent third party of all the facilities to verify compliance with the applicable regulations and the Telefónica Group Business Principles. The audits were carried out without detecting any non-conformity, and they highlighted as one of the strong points the monitoring and traceability of mobile phones by the supplier.

Latin America
The efforts in Latin America focused once again on the management of risks associated with partner and third party companies via the 'Aliados' programme, through which:

- We carried out over 15,700 administrative audits and over 1300 *in situ* audits of risk suppliers dealing with, in both cases, matters critical at a local level. The results obtained in the latter led to the proposal for improvement plans for over 520 suppliers.
- We carried out 70 corporate audits applying homogeneous sustainability criteria at a regional level, based on a four pillar model: Business Principles, HR, (with special emphasis on compliance with employment obligations), Health and Safety, and the Environment. On this occasion the audits were of global suppliers, which has allowed us to obtain a transverse vision of their management in the region, while at the same time analysing the risks in each country.

  During this year's audits variations of little significance have been detected in the degree of compliance in the various disciplines, with those variations being somewhat greater in the Environment, Health and Safety, and Business Principles (the graph on the following page shows the evolution in the levels of compliance recorded in recent years).

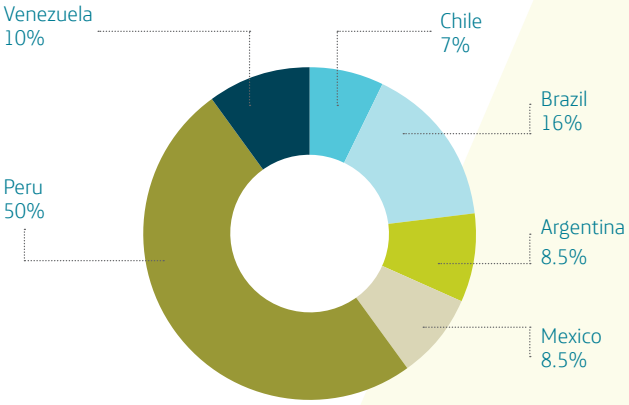
  Despite these slight variations, in general we can highlight the fact that, in the last two years, the compliance levels for suppliers have become consolidated in the high performance area. In particular, the 85% compliance recorded within HR stands out, reflecting the effort made by our partners to guarantee compliance with employment regulations.

  In the case of detected non-compliances, improvement plans have been implemented for each supplier in order to remedy the situation, with the implementation of 70 plans in 2014.

  The distribution of risk is similar to that of 2013. Some of the more common risks have been detected in:

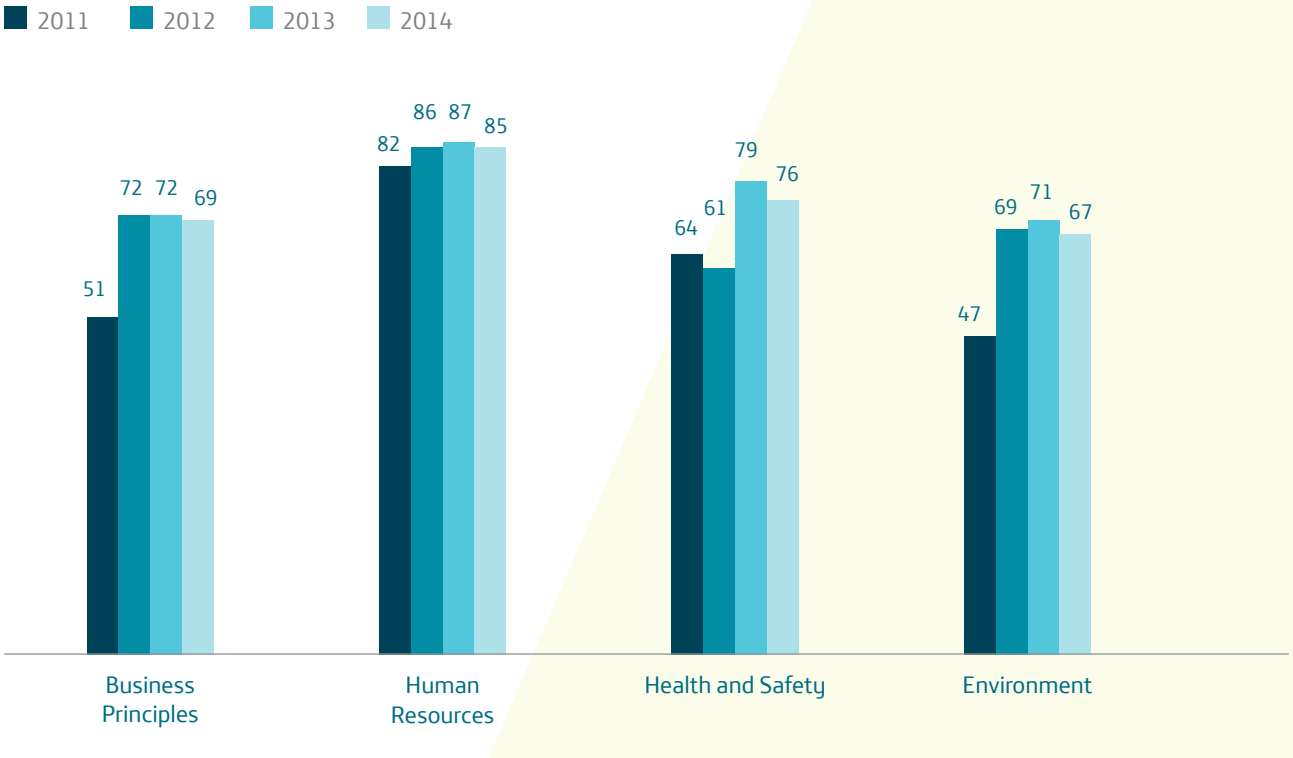
- The areas of Industrial Health and Safety, Occupational Health, Preventive Medicine at Work and Emergency Brigade (Health and Safety).
- The process of Attachment and Administration of Personnel and the Induction Process (HR).
- The areas of Recyclable and Non-recyclable Waste Handling, Energy and Water Management (Environment).

Distribution of audits by country



Our suppliers reach **85%** compliance in employment matters

Percentage of compliance in corporate audits in Latin America



We promote a close, direct relationship with our suppliers, organising face-to-face meetings in which we share best practices

'ENGAGEMENT'. CONTINUOUS COMMUNICATION

We promote continuous communication with our suppliers, with the aim of maintaining a close relationship with them.

⇨ We produce bulletins, online platforms such as the Supplier Portal or the Partner Portal and satisfaction surveys, with the aim of creating a sustainable relationship with this group of stakeholders.

⇨ We organise face-to-face meetings with suppliers, where we share good practices and create a culture of sustainability which, progressively, has an impact on the various links in the value chain.

Workshop with partners in critical activities, held in Colombia

The workshop took place on 7 and 8 April 2014 in Colombia, and allowed us to share concepts and practices of health and safety at work with our partners who perform critical activities (Ericsson, Huawei, ZTE, Cobra, Icotec, FSCR, Opegin, Emcomunitel, Incopsa, Emsertelbuen, Servicios y Comunicaciones, Hombresolo and Centro Aseo), which allowed the identification of opportunities for improvement. Based on this we were able to draw up action plans and set up adequate standards for the development of tasks under the best safety conditions.

Second Sustainability Forum for suppliers in the United Kingdom

In November 2014 the second Sustainability Forum for Telefónica suppliers took place in the United Kingdom. During the event we shared what we had learned in the area of sustainability with our suppliers, and we launched new initiatives. As a result, a new requirement for our suppliers was proposed, through which they promised that a percentage of their annual staff recruitment would be interns and/or apprentices, thus attempting to contribute towards boosting youth employment in the country.

In order to further encourage our partners, we presented the 1st edition of the Sustainability Awards for Telefónica UK suppliers, recognising the best supplier in terms of support for our sustainability requirements. This year the CEO of Telefónica UK, Ronan Dunne, gave the award to ISS, our installations management partner, for its commitment to multiple areas of sustainability.

ALIADOS PROGRAMME

After six years operating in Latin America, the Aliados Programme has become a benchmark initiative in the management of partner companies and third parties in the region. With the ultimate aim of making these stakeholders strategic partners, Telefónica is working every year to strengthen its model to promote sustainable management with them.

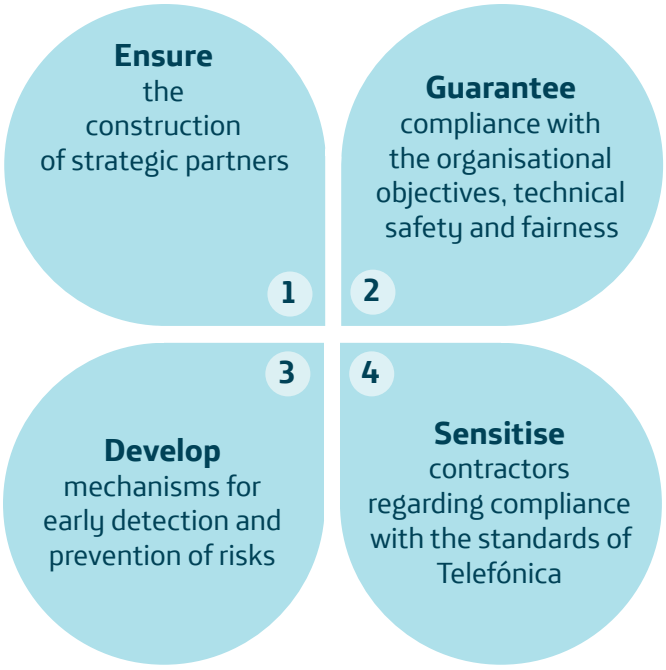
In this way, at Telefónica we are working to boost a sustainable culture among our partners, promoting compliance with minimum standards in line with our Business Principles, enabling us to reduce possible risks on the value chain.

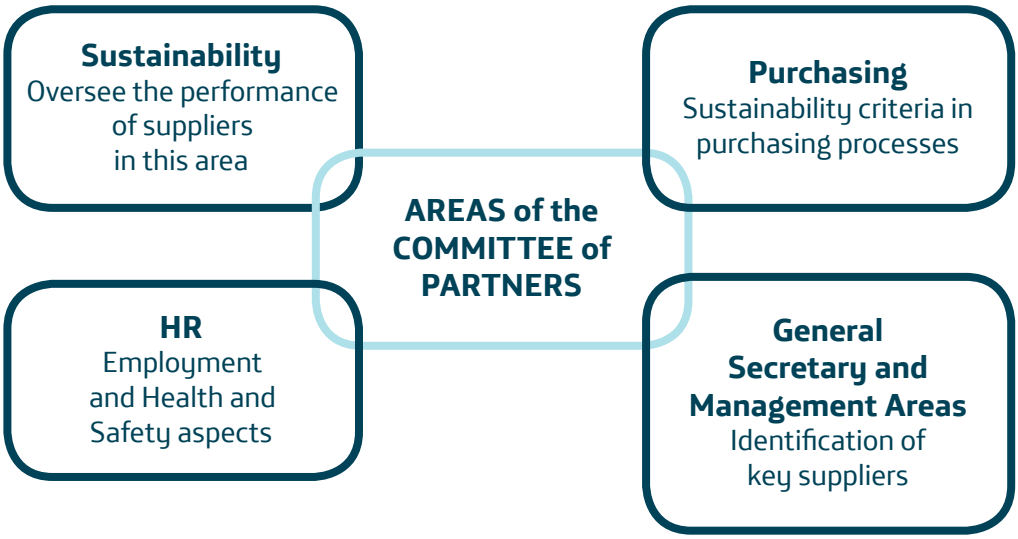
Management model and courses of action

In each of the main countries in the region, the Company has a Committee of Partners, which is the body responsible for the implementation and development of the model on a local level.

To do so, they take as a basis the global tools which facilitate a homogeneity of operation (policy of minimums, risk detection and management model, and audits), while at the same time focusing each year on courses of action, both internal and external, determined by the needs identified in each one of the countries.

Objectives of the Aliados Programme





Last year we continued to work on the implementation of the Distribution Model on a regional level, the objectives of which are focused mainly on:

1. Having contracts which govern all aspects of the relationship, with achievable objectives, which allow for the minimisation of risk.

2. Constructing shared management criteria, which guarantee sustainable, predictable relationships.

3. Generating alignment with Telefónica's policies in matters of the environment, integrated employment safety, and Business Principles.

4. Having clear agreements which allow for the optimum dimensioning of the service, and facilitate the monitoring of activities.

This model, which began as good practice in Ecuador, is being gradually deployed in the main countries of the region, and thus moving towards a sustainable, secure model. The effort made in 2014 allowed most of the main aspects of the initiative highlighted for the last period to be covered.

Furthermore, within the framework of the programme various lines of work specific to each country have been developed, at all times respecting the local framework. In general they have all focused on ensuring compliance with the objectives indicated in audits, communication and training initiatives, together with the identification of synergies between the various partners to share good management practice in order to boost those areas identified as opportunities for improvement.

Predictive risk model (Argentina)

At Telefónica, with our integrated vision of management for partners in the country, we worked in 2014 on the development and improvement of a predictive model for third party risk covering all the companies in the Group. In this we have worked on the development of checks which allow the integration of emerging agents in the operating areas covering the technical, commercial and systems areas, Fundación Telefónica, and support activities (logistics, maintenance, and cleaning). This has helped us to identify the main control activities for each one, improving the detection process for risk situations, including those associated with the social setting, where the contract leaders report in a proactive way on risk situations, allowing the development of special plans which could lead to withdrawal, in cases where it is necessary.

Direction SMEs ("Rumbo Pymes") Programme (Colombia)

The programme, designed by Transparency for Colombia ("Transparencia por Colombia"), is a self-managed tool for managers, and helps small and medium-sized enterprises bring ethics to their actions as a management model, and create value and trust in their business relationships.

In 2014 the third group of partners was formed, made up of four companies. Their employees are trained and certified in the construction and implementation of the ethics programme. In this way, together with the two previous groups of partners, 18 companies have been trained and certified in this area during the last three years.

Communication with our partners (Ecuador)

Once again communication has been promoted as a strategic axis to boost the commitment of our partners to pursuing the proposed objectives, thanks to the establishment of closer links with them. In addition to the suppliers website section launched in 2013, the Company has specialist bulletins, such as:

a) 'This week at Movistar...', publishing the most important information in the areas of commerce and operational management, so that our Authorised Distributors are kept informed regarding the most important business matters.

b) 'Movistar reports...' has become the instrument for informing the segmented public of our partners about urgent matters which could arise during the week.

In addition, the Company has the eWay portal, which has been set up as the main consultation tool for the call centre executives regarding commercial and operational information for products and services provided by Movistar, thus enabling them to count on direct support regarding the response the customer should be given at all times.

Profiling Project (Mexico)

Within the initiatives developed, the Profiling Project, launched in Mexico, stands out. Its objective is to develop and implement a management guide or human resources manual for the specialist channel (distributors) which allows for the standardisation of the processes of recruitment, selection, training and retention of sales executives, to ensure the quality of talent, minimise turnover and support an increase in sales. In 2014 the first phase was implemented, which consisted of a benchmark for human resource practices in relation to other similar companies, in order to provide a market reference. They also helped to obtain grants and benefits for various suppliers to offer as added value to their workforce.

Follow-up model for discrepancies (Peru)

In its second year of life, this has become a follow-up tool for the regional audits carried out in the country. With it, the auditors have been able to follow up the action plans required of suppliers with respect to the discrepancies identified in the audits carried out in the previous period. Its online character allows for an improvement in efficiency in the processes of validation of the evidence that the supplier presents at the request of the auditor, in order to eliminate the discrepancies.

Policy of Industrial Safety and Occupational Health (Venezuela)

In 2014 the Industrial Safety and Occupational Health Policy was created for contracted service and construction providers, with the aim of reporting on the minimum requirements demanded in matters of occupational Health and Safety for this type of company, in accordance with that provided in the Organic Law on Prevention, Conditions and Working Environment, and the Occupational Health and Safety at Work Programme.

AWARDS AND RECOGNITION

Telefónica Colombia has been recognised for its management of the supply chain:

- The management system for partners has been one of the matters evaluated through the Measurement of Business Transparency, which rates the opening, clear rules, dialogue, and control. In these measurements, carried out by Transparency for Colombia, Telefónica-Movistar Colombia obtained a rating of 92/100 in 2014, indicating a low risk.
- In addition, the model has been selected, together with 14 other cases, for publication in the 'Responsible Administration of the Supply Chain - Contribution from Latin America and the Caribbean to Responsible Supply', carried out by the Regional Centre for Latin America and the Caribbean in support of the United Nations Global Compact and the Business Administration Faculty of the Externado University. The said publication has taken into account the following selection criteria when evaluating the project:
  - Results in risk reduction.
  - Relevance in the handling of the supply chain.
  - Methodological rigour and objectivity.
  - Collaboration with other institutions.
  - Innovation in the approach.

Main indicators for the Aliados programme in 2014

More than **80%** of our third parties have direct contact with the customer

More than **1,300** *in situ* audits, generating the proposal for action plans for improvement for more than 520 suppliers

More than **15,700** administrative audits performed

More than **7,300** courses given to our partners in the region

These figures reflect the importance of the programme for the Company, and the efforts made to continue to provide an excellent, consistent service to our customers

WE REMAIN FOCUSED ON THE ERADICATION OF CHILD LABOUR

The Convention on the Rights of the Child guarantees all children and teenagers the right to be protected against labour exploitation. Despite this, the existence of 168 million boys and girls aged between 5 and 17 working in the world, according to the International Labour Organisation (ILO), demonstrates that it is not being adhered to. In this sense the prevention and eradication of child labour is an international objective, present in the development agendas set out by the various countries.

Furthermore, in various countries such as Colombia or Ecuador we have actively participated in some of the main initiatives launched in this area of action:

Colombian Network against Child Labour

Last December saw the official launch of the 'Colombian Network against Child Labour' public-private initiative led by the Ministry of Employment, and supported by the ILO, Global Compact Colombia, and various strategic partners, among them, Telefónica. Its objective is to decentralise the national strategy for preventing and eradicating the worst forms of child labour, and to protect the young worker.

In total, 14 companies formally committed themselves through the signing of an agreement that makes us members of the Network. The aim is to promote internally in our organisations and in our value chains and areas of influence the inclusion of strategies, programmes or projects for the prevention and eradication of child labour as part of our policy of Corporate Social Responsibility.

In this way we can achieve the idea of articulating the efforts of the companies which are members of the Global Comact and participants in the tabling of Principle 5 (Declaration of Rio), with the policy of the Ministry of Employment in Colombia, and the backing of the International Labour Organisation.

For this, the Ministry set the trend by proposing the Ecuador model as a reference in order to guarantee the commitment of companies to manage this risk in the value chain, together with accountability from the business sphere, not the philanthropic.

Meanwhile, the companies jointly put forward the six commitments we are prepared to take on, and the indicators which we will use to measure the progress. The six commitments are:

1. Actively participate in the Network.

2. Identify and manage the risks and impact of child labour, and promote respect for the rights of boys, girls and



teenagers, both inside the company and in the supply chain.

3. Comply with national legal regulations and international conventions to prevent and eradicate all forms of child labour, and promote respect for the rights of boys, girls and teenagers, both inside the company, in the supply chain, and in areas of influence.

4. Periodically sensitise and train direct and indirect collaborators regarding the commitment to prevent and eradicate all types of child labour, both inside the company and in the supply chain.

5. Promote a culture of zero tolerance for child labour in its areas of influence.

6. Report on the implementation of these commitments and action plans to stakeholders.

With the creation of this Network, Telefónica achieved its commitment of taking as far as possible the Tabling of

At the end of 2014, more than 105 companies in 11 countries in Latin America were using the 'Aquí Estoy y Actúo' tool to prevent child labour

Principle 5 and the tools developed by Fundación Telefónica within the framework of the same.

In this way, we managed to include the tool 'Aquí Estoy y Actúo' ("I'm here and I'm doing something") as one of the tools suggested to carry out the commitment of identifying risks in the supply chain.

'Aquí Estoy y Actúo' is an initiative which helps companies to eradicate child labour from its value chain, both within its own operations and within those of its suppliers.

During 2014 development has continued on the four lines of support for companies:

1. Make workers aware of the responsibilities of entrepreneurs and professionals regarding the eradication of child labour, and particularly the course of action to take if they become aware of one of these cases.

2. Create internal teams within companies which are responsible for the execution of a voluntary plan of continuous improvement in this area.

3. Provide tools and guides to obtain the prevention of child labour throughout the entire operation (including suppliers and supply chains).

4. Evaluate companies using a model which allows classification of their activities and promotes their advancement through their commitment to adequate improvement.

At the end of 2014 the tool 'Aquí Estoy y Actúo' was being used by more than 105 companies in 11 countries of Latin America, which means it has reached over 206,000 employees. Of these companies, 57 have completed a self-diagnosis and have committed to developing a plan of action with tasks and deadlines.

The initiative will continue to be promoted in 2015, for which purpose work is being done on the platform, and companies will continue to be sensitised and mobilised.

Network of Companies for an Ecuador Free of Child Labour

Telefónica Ecuador, as an active member of the Network of Companies for an Ecuador Free of Child Labour since 2012, will continue to promote these policies in our supply chain, and share experiences which promote a corporate culture. Its aim is to boost, through public-private partnerships, actions and strategies oriented towards the elimination, prevention and avoidance of child labour in the productive chains.

The Network of Companies for an Ecuador Free of Child Labour has presented its management report, following various years of activity in the country. This network came about as an initiative by the Ministry of Labour Relations and brings together, currently, 28 of the largest companies in the country , which influence over 5,000 suppliers on a national level, in order to guarantee the elimination of all types of child labour contracts in the supply chain.

2014 MILESTONES

- Establishment of the EcoVadis evaluation process in 120 Telefónica critical suppliers, thus covering 80% of the objective set for this year.
- Implementation of a control system and transparency for our critical suppliers, among which we can include the suppliers of terminals, regarding minerals originating from zones of conflict.
- Consolidation of the Aliados Programme for global suppliers, promoting audits of them, and thus obtaining a transverse view of their management in the region, while analysing risks by country.

2015 CHALLENGES

- Promote the establishment of the EcoVadis evaluation process, reaching the Top 200 Telefónica suppliers.
- Seek areas of collaboration with our suppliers to increase our sphere of influence.



MINERALS IN CONFLICT

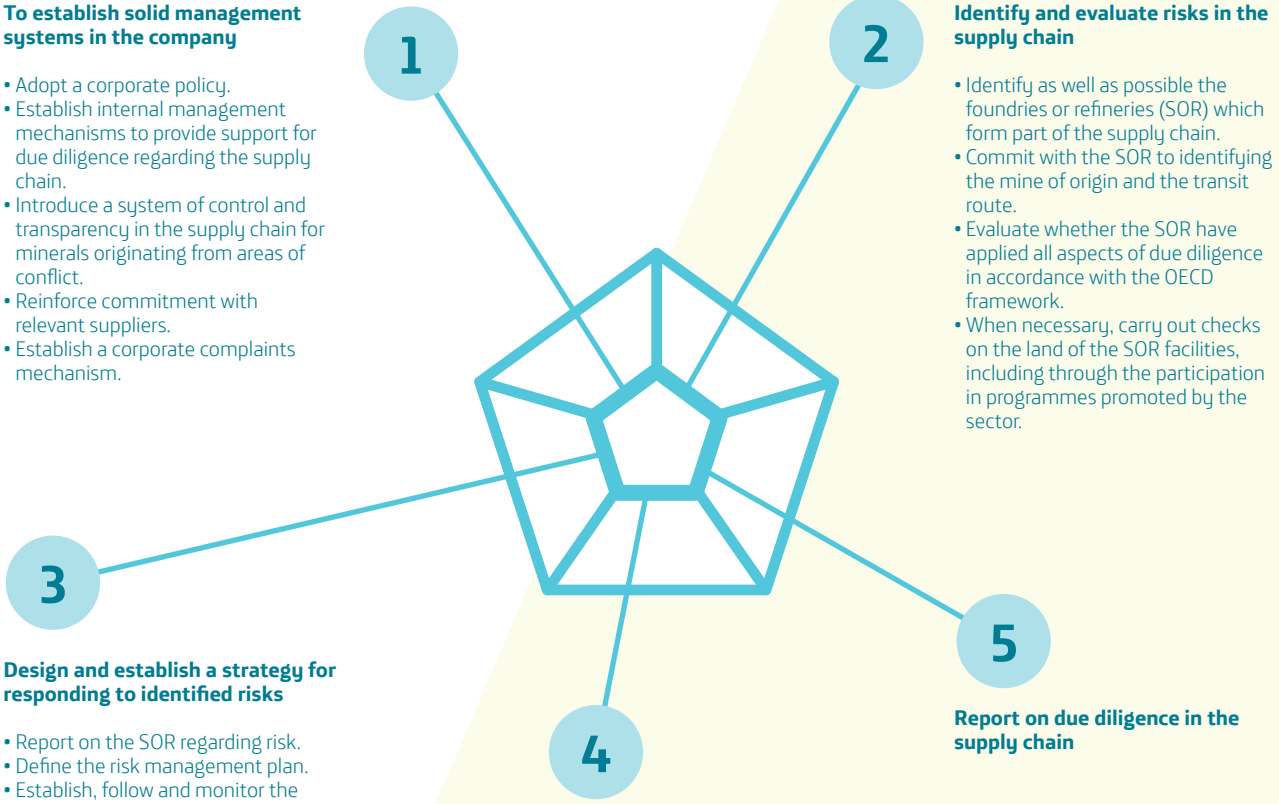
In the Telefónica Group, despite not having direct commercial relationships with foundries or refineries (SOR), we are actively working to include sustainability criteria in the entire value chain.

In this matter, the OECD established a series of directives in its report 'Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas'. Telefónica is governed by a series of measures which follow this report.

Commitment to the OECD guidelines

We have adopted a business policy that we are taking to our suppliers. Thus, we are committed to meeting the specific requirements based on the five-stage framework in the OECD Guidelines:

Telefónica requests its suppliers to comply with the OECD directives regarding minerals originating from areas of conflict



1 To establish solid management systems in the company

- Adopt a corporate policy.
- Establish internal management mechanisms to provide support for due diligence regarding the supply chain.
- Introduce a system of control and transparency in the supply chain for minerals originating from areas of conflict.
- Reinforce commitment with relevant suppliers.
- Establish a corporate complaints mechanism.

2 Identify and evaluate risks in the supply chain

- Identify as well as possible the foundries or refineries (SOR) which form part of the supply chain.
- Commit with the SOR to identifying the mine of origin and the transit route.
- Evaluate whether the SOR have applied all aspects of due diligence in accordance with the OECD framework.
- When necessary, carry out checks on the land of the SOR facilities, including through the participation in programmes promoted by the sector.

3 Design and establish a strategy for responding to identified risks

- Report on the SOR regarding risk.
- Define the risk management plan.
- Establish, follow and monitor the results of the risk mitigation efforts.
- Evaluate additional risk factors or situations, whether because they require mitigation or due to a change in circumstances.

4 Carry out independent external audits on identified points in the supply chain, in accordance with due diligence.

- Define the scope.
- Regular implementation.
- Introduction of corrective measures.

5 Report on due diligence in the supply chain

3TG mineral traceability
We have structured an internal management mechanism to promote the implementation of all those commitments in our supply chain.

We encourage our suppliers to carry out effective processes of due diligence to guarantee, whenever necessary and possible, the traceability of 3TG minerals (those from zones of conflict), together with the mitigation of the associated risks, such as the violation of Human Rights.

Our general conditions for the supply of goods to Telefónica (applicable to the entire Group) expressly recognise the following requirement with respect to the presentation of offers:

"The express guarantee that, to the best of its knowledge and understanding, after having carried out the timely and careful analysis, the products offered do not contain any of those denominated 'Conflict Minerals'. 'Conflict Minerals' will be taken as those which meet the following two conditions:

1. That the minerals are any of the following:

a) Cassiterite, a mineral from which tin is extracted.

b) Columbite-tantalite, known as coltan, from which tantalum is extracted.

c) Gold.

d) Wolframite, from which tungsten is extracted.

2. That these minerals have been extracted from the Democratic Republic of Congo, Angola, Burundi, the Central African Republic, the Republic of the Congo, South Sudan, Tanzania, Uganda, Zambia or other countries which in the future may be considered conflict zones.

The supplier shall have a clear policy regarding conflict minerals which promotes the adoption and use of the OECD directives for multinational companies and the United Nations Guiding Principles on Business and Human Rights, for internal use and for its entire supply chain. The supplier shall have a management systeo comply with this policy.

This requirement is obligatory in all cases, and there may not be any agreement to the contrary by the parties regarding specific conditions or in any other related contractual document".

Supplier evaluation
We are implementing a system of control and transparency for the supply chain regarding minerals originating from zones of conflict.

We are analysing and evaluating compliance by our suppliers with 360º external evaluations carried out through the EcoVadis platform. Thus, within the evaluation module of the management of their own supply chains, we are analysing those suppliers of risk regarding specific aspects of this area:

1. Whether they have a policy regarding minerals from zones of conflict.
2. Whether they publicly back any of the international or sector initiatives on this matter.
3. The various actions implemented to identify the presence or mitigate the risks of minerals from zones of conflict within their own supply chains (identification mechanisms, inclusion of clauses, external certification, etc.).
4. What specific measures they implement to commit to their own supply chains in this matter.
5. Whether they publish a report on due diligence for this matter.

This evaluation has allowed us to analyse the compliance of the vast majority of our terminal suppliers. This is, specifically, one of the most relevant product lines due to the allocation volume and most high risk due to the high levels of use of these minerals in the manufacture of components.

Among the suppliers evaluated in this area:

- 67% have a policy regarding conflict minerals.
- 69% implement actions to identify presence or mitigate the risk.
- 29% publish a report on due diligence.



Commitment initiatives
At Telefónica we have reinforced our commitment with the relevant suppliers.

We are promoting meetings with our key suppliers constituting a risk, such as the second Sustainability Forum, held in the United Kingdom. In the meetings, we convey our positioning on key aspects within the area of sustainability, with the matter of minerals being one of the relevant topics.

Furthermore, Telefónica also supports and takes part in the main initiatives, both international and sectoral, aimed at reducing this type of risk:

Public-Private Alliance for the Responsible Trading of Minerals (PPA)
This is an initiative promoted by the United States Sub-secretary of State for Democracy and Global Affairs, of which Telefónica has been a part since its conception, in November 2011. This multisectoral, multistakeholder, initiative promotes and develops activities which respond to the various challenges faced by those supply chains which may deal with minerals originating in regions of conflict (the Democratic Republic of Congo, and the Great Lakes Region of Africa). In this area it provides support for funding and coordination for organisations working in the region to develop supply chains which are verifiable as 'conflict free'; to align the programmes and practices of the custody chain; and to increase responsible supply in the region, promote transparency and strengthen civil society and government capability in the said zone.

We are encouraging our suppliers to carry out effective processes of due diligence in order to guarantee traceability for 3TG minerals

'Global e-Sustainability Initiative' (GeSI)
Telefónica was a founder member, in 2001, of GeSI. The organisation brings together ICT companies and industrial associations committed to the creation and promotion of those technologies and practices which improve social, economic and environmental sustainability.

With respect to the supply chain, its **'Extractives Working Group'** has developed a series of programmes whose objective is to guarantee traceability of the minerals used, from the point of extraction to the end product. The conflict-free smelter programme stands out, developed in conjunction with the Electronic Industry Citizenship Coalition, which offers companies and their suppliers guidelines and tools to identify the origin of their mineral supplies.

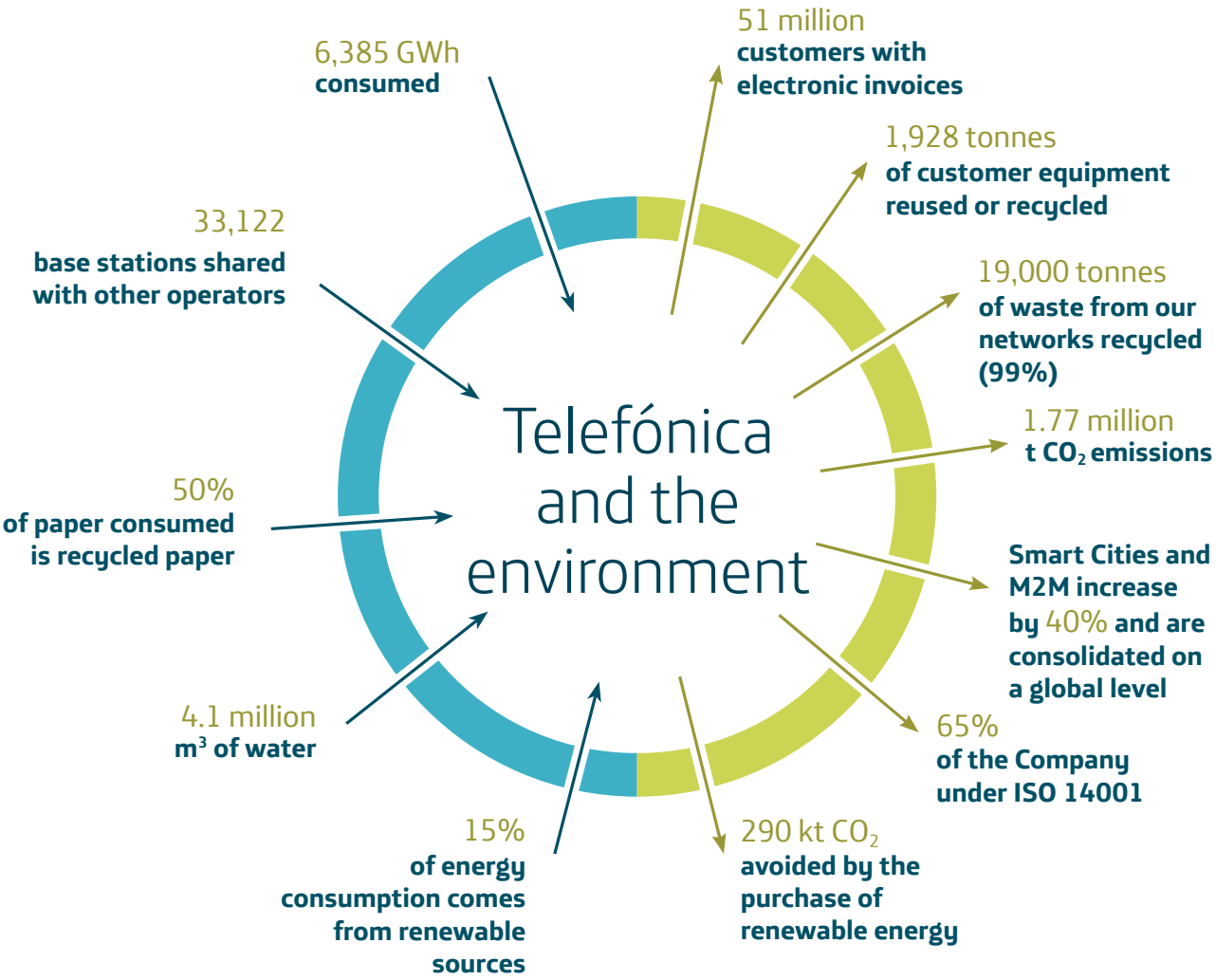
Complaints
We are working internally to establish a unified complaints mechanism for the whole Group.

Information
The Company reports on due diligence regarding the supply chain.

COMMITMENT TO THE ENVIRONMENT

Environmental *strategy*

Telefónica is working on a common strategy throughout the Group which aims to reduce the impact of our activity, while at the same time providing solutions to the environmental challenges of our times using digital technology.



At Telefónica we approach the management of our environmental sustainability on three levels:

Management of potential environmental risks generated by our operations and **compliance** with legislation and internal regulations.

Targets for the **reduction of natural resource consumption and emissions,** as well as environmental management on a Group level, and in the countries where we operate.

Digital environmental innovation and development of **Green Services** that contribute to solving environmental challenges, such as climate change.

G4-EC1, G4-EC2, G4-EN8

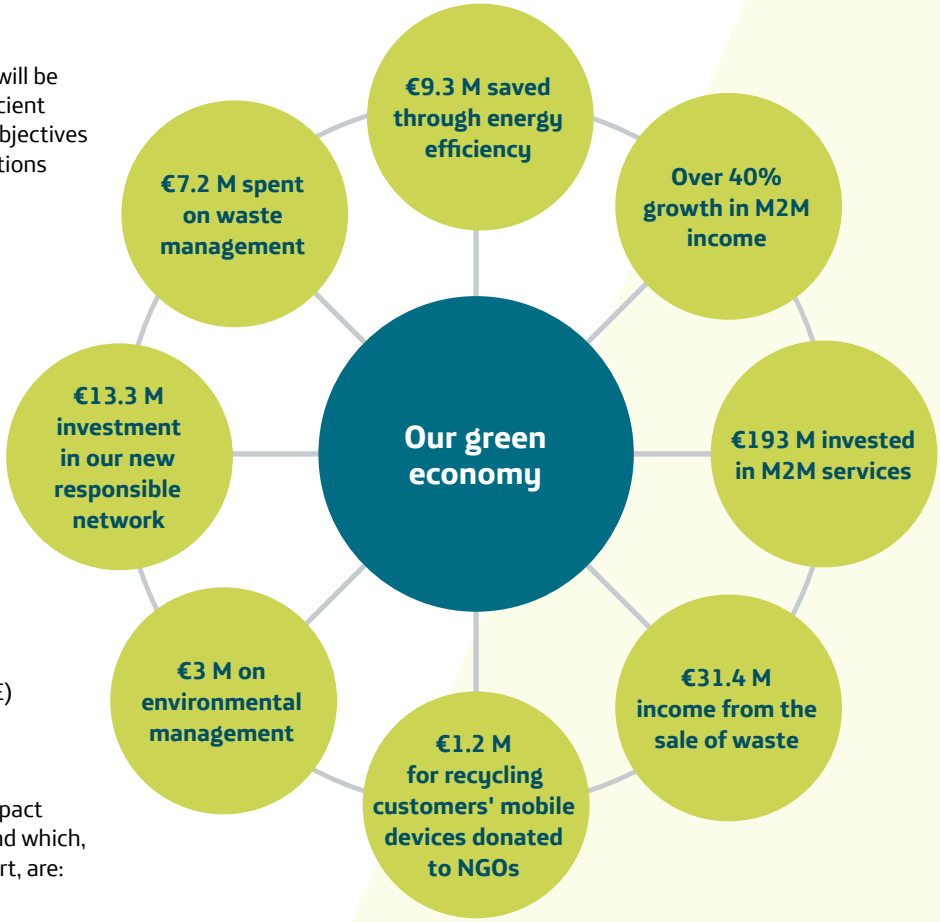
This year, it is worth pointing out the efforts our operations teams have made in the application of energy efficiency projects, which have led to a significant reduction in our consumption and emissions.

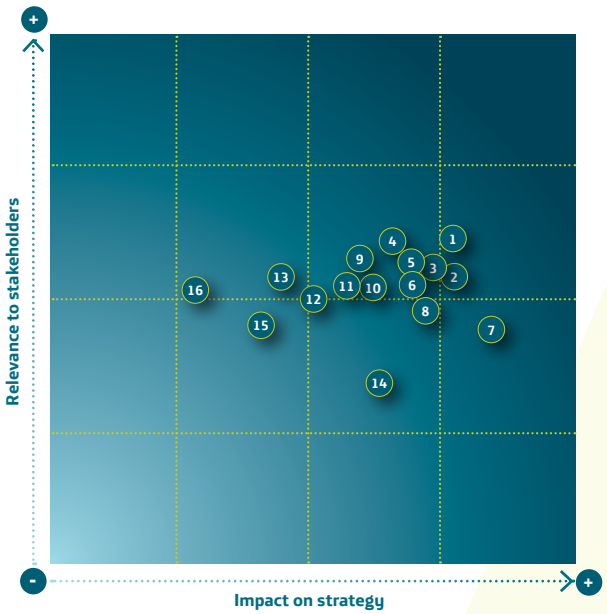
According to our forecasts, this reduction will be accelerated in the coming years with sufficient impetus to meet the emission reduction objectives set for 2015, together with the cost reductions we must achieve by 2017.

With respect to our global environmental management, we have laid the basis for extending best practices throughout all the companies in the Group, and we shall continue to work on this in 2015 and 2016, with the aim of making implementation more widespread.

An example of this policy is the intensive work we have carried out this year with the recycling programmes, which are being implemented in almost every country in which we operate, and which have allowed us to considerably increase the number of tonnes of Waste Electrical and Electronic Equipment (WEEE) that is recycled.

Based on our materiality analysis, the environmental issues which have most impact on our activity and on that of our public and which, therefore, must be highlighted in this report, are:





Environmental Affairs Matrix

1. Energy consumption
2. Green and Smart services
3. Carbon emissions
4. Reuse and recycling of devices
5. WEEE
6. Electromagnetic fields in networks
7. Responsible network roll-out
8. Infrastructure sharing
9. Environmental management systems
10. Environment and climate change
11. Electromagnetic fields in devices
12. Adaptation to climate change
13. Water
14. Fluorinated gases
15. Renewable energy
16. Paper

G4-EN31

COMMITMENT TO THE ENVIRONMENT

Environmental *management*

Telefónica has a common environmental policy for all the companies within the Group. Through this policy, we wish to ensure legal compliance, manage environmental risks and promote eco-efficient practices.

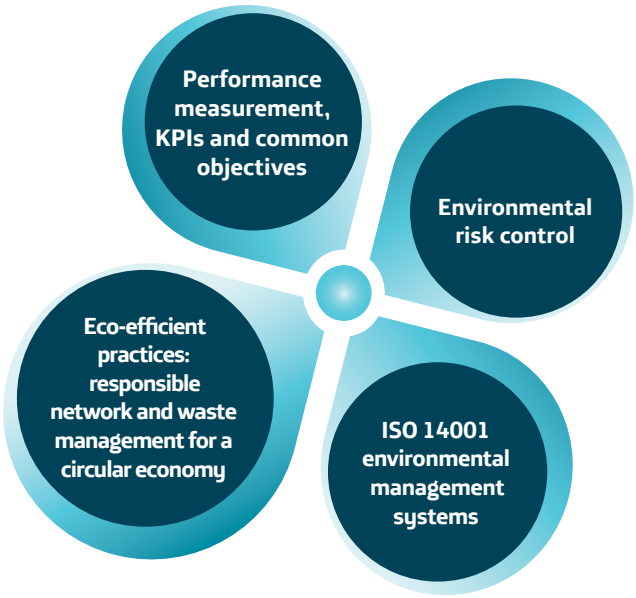
65%(1) of the Company is ISO 14001 certified

We are reducing our **environmental footprint**

A common **environmental policy**

The challenge is to reduce our internal footprint, and at the same time use ICT to its full potential, in order to provide solutions for current and future environmental challenges. To do so, all our companies are working under the same plan:

Environmental management directives for all companies in the Telefónica Group



We take the "precautionary principle" as a reference. Therefore, we analyse our environmental risks twice a year. The risks we look at are related to compliance with legislation, the state of installations with a risk of environmental pollution, the vulnerability of our network to climatic disasters and the cost of energy. Environmental and energy management systems are of paramount importance to the maintenance of these risks at minimum limits. During 2014, we received no significant penalties in this area.

In addition, we are putting significant efforts into applying best environmental practices in our Latin American companies. Thus Telefónica Brazil, the largest operator in the region, will certify its environmental management system at the beginning of 2016.

Currently, 65%(1) of the Company has environmental management systems in place which meet the ISO 14001 international standards, as affirmed by external assessment. We hope that in 2017 100% of our operations will have external certification for their environmental management systems.

ECO-EFFICIENCY: 'MORE BUSINESS WITH LESS IMPACT'

Eco-efficient practices allow us to provide more services to a greater number of customers while, at the same time, reducing our environmental footprint.

In order to do this, we have concentrated our efforts on those areas of our activity that have the greatest environmental impact, such as energy consumption and waste generation, without of course forgetting the rest.

⇨ **A responsible network**

In the roll-out and maintenance of our telecommunications network we apply the best available practices to avoid impact from the design phase, in strict compliance with environmental legislation.

For example, we try to share, wherever possible, the location of our installations with other operators or communication tower management companies. This leads to a lower visual and energy impact and lower waste generation. This practice is becoming more and more common within Telefónica. In countries such as Mexico, 55% of network

(1). Calculated based on the revenue forecast from the certified companies: Telefónica operators in Spain, the United Kingdom, Germany, Colombia, Peru, Mexico, Argentina, Ecuador and other companies of the Group in Spain.

G4-14, G4-DMA Effluents and Waste

network roll-out carried out during 2014 was done via already existing co-sited locations.

⇨ **Lower consumption of resources**

Efficient use of paper. ICT is our ally in the reduction of paper consumption for all internal processes and also in our relationship with customers. An example is the generalisation of digitisation within our processes and the use of the electronic invoice (51 million customers have chosen this invoicing model, 8 million more than in 2013, which has led to a reduction in paper consumption of 1,500 tonnes).

In addition, Telefónica has policies in many of its companies which insist on the use of recycled paper as opposed to paper from virgin sources, as well as the purchase of FSC certified paper. Currently 50% of paper consumption in the Group as a whole is recycled; 658 tonnes in 2014.

BRAZIL
MASSIVE ROLL-OUT DURING THE FOOTBALL WORLD CUP

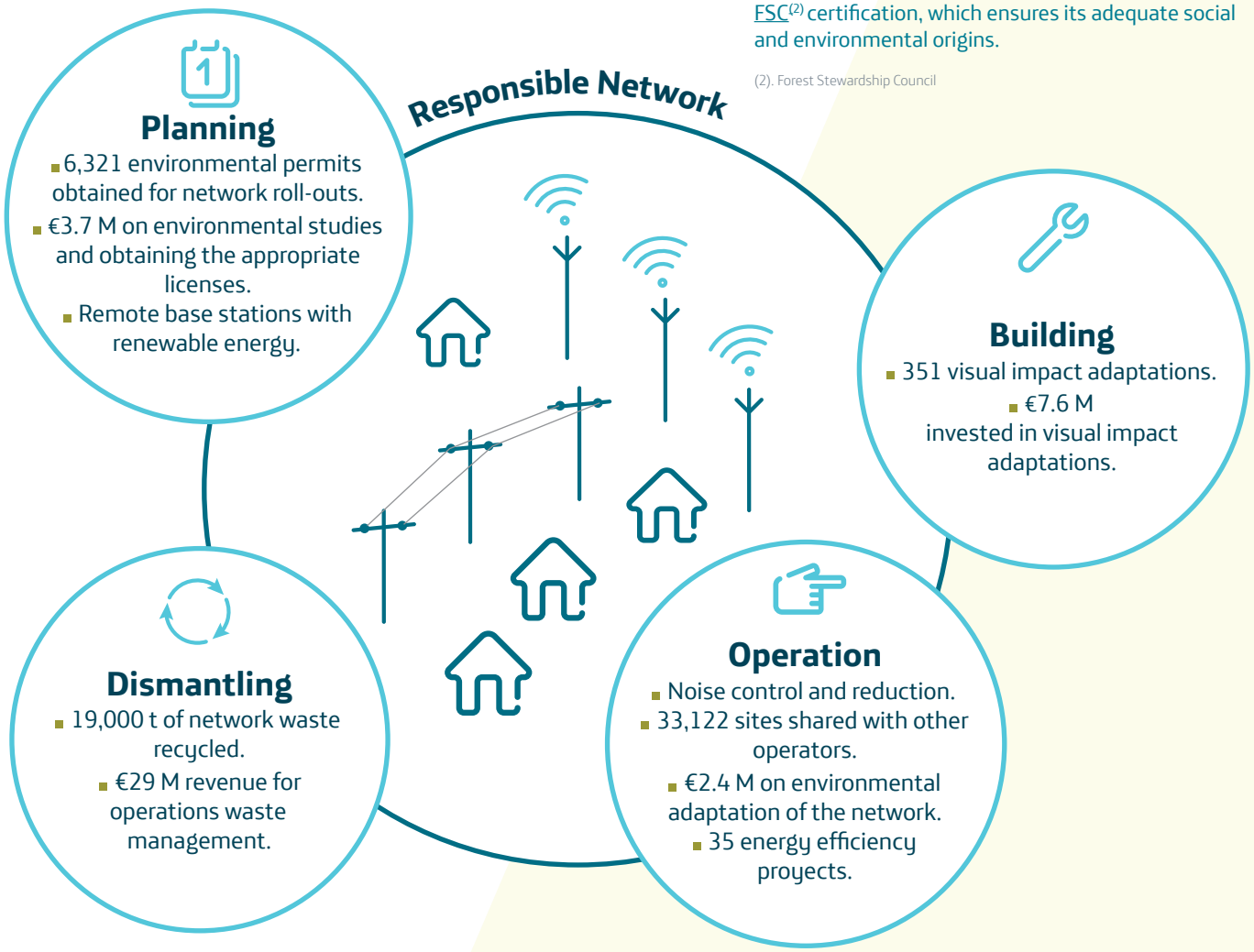
During 2014 Telefónica Brazil invested 4 million euros in the installation of a new model of base station for mobile telephony. The model is characterised by the use of lamp-posts and the underground installation of most of the equipment in order to reduce the visual impact, generate less waste and reduce the consumption of electricity due to greater insulation.

This new solution, 100% developed by the Brazilian engineering team Telefónica Vivo, is used mainly for 4G technology and provides a suitable alternative for urban areas, including those where the cultural landscape requires protection, as it makes use of existing infrastructures.

PURCHASE OF FSC CERTIFIED PAPER IN SPAIN

Since the beginning of 2014, all virgin fibre paper that Telefónica has purchased in Spain has FSC(2) certification, which ensures its adequate social and environmental origins.

(2). Forest Stewardship Council



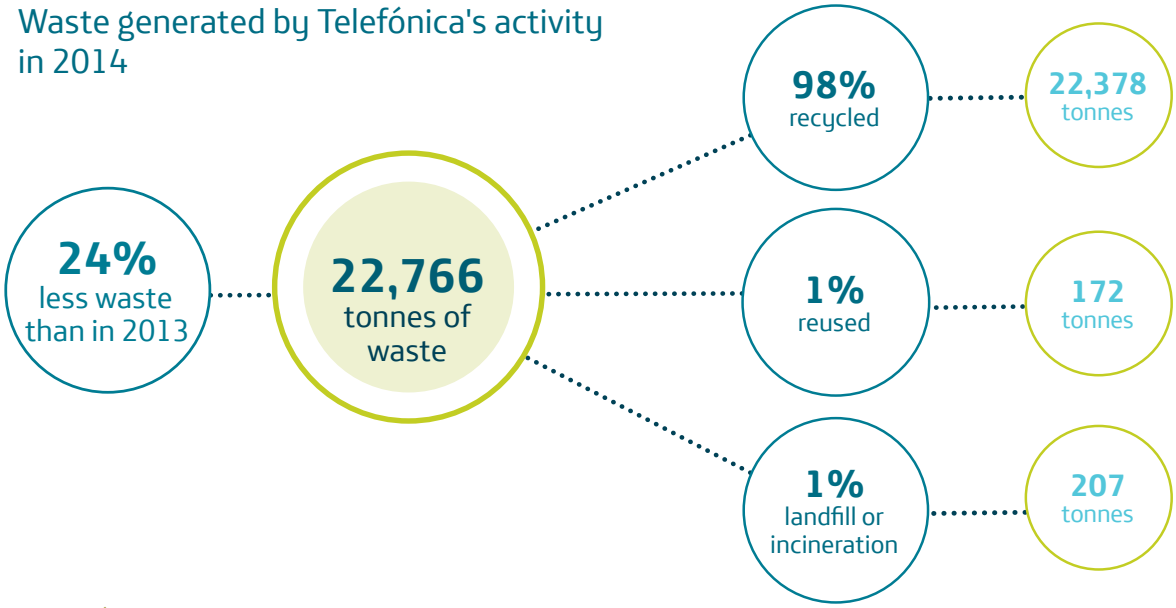
Reductions in water consumption. The consumption of water at Telefónica is due, for the most part, to sanitary usage and, to a lesser extent, to air conditioning. In order to reduce it we have introduced savings measures and run various awareness campaigns among employees. In those countries where water is a scarce resource, the Company makes a greater effort. For example, in Madrid, Distrito Telefónica has in place a Sustainable Management Plan for Water, which led to a reduction in consumption of 20% in 2014. On a global level, in 2014 the consumption of water amounted to 4.1 million m^3, 4% less than in 2013.

⇨ **Waste management**

Waste represents an important aspect of the environmental management at Telefónica, from the point of view of risk management and eco-efficiency. It is generated by all our operations, networks, offices and customers. Some waste may contain dangerous elements, such as batteries, while others have associated risks, such as electronic waste or *e-waste*. Since last year we have been carrying out internal audits and supplier audits regarding waste, with the aim of ensuring that waste is managed with the maximum guarantees. Our main focus is the reduction of waste generation, and the promotion of a circular economy, backing reuse and recycling. Currently, 98% of waste generated from our networks and from customers is recycled and 1% is reused.

Further information in the chapter:
'Supply chain management'.

Waste generated by Telefónica's activity in 2014



TELEFÓNICA FOR A CIRCULAR ECONOMY

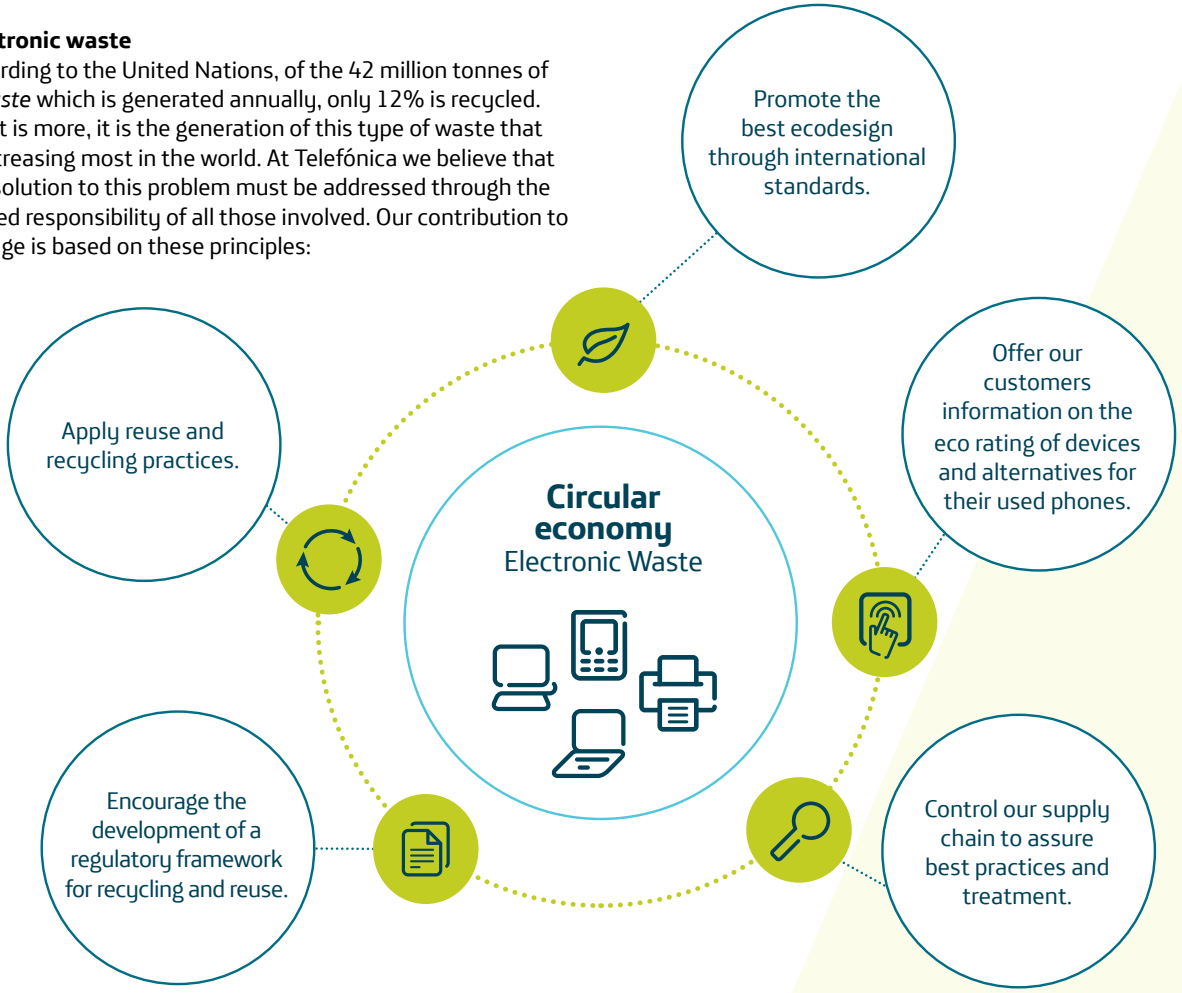


ENVIRONMENTAL CHALLENGES FOR 2015-2017

- An increase in ISO 14001 certification to 100% by 2017.
- Extension of good use practices for paper within the Group.
- An increase in reused waste.

G4-EN23, G4-EN25, G4-EN28

Electronic waste
According to the United Nations, of the 42 million tonnes of *e-waste* which is generated annually, only 12% is recycled. What is more, it is the generation of this type of waste that is increasing most in the world. At Telefónica we believe that the solution to this problem must be addressed through the shared responsibility of all those involved. Our contribution to change is based on these principles:



The reuse of both internal and customer telecommunications equipment is a practice on the increase. Furthermore, waste recycling is a practice which the Company has been promoting for years. We believe that the reuse of telecommunications equipment, carried out with guarantees, provides economic, environmental and social benefits. We are even working with governments in order to lay the foundations for these activities in countries where adequate infrastructures and regulations did not previously exist, and with this aim in 2014 we worked with the GSMA and other operators on a joint document.

BEST PRACTICE

"BUYBACK" IN LATIN AMERICA

Telefónica has a project in place to promote the reuse of used mobile equipment In the region. Currently it has been introduced in Colombia, Chile, Mexico, Peru and Brazil and it will be extended to other countries in the coming years. In 2014 over 20,000 pieces of equipment were collected, and for 2015 it is hoped that this figure will be tripled. 90% of the collected equipment was in working order, which helps when providing new uses through our partners, and what cannot be reused is recycled in accordance with best practices. The case of Peru, Smart Swap ("Canje Smart"), stands out, whereby practically any model from our sales portfolio could be bought back from our customers - that's up to 220 different models.

'EARTH CALLING, PLEASE ANSWER!', TELEPHONE RECYCLING IN CENTRAL AMERICA

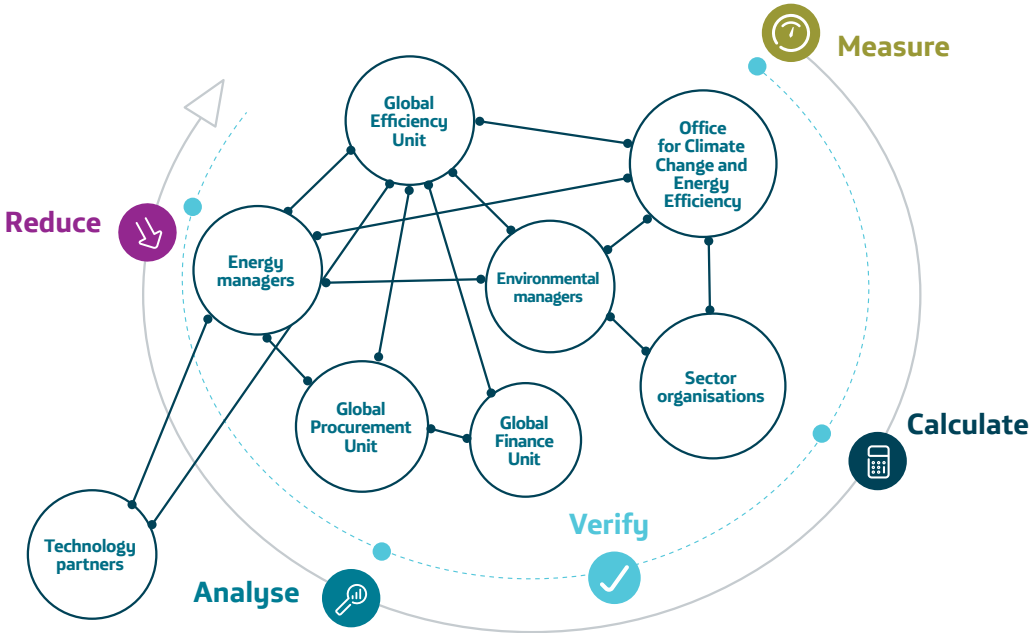
In Central America (Costa Rica, Panama, Guatemala, and El Salvador), Telefónica took the initiative with recycling campaigns for the mobile terminals of our customers. The structure of this type of activity is still weak in the region but, without doubt, private initiatives are proving to be a positive experience.

In addition, the Company channels revenue earned through this activity to the promotion of environmental actions led by the countries' non-government organisations (NGOs). For example in Panama, for every device collected Movistar plants a tree through the Natura Foundation.

COMMITMENT TO THE ENVIRONMENT

Energy and *climate change*

We are saving energy, reducing operating costs and avoiding emissions. We are working to become the most efficient Digital Telco in terms of energy and carbon.



We measure our energy consumption and **we calculate** our carbon footprint. **We analyse** and identify new opportunities to reduce energy and greenhouse gas (GHG) emissions, and implement projects for energy efficiency and renewable energy in each of our operations. As such, **we reduce** the operational energy consumption and the environmental impact of our activities.

Office for Climate Change and Energy Efficiency:
Defines the global strategy on climate change, calculates the carbon footprint and promotes activities to reduce energy consumption and emissions throughout the entire value chain.

Global Efficiency Unit:
Draws up efficiency plans and leads the implementation of efficiency projects on a global basis.

Energy managers:
Present on every project, they are responsible for managing energy consumption and implementing efficiency projects on a local level.

Environmental managers:
Provide support for the energy managers in each of the various environmental aspects of our network.

Global Purchasing Unit:
Looks for new energy purchasing models and accelerates the purchasing processes for clean, efficient technology.

Global Finance Unit:
Evaluates the energy efficiency projects and the purchase of renewable and non-renewable energy.

Technology partners:
Provide us with the best technology and work with us to identify opportunities to reduce energy consumption and emissions.

Sector organisations:
Allow us to understand the latest trends in energy and carbon management and identify risks and opportunities in matters of energy and climate change.

Measure

We measure our energy consumption and monitor our network through the installation of smart meters in our facilities. Thanks to these, we can have first-hand knowledge of our consumption, identify inefficiencies in the network and optimise the operational cost of energy.

Base station monitoring at Telefónica España

During 2014, 36 sites located throughout Spain were monitored. Measurement systems for the interior and exterior temperature were installed, together with meters to record the total energy and air conditioning consumption. Based on the information obtained, each station's operating conditions were optimised, thereby maximising savings through a reduction in energy consumption. The pilot project allowed a comparison of those stations where efficiency measures were applied with those stations operating as standard.

G4-DMA Energy, G4-DMA Emissions

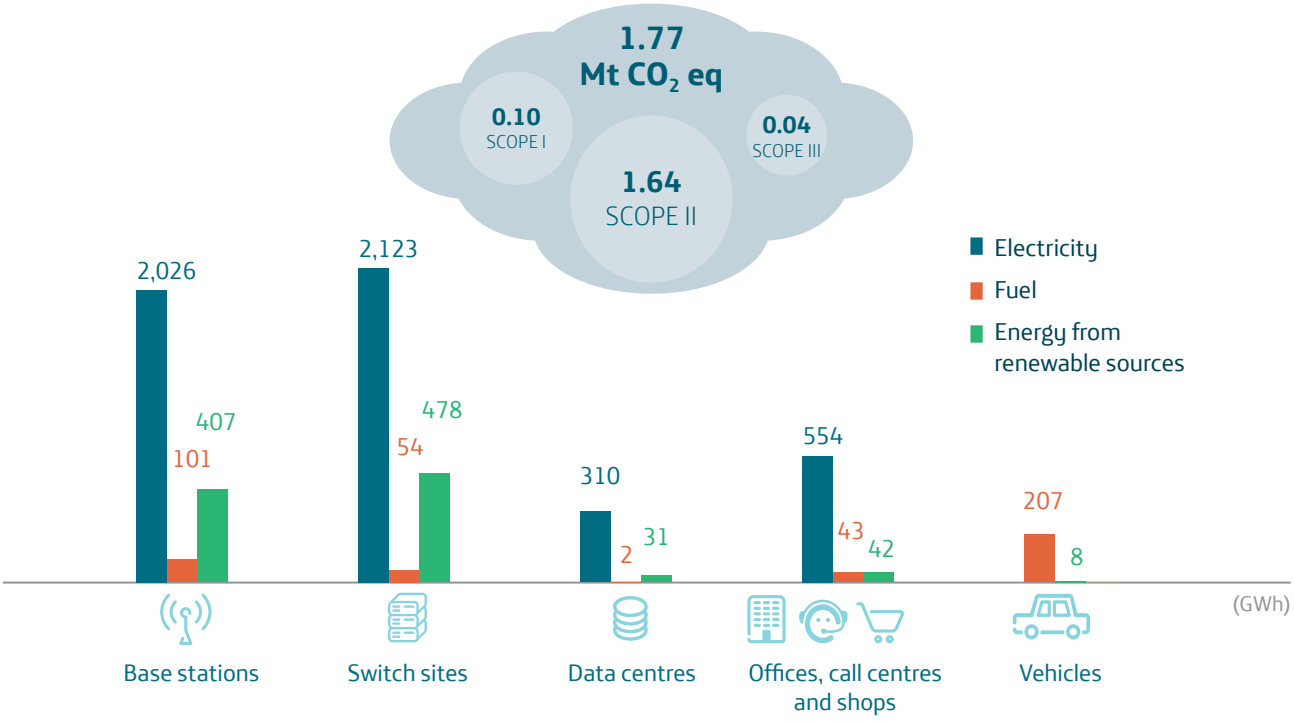
Calculate

We calculate our total energy consumption and our greenhouse gas emissions for the three scopes, in accordance with a global model based on the GHG Protocol, the ISO 14064 standard and the ITU-T L.1420 recommendation.

Leaders in the Carbon Disclosure Project

Telefónica lies, for the fourth consecutive year, among the five leading telecommunications companies in the Carbon Disclosure Project (CDP), with a rating of 98A. In addition, we were recognised in the CDP Supplier Climate Performance Leadership Index as one of the companies that best manages the risks and opportunities regarding energy and carbon on a global level and reports to customers on the impact on emissions of the services delivered.

Energy and greenhouse gas emissions inventory 2014



Analyse

We carry out an analysis of the operational cost of energy and of our carbon emissions, we evaluate compliance with our overall objectives for a reduction in energy consumption and GHG emissions and we work with the various groups and associations in the sector to identify risks and opportunities in matters of energy and climate change.

Overall objectives for a reduction of energy consumption and GHG emissions

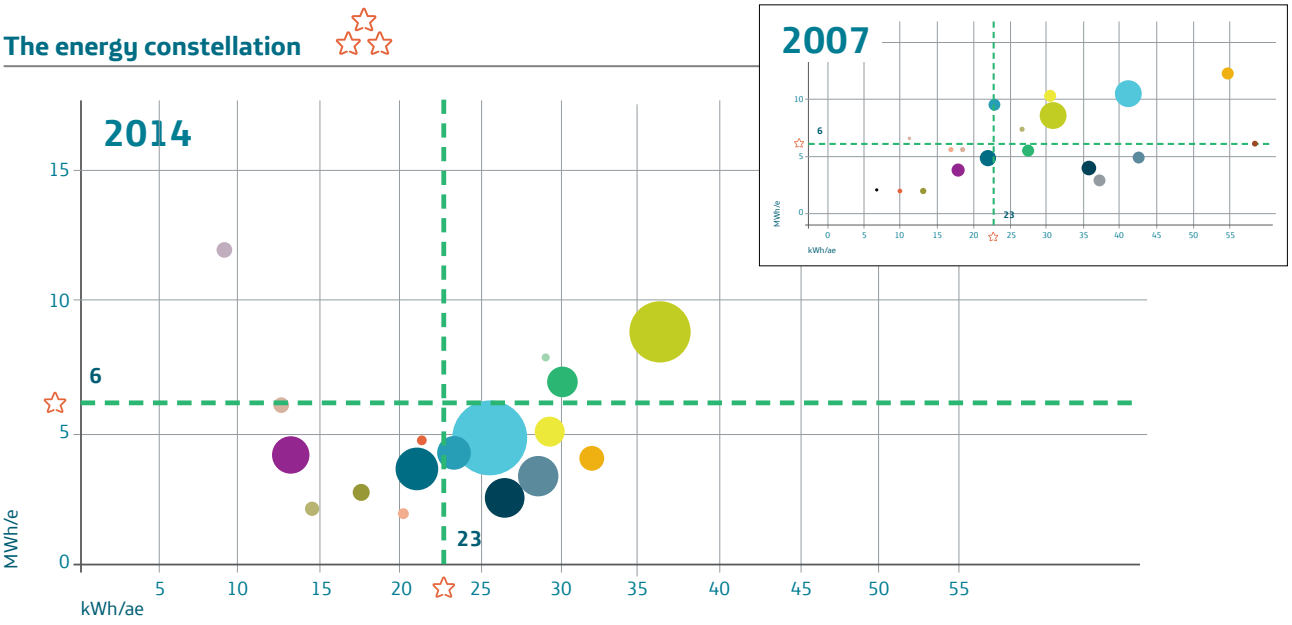
ID	KPI	Reduction	Base year	Target year	Status	% Achievement
1	Energy consumption in networks per customer	30%	2007	2015	ongoing	65
2	Energy consumption in offices per employee	10%	2007	2015	achieved	100*
3	Carbon emissions per customer	30%	2010	2020	ongoing	41
4	Energy OPEX	50 M€	2013	2017	ongoing	9

* Pending evolution

G4-EN6, G4-EN19

Analyse

The energy constellation



United Kingdom · Spain · Mexico · Guatemala · Nicaragua · Panama · El Salvador · Costa Rica · Colombia · Peru · Ecuador · Venezuela · Chile · Argentina · Uruguay · Brazil · Germany

Each planet corresponds to one of our operators. Its size is proportional to the total energy consumption. Compliance with our overall objectives for energy reduction is achieved because the operators approach the consumption values of 23 kWh on equivalent access networks and 6MWh per employee in offices. The nearer each operator is to the lower left quadrant, the closer we are to achieving our objective. By the end of 2014 we had achieved 82% of our aim.

The industry and the sector leading the management of energy and climate change hand in hand

International Telecommunication Union

We are continuing to work on the ITU's Study Group 5 to promote standards which measure the environmental impact of ICT in terms of energy and emissions.

GSMA

We are taking on the Benchmark for energy efficiency, which allows us to compare our situation with that of our competitors in terms of energy efficiency and emissions.
It helps us to identify where the greatest potential savings on energy and emissions can be made for each of our operations.

Global e-sustainability Initiative

We cover the groups of Climate Change and Energy Efficiency in order to share information and best practices with the leading companies in the information and communication technology sector.

European Telecommunications Networks Operators

We participate in the Energy Task Force to share and promote best practices in energy efficiency for networks on a European level.

European Round Table of Industrialists

We take part in the Energy and Climate Change Group to identify risks and opportunities that European policies on energy and climate change may generate for companies' competitiveness.

5th Global Workshop on Energy and Climate Change

Telefónica held the 5th Global Workshop on Energy and Climate Change in Bogotá, where over 100 participants, energy managers, technological partners and other special guests took part. The Telefónica Mexico team was recognised for the Best Energy Management in 2014, while Telefónica España and Telefónica Uruguay received awards for the Best Energy Efficiency Project and the Best Renewable Energy Project, respectively. Telefónica Brazil received an award for the best efficiency plan, while Huawei was recognised as this edition's best partner for energy.

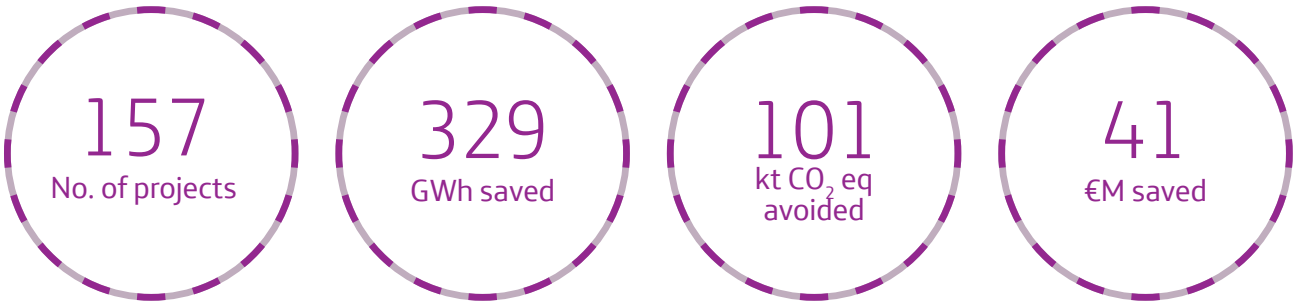
Reduce

During 2014 we carried out over 35 energy efficiency and GHG emissions reduction initiatives on our networks and in our offices. Thanks to these, we reduced our energy consumption by 60 GWh and we avoided the emission of 12,700 tonnes of CO_2. Standing out among the global initiatives are the air conditioning and Free Cooling projects for base stations, the installation of energy-saving functionalities on the 2G network and the replacement of rectifiers with new, high-efficiency ones.

Energy-saving functionalities

During 2014 we continued with the installation of energy-saving functionalities on the 2G network which are capable of regulating the power of the base stations based on traffic, in order to reduce energy consumption. Their installation in Central American operations has been planned, and 15,000 and 8,000 locations have been activated in Brazil and Mexico, respectively. A saving of more than 12 GWh has been achieved and the emission of 3.7 kt CO_2 eq has been avoided.

Energy efficiency projects 2010-2014



Verify

In addition, and on an annual basis, we carry out an independent specialised verification process for energy data and emissions which allows us to identify improvements to our processes and manage energy and carbon transparently.

Energy and emissions inventory[1] [2]

Energy		2013	2014	% Var.
Total energy consumption	GWh	6,562	6,385	-2.7
Electricity	GWh	6,049	5,971	-1.3
Fuel	GWh	514	415	-19.1
Energy from renewable sources	GWh	1,006	966	-4.0

GHG emissions				
Total emissions	t CO_2 eq [3]	1,917,861	1,774,661	-7.5
Direct emissions (Scope I)	t CO_2 eq	118,262	94,893	-19.8
Indirect emissions (Scope II)	t CO_2 eq	1,763,642	1,641,614	-6.9
Other indirect emissions (Scope III) [4]	t CO_2 eq	35,957	38,154	6.1
Emissions avoided [5]	t CO_2 eq	296,895	289,963	-2.3

[1] Inventory based on ISO 14.064, GHG Protocol & ITU-T L.1420.
[2] 2014 Energy and emissions data verification in progress.
[3] CO_2 eq = CO_2, CH_4 & N_2O.
[4] Scope 3 emissions relate to work journeys.
[5] Emissions avoided thanks to the generation and purchase of renewable energy.

G4-EN3, G4-EN5, G4-EN7, G4-EN15, G4-EN16, G4-EN17, G4-EN18

COMMITMENT TO THE ENVIRONMENT

Management of *electromagnetic fields*

Aware of the concerns which society may have, at Telefónica we are not satisfied with simply meeting international standards. Within the Company we have a firm commitment with prestigious organisations for the cooperation, study and spreading of updated information.

Over 4 billion people throughout the world use mobile devices. The technological change we have undergone in recent years has been spectacular and, with it, the demand for information regarding everything connected with these new technologies and their impacts has also taken off. Institutions are trying to respond to this from various legislative, medical and scientific points of view.

At Telefónica we also want to contribute towards facilitating these answers which society is demanding. During 2014 we intensified the measures that we had been adopting in the management of electromagnetic fields and we managed to align ourselves with the directives of the main international institutions. We are committed to rolling out a respectful network and promoting more fluid communication with communities.

"The results of current scientific research indicate that there is no evidence of adverse effects on health if exposure to radio-frequency electromagnetic fields are kept below the levels established in current legislation"

The European Commission's Scientific Committee on Emerging & Newly Identified Health Risks (SCENIHR) 2015.

WE COMPLY WITH THE RECOGNISED INTERNATIONAL LIMITS

All the terminals and equipment which the Telefónica service offers comply with the international standards established in the SAR (*Specific Absorption Rate*) parameter.

In 2014 all the measurements taken at the Company's base stations were always lower than the recognised international levels. These measurements are available to the public in the majority of the countries where we operate.

WE COLLABORATE WITH INSTITUTIONS

Telefónica cooperates with institutions, creating synergies to respond to the concerns, not only of our customers but also the population in general.

WE ARE INCREASING OUR KNOWLEDGE AND COOPERATING WITH RESEARCH

Scientific research in this field is a priority on the agenda of the World Health Organisation. Telefónica is closely following these projects and even collaborating directly in some of the main research:

mobi-kids

⇨ **Mobikids:**
Telefónica collaborates with Mobikids, the international project providing mobile usage data in order to carry out one of the validations of the study survey. Mobikids studies the risk of developing cancer in the brain due to exposure to radio-frequency fields during childhood and adolescence.

GERoNiMO
Generalized EMF research using novel methods. An integrated approach: from research to risk assessment and support to risk management

⇨ **GERoNIMO:**
Telefónica will work on GERoNiMO, the international project financed by the European Union, which deals with research into the possible effects of exposure to radio waves and intermediate frequency fields, in addition to the risks they may cause in terms of the generation of cancer, neurodegenerative diseases, behaviour, reproduction outcomes and ageing, among others.

G4-PR1, G4-PR2, G4-DMA Customer Health and Safety



⇨ **COSMOS:**
Telefónica is collaborating with COSMOS, the international project in the United Kingdom, validating mobile telephone usage data. The COSMOS study in the United Kingdom is a research programme on mobile telephones and health. It is currently jointly financed by industry and the Government under the Research Initiative on Health and Mobile Telecommunications (RIHMT) and is administered by the Policy Research Programme of the Department of Health. The objective of the study is to identify possible problems in health relating to the long-term use of mobile telephones.

WE ARE FACILITATING DIALOGUE WITH COMMUNITIES THROUGH UNIVERSITIES

Telefónica Venezuela, in collaboration with various universities in the country, gave a course titled 'Telecommunications and Health' to Engineering students in order for them to comply with their Community Service. The course consists of training the students in technical, regulatory and communication issues, placing emphasis on how to approach the matter with the Community Councils. These Community Councils represent the community and have the power to authorise the installation of Telecommunications facilities. The students, having finished the course and in possession of the material, go out to specific communities to obtain consensus on the authorisation to install infrastructure and, more importantly: the population gets to understand what the installations are, how they work and what they are for.

WE ARE BOOSTING THE FLOW OF INFORMATION TO SOCIETY

Since 2001 Telefónica Deutschland has been supporting the initiatives taken by the German Mobile Network Operator Association (IZMF) with the aim of providing answers to citizens, the media and public and private institutions regarding mobile telephony. Specifically, during 2014, an information campaign was launched regarding exposure to LTE technology, known as *fourth generation* (4G). The measurements taken confirm that the exposure levels are far below the legal limits established in Germany. The success of this citizen information campaign has resulted in low social concern regarding the possible effects of mobile telephones.

WE SHARE OUR KNOWLEDGE WITH SPECIALIST GROUPS

Telefónica Deutschland promotes and collaborates on the implementation of various courses, such as, for example, 'Mobile Communications from the Doctor's and Patient's Perspective'. It is a course aimed at doctors and is given at the Mobile Telecommunication Information Centre in Germany. This training, certified by the Official College of Doctors in Berlin, is taught by experts from the German Environmental Medicine Committee.

WE ARE SENSITISING OUR EMPLOYEES

At Telefónica we are aware of the importance of sensitising our employees regarding these matters. Proof of this is that at Telefónica España, in 2014, we provided specific training to 14,535 employees through a course titled 'Mobile Telecommunications and Society'. The material covers legal, scientific, technical and social aspects of mobile telephones. The good reception by employees in Spain has led to the course being gradually incorporated into all the other operations.

WE PROVIDE SPECIALIST TRAINING

During 2014, Telefónica España provided an internal course titled 'Electromagnetic Fields and Health: Is it possible to reduce/eliminate uncertainty?', given by the University of Salamanca and the Spanish National Research Council (CSIC). The course was specifically aimed at lawyers from the Judicial Services and the Operations units which have to face technical and legal difficulties in the roll-out of our mobile network. The continuation of these initiatives is one of Telefónica's aims for 2015.

CHALLENGES FOR 2015

⇨ To continue to work with institutions and research.

⇨ To continue with the sensitisation of employees.

⇨ To establish internal processes which allow the best practices from one country to be adopted in all the other operations; always with a constant commitment to informing our customers and society in a transparent way.

Response to *emergency situations*

The responsibility of the Telefónica Group as a leader in the Telecommunications sector is vital when faced with natural or man-made disasters.



Aware of the social responsibility we have when faced with natural or man-made disasters and our capacity to react and take action to help those affected, we are working hard in all the countries where we operate in order to improve our response.

The response to disasters is primarily the responsibility of governments, and the action policy of Telefónica is that of being capable of organising a rapid deployment of telecommunications technology in order to help and support the efforts of preparation and response to natural disasters which periodically occur in some parts of the world.

Disasters which affect, on most occasions, the most deprived areas with the least infrastructure.

We are capable of organising a rapid deployment of technology to help with efforts of preparation and response to natural disasters

Access to information is particularly important during disaster situations. Telefónica, in its unique position as leader in Telecommunications, promotes collaboration with governments and humanitarian organisations in order to strengthen the response strategies.

We provide the early warning channel, facilitate the response coordination for emergency services and logistics and support vital communication between and to those affected.

Some examples of our lines of action in 2014 were:

- An agreement with the Military Emergencies Unit (UME).
- An agreement signed by Telefónica Brazil with the Ministry of Science, Technology and Innovation and the National Centre of Monitoring and Alerts for Natural Disasters (Cemaden).
- Red Cross Award for Telefónica's collaboration during emergency situations.



TELEFÓNICA ACTION POLICY FOR EMERGENCY SITUATIONS

Good management of networks and communication services is a key element in providing a rapid, effective response to catastrophic situations by the emergency services.

In addition to setting up the necessary continuity plans for ensuring the provision of normal services to our customers in all the countries where the Company operates, we define specific actions for covering humanitarian aid, such as:

- The preparation of simulations to construct, improve and keep up-to-date the processes, action plans, capabilities and priorities in a collective response to any disaster or declared emergency.
- The establishment of a basic code for humanitarian aid with help from national regulators in order to organise the participation of public and private companies.
- During the emergency we support the access of our mobile services, providing simplified, free access to vital communications until the services which were suspended or removed are restored.
- Our satellite services resolve the deficit left by other communication infrastructures, because they are in places where others cannot reach. They are services which complement the other solutions from our catalogue, whether as the only possibility of communication or as a 100% diversified backup solution. In addition, they can be applied globally and are independent of geographical factors, distances from nodes or stations and can be deployed rapidly.
- We are active participants in the GSMA (the organisation of mobile and related company operators dedicated to support for the normalisation, implementation and promotion of GSM mobile telephone systems), with the organisation of a specific working group for "Response to Natural Disasters and Emergencies".

Volunteering

The time, talent and expertise of our employees are given to voluntary causes. Telefónica Volunteers is today one of the largest corporate volunteering initiatives in the world.



The **Telefónica Volunteers** programme inaugurated the volunteering online format this year, where the volunteer exclusively collaborates with organisations digitally, through a platform where Telefónica professionals donate their time, knowledge, talent and experience to social organisations, providing support to carry out various tasks related with, among other areas, the management of entities, marketing, communication, social networks and translations. Equally, this year has seen the creation of the **Volunteering School**, an online training platform to manage the knowledge and experience of the volunteers and the various social projects, as well as to answer all the training needs of the Telefónica Volunteers programme.

The Telefónica International Volunteering Day, celebrated on 10 October, is an initiative in which thousands of Company employees worldwide dedicate the day to voluntary activities. In 2014, 15,343 people participated, 11.5% more than in 2013.

Over 15,000 Telefónica employees from 32 countries participated in the 2014 Telefónica International Volunteering Day

Furthermore, Telefónica was the main player in the Latin American Congress on Corporate Volunteering, organised last May by Voluntare, Fundación Hazloposible and Red Forum Empresas, with the support of FundaciónTelefónica, Santander, Endesa and Repsol.

Today, Telefónica Volunteers is one of the largest corporate volunteering initiatives on the planet. In 2014, 27,810 Telefónica employees participated worldwide. In total they dedicated 212,484 hours to performing activities for social purposes.

The Telefónica Volunteers programme runs activities throughout the year, in Spain and in all the Latin American countries where the Company directly operates. The voluntary activities are based on two lines of work: the first arises from strategic plans proposed within Fundación Telefónica which employees undertake; the other is when the volunteers themselves propose voluntary projects that are developed in collaboration

with an NGO and financed by the Foundation. In both instances, work is carried out in conjunction with Spanish and Latin American third sector organisations.

Every FundaciónTelefónica independently carries out its own corporate volunteering programme, catering to the features of each country and the specific needs of the local society. However, there are two large transnational events each year: the **International Solidarity Holidays** and the **Telefónica International Volunteering Day.**

Through the first event, since 2005 over 700 Telefónica employees from various European and Latin American countries have devoted part of their holidays to carrying out social activities related to supporting the most vulnerable children and young people. During July and August of 2014, 100 Telefónica volunteers supported Telefónica's voluntary work in Chile, Colombia, Ecuador, Mexico and Peru.

This initiative also has a national version, **Volunteering Holidays Spain**, a project aimed at volunteer employees of the Telefónica Group companies in Spain, which encourages them to participate in summer camps and other singular initiatives that are organised by non-profit organisations working in the areas of disability, social inclusion and environmental protection. In 2014, 80 volunteers participated in 10 activities.

The other major common event is the **Telefónica International Volunteering Day**, which in 2014 convened 15,343 employees from 32 countries, who dedicated one working day (10 October) to volunteering, working with NGOs in various social areas (in Brazil, Colombia, Ecuador, Mexico, Peru and the United Kingdom the event took place on other dates).

The launch of the **Volunteering Online** format opens the gateway to volunteering for workers as it is far more flexible in terms of availability and its virtual nature, and thus enables far more employees to fulfill their social commitment. NGOs from Spain and countries such as Venezuela, Argentina, Ecuador and Peru already participate on the Volunteering Online platform, and others from the countries where the Telefónica Group is present will gradually be added to this list. This new project, due to its universal character, allows volunteers from any country to help NGOs with local problems.

The second innovative project is the **Telefónica Volunteering School**, a network training platform that enables Telefónica volunteers to learn more so that they can help more. Through this space, employees with volunteering concerns can share knowledge, access training resources and learn from the top experts in the areas of disability, social exclusion and the environment, among many others. On-site training is also given in specific areas subject to employee demand, which facilitates adapting the needs of the volunteers to the social reality of the NGO.

15,343
employees convened for the Telefónica International Volunteering Day

Number of active volunteers:
27,810

Hours of voluntary work:
212,484

Telefónica volunteers were the main players in the Latin American Congress on Corporate Volunteering in Mexico

Undoubtedly, the showpiece that ended the year 2014 in the field of Telefónica corporate volunteering were the numerous **Solidarity Meals** that were held in various cities, in and outside Spain, which celebrated the classic company Christmas meal between colleagues differently, turning it into an event with a charitable purpose. At the Solidarity Meal in Madrid on 12 December, Ferran Adrià was the master of ceremonies. Thanks to the donations of those in attendance, 46,238 euros were collected in 2014 and FundaciónTelefónica doubled this amount to 92,476 euros, which have been shared between 31 non-governmental organisations.

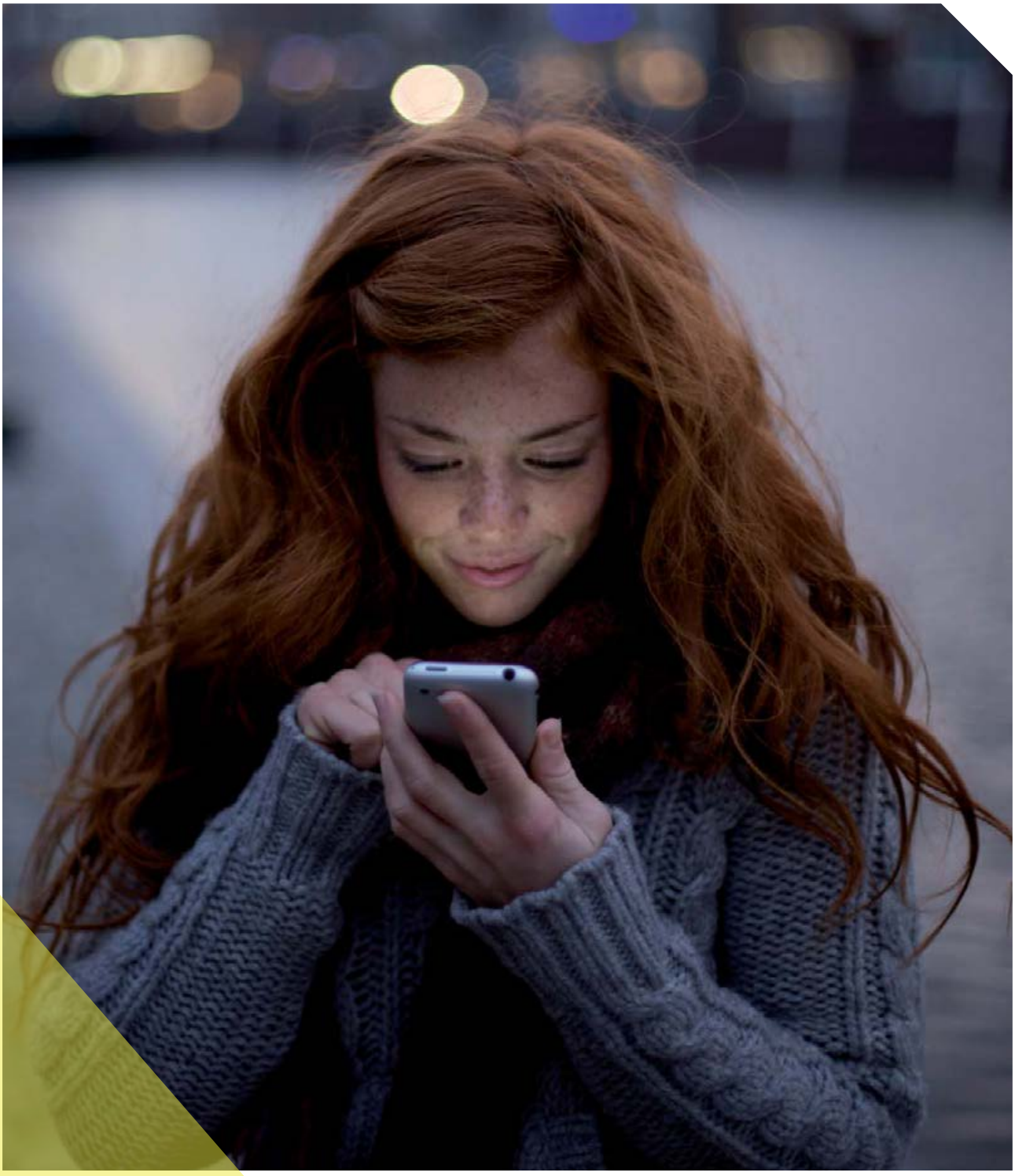
4. Digital trust





Telefónica's *digital agenda*

The digital revolution has only just begun. We are aware of this fact at Telefónica, and we have designed an action plan to strengthen our position as leader in the digital ecosystem.



We are committed to generating a new public profile that will provide us with greater sustainability in the value chain of the ICT hypersector. We are convinced that our customers should be free to enjoy an open, safe and reliable Internet. We are working towards this goal by promoting the acceptance of this concept as a standard practice within the sector. Furthermore, we wish to ensure that our customers have access to all the innovation and options that the new digital world has to offer. Our tools for successfully taking on both of these challenges are the following:

DIGITAL MANIFESTO

In this manifesto we defend an open and safe experience for everybody on the Internet. The Digital Manifesto highlights the challenges we face, and its conclusions have been synthesised into a decalogue of actions aimed at improving consumers' online experience and promoting greater investment in digital infrastructure.

PUBLIC POLICY

Furthermore, we have set up the Telefónica Public Policy blog. In this blog, we publish open and transparent comment concerning our global vision and perspective on digital communication, issues regarding broadband, policies which affect the Internet and also matters related to the construction of a more sustainable society.

The blog is a new channel for exchanging opinions with our stakeholders regarding global public policies on communications. These are policies which are currently a matter of debate and which will provide the framework for our digital future, both socially and economically.

The priority: that our customers have access to all the innovation of the digital world

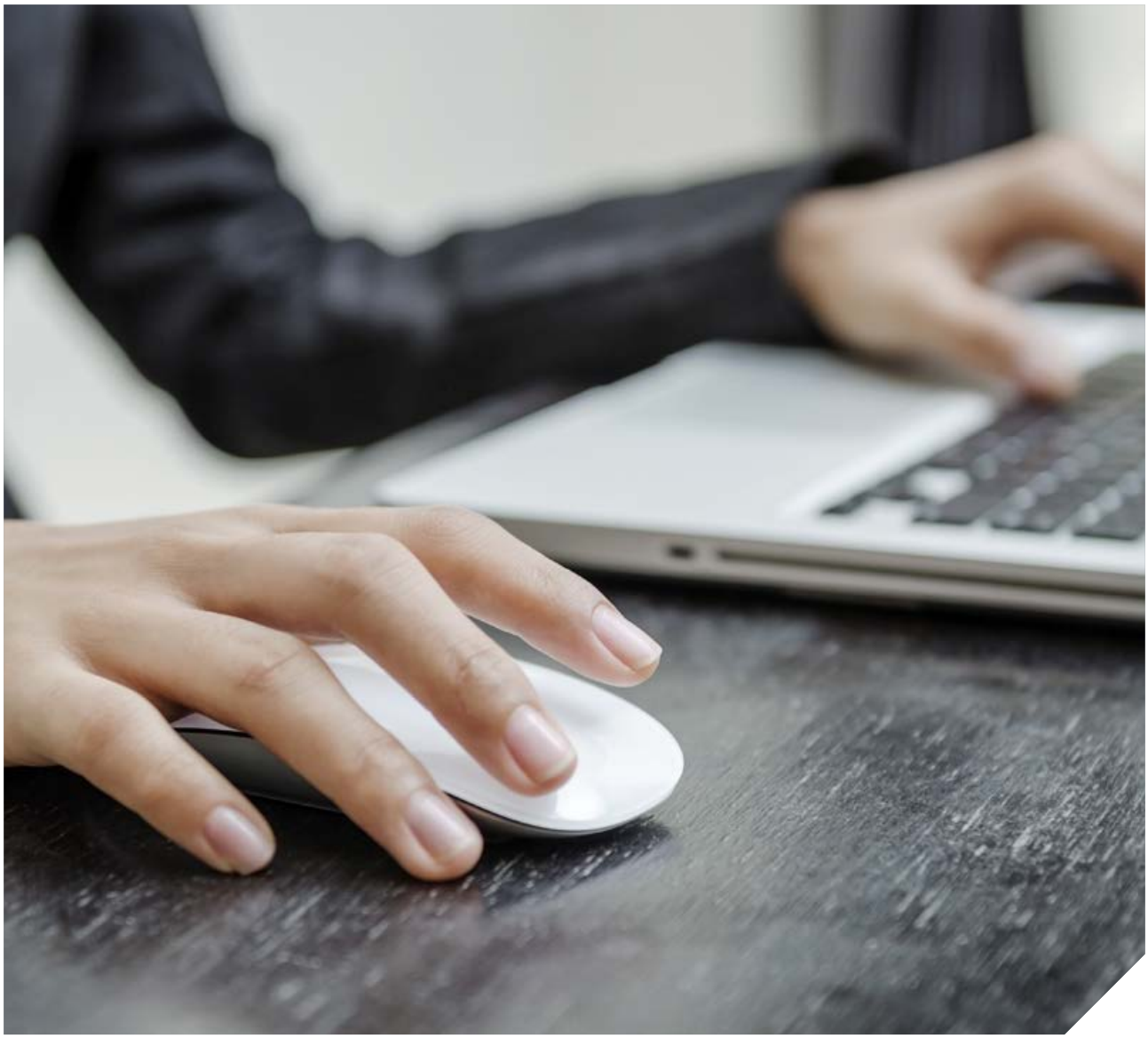
Digital Manifesto Decalogue

1. Let us strengthen Digital Trust through a safe Internet experience in which users have control of their personal data.
2. Let us make digital portability a reality in order to facilitate the use of data, information and applications, regardless of the device or platform being used.
3. Let us open up App Stores, mobile operating systems and other digital platforms in order to provide greater freedom and choice for customers, and to increase competition.
4. Let us promote the interoperability of Internet applications and communication and messaging services in order to improve the user experience and to foster competition.
5. Let us increase the transparency of Internet services' conditions of use, and the differentiation between advertising and information in the results of online searches.
6. Let us transform educational models, learning processes and teaching by means of the adoption of digital technology and services based on open standards and resources.
7. Let us promote Open Innovation models and Open Standards, and prevent unjustified measures aimed at protecting intellectual property from restricting the processes of innovation of the Digital Economy.
8. Let us develop a fair regulatory framework by establishing the same rules for the same digital services, intelligent regulations based on result-oriented policies and a case by case system of supervision.
9. Let us make it possible for the Internet to be accessible to everybody by establishing appropriate conditions for private investment in broadband infrastructure.
10. Let us adapt Internet Governance to the new global context by being guided by its founding principles and including all interested parties under equal conditions.

G4-DMA Public Policy

Privacy *and security*

Privacy is a core value in democratic societies, reflected in various fundamental rights such as data protection and the right to privacy. At Telefónica, we always bear this in mind and place special emphasis on security developments for our customers.



Here at Telefónica we understand the concept of privacy to be defined by historical context, culture, its uses and a country's technological innovation and specific geographical region. Privacy is a core value in democratic societies such as our own. Legislative frameworks have defined it as a person's right for nothing and no one to interfere with his or her private correspondence (the right to confidential communication), the management of his or her personal data (the right to the protection of personal data) and the protection of personal or family privacy (the right to privacy). Because of this, and since the expansion of the Internet, 'confidentiality of information' and the use of personal data for commercial means have become two of the most debated and controversial topics in the last decade.

G4-DMA Customer Privacy

We do not conceive privacy as a unidimensional concept and therefore we speak of 'digital confidence' as a term that includes the concepts of privacy, transparency and security. This is a sustainable approach that allows citizens to maintain control over their personal data and preserve their private identities, knowing that their data is secure.

Ultimately, our commitment to this principle has led us to design a culture based on improving our consumers' digital confidence, with shared obligatory performance standards among all our regions and entities and a set of clear, coherent positions regarding our privacy practices and data protection. This culture is based upon the following pillars:

- Self-regulation of the rights and security of the users, far beyond local and international laws.
- Transparency as a driving force of confidence and the key attributes of Telefónica.
- Privacy as an element to make innovation, well-being and prosperity possible in the digital world.

Acceptance of these global principles will help us establish a common global framework based on which a secure, transparent and private digital experience can be developed, a solid foundation for the sustainable growth of a digitised economy and society.

PRIVACY

Policy and Privacy Committee

The objective of the Privacy Policy, approved by the Telefónica Group advisory board, is to establish the guidelines the companies of the Group should follow in order to protect the privacy of all those persons who entrust us with their information through the use of our products and services.

This policy responds to our Business Principles and describes what type of information is collected by the companies of the Group and how it is processed in order to guarantee the privacy of its users. Additionally, it incorporates our commitment to:

- Transparency and choice in the use of personal information.
- The right to access, rectification, opposition and elimination of personal information.
- Security and integrity of personal data.
- Privacy of minors.

This Policy has allowed us to maintain a unique, clear and coherent position regarding privacy and data protection, and on the part of Telefónica, to take utmost advantage of the opportunities generated in our current digital environment.

The Privacy Committee was created in 2013 as a reference point, both internally and externally, to support Telefónica's actions in this area. It is the authority that oversees the implementation of the Privacy Policy. The Privacy Committee is headed by the Chief Privacy Officer, who, in the sphere of the Telefónica Group, is charged with overseeing the fulfilment of national and international regulations regarding data protection.

Throughout 2014 Telefónica has continued to work in its capacity as member of Telecom Industry Dialogue, a group of nine global telecommunications operators and vendors, towards collective implementation of the 10 Guiding Principles on Privacy and Freedom of Expression, which were signed and published in March 2013. In the 2013 Sustainability Report we published our progress for the first time. Our progress and the measures adopted during 2014 are laid out in the following table.

Governing Principles for Privacy and Freedom of Expression within Telefónica

Governing principle	Telefónica Programme
1 To create and/or maintain relevant policies, under the supervision of the Board of Directors or equivalent, emphasising a commitment to prevent, evaluate and mitigate, to the best of their ability, the risks to freedom of expression and privacy associated with the design, sale and operation of technology and telecommunication services.	▪ Revised in 2010, our Business Principles recognise the right to privacy as the foundation for a trust-based relationship with our stakeholders. ▪ Likewise, the Group has a Privacy Policy, approved by the Board in March 2013, with which compliance is obligatory in all countries where we operate. ▪ The Group also has a Chief Privacy Officer, who is ultimately responsible for the implementation and monitoring of the Policy and who offers support to the local Data Protection Officers. ▪ As far as security management is concerned, the Group has a Corporate Information Security Policy, as well as other regulations, which is based on international standards and updated according to increasing international demand regarding security. In addition to receiving policy-specific training, all of our employees have access to the Policy via the Group Intranet.
2 To regularly perform impact assessments on Human Rights and utilise due diligence processes, adapted to the Company, in order to identify, mitigate and manage risks to the freedom of expression and privacy (both in relation to technology, products and services, as well as to specific countries) in compliance with the Guiding Principles for the application of the UN framework 'Protect, respect, and remedy.'	▪ Respect and commitment to Human Rights is one of the foundations of our Guiding Principles. Therefore, following the framework offered by the Guiding Principles on Business and Human Rights, in 2012 we performed an assessment – with the support of Business for Social Responsibility – within all our operations in order to evaluate the global impact of our activities. In 2014, Telefónica continued integrating the results of the assessment on the impact on Human Rights that was carried out in 2012 via its business units. This included a new evaluation to assess on a global scale how its operating businesses respond to governmental requests for users' personal data or content restriction, as well as the circumstances and contexts in which these petitions are generally received. As part of this process, in 2015, Telefónica will develop a global procedure guide regarding governmental requirements.
3 To create and/or maintain processes and operating procedures in order to evaluate and manage governmental requests that may have an impact on freedom of expression and privacy.	▪ Telefónica has various processes in place to attend to requests made by local/governmental authorities. These processes are the responsibility of the General Secretary and Security of each of the Group's companies. The Privacy Committee and the Security Committee endeavour to sensitise and inform on the necessity to document such processes.
4 Wherever possible, to adopt strategies to anticipate, respond to, and minimize the potential impact on the freedom of expression and privacy in the event that an illegal governmental petition or demand is received, or that the government is considered to be making improper use of the products or technology for unlawful purposes.	▪ The Chief Privacy Officer, on a global level, and the Data Protection Officers offer greater homogeneity to the procedures and processes that affect our clients' privacy. The Privacy Committee articulates its mission and functions through the Global Chief Privacy Officer and the Data Privacy Officers/Data Protection Officers (DPOs) in each of the Group companies.
5 To seek to always guarantee the security and freedom of Company employees that could be exposed to situations of risk.	▪ Health, security, and occupational well-being are the three pillars of Telefónica, not only guaranteeing the protection of employees, but also to having a direct influence on their job satisfaction at the Company. Regarding physical security, the Global Security Directorate has established a series of guidelines to be followed, adapted to the risks identified for each country, as well as to cover the displacement process.
6 To sensitise and train the employees affected by the relevant policies and processes.	▪ The Telefónica Group has designed a specific plan to train and sensitise employees in the policies and processes which affect them. This continual training programme is carried out both in person as well as online. In 2014, more than 62,250 employees were trained in matters of Data Protection and Information Security.

Governing principle	Telefónica Programme
7 To share knowledge and impressions, whenever relevant and appropriate, with all the interested parties involved in order to better understand the legal framework and efficiency of these principles in practice and to offer support for their application and development.	▪ We consider continual dialogue with our stakeholders to be fundamental in order to identify and mitigate risks, as well as to develop new business opportunities. We believe that transparency, as well as knowledge sharing, among this group is key to encouraging these Guiding Principles. Moreover, Telefónica has undertaken a project to map out internal and external stakeholders on corporate and local levels regarding issues of freedom of expression and privacy. The result of this map will determine the level and type of relationship with each of them, with the purpose of improving Telefónica's response capacity to consultations made by interested parties. Likewise, at the heart of the Privacy Committee, the Data Protection Officers and Corporation directors agree on and discuss the commercial, institutional and regulatory projects that are most relevant to the topic of privacy, with the aim of ensuring a consistent approach throughout the entire organisation. Parallel to this, there is an internal communication channel (Global Privacy Centre, in Yammer) which is made up of all the people related to or interested in privacy management at the Group level, and which serves to share experiences, news and strategies.
8 To annually, as well as when circumstances deem it necessary, report externally on the progress achieved regarding the application of the principles and, when appropriate, regarding the main events that occur in this regard.	▪ This Report summarises the advances carried out by the Telefónica Group regarding privacy and freedom of expression.
9 To aid in the elaboration of policies and regulations that promote freedom of expression and privacy, both in an individual manner and in collaboration with other entities, seeking to mitigate the potential negative impacts that are derived from policies and regulations.	▪ We are convinced that the best way to achieve global progress with respect to freedom of expression and privacy is through dialogue between governments, industry, civil society (including Human Rights experts), investors, supranational organisations and other interested parties. Proof of this is our Digital Manifesto, published in January 2014. The Manifesto highlights the different challenges to be resolved by public policies in order to liberate the digital world's full potential, to the benefit of customers, companies and public administrations. At the same time, it provides ten recommendations to improve users' Internet experience and to promote greater investment in digital infrastructures. Likewise, on an internal level, and with the purpose of overseeing the adequate implementation and fulfilment of the Privacy Policy, at the core of the Global Privacy Committee the following are developed, agreed upon and approved: regulations, instructions and guidelines related to the many diverse aspects of privacy (incidence management, recommended structures, description of functions and activities, development of web pages and *apps* insurance, etc.). The Committee is the internal and external point of reference, and the foundation for conduct within the field of privacy.
10 To collectively examine options for the implementation of appropriate complaint mechanisms, as set out in Principle 31 of the UN Guiding Principles on Business and Human Rights.	▪ Telefónica is developing complaint mechanisms at both corporate and local levels, which will be ready for implementation in 2015-2016.

SECURITY AND DATA PROTECTION

To guarantee the safety and security of the data of our customers and our services, Telefónica has various regulations in place aimed at strengthening information security.

Information security

- Corporate policy for information security.
- Corporate standards for information security.
- Corporate regulation of minimum security controls.
- Regulation of social networks.
- Corporate regulation of security services on the cloud.
- Corporate regulation of security services on work devices.

Data protection

- Telefónica Group Privacy Policy.
- Training regarding the protection of the personal data of the Telefónica Group.

Information technology

- Regulations regarding basic information technology controls.

The Telefónica Group companies follow the directives regarding information security as defined by the Corporate Security Committee. This authority's objective is to oversee the continual improvement of security, guaranteeing a minimum uniform level of security in accordance with the needs of each business. Additionally, its responsibilities include establishing policies, standards and implementation procedures for use and sound practices, the tracking of certificate acquirement within the Group companies and continual monitoring, with regular reports given to the Security Committee.

Data security

Telefónica has an internal concept of the Group's global integral security which covers information security by establishing a set of preventive and reactive measures regarding the protection of personal data and technological systems. This allows information to be shielded and protected, seeking to maintain its confidentiality, availability and integrity.

Information security has a significant effect on our customers' privacy, taking on different dimensions according to each culture and country.

Within Telefónica's Corporate Security Committee, specific tracking is carried out on the Group's security certifications, which covers the development, implementation and maintenance of the Company's certification management system.

Map of certifications for the Telefónica Group

- bsi. ISO/IEC 20000-1 Information Technology Service Management — Management of information technology services.
- bsi. ISO 22301 Business Continuity Management — Business continuity management.
- bsi. ISO/IEC 27001 Information Security Management — Information security management.
- bsi. ISO 9001 Quality Management — Quality management.
- bsi. OHSAS 18001 Occupational Health and Safety Management — Occupational health and safety management system.
- PCI DSS COMPLIANT — Data security standards for the payment card industry.

Security of services

Threats and attacks, against both the users of communication networks as well as against the networks themselves and critical governmental infrastructures, are becoming ever more frequent and sophisticated. In Telefónica's own BackBone, systems like Escudo DDoS are deployed in order to mitigate service denial attacks against both infrastructures as well as customers. As for defence against malicious software, phishing and digital identity theft, for that we have Smart DNS.



The Latch, for Windows Mobile and Firefox OS (FFOS), was presented at the 2014 MWC.

2014 saw the presentation of a process of transformation based on innovation through technology. At Telefónica, in our commitment to cybersecurity and investment in in-house development, we have launched new services with new security capabilities that contribute to our clients' businesses being highly protected against threats within the environments in which they operate.

⇨ ElevenPaths has focused its efforts on the development of unique and innovative products in the market. Proof of these efforts can be seen below:

- **Path5**, a new cyber-intelligence product that fights against threats to mobile phones. It is a cybersecurity product developed by ElevenPaths that allows and facilitates research for security professionals and experts on mobile applications through its patented *gig data* technology and correlation engine. Additionally, it offers an integral solution that improves analysis and investigation in order to respond to any fraudulent action in which a mobile component may have been used. Path5 allows analysts to track the activity of these mobile components created by developers, and to predict other similar activities. It also allows for alerts to be set that detect fraudulent activity by these developers, thereby making Path5 an ideal solution for security, legal and company marketing teams or for analysts of mobile application tendencies.
- **Latch** was launched in 2014 for Windows Mobile and Firefox OS (FFOS), the operating system based on open standards developed by Mozilla and supported since inception by Telefónica, which already markets terminals using this operating system in Spain and in some Latin American markets. Latch is a mobile application that, very simply, allows users to create an additional layer of security for the different online service accounts they use, helping them to protect their digital lives. With this digital "latch", users can decide when to "turn on and turn off" Internet services, as well as profiles on social networks, online stores and electronic banking, blocking their use while disconnected. Additionally, the application sends an alert if someone tries to access these services when the user has them "turned off".

⇨ Sinfonier. Due to the need to give real-time support to the processing of information that is gathered from various sources, Sinfonier provides users with a free infrastructure so that they can create their topologies using the modules available within the community and develop their own modules. Thanks to Sinfonier, it is possible to gather information from a multitude of sources, process it, and enhance it in a continuous and dynamic manner.

Global Training Plan on data protection

A total of **62,950** employees have been trained in information security

Europe



32,812 employees
60.8 % of total

Latin America



30,138 employees
44.2 % of total

Business continuity plan
For Telefónica, business continuity is a concept that includes both a disaster recovery plan (DRP) and a business restoration plan.

On this basis, we annually develop and improve logistics plans with the goal of being able to recover and restore critical functions within a set amount of time, having been partially or completely interrupted following an unwanted interruption or potential disaster.

This plan is Telefónica's forward-looking response to the risk situations that could critically affect it. Business impact analyses are reviewed and audited yearly in compliance with regulation ISO 27001, and the Company has ISO 22301 on its critical certification path as an objective strategy.

In fact, in 2012, Telefónica was the first mobile operator in the United Kingdom to obtain ISO 22301 certification for all its operations.

Data protection and audits
At Telefónica we conduct our own audits as demanded by the government of each country in which we are present, which is usually every two years. However, we have also instituted a yearly internal auditing system to confirm not only fulfilment but also application of the best market practices regarding data protection. In 2014, we continued carrying out personal data protection reviews, executing 9 audits for entities collaborating with Fundación Telefónica in 5 Latin American countries, one in the Central American region and 19 audits for Group companies, in Europe as well as in Latin America.

In the case of audits for the Group companies, the most important aspects reviewed were: the application of security measures in processing personal data, controlling access to it, the quality of information, consent to data processing and the possibility that those affected may exercise their rights to access, rectification, elimination or opposition.

In the case of Fundación Telefónica, the aspects reviewed were the quality of the information and consent to processing data of a personal nature.

Telefónica, in addition, within its Annual Audit Plan provides a comprenhensive Cybersecurity Auditing plan which, among other techniques, includes perfoming a penetration test by applying ethical hacking techniques based on the OSSTMM, CVSS and OWASP standards.

These audits are performed once a year on all IP addresses (public & private) of all Group operators, as well as on products and services for determining and, where necessary, improving their resilience against cyber attacks.

During 2014 Telefónica performed 18 cybersecurity audits of networks and systems for all operators. Seven audits were also performed specifically on products and services.

Training and awareness-raising
In 2014 we continued with the Global Training Plan on data protection. A total of 62,950 employees were trained in matters of data protection, information security and awareness. This figure represents 50.9% of the total employees of the Group. The breakdown by region is as follows:

⇨ **Telefónica Europe:** 32,812 employees received training in matters of privacy and data protection. This represents, approximately, 60.8% of Telefónica employees in the region.

- **Telefónica Latin America:** 30,138 employees were trained, both in person as well as online, in matters of privacy, data protection, security and confidentiality; this represents 44.2% of the employees in the region.

On a corporate level, various awareness initiatives have been carried out, including the following:

- Sensitisation about phishing, to raise employee awareness and to understand the degree of exposure to a possible attack.
- A five-hour course on security for technicians providing support to senior management.
- Tutorials and advice about security were published and sent by email, the Intranet and Yammer to all Group employees.

In addition to internal training, data protection training and awareness workshops were given to those who worked with different organisations and local institutions:

- **Germany**. Regular participation in meetings with the Federal Data Protection Officer and other federal agencies.
- **Colombia**. Telefónica Colombia participated throughout 2014 in events both as speaker and attendee on topics of Cybersecurity and Data Protection (XVI ANDESCO National and International Congress, Public Services, TIC and TV, II International Data Protection Congress, organised by the Superintendence of Industry and Commerce, with the support of the Accountability Foundation).
- **Ecuador**. Telefónica Ecuador participated in the Forum of Experience Exchange in Information Security (FTRESI), a group formed by large national companies to discuss information security, which meets on a quarterly basis.
- **Mexico**. Telefónica Mexico signed up to the GSMA Mobile Privacy Principles through the initiative 'Nos Importa México' (*We Care*).
- **Uruguay**. Lectures were given on the updating of new criminal methods in cash machines and sellers.
- **Innovation Security Day**. During the event, Telefónica presented the challenges in ICT security innovation that we are faced with, based on the latest trends in cyber attacks, new protection mechanisms and tools, and our offered services.

Incidents
9 incidents were reported on a global level relating to privacy and data protection, which were resolved by the compliance areas of the corresponding country; eight in the United Kingdom and one in Germany.

Fines
In 2014 Telefónica Colombia was awarded 5 fines for matters concerning personal data protection. Three of these are pending final confirmation as they are subject to an appeal by Telefónica. The other two fines have been confirmed. No other countries have been punished for matters in this area.

TRANSPARENCY

Trust is a critical value in an economy characterised by information management and analysis. All the studies carried out by Telefónica demonstrate a growing concern on the part of the users regarding the use of their data by digital and online services, and the loss of control over their data when they surf the web.

In fact, we are beginning to observe the first reactions of protection in the face of these trends: downloads of publicity-avoiding applications are rising considerably.

Our key to improving trust levels is transparency in the conditions of Internet use. Telefónica I+D has launched the **Data Transparency Lab**, a digital community project aimed at revealing the flow and use of personal data online, as well as exploring new ways of promoting transparency and accountability in the treatment of this information in the future, in order to make the Internet more open. Through this initiative, we also seek to promote the sustainability of the web economy through responsible and transparent use of advertising, e-commerce and online analytics.

The main objectives of the Data Transparency Lab are to develop tools, open up databases to users, and support research (by means of scholarships, R&D projects, etc.) in this field. Telefónica I+D is one of the founders of this new institution, alongside the MIT Human Dynamics Lab (headed by the prestigious Alex 'Sandy' Pentland), Mozilla, the Open Data Institute (directed by Sir Tim Berners Lee) and the Centre for the Digital Economy at the University of Surrey.

As a sample of the work being carried out by the Data Transparency Lab, the Telefónica I+D team, in conjunction with the Carlos III University and the Polytechnic University of Catalonia, have developed a tool, Sheriff, that identifies changes in the prices charged by online stores according to the IP address from which they are accessed; and in conjunction with Columbia University (New York) are seeking to understand which of our personal data is responsible for the advertisements that we see.

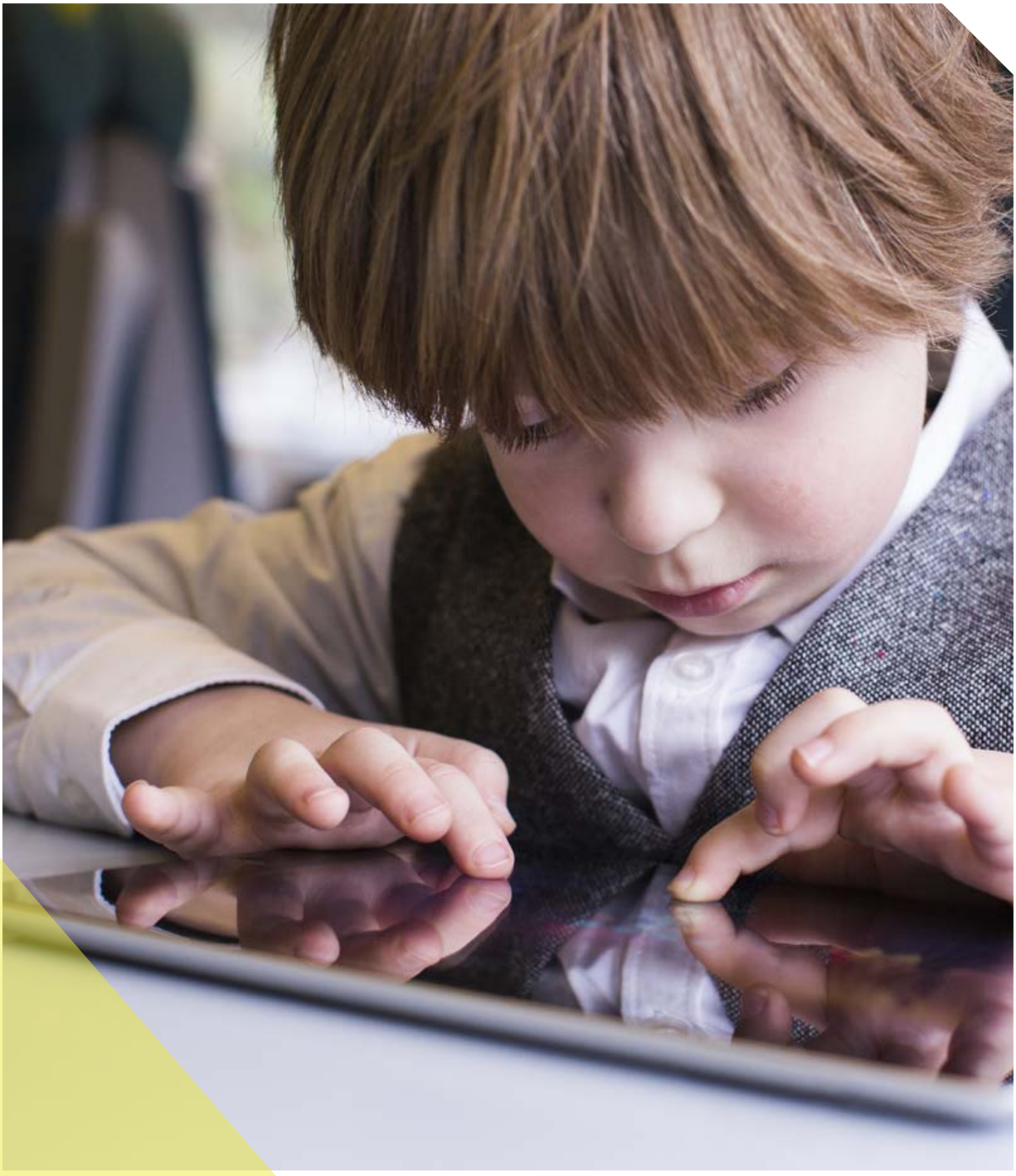
BEST PRACTICE

Telefónica España is a leader in sales, equipment management and project execution, and in the number of Spanish companies and institutions that entrust it with their security: major national companies, public institutions and state law enforcement bodies.

G4-PR8

Good use of the Internet *by children*

At Telefónica, we are aware of the importance that access to and learning about new technologies have for future generations. Therefore, we are striving to create a favourable, educational and safe environment which will enable the youngest users to develop in the best way possible.



Everybody is aware of children's familiarity with new technology. They are the clearest example of how the way we live, interact, work, share and even learn has changed. At Telefónica, we are very aware of this transformation. Therefore, for our Company it is essential to provide children with responsible access to digital services, and we focus our attention on what we consider to be the key aspects:

SECURITY

We are implementing a regulation to promote good use of the Internet by children and teenagers. This document is based on Company strategy and is in line with the commitments we have made as a result of the different sectoral agreements that we have reached, and it includes the following objectives: to implement reporting mechanisms for potentially illegal content and fight against the illegal content on the Internet, in particular against images of sexual abuse of children, in collaboration with State Law Enforcement and Security Forces; to develop privacy policies consistent with the age of the users of our services; provide parental controls for all types of Internet access and connected devices; to introduce mechanisms for controlling access to adult content in our services and provide training and resources to help parents ensure that their children get maximum benefit from the Internet while preventing inappropriate usage.

PRODUCTS AND SERVICES

New technology is, in turn, the best tool to help parents ensure that their children make good use of new technologies. At Telefónica we are aware of this, and that is why we have concentrated our efforts, over many years, on the development of parental controls. These are fundamental for checking content accessed online and also for ensuring responsible Internet usage. In addition, they allow the measurement of connection times, calls, text messages, browsing history and a long list of features which will allow children to safely enjoy the services we offer.

DIGITAL SKILLS TRAINING

At Telefónica, we have developed **Talentum Schools,** an initiative that seeks to promote digital vocations in young children. It is carried out through courses which take place in Company shops. These courses are designed to teach children the basic principles of technology in a fun way.

The children study coding, app development, robotics, augmented reality and so on; they learn basic programming concepts, without realising it, by playing games; they are able to create and modify programs in order to design comics, cartoons, interactive games and so on; they even design small apps which can then be tested on a tablet or smartphone.

There is nothing better than a story to transmit best online practice to young ones. That is what we do through the **Digipato** interactive story. This friendly duck helps us to provide children with the necessary resources to enable them to understand the need to respect others on the

Training is the key: we work to help parents ensure that their children get the maximum benefit from new technology

Children between 11 and 14 years old

90% use the Internet on a daily basis

+70% access social media through their smartphones

23% habitually upload photos

83% of 14-year-olds have a mobile

More information
'Minors and Mobile Connectivity in Spain: Tablets and Smartphones' (Protect them)



Telefónica has strategic allies in the whole of society in order to ensure that children can browse with comprehensive safety guarantees

Internet and, above all, to learn not to do anything in their online life that they would not do in their 'offline' life.

We also focus on teenagers, and have set up a specific workshop for them in collaboration with the Images, Words and Ideas Group of the *Universidad de Alcalá**. The aim in this case is to look for strategies to make youths active producers of the messages that are sent by the digital media.

ALLIANCES AND SELF-REGULATION

Ensuring safe browsing online is a task that no one can address on their own. At Telefónica, we are aware that to ensure that minors take full advantage of new technology with maximum safety guarantees, the following are needed:

⇨ Strategic allies in civil society. In particular, we collaborate nationally with **Inhope** (an agency that manages hotlines for reporting child sexual abuse), **Insafe** (the European network which promotes a safe Internet), *Pantallas Amigas*, *Red Papaz*, Childnet, FSM, ASI, RCPI, and other non-governmental organisations whose objectives are in line with Telefónica's.

⇨ Collaboration with State Law Enforcement and Security Forces to combat illegal online content.

⇨ Sectoral alliances. Currently we are working with ITU, ETNO, IGF and with the following entities:

- **CEO Coalition for a Better Internet for Children (CEO Coalition)**
  in January 2014, the CEO Coalition, which was launched by the European Commission in December 2011, was concluded. Telefónica submitted its findings in a document that laid out its commitments for the future, with continuity through other alliances within the industry, such as the ICT Coalition.

- **ICT Coalition**
  This coalition was launched in January 2012, when nearly 30 companies committed to developing products and services and promoting education which ensures better use of digital services by children. In the first half of 2014, a report audited by an independent expert was submitted.

** DigitalKids*

2014 MILESTONES

1. Launch of the **Digital Family** portal. On 11 February 2014, taking advantage of Safer Internet Day, we launched this interactive portal, which is updated daily with news related to the use that children make of new technology. It enables parents to share experiences and good practice, in addition to bringing together ideas for helping their sons and daughters to get the most out of ICT.

2. Inhope's second hotline in Latin America in collaboration with Telefónica and the Peruvian Network against Child Pornography (Spanish initials: RCPI).

3. Launch of the latest parental controls in Brazil and Spain. With these, we are fulfilling the commitments made in both the CEO Coalition and the ICT Coalition.



CHALLENGES FOR 2015

In 2015, we set ourselves the challenge of making the **Digital Family** portal website the benchmark for the Spanish-speaking market, thereby promoting its maximum possible adoption in Latin America.

In addition, we will proceed with the extension of the latest parental controls to other countries where Telefónica has a presence.

BEST PRACTICE
DIGITAL FAMILY

Digital Family is a resource centre for families and educators, whose purpose is to promote digital education and contribute to creating a better Internet for children and teenagers. This is a dynamic site which is constantly updated, where experiences and testimonies can be shared and where one can catch up on the latest technological changes.

The project, which has received 289,942 visits since its launch, and has the support of entities of international renown, such as *Universidad de Navarra*, European Schoolnet, Insafe, EU Kids Online, Childnet International and *Pantallas Amigas*, among others, has already been implemented in Spain, Ecuador, Colombia and Venezuela. Throughout 2015 it will be available in Mexico and Argentina, as well as other countries of Latin America.



5. Sustainable Innovation





Innovation

At Telefónica we are committed to both traditional R&D innovation and open innovation.

R&D&i at *Telefónica*

Telefónica is the European telecommunications operator which invests the most in R&D, and the second largest investor in the world. This was acknowledged in the latest report published by the European Commission, performed on the 2013 data.

FORWARD PROGRESS

We are convinced that only a commitment to innovation will achieve sustained business viability, a competitive edge and an advantageous position from which to evolve, think ahead and provide customer satisfaction.

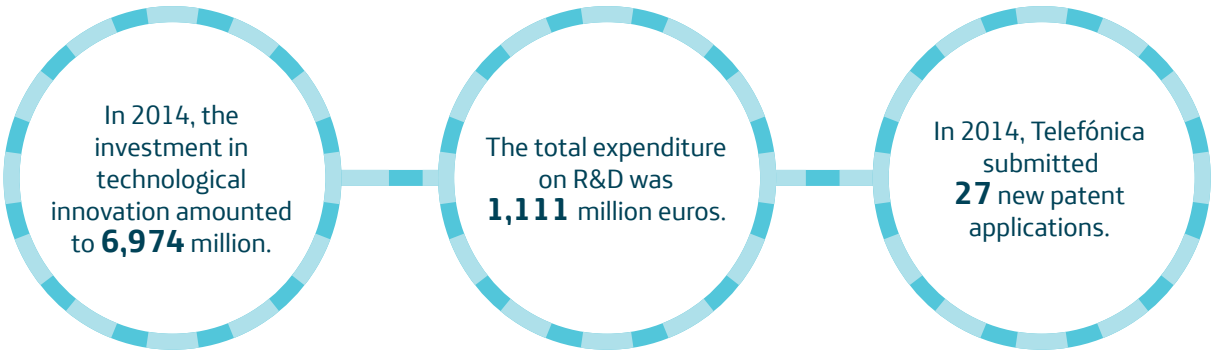
In 2014, Telefónica submitted 27 new applications for patents and utility models through the Spanish Patent and Trademark Office (Spanish initials: OEPM). Our objective is to protect our innovative activity in the markets where we operate: Europe and America. This policy has enabled us to become the leading Spanish telecommunications company in terms of the number of international patent applications made (according to the World Intellectual Property Organisation), and this year we have once again set the benchmark for private innovation in Spain.

Centres of Excellence

Telefónica's commitment to internal innovation is channelled through Telefónica R&D, with a network of technological centres of excellence located in Barcelona, Granada, Huesca, Madrid, Valladolid, São Paulo and London.

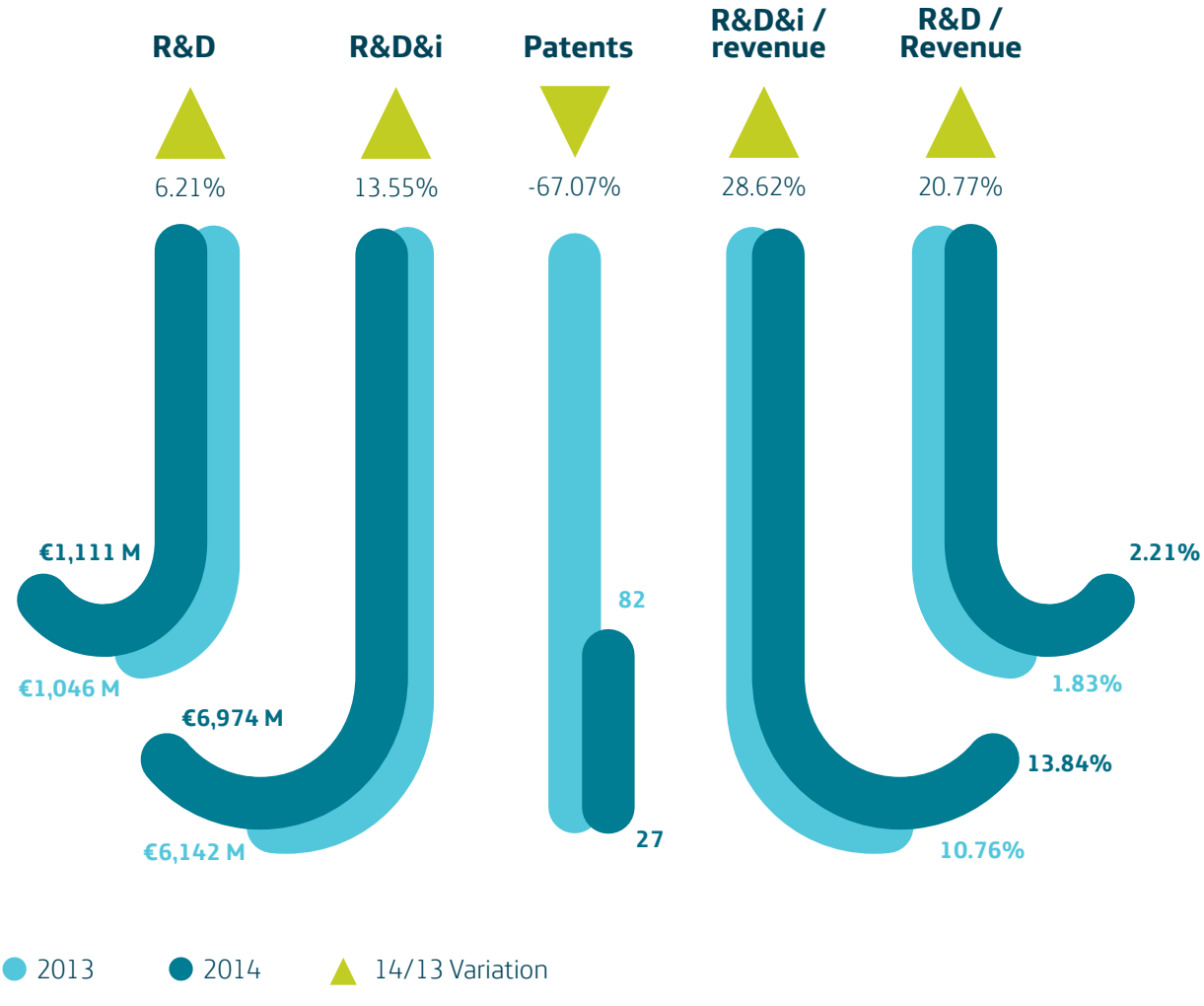
In November 2014, we opened a new centre as part of this network in Chile. In this case it was the result of a public-private initiative in collaboration with Corfo and the *Universidad de Desarrollo*. The centre leads the development of new technology focused on the digital world and the Internet of Things, and will initially be applicable to smart cities and smart industries (agriculture and mining). This centre will focus on open platforms and collaborative work and research models, drawing on the results of the other Telefónica R&D centres around the world.

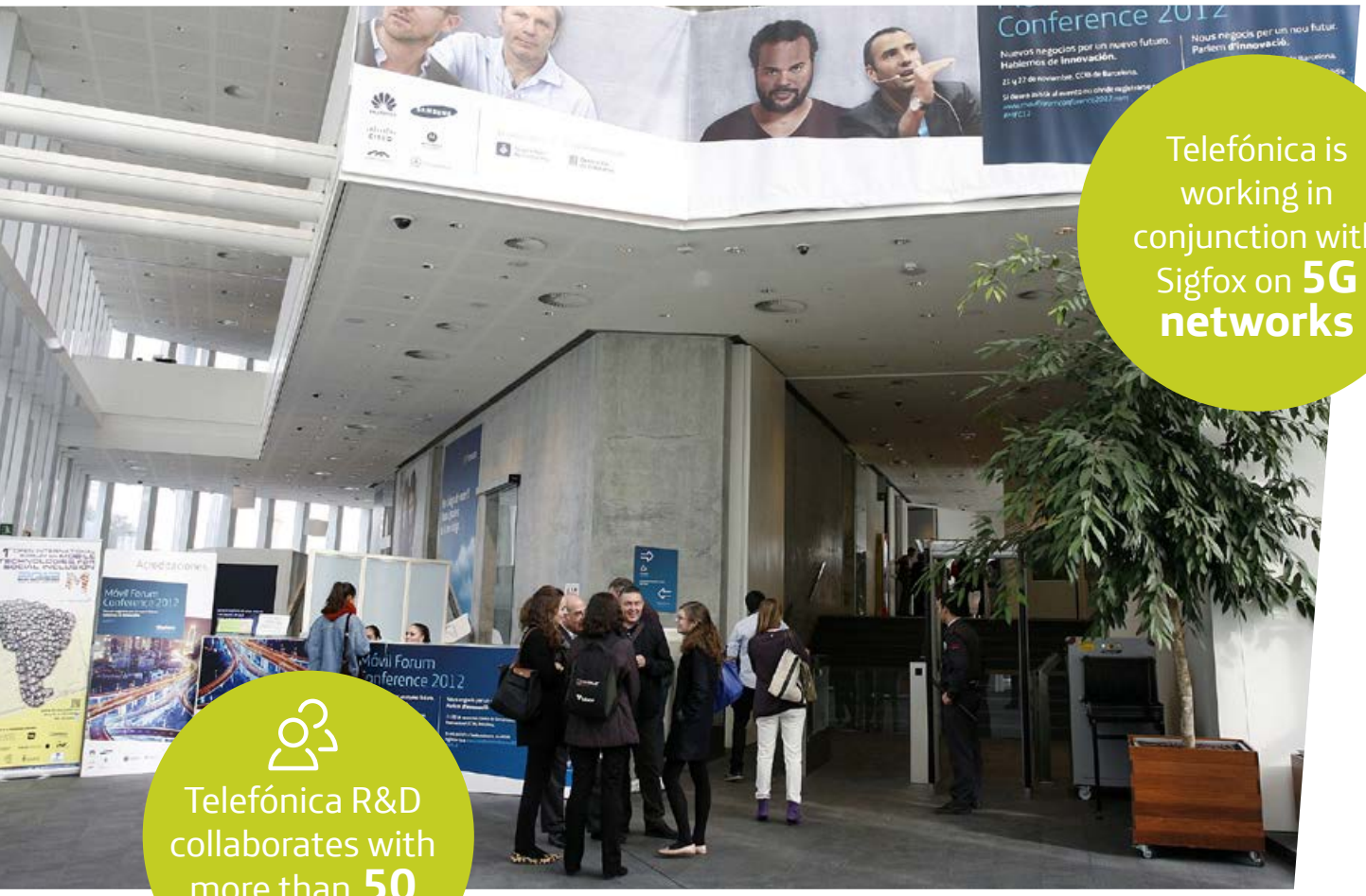
Telefónica is committed to investing in R&D





Our commitment to R&D is backed up by the figures





Telefónica is working in conjunction with Sigfox on **5G networks**

Telefónica R&D collaborates with more than **50** universities

2014 ACHIEVEMENTS

At Telefónica, we want to become the leading digital telephone company. With this objective in mind, our innovative activity focuses on communication services, improving our networks, identification, Media Services, IoT, Big Data and the Cloud, among other things.

Communication Services

TU Go. This year saw continued evolution of the TU Go service, which enables you to use a mobile phone number on any connected device.

To this end, an app was offered to customers using Windows Phone devices in order to make the service accessible without the need to install any additional software.

Wearable Technology. TU Go incorporated integration with Android Wear, which enables you to receive and interact directly with smart watches. New features were also incorporated into the product, such as the ability to make calls using the 3G and 4G data connections.

- **Firefox Hello.** The development of version 2.0 of this operating system was completed. Integration of communication, data, text and video on WebRTC capabilities in Firefox OS, make it the number one operating system. This has enabled Firefox Hello to be possible on any web browser on your desktop.

- **Awazza.** This product enables users to access the Internet more quickly from their mobile, and offers customers security management, access control and the blocking of advertising. Now present in Spain, Mexico and the United Kingdom, and with almost 17,000 registered users in 2014, work has been done to refine the product technologically and improve its features with a view to its future launch.

Network improvement

Efforts have been made in the improvement of network virtualisation, i.e., the ability for a single device to be used for different purposes depending on the software installed on it.

NFV Reference Lab. Telefónica has set the benchmark worldwide in leading the laboratory that implements the latest network virtualisation architecture, proposed within the framework of ETSI's ISG NFV.

Innovation in identification

- Work has been done on the technological development of the Mobile Connect service, which enables you to use your phone number and SIM as identification details via any Internet service.

- Within the framework of the GSMA, work has been done on improving the technology, making the launch of the product's first multi-operator pilots feasible in 2015.

Video

- Technological advances have been marketed, such as the online recording service or multi-screen broadcasts, which represent a clear technological leap in comparison to our competitors' proposals.

- Video services based on the distribution capabilities of the LTE mobile network over MBMS interfaces have been investigated, as well as those based on live distribution capabilities through multicast technology.

Internet of Things

Within the framework of the Internet of Things, Telefónica R&D has designed an advanced technology solution for the complete management of towns and cities, which transforms them into smart cities that are completely connected. In Spain, Valencia will be the first city to have this platform's technology.

- **Smart Cities.** To build this platform, components developed in the European FI-WARE project have been used. The project, whose technological development is coordinated by Telefónica R&D, makes technological modules available to developers and entrepreneurs so that they can build their own applications and breathe life into the ecosystem.
  The platform specifications are public and royalty-free.

- **Thinking Things.** A set of low-cost modular devices have been launched, which integrate different sensors and which, through a connection to the cloud, enable all the possibilities of the Internet of Things to be exploited. This is a *plug and play solution* which enables users to employ Thinking Things without having any knowledge of programming or needing any additional infrastructure.

  - **#IoT Challenge.** This has been launched through Telefónica Open Future, with which it is hoped the developer community will get involved.

  - **Click&Pizza.** This is a service developed by Telefónica R&D in collaboration with Telepizza. It is a new concept in responding to pizza delivery orders which requires no more than a single click. This is one of the first solutions designed based on Thinking Things.

Telefónica R&D was recognised as a world pioneer in applying global 'Lean Startup' methodologies in their innovation processes

Big Data

Through the analysis of large anonymous data packages, it is possible to provide detailed information about users and their preferences, which opens a range of possibilities that enable tourism enterprises to improve both the services they offer and the management of their businesses. Noteworthy among these are the following:

- **Smart Tourism.** A new methodology has been developed to analyse and investigate the tourism sector.

- **Improvement of customer experience in shops.** Digital world business intelligence techniques are used both in Telefónica's flagship stores and in third party shops, wherein the aim is to use analytical techniques to gain a greater knowledge of customer behaviour, their typical routes and hot spots.

- **Driving Patterns**. The analysis of data will allow the evolution of the Insurance Telematics product in 2015, with potential applications in insurance for users, and in enabling a better understanding and management of traffic accidents.

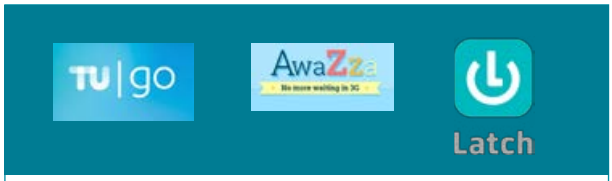
- **Data Transparency Lab.** This is a work forum which seeks the collaboration of technologists, regulators and privacy advocators, so that they can develop useful tools and better regulation for the industry.

The research projects carried out by Telefónica R&D in this area are particularly noteworthy:

- Prediction of the spread of diseases based on mobile usage patterns.
- Application during epidemics such as the recent Ebola outbreak.
- Predictive analysis of crime in large cities using anonymised data.

Innovation in the Cloud

Telefónica acquired the company **eyeOS** in order to strengthen its position in Cloud services.
The Company develops virtualised desktops which are accessed from a web browser and which are an ideal platform for organisations such as Government or small and medium-sized businesses.



Patent Awards
In the latest edition, along with the explicit recognition of each of the inventors in the Group, prizes were awarded to the most important and innovative projects of 2014. The following are some key examples:

- **TU Go**
- **Awazza**
- **Latch:** a security service that gives users the control to shut down their online services when they are not connected to them, thus reducing exposure time to cyber-attacks.
- **Network virtualisation,** which simplifies the equipment installed in the customer's house, thereby reducing costs and complications for users.

Acknowledgements
Telefónica R&D was recognised as a world pioneer in applying 'Lean Startup' methodologies in its innovation processes. This methodology, which has been applied since the end of 2011, requires continuous contact with the customer from the outset, thus enabling the usefulness of the products and services being developed to be assessed as soon as possible, as stipulated in a report made by Susana Jurado Apruzzese and María Olano Mata. The use of this technology globally leads to greater effectiveness in innovation and a greater capability to test new product ideas that are in line with the needs of the customer.

All R&D&i activity is focused on a single objective: to continue transforming Telefónica into a leading Digital Telco. It is not possible to take on this great challenge alone. Therefore, being capable of getting the most from communities is a key factor of success.

Some of the projects currently underway are:

- Collaboration with other European operators and institutions in order to participate in projects promoted by the European Union.

- Collaboration with Spanish and foreign universities and research centres. This has allowed us to create one of the most relevant innovation networks in the global ICT sector. Only Telefónica R&D collaborates with more than 50 universities.

- The organisation of competitions and hackathons all around the world. Among them, those related to Firefox OS and FI-WARE are worthy of note.

In addition, Telefónica's User Experience Lab strives to get to know and understand customers, and work with them to define new services and design products.

We have identified technological challenges that need to be resolved in the next few years and which will govern innovation activities in the near future. Noteworthy among them are the following:

- **The limitations that current mobile networks pose to the development of the Internet of Things.** In order to fully develop this concept, new networks that enable communications to be independent of the power supply will need to be created. To address this challenge, Telefónica has become a shareholder of Sigfox, a company which generates this type of technology and is working on the definition of future 5G networks.

- These good prospects will bring with them **the need for long-term projects** to be addressed, since a continued effort is necessary to overcome the technological difficulties involved. Therefore, the choice of technology associates is key, as the success of this kind of venture will depend on it.

BIG SOCIAL DATA

Big Data is a term which refers to the huge quantities of data that are constantly being recorded due to the digitisation of science (astronomy, physics, medicine...) and infrastructure (smart cities, financial transactions...), as well as mass use of mobile phones and other connected devices. This process in turn gives rise to what is known as **Big Social Data**, where the data generated is used for social causes, such as how to act in the case of natural disasters, fight the spread of epidemics, improve crime prevention, increase agricultural productivity or optimise medical diagnoses, among others.

This aggregate data makes it possible to establish behavioural patterns (social, mobility...) and predictive models, thanks to artificial intelligence, pattern discovery and machine learning techniques. The work of researchers offers valuable information to both public and private institutions, helping them to ease decision-making and orientate activities.

Our researchers analyse the large quantity of anonymous and encrypted data compiled from the traffic registers in mobile antennas, always while maintaining the anonymity and privacy of the data.

This work has principally been carried out in Latin America – given Telefónica's heavy presence in the region – with a view to improving decision-making processes that affect low-income communities. Although it could equally be applied to any other part of the world and to any community irrespective of resource levels, in nowhere but Latin America do over 170 million customers use our telephone networks on a daily basis. This traffic generates such vast quantities of data so as to allow us to deduce, for example, mobility patterns for entire towns; important information which at Telefónica we believe will help to bring about a major advance in improving the quality of life of the Latin American population.

Open Innovation at Telefónica: *Open Future*

Open Future is Telefónica's global programme of entrepreneurship and investment, aimed at attracting innovative products, services and talent to the Company, with the goal of integrating them into our value proposition for customers.

It includes several initiatives of proven success, such as the Telefónica Ventures and Amérigo investment funds, the start-up accelerator Wayra and the Think Big and Talentum initiatives (which support the youngest talent).

In addition, there are two new initiatives that allow connection with external partners who wish to develop specific strategies of external innovation, acceleration and investment.

In this way, Open Future offers a complete model of support to the unique talent on the market, from the earliest stages, when the project is just an idea, up to the more advanced stages, where a financial partner is needed to support the growth and expansion of startups.

Furthermore, both Telefónica and its partners can use Open Future as a doorway to external innovation and to digital products which are key to the industries of the future.

There are several objectives which Telefónica hopes to achieve with this project:

- Through alliances with its associates, Telefónica can reach more people, render its initiatives more global, make them generate more impact and multiply the involvement of talent. As a result, investment decisions will be more successful, the best projects will be attracted and Telefónica will therefore be able to offer the best of the digital world to its customers.

- Moreover, Telefónica has the firm conviction that technological innovation and the promotion of talent are the best means of spurring economic growth and employment in all markets. This growth benefits all the agents that operate in this market, including Telefónica.

Currently, at Telefónica we are carrying out these activities in 17 countries, with 500 companies invested in, and a total investment committed by Telefónica and its associates amounting to 300 million euros.

Objectives of the Open Future programme

Encourage -

Think Big, Talentum and Open Future

We create and revive entrepreneurial ecosystems which invigorate the local economy by attracting and supporting talent.

Accelerate -

Crowdworking and Wayra

We promote the growth of this talent with acceleration tools for their businesses. This enables the identification of innovative products which improve the value proposal to customers of Telefónica and its partners.

Invest -

Amérigo and Telefónica Ventures

We promote the necessary investment for those projects with the greatest potential, so that they can scale up their business and consolidate its internationalisation.

Sustainable Innovation projects supported by Telefónica

Through the open innovation developed on the Open Future programme, Telefónica supports various sustainable innovation projects in areas such as disability and dependence, education, health, finance and the environment.

MintLabs

A Platform which makes the prediction, detection and diagnosis of possible neurological disorders possible through an analysis of algorithms capable of creating a 3D map of the brain.

mirubee

Mirubee is designed to enable anyone to find out about and control their consumption of electronic equipment at home.

acamica

Acámica is an online education platform which offers a dynamic approach to learning through what it is known as distributed microlearning.

akdemia

Akdemia is a web service that allows the online, centralised management of all a school's academic processes, thereby facilitating communication and interaction between pupils, parents and teachers.

cúrsame

Cursa.me is a platform that connects the pupils, parents, teachers and management of any one institution, permitting and facilitating greater interaction and strengthening the teaching-learning process, thus improving the quality of education.

School Control

"School Control" is a communication platform for schools where teachers, students and their families can consult school information and follow closely the academic performance of any one student.

educabilia

Educabilia is a platform where students can find the best courses, classes and workshops, both offline and online, offered in their area.

wayra.

Qranio is an online learning platform where users can test their knowledge in exchange for various physical prizes.

A Platform for vehicle sharing which builds trust among its community of users.

ProRadis develops tailor-made software solutions for the management and operation of radiology clinics, making these laboratories more accessible to an ever expanding public.

TedCas is a system which implements the use of the Xbox Kinect technology to manage medical information in an operating theatre, through movement and voice sensitive interfaces, without compromising the sterilisation of the medical team or their equipment.

Ikenga: This app provides a fun and easy way of helping people to define and fulfil their financial goals, be they finding financial freedom, saving to start a business, reducing debt etc.

Online market for regional farm produce, which encourages local consumption.

TrashOut is an environmental project whose goal is to locate fly-tipping sites around the world.

A platform which markets used baby clothes, promoting reuse and a circular economy.

A platform where actions, not money, are donated. Positive environmental habits are promoted which, when adopted by many individuals, make a big difference. Aimed at businesses and their employees, users can make their contributions to the environment public, such as using videoconferencing or cyclng to work. This can generate friendly competition and motivate and bond teams.

Software which converts *smart glasses* into a tool that enables visually-impaired people to learn more about their surroundings.

A fast and simple tracking tool which allows diabetes sufferers to manage their own sugar levels and connect with health teams.

A market place for people with hearing difficulties, which enables real time connection with interpreters and sign language professionals through smartphones.

An application based on pictograms which facilitates communication for those people who, as a result of disability, accident, illness or psychological problems, have problems communicating.

An application which allows people with reduced mobility to notify local authorities about sections of cities that are not accessible to them.

Scienceful.com is an online learning platform which provides exam revision material and content for secondary school and pre-university students.

The Future Techies project was created in order to achieve digital inclusion for everyone, exploring widely accessible 21st century technology from new innovative points of view.

IRISBOND
PRECISE PRECISION

A system which allows people with mobility and language issues to be able to control a computer with total precision using just the movement of their eyes.

BLUEWAY

A mobile indoor navegation system for people with visual or cognitative disability.

Renal Help

A web platform and mobile application to help patients of chronic kidney disease and their families to better cope with the illness. It also connects patients with their healthcare providers.

Talemnology

A service which provides sufferers of chronic diseases with mobile technology specific to their condition, in the form of biosensory medical devices, which allow them to actively control and track their illness.

ShowLeap

A solution aimed at people with hearing impairments which interprets sign language and reproduces it orally, and vice-versa.

Lazzus

An application which uses *smart glasses* and mobile devices to help people with sight problems get real time information on points of interest in their immediate vicinity.

SIAR

Technology that is capable of creating intelligent homes and providing care robots for dependent persons and their families.

JOB^CCOMMODATION

A service that uses the knowledge of its disabled users to help businesses design their products in a manner which makes them accessible to as many people as possible.

EARC APPS

An application which connects the families of people with brain damage with contact networks and useful services.

Telefónica
OPEN FUTURE_



Sustainable *innovation*

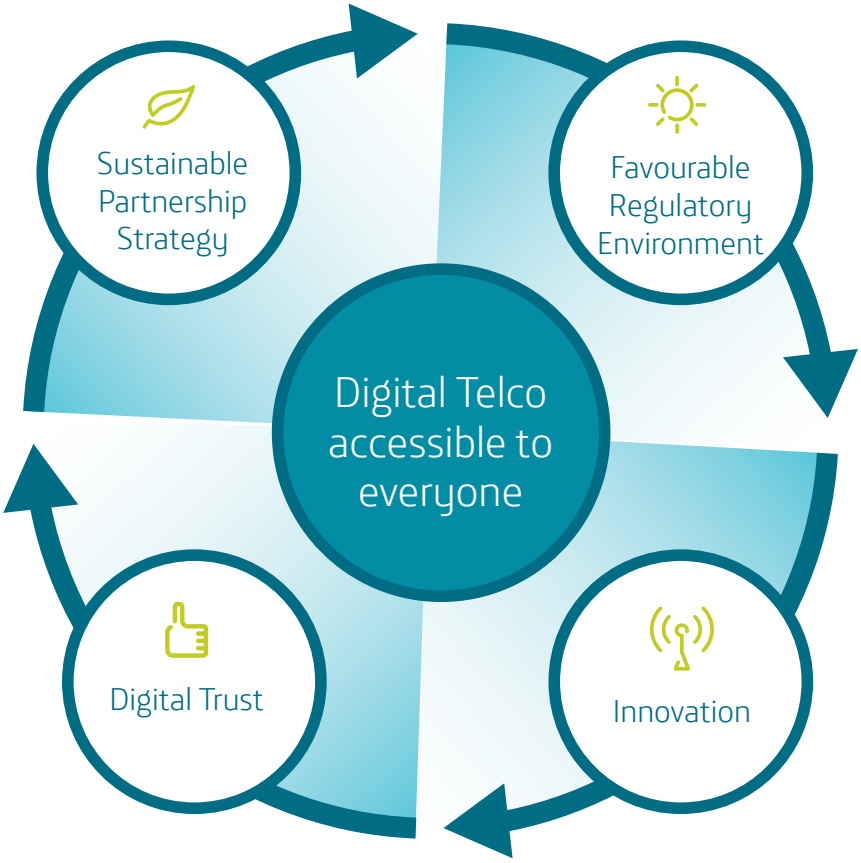
At Telefónica, we understand Sustainable Innovation to be the creation and backing of new, innovative ideas (products, services, and models) that address current social needs, such as demographic change, the financial crisis, environmental degradation and poverty and, at the same time, create new relationships and collaborations between different agents and institutions.

To develop the Sustainable Innovation process, at Telefónica we can count on actors such as:

- The **Commercial Digital area (CCDO)**, in which all the R&D&i processes of the Group are developed.
- **Telefónica Open Future (TOF)**, the platform that integrates all the entrepreneurial and financial initiatives in the Group.
- **Fundación Telefónica**, a channel for social and cultural action at Telefónica in Europe and Latin America.

The aim of the legal framework present within Europe and Latin America is to construct a digital economy that promotes an e-Society, fostering a favourable environment for Sustainable Innovation. All the initiatives along this line must be standardised both within the Company, with initiatives coordinated between the CCDO, TOF and the Foundation, and on an external level, with sustainable partnerships with actors such as industry, government and multilateral organisations.

Being a Digital Telco implies bringing the advantages of technology closer to the people and ensuring that achieving access to services for all our customers is a permanent goal.



Telefónica Accesible is our pledge to developing solutions that make people's lives easier and favours the elimination of a wide range of obstacles that could affect them.

Our management approach means incorporating the "Design for Everyone" concept into all the distinct links in the Company's value chain.

"Design for Everyone" seeks to ensure that the greatest number of people possible can make use of the environments, products, services and systems. It is a model based upon human diversity, social inclusion and equality.

Innovation and technology are at the centre of the social agenda, as the characteristics of our environment create important challenges in which innovation and the use of technology can play a key role, offering answers to such relevant questions as the progressively ageing population, the need to uncouple economic growth and the level of resource consumption, environmental conservation, the increase in unemployment and the growing inequality in access to resources within the population.

Aware of the potential social impact of our ability to offer solutions to these future challenges, at Telefónica we have spent years developing a wide array of sustainable and innovative products and services with the goal of minimising the digital divide in the regions where we operate.

At Telefónica we have spent years developing a wide range of sustainable products and services in order to reduce the digital gap in the regions where we operate

To do so, we have focused on developing sustainable and innovative products, services and business models in areas such as disability and dependence, education, health, finance, entrepreneurship and remote and impoverished populations.

Technological innovation in the face of the environmental challenge deploys its potential by means of the introduction of digital technology in the economic sectors, generating very significant energy savings. The transversal and facilitating character of technology allows for and makes it possible to greatly improve efficiency in all sectors of activity, preparing them for a better and more efficient use of resources and, consequently, for a reduction in energy needs and a reduction in greenhouse gas emissions. In turn, this can prompt social change encouraging habits and customs that are energetically efficient and environmentally respectful.



SUSTAINABLE PRODUCTS AND SERVICES

Digital *inclusion*

The possibility of accessing technology should be open and available to everyone, improving lives and generating opportunities for all.

Technology acts as an enabling element for facing social challenges, but, as it evolves, it can also produce certain divides that generate inequality and discrimination. That is why technology should not only offer new products and services to those collectives that need them, but must also work to minimise those divides that are generated by the very lack of access to it.

According to the 'The Global Information Technology Report', published by the World Economic Forum in 2015, 90% of the population in developing countries and 60% worldwide do not have access to the Internet. Additionally, half of the world's population does not have access to a mobile terminal.

This is why Telefónica, in addition to developing new sustainable solutions, is working to reduce the lack of access to these services.

We have spent years developing a wide range of sustainable and innovative products and services, with the goal of lessening the digital divide in the regions where we operate.

We have focused on developing sustainable and innovative products, services and business models in areas such as disability and dependence, education, health, finance, entrepreneurship, relations with public administrations, Big Data, remote and impoverished communities and the protection of children.



1. GEOGRAPHICAL DIVIDE

Traditionally, the population in remote areas of developing countries has lacked equal access to basic services due to the geographical divide, but recently, thanks to the introduction of information and communication technology, these areas have seen an improvement in access to basic services a result of the development of social inclusion policies.

However ICT is not just set up in these areas in order to improve communications; commercial mobile services can also simultaneously increase economic growth thanks to the improvement in productivity and community members' incomes. By creating sustainable business models based on telecommunications, we are hopeful that the members

ICT is transforming 21st century **education** and at Telefónica we are committed to supporting this change

of these communities will have the opportunity to reverse their current impoverished and excluded situation.

Consequently, Telefónica has spent years bringing telecommunications to the most remote areas and minority groups by means of different programmes and projects focused on boosting the social inclusion of these groups.

Fundación Telefónica finances the **Sávalo II** programme which, through mobile technology, seeks to aid artisan fishermen from Tumaco de Nariño (Colombia) in developing their digital skills and capacity for innovation to improve their quality of life and to secure their culturally traditional fishing industry.

Fishing is one of the main economic activities in the region and provides a means of living for dozens of families who employ techniques handed down to them by their ancestors. Overfishing, together with a lack of investment opportunities, has brought about consequences such as a reduction in community income and youth emigration to other cities in search for jobs.

To combat this, the project supports the implementation of new economic activities through the use of applications for smartphones and tablets, boosting the development of digital skills and capacity for innovation in this community. This is done through a sustainable programme with the secondary school, local markets, and other local agencies.

Other projects we have spent years working on include **México Rural**, **Intégrame**, **En quechua y aymara**, **Pescando com Redes 3G** and **ConectaRSE para Crecer**.

2. DISABILITY DIVIDE

Accessibility is an issue that affects a large segment of the global population. According to the World Health Organisation, more than a billion people around the world suffer from some type of disability.

The mobile phone has enough potential to transform the way in which consumers manage their finances, make payments and send and receive money

This group generally has poorer health and poorer academic results, as well as fewer economic opportunities, which can lead to elevated poverty ratios. In part, these problems originate from a lack of access to services and the obstacles they have to confront on a daily basis.

At Telefónica, aware of the potential that digital technology can offer, we are working to develop products and services under the criteria of "Design for Everyone", with the goal of fully integrating people with dependencies or different capabilities into society.

For example, in keeping with our commitment to disadvantaged groups, at Telefónica we have developed our own application to help deaf people call the emergency services on the telephone. The application is based on pictograms and videos with sign language that cover the principal and most common emergencies grouped by service: need for the police, rescue, firefighters, and health. The pictograms are simplified into three large groups (police, firefighters and SEM [Emergency Medical Services, EMS]) which indicate situations such as abuse, aggressions, fights, disappearances, robberies, suicides, car accidents, car breakdowns, fires, gas leaks, floods, intoxications, the inability to breathe, burns, chest pains, births, choking, injuries, seizures, vomiting/nausea, fever, sick children, falls/broken bones and a generic 'other'. Each pictogram includes advice for minimising risk while the emergency services are on their way.

FESOCA, the Catalan NGO, will be in charge of distributing and disseminating the application throughout the deaf community in Catalonia. This organisation is a reference point within the community.

Further information in chapter: 'Disability and dependence'.

3. EDUCATION DIVIDE

ICT has become the pivot for education transformation in the 21st century, opening up a world of possibilities for learning and teaching in a digital environment that is more in line with students' new habits that nowadays see them permanently connected.

This modernisation of education confronts us with new challenges, such as putting a check on academic failure and improving employability and the efficiency of the school system, as well as the ability to teach from anywhere and guarantee equal access to education for everyone, regardless of their purchasing power or level of education.

At Telefónica we have committed ourselves to supporting this process of educational change towards a digital environment. We do so through the development of products and services that range from connectivity to platforms and content, addressing training solutions in new technologies.

Further information in chapter: 'Digital education'.

170 million
customers use our telephone networks every day in Latin America alone

Thanks to ICT, access to basic services in remote areas of developing countries is being improved through social inclusion policies

4. HEALTH DIVIDE

Today, healthcare is facing new challenges with an ageing population, increased chronic illnesses and citizens consistently demanding better healthcare services.

At Telefónica, we contribute to developing a new, better connected and sustainable management model, with solutions that create new service channels. Our goal is to make contact with healthcare professionals more accessible, educating both healthy patients – so they can live in a healthy manner – as well as patients with chronic illnesses – so they can care better for their health. The challenge is to encourage patients, through their own empowerment, to take a more active role and to make chronically ill patients feel safe and protected, ensuring higher quality attention and greater control over their illnesses.

Further information in chapter: 'eHealth'.

5. ECONOMIC DIVIDE

The popularisation of mobile services is an undeniable reality. In some countries, such as Brazil, mobile penetration has already exceeded 120%. Because of this, these devices are more and more becoming a gateway to a wide range of financial services.

Mass access to financial services through mobile technology is making daily life easier for many people without banking experience in developing countries, turning this into a real alternative to exclusion from the formal banking system.

At Telefónica we are convinced that mobile phones have enough potential to transform the way in which consumers manage their finances, make payments and send and receive money. But we also believe a strong ecosystem is necessary, sufficient to guarantee the quality and security of these services. For such an ecosystem to exist, we believe it is necessary for both telecommunications operators and financial institutions to work together, offering the necessary confidence to the consumer.

In Latin America, Telefónica has launched two initiatives in collaboration with MasterCard in Brazil and Peru. Christened as **Zumm** and **Tu Dinero Móvil**, they allow us to offer services through mobile phones that improve financial inclusion, allowing clients to be able to make movements such as depositing or withdrawing money from an account, sending money between people as if it were a text message, paying bills (electricity, gas, etc.) and paying for purchases in any shop with a physical pre-paid card. Additionally, this service has a wide network of physical agents and service points that are enabled for operation.

The benefits of these mobile financial services are very important for the Latin American population, where issues such as not receiving a salary in a bank account and not being able to pay bills remotely for the most basic services continue to consume a large amount of time and money.

Zuum was launched in May 2013 in Sao Paulo, and in 2014 it widened its scope of operation to reach five Brazilian regions.

Tu Dinero Móvil was launched onto the market in May 2014 in three important Peruvian cities: Lima, Trujillo and Chiclayo, with the aim of expanding to the rest of the country in the short term.

SUSTAINABLE PRODUCTS AND SERVICES

Universal Service

The Universal Service is the set of basic communication services which Telefónica guarantees to provide to all users who request it, defying the geographical divide. Its characteristics include a specific quality and an affordable price.



Currently in Argentina, Brazil, Colombia, Spain, Peru, Venezuela and Ecuador, the Universal Service lies under the control and monitoring of the public bodies established for such purpose in each country where it is provided. In each case, the sectoral regulator specifies the different services that are included in the denomination and the conditions in which they are provided, as well as the operators who assume this responsibility.

This year, Brazil has included not only the part agreed on with the Fund for the Universalisation of Telecommunications Services (Spanish initials: FUST) but also the requirements of the Fund for the Technological Development of Communications (Spanish initials: FUNTTEL). The variation in the local currency in comparison with 2013 stands at +5.4%. It is important to highlight that the figures in euros reflect the impact of the depreciation of the exchange rates, mainly in Argentina and Venezuela.

Amounts assigned to the Universal Service

	2014		% annual variation	
	Local currency	euros	Local currency	euros
Argentina [1]	1,509,103,227	140,367,728	-5.7%	-36.6%
Brazil	263,784,376	84,641,020	5.4%	-3.6%
Peru [2]	90,100,440	23,919,955	8.6%	3.3%
Colombia	159,809,679,567	60,304,822	4.2%	-2.6%
Venezuela	295,378,997	20,267,360	39.5%	-19.9%
Ecuador	5,465,699	4,120,891	0.0%	0.1%
Spain [3]	23,350,076	23,350,076	-23.3%	-23.3%

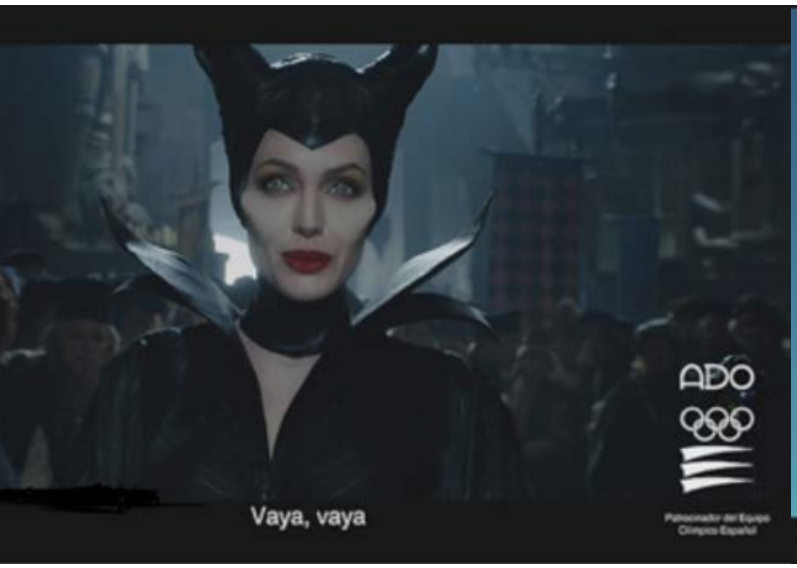
(1). Includes programmes executed by TASA (e.g. service for people with hearing impairments, service in high-cost areas, etc.).
(2). Includes services provided by Telefónica Multimedia S.A.C., TIWS and Media Network S.A.C.
(3). Estimate pending approval by the Spanish National Commission for Markets and Competition (Spanish initials: CNMC).



SUSTAINABLE PRODUCTS AND SERVICES

Disability and *dependence*

At Telefónica, we believe that digital and mobile services can play a key role in developing solutions which make the lives of people with disabilities, dependants and those with chronic illness, easier.





Movistar Accessible Christmas Campaign

Access to technology is the key to improving the lives of certain people who make up a great segment of the world's population. To be more specific, the worldwide community of people with disabilities and their families is made up of over one billion people, for whom mobile technology is a tool which can facilitate access to the online world and to solutions which can make their lives easier.

Our approach to management means including disability and the concept of **'Design for All'** in the Company's value chain.

'Design for All' seeks to ensure that environments, products, services and systems can be used by as many people as possible. It is a model based on human diversity, social inclusion and equality.

In order to develop products and services which target people with disabilities and dependants, the Telefónica Group has sought the participation and opinion of people with disabilities themselves, and has established different agreements with related associations and organisations. This is how Telefónica Accesible was formed: through a range of actions, projects, products and services which had been previously approved by the very community for which they are intended.

Telefónica has sought the participation and opinion of people with disabilities in order to develop products and services targeting them, thereby establishing agreements with related associations and organisations

Global Millenial Survey 2014

- 69% of people think that those with disabilities have difficulty in accessing resources and tools that could improve their lives.
- The majority of respondents are influenced by the way a company treats people with disabilities when it comes to deciding whether to buy their products and services or work for it.
- The majority (62%) believes that new technology and the government are the keys to improving the lives of people with disabilities.

Management and development approaches for disability and dependence

Market research

Our management approach
Develop market studies and specific use cases, and incorporate user experiences into processes.

Actions, products and services
At the 2014 Mobile World Congress, Telefónica presented *'Accessibility for the Disabled in the Increasingly Mobile World: The Untapped Billion'*, produced by Chris Lewis, an analyst in the telecommunications sector. In this study, the author develops an analysis of the great opportunity that the digital age represents, both for people with disabilities and their inclusion in society, and for the market, since it is estimated that the needs of this community and their families represent 5.8 billion euros.

R&D&i

Our management approach
To enhance the development of new and accessible services and solutions based on the concept of **'Design for All'**.

Actions, products and services
Radio Me is a device that easily connects the elderly and the non-technologically literate with their families and friends via messaging networks such as WhatsApp or Line, without the need to know how to use a smartphone. It is a patented product whose prototype is currently under development.

Industrialisation

Our management approach
To incorporate 'Accessibility' and 'Design for All' criteria in the process and to facilitate the **development of specific services**.

Actions, products and services

- **App 112 accesible** is an application for smartphones which makes fast, easy and intuitive communication possible for people with hearing impairments using the 112 emergency services hotline in Catalonia.
- **Te Acompaña** is a mobile telecare service set for use both at home and outside the home, which offers users safety in emergency situations, 24 hours a day, 365 days a year. In addition, it offers features such as fall detection, geolocation and linking with safe areas.
- **Whatscine** is a service that enables people with hearing and visual impairments to enjoy the experience of going to the cinema. Telefónica Studios uses this technology in their film projections. By the end of 2014, Telefónica Studios had projected 17 films in commercial cinemas.
- **Digital Reception,** for **Ilunion Hotels**. Will enable you to perform check-in and check-out operations in hotels by means of a kiosk which incorporates technical aids such as touch screen, screen reader, signs in braille and high relief, LED indicators, headphone jack, and screens located at the right height for wheelchair users. It has already been tested with different user profiles and is now in the second phase of testing.

Segmentation of markets

Our approach to management
To develop targeted marketing campaigns aimed at people with disabilities.

Actions, products and services
Accessible Advertising.
Telefónica's advertising teams are developing campaigns with accessible formats. On 3 December 2014, coinciding with the International Day of Persons with Disabilities, Movistar launched its first accessible Christmas campaign on television.

This announcement marks the beginning of an ongoing commitment and collaborative effort on the part of Telefónica to continue carrying out communications and advertising campaigns which are accessible to all.

Customer service

Our approach to management
To include the concept of accessibility in our customer service channels (*call centres*, web pages and shops).

Actions, products, and services
Movistar's accessible catalogue terminals are available by calling 1004 and in some of its own shops. In addition, employees of the Madrid and Barcelona flagship stores have been specifically trained to serve people with disabilities.

CHALLENGES FOR 2015

- **Accessibility of customer service channels:**
  - Accessibility criteria are being incorporated into the Multichannelling transformation project and the new model of Movistar shop.
- **Incorporation of accessible content on Movistar TV.**

Over two days at Wayra, the Ability Challenge finalists received mentoring and prepared 'elevator pitches' for their projects. The result was nine brilliant five-minute presentations for Investors Day

BEST PRACTICE

ABILITY CHALLENGE

Open Future
In 2014 the Ability Challenge was launched in order to promote products and services for people with disabilities, dependants and/or with chronic illness. Not only did participants compete for the final prize of 10,000 euros, but they also had the opportunity to access the training and mentoring offered by the Open Future ecosystem.

The challenge sought projects with a sustainable viable and technology-based business model, whose focus was the generation of benefits with a high social impact.

In a multi-stage process, which included the participation of a panel of experts from Telefónica's world of entrepreneurship and representatives of associations and organisations related to disability, the ten best projects were selected on the basis of their technological potential, maturity, ability to cover a need not currently covered in the market, economic viability, multidisciplinary team and social impact.

Prior to the presentation of their projects on **Investors Day,** entrepreneurs received training and mentoring sessions with the collaboration of Think Big, Talentum and Wayra.



At the event, participants were able to present their projects to Telefónica investors, associations and organisations related to disability, and experts from the world of entrepreneurship. These selected the top 3 finalists, and the winner was **Irisbond**, a system which enables people to control a computer by moving their eyes. Thanks to this system, people with reduced mobility and language impairments, can write e-mails, surf the Internet, watch videos, and so on, simply by moving their eyes.

Results of the Ability Challenge

175 Initiatives submitted
133 met the requirements

Evaluation Process

⇨ From 18 to 24 Sept, 30 startups short-listed.
Selection criteria:
- Open Future platform Score.
- Business plan criteria (technology, social impact, product, scalability, market and team).

⇨ From 24 Sept to 3 Oct
Panel of experts set up by representatives of the associations and organisations related to disability, and experts in entrepreneurship (Wayra, Think Big and Talentum).

⇨ 10 finalists who participated in Investors Day.

⇨ **Blueway**, **Irisbond** and **RenalHelp** were chosen as the best projects.

⇨ The 3 best projects presented their initiatives to a Final Panel composed of specialists in disability, dependence and entrepreneurship.

⇨ **Irisbond**, a system which allows people to control a computer with eye movements, **was the winner of the Ability Challenge**.



The 9 finalists of the Ability Challenge:

- **Blueway**
- **Inctuscare**
- **Irisbond**
- **Job Accomodation**
- **Lazzus**
- **RenalHelp**
- **ShowLeap**
- **SIIAR**
- **Talemnology**

SUSTAINABLE PRODUCTS AND SERVICES

Digital *education*

At Telefónica, we identify and analyse new educational trends, we experiment with them, we gain an understanding of their implications in pedagogical processes, we divulge this understanding and we apply it to the most vulnerable sectors of society.

The use of ICT can have a significant impact on the provision of quality education. For this reason, Telefónica Digital Education's objective is to work to promote a technological transformation in the educational world based on four fundamental elements.

SUPPORT FOR THE INCLUSION OF ICT IN THE EDUCATIONAL SYSTEM

The use of new technology in the classroom is becoming the norm. Both teachers and pupils are demanding applications which facilitate students' personalised and collaborative learning. Telefónica offers them different solutions to choose from.

⇨ For educational centres

- **Wepack,** an educational package that covers all classroom needs. It consists of: devices for pupils and teachers; management; administration and security; and advice from educators and trainers aimed at guiding teachers through the transition process towards digital education.
- Wepack includes **Weclass**. With this tool, teachers can upload both their own content and that of publishers whose material they usually work with. It also enables them to upload assessment marks, follow pupils' performance, assign them tasks, and so on. Pupils and their parents can see the content, access the work and exercises, update their diaries, view their notes and so on.
- **Infantium.** This is the solution for the education of young children which complements Weclass and which was implemented in 2014. Infantium aids the development of multiple intelligences.

Open Weclass projects have been implemented as part of the curriculum in various schools in Brazil.

⇨ For management teams

- **The Sextant Model** is an intervention model which accompanies management teams on their journey towards educational excellence by means of continuous improvement and innovation, managing change throughout the educational project at the centre.

⇨ For teachers

- **Scolartic** is a social learning space where teachers can train, find information and exchange best practices and educational experiences.
- **CODE** is a project whose purpose is to support Technology and IT teachers in the delivery of a new Programming subject. The first experience with CODE was carried out during this school year in the Autonomous Community of Madrid. This project has helped teachers to strengthen and develop their technology skills, providing them with educational tools for use in the classroom.

⇨ For teenage pupils

- **Owlas** is a MOOC (Massive Open Online Courses) platform, with video-based courses covering obligatory and non-obligatory secondary education subjects in Spain. Owlas is the perfect consolidation tool for pupils when they leave the classroom.



Weclass received the Educational Innovation Award for best platform on the market at SIMO EDUCACIÓN 2014.

Telefónica's Miríada X project has become the first Spanish-speaking online platform of open courses

EMPLOYMENT TRAINING WHICH DEVELOPS NEW ICT SKILLS

At Telefónica we are aware of the gap between the skill requirements needed to fill technological vacancies and the profiles of candidates who apply for them. The aim of our solutions is to redress this lack of technological skills training which currently exists among job seekers.

UPDATING PROFESSIONALS' KNOWLEDGE AND SKILLS

On-the-job training is another growth area within the field of education. At Telefónica we have developed training models for companies which combine the know-how of in-house experts with training and certification platforms. One example of this is **Learn4Sales**, our project focused on sales training, which is adapted to society's current demands for increasingly sophisticated knowledge by means of successful social learning models.

DEMOCRATISATION OF ACCESS TO DIGITAL LEARNING BY MEANS OF MOOCS

Access to free knowledge from prestigious universities is revolutionising the education model. The **Miríada X** platform is a Telefónica Digital Education and Universia (Santander Group University Network) project. Through 1,290 universities in Latin America it has become the first Spanish-speaking online platform of open courses, with more than 1 million students signed up. The potential customer-base for these courses amounts to a total of 600 million Spanish and Portuguese-speaking people. Since the project was launched, more than 200 courses from 45 different universities have been published and it has a teacher community comprising 1,234 members.

With these solutions, Telefónica Digital Education is present throughout the lifelong process of digital learning, providing for a range of objectives by means of customised solutions and by fostering the development of people who meet the demands of the future.

Digital Education
from Fundación Telefónica

At Fundación Telefónica, we identify and analyse new educational trends, we experiment with them, we gain an understanding of their implications in techno-pedagogical processes, and we apply it to the most vulnerable sectors of society.

Over the years, this long-term endeavour has received the recognition of the institutions and governments of Spain and Latin America. In 2014, we received recognition from the Office of the First Lady of Panama; in August we were awarded the Arturo Uslar Pietri Prize by *El Nacional*, the Venezuelan daily; and we have also been honoured by the Peruvian Government for our work in defence of children's rights.

"Explore to Inspire to Transform" is the motto that describes the work philosophy of Fundación Telefónica in its aim to improve the quality of education, which is seen as a vehicle for social transformation.

In 2014, through the **Education Challenge** project, we scoured the world in search of the best examples of educational innovation in the field of STEM (Science, Technology, Engineering and Mathematics). The results of this initiative were brought together in 'The Top 100 STEM Educational Innovations', a publication whose digital version has been downloaded more than 44,023 times this year.

This publication follows in the footsteps of other successful educational reports in terms of downloaded copies, such as the '20 Educational Keys for 2020', released in December 2013, which identifies the changes that should be applied to education in order to meet the social, economic and technological needs of the twenty-first century.

As for inspirational lectures, we can highlight the contributions on creativity in the hyperconnectivity era at the Campus Party Quito; the cycle of presentations on neuroscience and education delivered in Argentina; Fernando Savater's talk in Mexico on the use of digital media in education as a tool for critical training; and the Disruptive Education School created in Spain with the goal of providing a space for theoretical and practical reflection, in which practising teachers, students and researchers can find the tools needed to carry out the much-needed reinvention of the twenty-first century education model.

Fundación Telefónica is committed to the principles it disseminates. To this end, both in Europe and in Latin America, we are implementing innovative education projects with the support of a number of educational centres and public bodies, in many cases in the social environments which need them most.

The **Proniño** programme provides opportunities to improve the life path of the most vulnerable children, by supporting quality education based on technology. This is an initiative which has been underway for more than ten years and which, since its inception, has

'Aulas Fundación Telefónica' is a digital inclusion project which promotes the use of ICT to improve the quality of education in Latin America

Total number of teachers trained:
34,099

Total number of young people trained:
156,025

Total number of attendees at education and learning events:
12,718

Teachers who are receiving training via the 'Aulas Fundación Telefónica' project:
9,904

Children and adolescents who have benefited from the training of their teachers in the 'Aulas Fundación Telefónica' project:
227,792



assisted 489,113 children and adolescents from the 14 Latin American countries in which Telefónica is present: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela.

Proniño is aimed at children and young people and seeks to help them develop the skills they need so that they can achieve innovative solutions that will aid their personal and professional growth and the improvement of the societies they live in. In all the projects we are running in disadvantaged environments we strive to develop talent, entrepreneurial spirit and communication skills in children and young people, while at the same time trying to arouse their curiosity and desire to learn.

Furthermore, **Aulas (classroom) Fundación Telefónica** is a digital inclusion project which promotes the use of ICT as an essential tool for the improvement of the quality of education in Latin America. In 2014, this programme received the Luis Hoschild Plaut Prize, in the 'Promotion of Educational Excellence' category, from the Peruvian Institute of Business Administration (Spanish initials: IPAE).

You can find further information on the Fundación Telefónica website.

Children and adolescents who have benefited from the training of their teachers in other projects:
298,632

Children and adolescents who have benefited from the training of their teachers:
526,424

Total number of children and adolescents assisted via the Proniño programme:
489,113

Children and adolescents who are receiving training:
284,191

Total number of young people who have benefited:
166,632

SUSTAINABLE PRODUCTS AND SERVICES

eHealth

New technology brings with it a new way to understand medical care models. The presence of Telefónica in the eHealth industry is already a reality, with projects in Spain, Argentina, Peru, Brazil and Chile.

People are living longer and longer. What until recently were deadly diseases are now chronic illnesses; and with the right medical and pharmacological treatment, sufferers can now lead almost normal lives. In the twenty-first century, technology has also become an indispensable ally in the area of health. All this takes place in an international context marked by financial difficulties, in which budgets are increasingly limited.

Against this backdrop, the challenges of the system are clear. An overhaul of current healthcare models, both public and private, is inevitable. Medical and health care must respond to the trends that are already becoming established in the area of health:

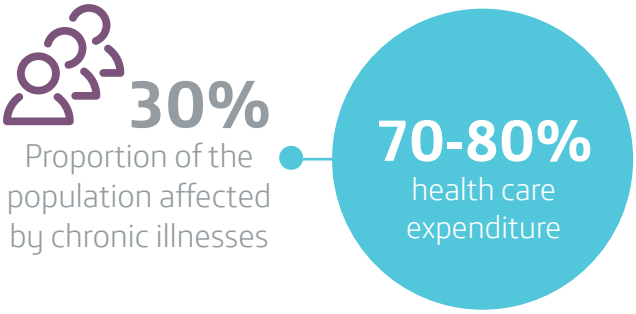
⇨ **Everything is connected.** Centre for primary health care, from the laboratory to the hospital. Nowadays, any healthcare professional can access their patients' data with the click of a mouse, regardless of where the consultation is made. Efficiency and speed in patient service.

⇨ **Quality costs money.** This concept is gaining ever greater acceptance among the public. The concept of paying for a more efficient health service out of your own pocket is catching on in the context of health care. As in many other areas, the Internet is the key.

⇨ **The remote doctor.** Health care does not have to be synonymous with time-consuming trips to health care centres. New technology makes it easier for the contact between doctor and patient to be made online, provided that the situation allows it. This is already happening in some countries. Visits in person are reserved for key moments.

⇨ **Social networks aiding health care.** Chatting with your doctor online is becoming more and more common, as is contact with other patients via social networks, which makes it possible to share experiences and advice.

⇨ **mHealth.** Also in the area of health care, the mobile is king. There are applications that measure heartbeats, and others that monitor blood pressure or vital signs... The smartphone has become the GP of an increasingly digitised public. Where does its success lie? Personalisation and immediacy. An interesting statistic is that the market for health sensors connected to mobile applications is expected to experience an annual growth of 69% (CAGR) over the next 5 years, reaching a value of $5.6 billion, according to data from the consultant Statista.



TELEFÓNICA - STRATEGIC PARTNER

The presence of Telefónica in the eHealth industry is today a reality. The Company has become the strategic partner of public administrations, private operators in the health sector and the pharmaceutical industry who are all interested in accelerating this transformation. Innovation led by the company's health department offers solutions for the following main areas:

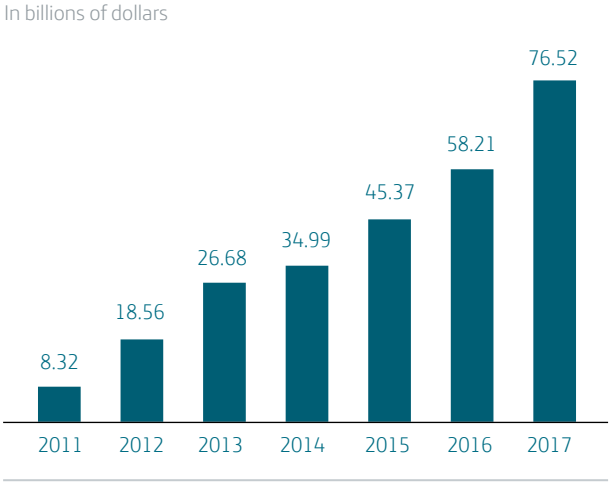
⇨ **Digital Hospital.** Technology which enables internal healthcare processes to be controlled, and which facilitates access to patient information by doctors, wherever they are.

Projects in Spain and Latin America



Mobile apps in the health sector are set to have an annual growth of 69% over the next 5 years, reaching a value of $5.6 billion

Evolution and revenue forecasts in the mobile app sector worldwide



⇨ Developing complete **Population Health Management** solutions. The connection between patients and doctors is made easier through our technological platforms. Remote health care and the new health monitoring models make the healthcare system more efficient and improve its quality.

⇨ Encouraging the use of new technology on the part of consumers, citizens, patients and so on, so that they can **access reliable health information** wherever, whenever and however they need to, via their tablets, smartphones or PC.

Aware of the dynamism of the sector, Telefónica remains faithful to its commitment to the future. Starting with the Group's Innovation and Development Department, we are investing and taking the lead in new initiatives, along with other industry partners. The following are some key examples of these initiatives:

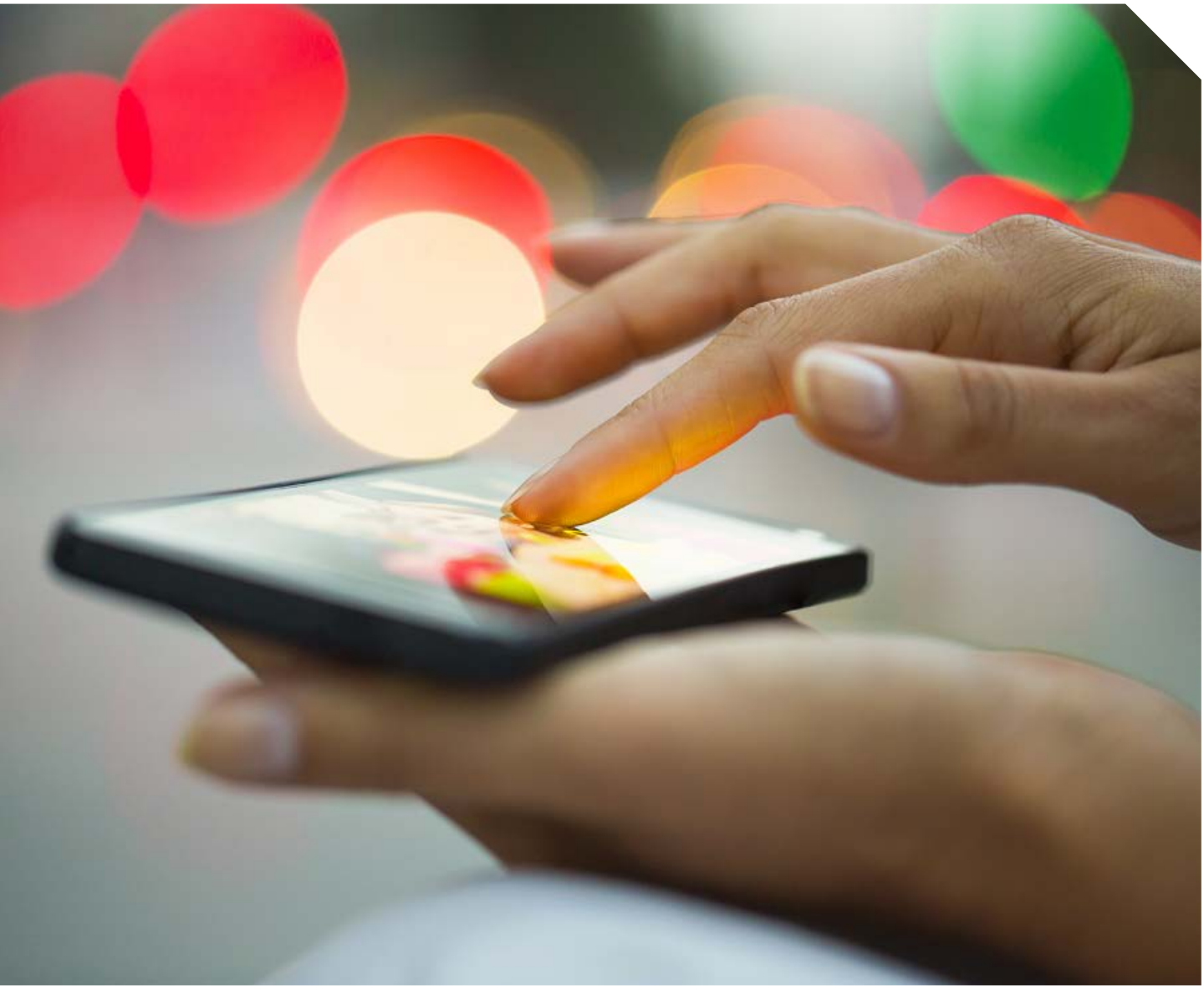
⇨ **Strategic agreements with partners in the sector and investment** in companies such as SaluSpot in Spain (a network of doctors and patients for online medical guidance) or for the management of patients with chronic diseases in Brazil.

⇨ **Logistical and financial support for startups in the health sector** in various Latin American and European countries through the Wayra programme.

SUSTAINABLE PRODUCTS AND SERVICES

e-Government

The integration of ICT into the organisational model of public authorities substantially improves their effectiveness, their efficiency and their ability to serve the needs of citizens. At Telefónica we provide a wide range of ICT services which generate undeniable economic and social value.



The digitisation of societies and economies is stretching the limits of what organisations, authorities, companies and citizens can do. For instance, authorities are aware that the integration of ICT into their organisational models substantially improves their management in terms of internal effectiveness and efficiency, as well as their capacity to respond to the demands of citizens.

Furthermore, at Telefónica, we provide a wide range of ICT services which generate undeniable economic and social value, insofar as they improve the productivity of companies, provide a direct contribution to the GDP (around 4.1% in the European Union) and expand digital structures and services. Nowadays ICT is necessary, but soon it will be essential, since we are heading towards economies and societies which are dependent on information and, therefore, on its optimal management and analysis.

Moreover, public-private collaboration is seen as a necessary cooperation initiative as it joins forces and increases the potential for transformation, economic growth and social benefits in the countries in which we operate. One such partnership is the pilot project known as SmartSantander, which has made the Cantabrian capital the most advanced smart city in the world.

In the past four years, we have participated in public-private partnerships which provide citizens with services such as real-time monitoring of traffic jams and available parking spaces, the accurate measurement of levels of air quality and ozone in the city and sprinkler optimisation in parks.

In the case of Latin America, there is a clear commitment to development which involves growth, structural change and inclusion. In this regard, technological innovation, and the services it makes possible, lead to the creation of new formulas for economic, social and even political organisation, which contribute to sustainable development. There are also smart city projects here, such as in São Paulo and Águas de São Pedro (Brazil), Lo Prado (Chile) and other digital inclusion projects, such as *Intégrame* in Peru.

In turn, Telefónica is very active in the creation and support of digital ecosystems in cooperation with other companies, startups, universities, research centres and other relevant entities. One such ecosystem is **FIWARE**, one of the largest ICT initiatives promoted by the European Commission, whose technological development is led by Telefónica, and which involves the participation of the continent's main ICT companies. FIWARE was created with the aim of integrating Internet technologies of the future, such as Big Data, the Internet of Things, Cloud Computing and so on, on an open, multi-disciplinary platform, around which a sustainable ecosystem has been put in place for the development of smart digital services, such as Smart Cities, Smart Agriculture, Smart Industry and so on. Furthermore, we have recently seen that entities from other regions of the world have joined this ecosystem, in particular from Latin America, in order to take advantage of the opportunity this technological innovation provides.

One of the main objectives of FIWARE is to promote the development and implementation of new services by providing a set of APIs (Application Programming Interfaces) for the development of applications in numerous sectors. The API specifications offered by the components of this platform are open and completely royalty-free, thereby facilitating the reuse of the services and becoming a de facto standard. The FIWARE Lab programme provides the environment in which these APIs are used with the purpose of developing and testing solutions which can be implemented in the various FIWARE nodes.

> Nowadays ICT is necessary, but soon it will be essential, since we are heading towards economies and societies which are dependent on information and, therefore, on its optimal management and analysis

One of this year's highlights was the implementation of this technology on the technological **Valencia Smart City (VLCi)** platform. This new management and information tool for council management and public use has made Valencia a pioneer which has set the national benchmark for integrated management of resources and services by means of cross-disciplinary data handling. It is located in the cloud and has information provided by the city and other entities, which is provided in a secure and open (open data) way to online service developers.

Furthermore, the FIWARE Accelerator programme, with an approved European Commission budget estimated at 80 million euros aimed at SMEs, startups and developers which use FIWARE technology, is proving to be a great tool for improving the efficiency of SMEs and for promoting the creation and development of FIWARE-based startups.

Finally, by means of the FIWARE Mundus programme, the Commission helps European companies to disseminate and promote the FIWARE ecosystem in regions of the continent and beyond. This year, FIWARE crossed the Atlantic: Aguas Calientes and Mexico City (Mexico) have become the first two nodes on the American continent where Latin American developers, SMEs and startups can establish services and thus become integrated into the FIWARE ecosystem.

SUSTAINABLE PRODUCTS AND SERVICES

Green *Services*

These services, understood to be those which have a direct positive impact on the environment, make up one of the areas of activity which is currently in the growth phase at Telefónica. The Company was rated by Gartner as a leader in the 'Magic Quadrant' for M2M in 2014.

As a Digital Telco, our Company considers that its services go beyond connectivity, and that is precisely where Green Services have a greater chance of growth. In addition, we are working to measure their real impact and are promoting the creation of international standards which will enable us to provide all the information possible to our customers and other stakeholders.

We develop these services for corporate clients, companies (B2B) and private customers. We provide an explanation of the main areas of activity as follows:

€193 M in revenue (**55%** Spain, **42%** Latin America)

9 Group operators offer a connectivity platform (Spain, Germany, Brazil, Chile, Argentina, Mexico, Peru, USA and the United Kingdom)

Fleet Management available in **12** countries

9.6 million **M2M** lines: **15%** more than in 2013

More than **40%** growth in M2M services in 2014

⇨ **Machine to Machine (M2M)**

Machine to Machine (M2M) technology is still an emerging sector, but it is one that we at Telefónica believe will have a fundamental impact on the way we live and work. For instance, it will be able to reduce costs and inefficiencies and provide significant social and environmental benefits in fields such as security, health, transport, logistics, education and energy.

M2M is a global line of business of the Telefónica Group which currently operates services with a clear positive environmental impact and which works in the following areas: transport, connected cars, utilities, industry and smart buildings. Services such as fleet management, 'Smart Water' and 'Smart Buildings' form part of this proposal, and they help our customers to improve their environmental performance by breaking the connection between the consumption of resources or greenhouse gas emissions and the growth of their businesses.

⇨ **Smart Cities**

Telefónica is committed to developing the digitisation of cities and helping in their transformation. The latest technology and new ultra-fast broadband networks can make cities better places in which to live and work.

In 2014, Telefónica created a department with a global scope, whose priority is to work with public institutions, councils and communities to accelerate the adoption of digital processes in cities in all the countries where we are present.

Citizenship, Mobility, Sustainability, Education, Government and Economy are the six key areas which Telefónica has already incorporated into its Thinking Cities platform. We already have experience in cities like São Paulo and Águas de São Pedro in Brazil; Santander, Logroño, Valencia, Zaragoza, Malaga and Barcelona in Spain; London in the United Kingdom and Lo Prado in Chile.

Already in some Smart City projects which Telefónica has implemented around the world, tangible benefits are being achieved for the cities and their inhabitants. Thanks to energy efficiency in buildings and public lighting, savings of 10% on electricity costs are being obtained in some Latin American and Spanish cities.

⇨ **Hosting and Cloud**

The effect of virtual hosting is that content and services can be dematerialised by means of a virtual processing and storage space which promotes the optimisation of energy consumption and the best use of space through the Data Centres, thereby reducing the environmental footprint linked to this activity, especially the carbon

G4-EN27, G4-DMA Products and Services

footprint. At Telefónica, we see virtualisation as a first step towards cloud computing or the 'Green' cloud.

We have four Data Centres worldwide, in Alcalá de Henares (Spain), Brazil, Miami and Mexico. They all comply with the international Green IT principles of eco-efficiency and sustainability, and have the latest electrical and air conditioning infrastructures which, together with specialised management, enables us to reduce the power consumption of these infrastructures by approximately 75%.

Tangible benefits are now being achieved for citizens in some Smart City projects which Telefónica is carrying out around the world

OUR GREENEST IMAGE, ALSO NEAR YOU

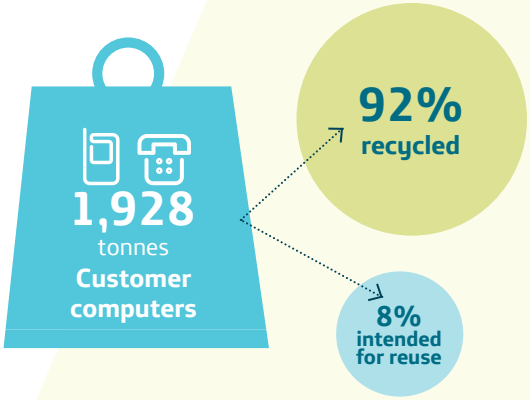
Our Vivo, Movistar and O2 brands currently incorporate environmental issues into their entire customer experience, thereby enabling customers to fulfil their commitment to the environment.

Moreover, our stores are incorporating more and more environmental criteria into the design, construction and operation phases. This is the case with "Vivo's **sustainable stores**". There are 15 in operation throughout the country and their lighting, furniture and document management incorporate strict environmental criteria.

In addition, in Germany and the UK, O2 offers customers environmental information about the devices they can buy through **Eco Rating**. In 2014, Telefónica, in conjunction with Forum for the Future and other operators, launched the Eco Rating 2.0, although the Company had already been a pioneer in this initiative four years ago. Thanks to this enterprise, our customers can compare the social and environmental impact of different mobile phones and make a "more informed and sustainable" decision regarding their purchase. The system incorporates assessment tools from existing suppliers, such as the one provided by Ecovadis. The devices get a rating of 0 to 5 on the basis of manufacturers' responses to more than 100 questions, covering information on the life cycle of the devices, their design characteristics, the methods of manufacture, materials, energy efficiency and durability, and on how they can facilitate more sustainable lifestyles.

Telefónica provides all its customers with solutions for their used devices, thereby promoting the circular economy.





Further information in the chapter on:
'Environmental management'

G4-EN27

Thinking Things

A Telefónica platform which offers all the elements needed to create new solutions for the Internet of Things. Its first product, the Conditioning Kit, measures room temperature, humidity and light, and enables their control via the mobile network. The Thinking Things are a range of plastic cubes which you can fit together as if they were pieces of Lego.

Fleet management

This service enables:

- Savings of up to 15% on fuel.
- Route optimisation, with a consequential improvement in service and a decrease in traffic volume on the roads.
- Improvement in vehicle maintenance based on real data.
- Efficient fleet size management enabling all requirements to be met, leading to a reduction of up to 3.5% in costs.

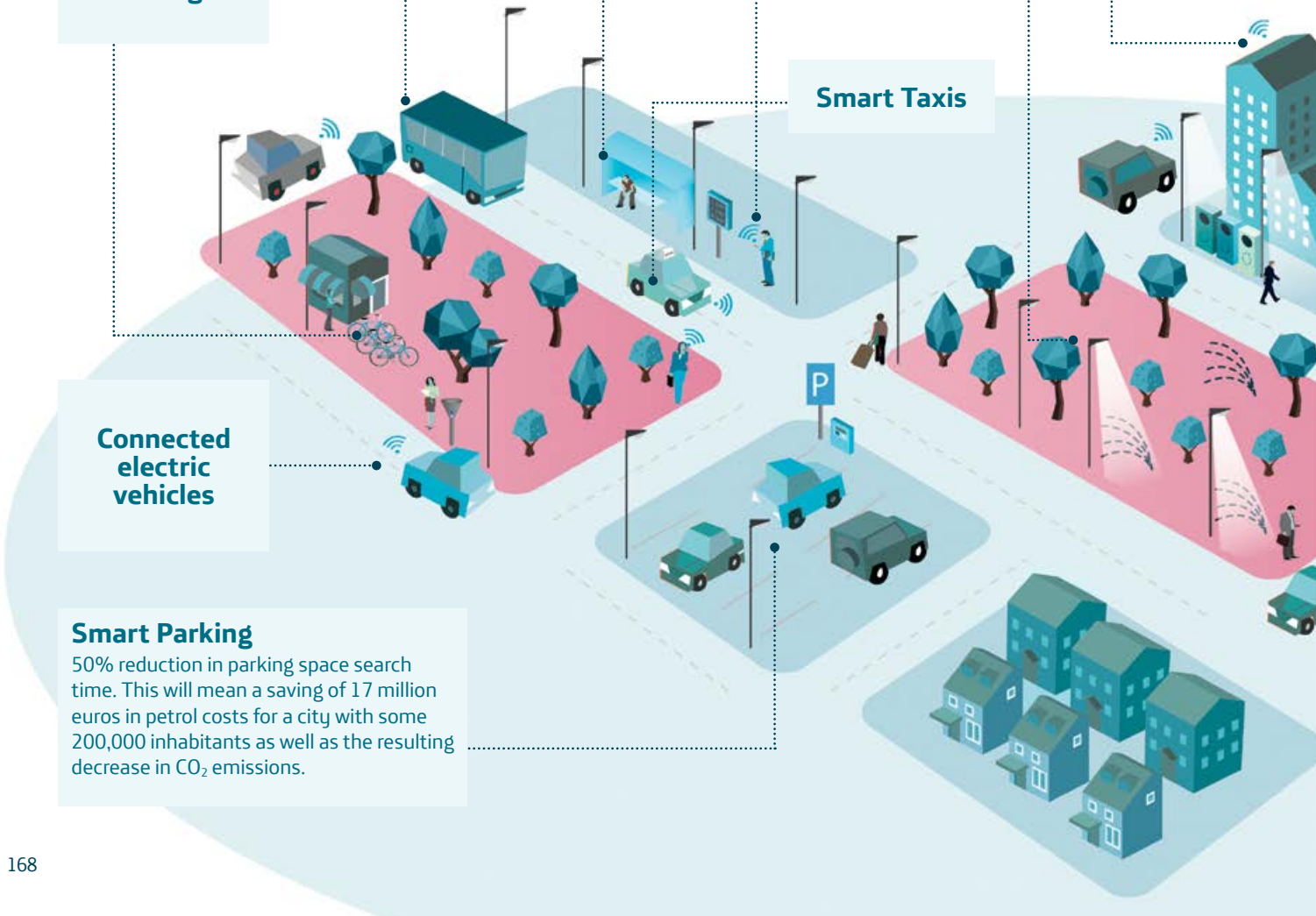
Smart Buildings

Smart Transport

Smart Urban Lighting

Community Biking

Smart Taxis



Connected electric vehicles

Smart Parking

50% reduction in parking space search time. This will mean a saving of 17 million euros in petrol costs for a city with some 200,000 inhabitants as well as the resulting decrease in CO_2 emissions.

BEST PRACTICE

VALENCIA SMART CITY

The VLCi Platform in Valencia, the third largest city in Spain, with 800,000 inhabitants, not only provides the city council with a unique and integrated vision of all the information on the state of the city and the management of its urban services, thereby facilitating the implementation of control centres and management decision-making, it also enables the transformation processes of the urban services to be implemented and the operational efficiency of the urban services to be improved. The key elements of the VLCi platform for the comprehensive management of Valencia Smart City are:

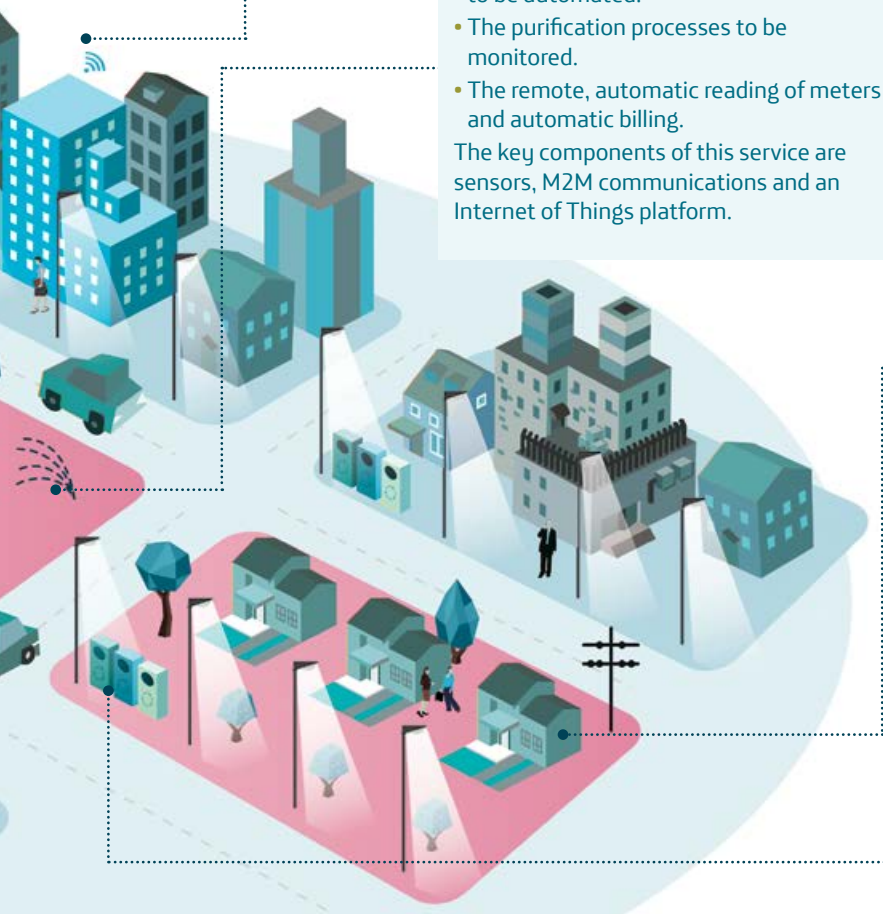
- Operation in service mode. The combination of critical components, already implemented with the open source development, ensures the most reliable solution and technological excellence.
- Compatibility with the Internet of the future. An open Smart City platform in accordance with the FI-WARE European specifications and standards.
- The existence of an ecosystem of innovation around VLCi. The boosting of an ecosystem of open and sustainable innovation, with the aim of converting Valencia into a focal point of knowledge.
- A comprehensive vision of the city. A single, integrated view of all the information on the state of the city and the management of urban services.
- Implementation of open data policy. Policies which favour the establishment of open, participatory innovation processes and greater transparency in city management.

Noise control

Smart Water

These solutions enable:
- The management of river basin volumes to be automated.
- The purification processes to be monitored.
- The remote, automatic reading of meters and automatic billing.

The key components of this service are sensors, M2M communications and an Internet of Things platform.



Smart Grid and Smart Metering

These provide citizens with detailed information about their consumption, avoiding estimated bills.

They enable the operation and maintenance of the parts of an electric distribution network to be automated.

SMIP is one of the largest smart metering implementation projects in the world and will involve the installation of more than 53 million smart meters in the UK in 2020, 76% of which will be Telefónica's. The expected benefit is 18 billion pounds over 20 years.

Smart waste management

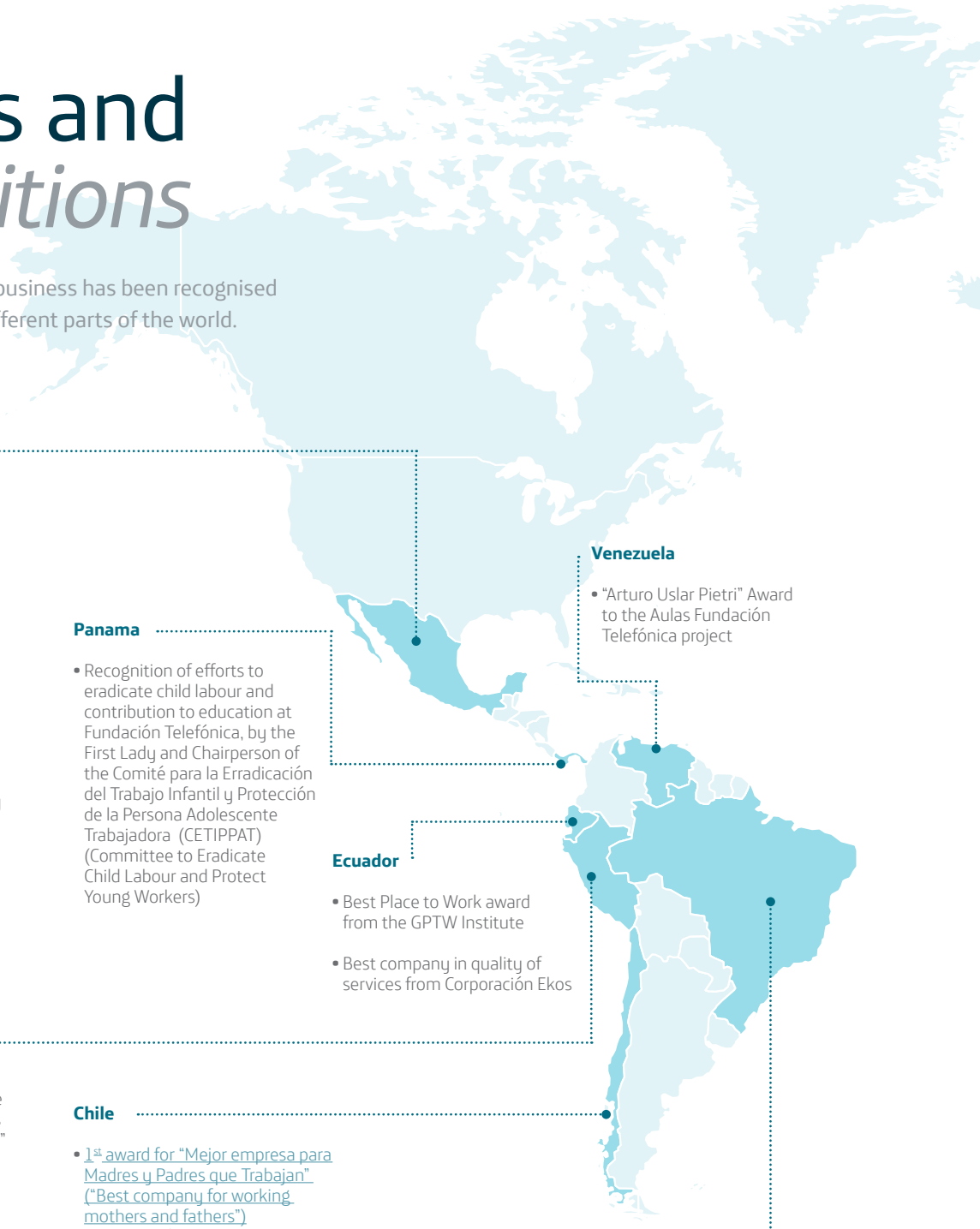
6. Annexes





Awards and *recognitions*

Telefónica's way of doing business has been recognised and received awards in different parts of the world.



Mexico

- 2014 Socially Responsible Company Award from Centro Mexicano para la Filantropía (CEMEFI) (Mexican Philanthropy Centre)
- Ethics and Values in Industry Award from CONCAMIN (Confederación Nacional de Cámaras Industriales) (National Confederation of Industry Associations)
- Recognition for Best Practice in Social Corporate Responsibility in the "Business Ethics" category by the Oficina de Principios de Actuación at CEMEFI AliaRSE and Forum Empresa
- Best Practices, Business Principles and Children's Rights, awarded by the Global Compact and UNICEF

Panama

- Recognition of efforts to eradicate child labour and contribution to education at Fundación Telefónica, by the First Lady and Chairperson of the Comité para la Erradicación del Trabajo Infantil y Protección de la Persona Adolescente Trabajadora (CETIPPAT) (Committee to Eradicate Child Labour and Protect Young Workers)

Venezuela

- "Arturo Uslar Pietri" Award to the Aulas Fundación Telefónica project

Ecuador

- Best Place to Work award from the GPTW Institute
- Best company in quality of services from Corporación Ekos

Peru

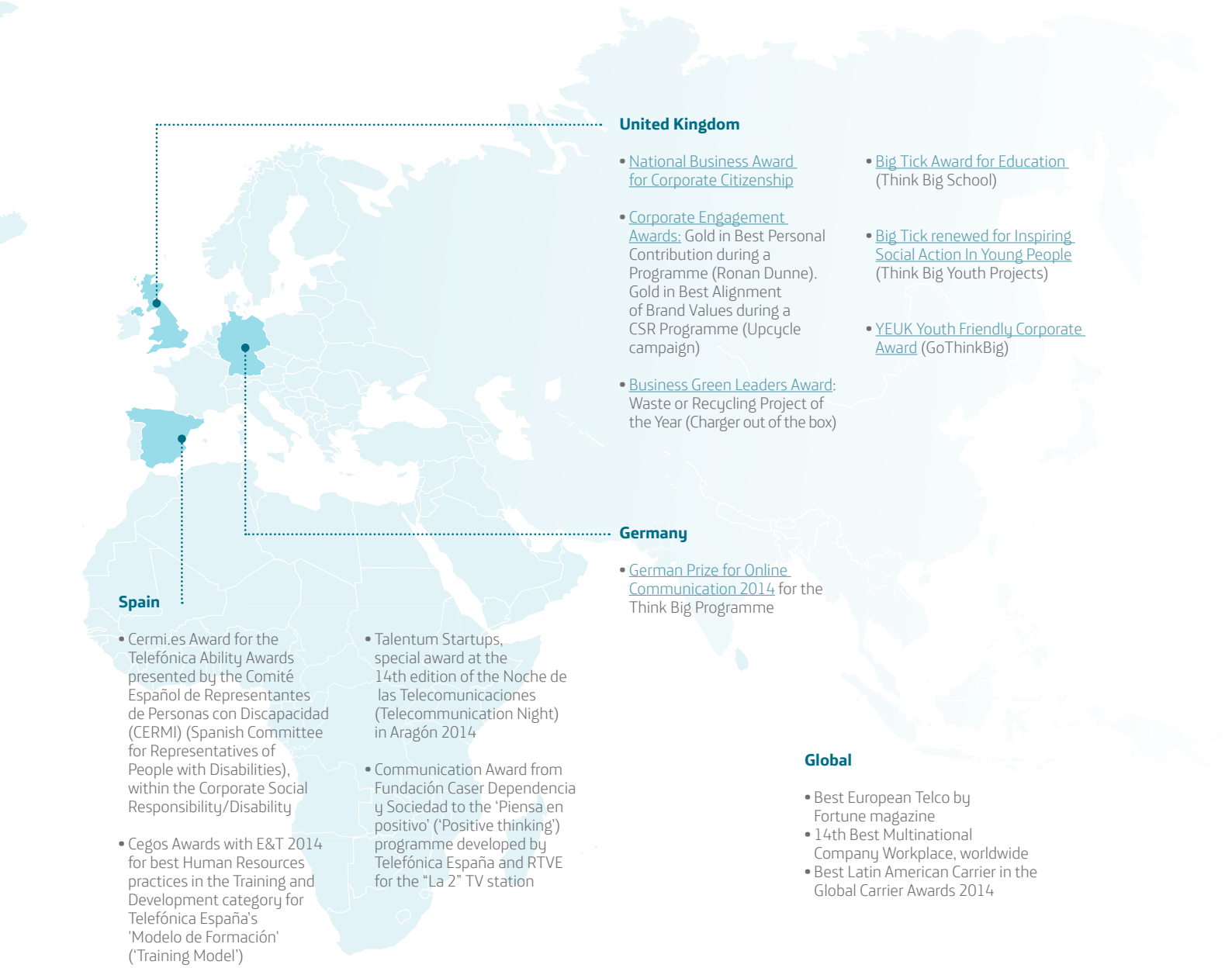
- Recognition for the ConectaRSE para Crecer programme from the Fourth Global Compact Congress "Arquitectos de un mundo mejor" ("Architects of a better world")
- Socially Responsible Company Award from Peru 2021 and the Centro Mexicano para la Filantropía (CEMEFI) (Mexican Philanthropy Centre)
- Award for Business Creativity 2014 presented by the Universidad Peruana de Ciencias Aplicadas (UPC) to Wayra
- Top-ranking socially responsible company in the study titled '¿Qué entienden los peruanos por responsabilidad social?' (What do Peruvians understand as social responsibility?), created nationwide by consulting companies GFK and Responde
- Award for Best Corporate Practices of the Lima Stock Market

Chile

- 1st award for "Mejor empresa para Madres y Padres que Trabajan" ("Best company for working mothers and fathers") by Fundación Chile Unido
- Social Contribution Award for the workplace placement of people with disabilities
- National "Innovación Empresarial TIC" ("ICT Company Innovation") Award

Brazil

- Second Global Award for Segurança do Trabalho al programa Bem Perto for Telefónica de Brasil, awarded in Shanghai by Global Healthy Workplace
- Prêmio TOP de Sustentabilidade de la Associação dos Dirigentes de Vendas e Marketing do Brasil as recognition for Sustainability practices by Telefónica in Brazil
- Prêmio Líderes & Vencedores for the Escola Rural 100% Conectada programme offered by Fundación Telefónica in Brazil



United Kingdom

- National Business Award for Corporate Citizenship
- Corporate Engagement Awards: Gold in Best Personal Contribution during a Programme (Ronan Dunne). Gold in Best Alignment of Brand Values during a CSR Programme (Upcycle campaign)
- Business Green Leaders Award: Waste or Recycling Project of the Year (Charger out of the box)
- Big Tick Award for Education (Think Big School)
- Big Tick renewed for Inspiring Social Action In Young People (Think Big Youth Projects)
- YEUK Youth Friendly Corporate Award (GoThinkBig)

Germany

- German Prize for Online Communication 2014 for the Think Big Programme

Spain

- Cermi.es Award for the Telefónica Ability Awards presented by the Comité Español de Representantes de Personas con Discapacidad (CERMI) (Spanish Committee for Representatives of People with Disabilities), within the Corporate Social Responsibility/Disability
- Cegos Awards with E&T 2014 for best Human Resources practices in the Training and Development category for Telefónica España's 'Modelo de Formación' ('Training Model')
- Talentum Startups, special award at the 14th edition of the Noche de las Telecomunicaciones (Telecommunication Night) in Aragón 2014
- Communication Award from Fundación Caser Dependencia y Sociedad to the 'Piensa en positivo' ('Positive thinking') programme developed by Telefónica España and RTVE for the "La 2" TV station

Global

- Best European Telco by Fortune magazine
- 14th Best Multinational Company Workplace, worldwide
- Best Latin American Carrier in the Global Carrier Awards 2014

External evaluations

Member of the Europe Index

Member

98 Top-5 points

Ranked 8th out of 124

Leader Award Global 800

Member of the RobecoSam Sustainability Yearbook

Rating Prime

Euronext 120

Excellence Register

Rating A (upgrade)

Sustainability *indicators*

	Unit	2012	2013	2014	% Change
Economic aspects					
Telefónica revenue	Mill. euros	62,356	57,061	50,377	-11.7%
Technological innovation	Mill. euros	5,771	6,142	6,974	13.5%
Fiscal contribution [1]	Mill. euros	13,806	14,060	12,057	-14.2%
Total salary costs	Mill. euros	8,569	7,208	7,098	-1.5%
Investment in infrastructure [1]	Mill. euros	9,458	9,395	9,448	0.6%
Volume of purchases awarded	Mill. euros	27,958	26,537	26,460	-0.3%
R&D investment	Mill. euros	1,072	1,046	1,111	6.2%
Local suppliers	%	80.3	83.9	85	-0.2%
No. of employees dismissed for non-compliance with Business Principles	Units	2	3	4	33.3%
No. of corruption incidents investigated by the Business Principles' Office	Units	1	1	0	-100.0%
Employees trained in Business Principles	%	55.3	63.0	48	-23.5%
No. of audits of risk suppliers	Units	1,701	1,545	1,395	-14.4%
Social aspects					
Total physical workforce	Persons	133,263	126,730	123,700	-2.4%
Fixed workforce	Persons	126,123	118,937	117,245	-1.4%
Absenteeism rate [2]	Days	5,556	5,599	5,113	-8.7%
No. of training hours	Thous. Hours	6,026	2,983	3,712	24.4%
Women in workforce	%	37.9%	38.3%	38.0%	-0.8%
Female managers	%	19.3%	21.0%	20.6%	-1.9%
No. of people with disabilities	Persons	1,070	961	1,033	7.5%
Total social investment (LBG)	Thous. Euros	158,061	128,885	130.102	1.0%
Volunteering hours	Hours	186,592	195,906	212,484	8.5%

(1) This figure differs from the one published in the section 'Social cash flow' as it is expressed here on an accrual rather than a cash basis.
(2) 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).

Environmental aspects [1]

	Unit	2012	2013	2014	% Change
Responsible network roll-out					
Visual impact adaptations	Units	677	576	351	-39.1%
Shared infrastructure	Units	32,932	28,284	33,331	-3.2%
Electromagnetic field measurements	Units	16,585	24,750	28,877	16.7%
Environmental investment and management	Thous. Euros	32,891	37,992	24,600	-22.9%
Resource consumption					
Total paper consumption (commercial and office activities)	Tonnes	11,854	9,476	7,980	-15.8%
No. of e-bill customers	Thousands	17,272	43,617	50,936	20.2%
Water consumption	Thous. m^3	5,581,053	4,292,804	4,125,025	-3.9%
Waste					
Total waste managed (operations, offices and customers)	Tonnes	30,581	29,944	22,837	-23.7%
Generator group battery waste (operations and offices)	Tonnes	1,766	2,760	2,382	-13.7%
Waste electrical and electronic equipment (operations and offices)	Tonnes	1,593	2,654	1,497	-43.6%
Customer waste electrical and electronic equipment	Tonnes	1,350	1,846	1,928	4.4%
Recycling and reuse of customer mobile phones and accessories	Tonnes	216	251	150	-34.8%

(1) The percentages of change correspond in part to environmental improvement and in part to the sale of Telefónica Ireland and Czech Republic. With regard to environmental aspects only the environmental improvement is reflected.

Energy and CO_2 inventory [1][2]

Energy	MWh	6,466,378	6,562,478	6,385,298	-2.7%
Electricity	MWh	5,930,327	6,048,709	5,970,861	-1.3%
Fuel	MWh	536,051	513,769	415,483	-19.1%
Energy from renewable sources	MWh	950,694	1,005,590	965,568	-4.0%
Greenhouse gas emissions	tCO_2eq [3]	1,900,335	1,917,861	1,774,661	-7.5%
Direct emissions (scope I)	tCO_2eq	123,135	118,262	94,893	-19.8%
Indirect emissions (scope II)	tCO_2eq	1,736,851	1,763,642	1,641,614	-6.9%
Other Indirect emissions (Scope II) [4]	tCO_2eq	40,349	35,957	38,154	6.1%
Emissions avoided [5]	tCO_2eq	315,402	296,895	289,963	-2.3%

(1) Inventory based on ISO 14 064, GHG Protocol & ITU-T L.1420.
(2) 2014 energy and emissions data currently being verified.
(3) $CO_2eq = CO_2$, CH_4 & N_2O.
(4) Other indirect emissions due to business travels.
(5) Emissions avoided thanks to purchase of renewable energy.



GRI references

GRI G4 Content Index

For "in accordance" - Comprehensive

GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance	
Strategy and Analysis				
G4-1	04		✓, 190-191	Statement from the most senior decision-maker of the organisation.
G4-2	05		✓, 190-191	Description of key impacts, risks, and opportunities.
Organisational Profile				
G4-3	08		✓, 190-191	Name of the organisation.
G4-4	08		✓, 190-191	Primary brands, products, and services.
G4-5	08		✓, 190-191	Location of the organisation's headquarters.
G4-6	08 and 15		✓, 190-191	Countries where the organisation operates.
G4-7	08		✓, 190-191	Nature of ownership and legal form.
G4-8	08 and 15		✓, 190-191	Markets served.
G4-9	09		✓, 190-191	Scale of the organisation.
G4-10	42-43		✓, 190-191	Total number of employees by employment contract, region and gender.
G4-11	64		✓, 190-191	Percentage of total employees covered by collective bargaining agreements.
G4-12	84-85		✓, 190-191	Organisation's supply chain.
G4-13	13		✓, 190-191	Significant changes during the reporting period.
G4-14	104		✓, 190-191	Precautionary approach or principle addressed by the organisation.
G4-15	10		✓, 190-191	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.
G4-16	22-23		✓, 190-191	List memberships of associations.
Identified Material Aspects and Boundaries				
G4-17	pp. 268, 269, 270 and 270 of IAGC		✓, 190-191	Entities included in the organisation's consolidated financial statements or equivalent documents.
G4-18	13		✓, 190-191	Process for defining the report content and the Aspect Boundaries.
G4-19	26		✓, 190-191	Material Aspects identified in the process for defining report content.
G4-20	26		✓, 190-191	Report the Aspect Boundary within the organisation.
G4-21	26		✓, 190-191	Report the Aspect Boundary outside the organisation.
G4-22	13		✓, 190-191	Restatements of information provided in previous reports.
G4-23	13		✓, 190-191	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.

GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance	
Stakeholder Engagement				
G4-24	20		✓, 190-191	List of stakeholder groups engaged by the organisation.
G4-25	20		✓, 190-191	Basis for identification and selection of stakeholders with whom to engage.
G4-26	20		✓, 190-191	Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group.
G4-27	20		✓, 190-191	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded.
Report Profile				
G4-28	08-09		✓, 190-191	Reporting period.
G4-29	09		✓, 190-191	Date of most recent previous report.
G4-30	09		✓, 190-191	Reporting cycle.
G4-31	192		✓, 190-191	Contact point for questions regarding the report or its contents.
G4-32	10		✓, 190-191	'In accordance' option, GRI Content Index, reference to the External Assurance Report.
G4-33	10-11		✓, 190-191	Organisation's policy and current practice with regard to seeking external assurance for the report.
Governance				
G4-34	pp. 13, 31, 32 y 33 del IAGC		✓, 190-191	Governance structure of the organisation.
G4-35	19		✓, 190-191	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.
G4-36	19		✓, 190-191	Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.
G4-37	19		✓, 190-191	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics.
G4-38	pp. 13, 14, 15, 18 and 19 of IAGC		✓, 190-191	Composition of the highest governance body and its committees.
G4-39	18 of IAGC		✓, 190-191	Report whether the Chair of the highest governance body is also an executive officer.
G4-40	16 of IAGC		✓, 190-191	Report the nomination and selection processes for the highest governance body and its committees.
G4-41	38 and 39 of IAGC		✓, 190-191	Report processes for the highest governance body to ensure conflicts of interest are avoided and managed.
G4-42	19		✓, 190-191	Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.
G4-43	64 of IAGC		✓, 190-191	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.
G4-44	22 of IAGC		✓, 190-191	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics.
G4-45	19		✓, 190-191	Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities.
G4-46	19		✓, 190-191	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.

GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance	
G4-47	19		✓, 190-191	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.
G4-48	04		✓, 190-191	Highest committee or position that formally reviews and approves the organisation's sustainability report.
G4-49	40		✓, 190-191	Process for communicating critical concerns to the highest governance body.
G4-50	20-21		✓, 190-191	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.
G4-51	78 of IAGC		✓, 190-191	Remuneration policies for the highest governance body and senior executives.
G4-52	78 and 79 of IAGC		✓, 190-191	Report the process for determining remuneration.
G4-53	78 and 79 of IAGC		✓, 190-191	How stakeholders' views are sought and taken into account regarding remuneration.
G4-54	92 of IAR and 146 of ICA	The ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country is not published due to confidentiality constrains. Confidentiality is due to the possible misunderstanding as the data have different bases. However, in the referenced pages you can find information which allows an approximate ratio.	✓, 190-191	Ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees.
G4-55	ICA: page 9 IAR: page 30	The ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country is not published due to confidentiality constrains. Confidentiality is due to the possible misunderstanding as the data have different bases. However, in the referenced pages you can find information which allows an approximate ratio.	✓, 190-191	Ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees.
Ethics and Integrity				
G4-56	40		✓, 190-191	Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.
G4-57	40		✓, 190-191	Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity.
G4-58	40		✓, 190-191	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity.

SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance	
CATEGORY: ECONOMIC				
Material aspect: Indirect Economic Impacts				
G4-DMA	28		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-EC7	30-31		✓, 190-191	Development and impact of infrastructure investments and services supported.
G4-EC8	30-33		✓, 190-191	Significant indirect economic impacts, including the extent of impacts.
Material aspect: Procurement Practices				
G4-DMA	85		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-EC9	30-31		✓, 190-191	Proportion of spending on local suppliers at significant locations of operation.
CATEGORY: ENVIRONMENTAL				
Material aspect: Energy				
G4-DMA	108		-	DISCLOSURES ON MANAGEMENT APPROACH.
G4-EN3	111		-	Energy consumption within the organisation.
G4-EN4		Not relevant for internal management and not demanded by stakeholders.	-	Energy consumption outside of the organisation.
G4-EN5	111		-	Energy intensity.
G4-EN6	109		-	Reduction of energy consumption.
G4-EN7	111		-	Reductions in energy requirements of products and services.
Material aspect: Emissions				
G4-DMA	108		-	DISCLOSURES ON MANAGEMENT APPROACH.
G4-EN15	111		-	Direct greenhouse gas (GHG) emissions (Scope 1)
G4-EN16	111		-	Energy indirect greenhouse gas (GHG) emissions (Scope 2).
G4-EN17	111		-	Other indirect greenhouse gas (GHG) emissions (Scope 3).
G4-EN18	111		-	Greenhouse gas (GHG) emissions intensity.
G4-EN19	109		-	Reduction of greenhouse gas (GHG) emissions.
G4-EN20		Not applicable. Not relevant. Emissions of these pollutants are not significant to our business.	-	Emissions of ozone-depleting substances (ODS).
G4-EN21		Not applicable. Not relevant. Emissions of these pollutants are not significant to our business.	-	NO_x, SO_x, and other significant air emissions.

Energy and emissions indicators are in process of verification by Aenor.

SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance	
Material aspect: Effluents and Waste				
G4-DMA	104		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-EN22		Not applicable. Pouring water in Telefonica is just a sanitary issue and is poured municipal sanitation systems.	-	Total water discharge by quality and destination.
G4-EN23	106		✓, 190-191	Total weight of waste by type and disposal method.
G4-EN24		Not applicable. There have been no significant spills.	-	Total number and volume of significant spills.
G4-EN25	106		✓, 190-191	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention 2 Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
G4-EN26		Not applicable. Pouring water in Telefonica is just a sanitary issue and is poured municipal sanitation systems.	-	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff.
Material aspect: Products and Services				
G4-DMA	166		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-EN27	166-167		✓, 190-191	Extent of impact mitigation of environmental impacts of products and services.
G4-EN28	106		✓, 190-191	Percentage of products sold and their packaging materials that are reclaimed by category.
CATEGORY: SOCIAL				
SUBCATEGORY: LABOUR PRACTICES AND DECENT WORK				
Material aspect: Occupational Health and Safety				
G4-DMA	47		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-LA5	48		✓, 190-191	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.
G4-LA6	48	Disclose by gender of types of injury, injury rate (IR), occupational diseases rate (ODR), lost day rate (LDR) and absentee rate (AR) are currently unavailable. We are adjusting our information tools to be able to disclose in a two years period.	✓, 190-191	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities, by region and by gender.
G4-LA7	48		✓, 190-191	Workers with high incidence or high risk of diseases related to their occupation.
G4-LA8	48		✓, 190-191	Health and safety topics covered in formal agreements with trade unions.
Material aspect: Training and Education				
G4-DMA	50		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-LA9	51	Disclose by gender of the average hours of training that the organisation's employees have undertaken during the reporting period is currently unavailable. We are adjusting our information tools to be able to disclose in a two years period.	✓, 190-191	Average hours of training per year per employee by gender, and by employee category.

SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance	
G4-LA10	52-53		✓, 190-191	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
G4-LA11	58		✓, 190-191	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.
Material aspect: Diversity and Equal Opportunity				
G4-DMA	68-69		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-LA12	69 and 71		✓, 190-191	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.
Material aspect: Equal Remuneration for Women and Men				
G4-DMA	71		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-LA13	71			Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.
Material aspect: Supplier Assessment for Labour Practices				
G4-DMA	89		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-LA14	87		✓, 190-191	Percentage of new suppliers that were screened using labour practices criteria.
G4-LA15	90 and 91		✓, 190-191	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken.
SUBCATEGORY: HUMAN RIGHTS				
Material aspect: Investment				
G4-DMA	184-185		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-HR1	87		✓, 190-191	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.
G4-HR2	185		✓, 190-191	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
Material aspect: Non-discrimination				
G4-DMA	184		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-HR3	185		✓, 190-191	Total number of incidents of discrimination and corrective actions taken.
Material aspect: Freedom of Association and Collective Bargaining				
G4-DMA	64		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-HR4	87		✓, 190-191	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.
Material aspect: Forced or Compulsory Labour				
G4-DMA	184		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-HR6	87		✓, 190-191	Operations and 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.
Material aspect: Supplier Human Rights Assessment				
G4-DMA	184		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-HR10	87		✓, 190-191	Percentage of new suppliers that were screened using human rights criteria.
G4-HR11	90-91		✓, 190-191	Significant actual and potential negative human rights impacts in the supply chain and actions taken.

SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance	
SUBCATEGORY: SOCIETY				
Material aspect: Local Communities				
G4-DMA	184		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-SO1	184		✓, 190-191	Percentage of operations with implemented local community engagement, impact assessments, and development programmes.
G4-SO2	184		✓, 190-191	Operations with significant actual or potential negative impacts on local communities.
Material aspect: Anti-corruption				
G4-DMA	40		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-SO3	40		✓, 190-191	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.
G4-SO4	40-41		✓, 190-191	Communication and training on anti-corruption policies and procedures.
G4-SO5	40		✓, 190-191	Confirmed incidents of corruption and actions taken.
Material aspect: Public Policy				
G4-DMA	120 and 121		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-SO6	40		✓, 190-191	Total value of political contributions by country and recipient/ beneficiary.
Material aspect: Anti-competitive Behaviour				
G4-DMA	8 of PdA: http://www.rcysostenibilidad.telefonica.com/wp-content/uploads/2014/05/Principios_Actuacion_CAST_02_03_111.pdf		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-SO7	pp 83, 84 and 85 of ICA		✓, 190-191	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.
Material aspect: Supplier Assessment for Impacts on Society				
G4-DMA	90 and 91		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-SO9	87		✓, 190-191	Percentage of new suppliers that were screened using criteria for impacts on society.
G4-SO10	90 and 91		✓, 190-191	Significant actual and potential negative impacts on society in the supply chain and actions taken.
SUBCATEGORY: PRODUCT RESPONSIBILITY				
Material aspect: Customer Health and Safety				
G4-DMA	112		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-PR1	112		✓, 190-191	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.
G4-PR2	112		✓, 190-191	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.
Material aspect: Customer Privacy				
G4-DMA	122		✓, 190-191	DISCLOSURES ON MANAGEMENT APPROACH.
G4-PR8	129		✓, 190-191	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.

OTHER NON MATERIAL SPECIFIC STANDARD DISCLOSURES REPORTED

Management focus and indicator	Page	Omissions	External Assurance	
CATEGORY: ECONOMIC				
Market Presence				
G4-EC5	59		✓, 190-191	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
CATEGORY: ENVIRONMENTAL				
Materials				
G4-EN1	102		✓, 190-191	Materials used by weight or volume.
G4-EN2	102		✓, 190-191	Percentage of materials used that are recycled input materials.
Water				
G4-EN8	102		✓, 190-191	Total water withdrawal by source.
Overall				
G4-EN31	103		✓, 190-191	Total environmental protection expenditures and investments by type.
Supplier Environmental Assessment				
G4-EN32	87		✓, 190-191	Percentage of new suppliers that were screened using environmental criteria.
G4-EN33	90 and 91		✓, 190-191	Significant actual and potential negative environmental impacts in the supply chain and actions taken.
CATEGORY: SOCIAL **SUBCATEGORY: LABOUR PRACTICES AND DECENT WORK**				
Relations between employees and management				
G4-LA4	67		✓, 190-191	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.
Labour Practices Grievance Mechanisms				
G4-LA16	40		✓, 190-191	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms.
Child Labour				
G4-HR5	95		✓, 190-191	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.
Product responsibility				
G4-PR5	76		✓, 190-191	Results of surveys measuring customer satisfaction.

ICA Financial Report

IAGC Annual Corporate Governance Report

20F Form 20-F of SEC

IAR Annual Compensation Report

PDA Business Principles

Human Rights *compliance*

The objective for 2014 in this area was to continue integrating the issues identified in the existing procedures, with particular emphasis on aspects such as privacy and freedom of expression.



At Telefónica we are convinced that evaluating and managing the impacts of our activity on Human Rights is vital for the sustainability of our business. In 2002 we joined the Global Compact and made public our commitment to respecting Human Rights. Since then, we have worked proactively to strengthen this commitment.

Evidence of this is the fact that, in 2006, respect for Human Rights became one of the pillars of our Business Principles; or that, in 2012, we were pioneers in performing an overall assessment of the impact of our operations, following the UN's Guiding Principles on Business and Human Rights.

This assessment was carried out in 16 countries, accounting for almost 95% of countries where Telefónica has operations, and identifying 15 issues(1) listed on the Human Rights table.

Following this assessment, our objective for 2014 was to continue integrating the issues identified in the existing procedures, both at the corporate and local levels, with special emphasis on aspects such as privacy and freedom of expression.

(1) Children's rights include content control and child exploitation.

G4-SO1, G4-SO2, G4-DMA Investment, G4-DMA Non-discrimination, G4-DMA Forced or Compulsory Labour, G4-DMA Supplier Human Rights Assessment, G4-DMA Local Communities

At Telefónica we support the **right of minorities** to enjoy their own culture

DUE DILIGENCE

Following the plan drawn up in 2013, during 2014 we have continued to develop and strengthen the various issues identified at the corporate and local levels, in line with the contexts of the 16 countries where the assessment was performed. The plan's main lines of action were as follows:

⇨ Continue with the integration of findings, identifying existing policies, strategies and management systems.

⇨ Continue as part of internal and global working groups to manage key aspects which appeared following assessment: the Privacy and Freedom of Expression Working Group and the Spanish Global Compact Network Working Group.

⇨ Creation of stakeholder and multi-stakeholder platforms maps.

BEST PRACTICE

Telefónica Colombia has developed various initiatives and action plans as a result of the evaluations carried out locally in 2011, and in 2012 as part of the global assessment of Telefónica's impact on Human Rights. In 2014 we continued implementing the initiatives launched in 2013, achieving the following results:

- **Human Rights Training Course.** We trained our employees to strengthen and raise awareness in relation to specific risks within the Company. The specific course on Human Rights was successfully completed by 433 employees in 2014. Another 144 are currently taking the course.

- **Colombia Guidelines.** This is a multi-party initiative involving companies, civil society organisations, the Colombian government and international organisations. All have come together with a common purpose: to identify and adopt clear standards for corporate behaviour in scenarios which are complex in Human Rights terms. Telefónica Colombia participates as a member of this initiative. During 2014 the Guidelines for the Purchase and Acquisition of Land Rights and Right to Use and the Decent Work Guideline were publicly released. The former addresses due diligence in the purchase and acquisition of land rights and the latter deals with all labour matters.

Peace Startup

- **Business for Peace.** Telefónica Colombia leads the work group for the Local Network of the Global Compact of the United Nations. It joined the platform in 2013, given the local relevance of peace building in Colombia. During 2014, various partnerships with international agencies and private enterprises were consolidated to promote peace-building initiatives, for example Peace Startup.

  Peace Startup is a business initiative created by Value4Chain in Colombia and Business & Human Rights in Spain. It aims to create sustainable solutions to peace-building challenges through a process of co-innovation that generates entrepreneurial activity based on the use of information and communication technology (ICT).

Human Rights

Issue evaluated	Description	Due Diligence
Non-discrimination	We promote equal opportunities and treat all people fairly and impartially, without discriminating on the basis of race, skin colour, nationality, ethnic origin, religion, gender, sexual orientation, marital status, age, disability or family responsibilities. During 2014 we launched several equality and disability initiatives at a global and local scale as a result of our commitment, enshrined in our Business and Human Rights Principles.	Diversity management
Health and safety	Safety, health and well-being at Telefónica are among the main priorities for the Company. They are safeguarded through the occupational risk prevention management system, which ensures safety and health via the integration of prevention criteria in our processes and services.	Health, safety and occupational well-being
Collective bargaining and freedom of association	We guarantee the right of our employees to belong to the union of their choice and will not tolerate any retaliation or hostile action towards employees who take part in union activities. In 2014 we renewed the agreement with Union Network International (UNI), remaining faithful to our commitment to the ILO's core labour standards relating to freedom of association and the right to collective bargaining.	Freedom of association and social dialogue
Labour conditions of the supply chain	Our Human Rights responsibility extends to our business relationships. We demand high levels of performance in labour, environmental, health and safety conditions of our supply chain, which we see as a way for us to promote and obtain the best results for change and mitigate the risks associated with abusive behaviours in business relations.	Management of the supply chain
Privacy	We respect the rights and freedoms of individuals, including the fundamental right to personal data protection. Our commitment is reflected in the design of a new privacy culture based on improving the digital trust of our consumers with mandatory common rules of behaviour for all our regions and entities, and a number of clear and consistent positions in relation to our privacy and data protection practices.	Privacy and security
Freedom of expression	We are convinced that the best way to achieve overall progress in terms of respect for freedom of expression is through dialogue between governments, industry, civil society (including Human Rights experts), investors, supranational organisations and other affected stakeholders. Telefónica has continued taking part in the Telecom Industry Dialogue group and implementing its guiding principles signed in 2013.	Privacy and security
Children's rights	For more than a decade, we have been active in promoting and respecting children's rights as part of our business strategy and from various lines of action. During 2014, the Company has focused its efforts on self-regulation as a way to promote the development of products and services that help children and adolescents take full advantage of new technologies.	Good use of the Internet by children
Corruption and bribery	Our ethical code, known as our Business Principles, helps us to act in line with the most demanding principles associated with honesty and trust, respect for the law, integrity and respect for Human Rights. It also establishes specific principles aimed at ensuring the trust of our stakeholders.	Ethics and compliance
Healthcare access	We are convinced that digital technology enables new models of access to health. The presence of Telefónica in the eHealth industry is already a reality thanks to innovation driven by the Company's health area with projects in Spain, Argentina, Peru, Brazil and Chile.	eHealth
Inclusion and access to ICT	At Telefónica we are aware of the potential of digital technologies, so we are working on developing products and services under the criteria of "design for all". "Design for all" aims to ensure that all environments, products, services and systems are used by the largest possible number of people.	Digital inclusion
Social innovation	We understand that sustainable innovation helps improve and meet current social needs, such as demographic change, the financial crisis, environmental degradation and poverty, while building new relationships or collaborations between various actors and institutions. We work on creating and supporting new products and services that meet these needs.	Sustainable Innovation
Language	We support the right of minorities to enjoy their own culture, to profess and practice their own religion and to use their own language. We have developed local initiatives that promote this respect.	Diversity management
Access to Education	We support education through existing Fundación Telefónica programmes focused on detecting and analysing new educational trends, experimenting with them, understanding and disseminating their implications for technological/pedagogical processes and applying them to the most disadvantaged social environments.	Digital education
Deployment and management of network infrastructures	Responsible roll-out of the mobile and landline network is critical at Telefónica. We have always taken into account and respected legal compliance, but we have gone beyond this by showing the utmost respect for the preservation of certain protected areas and have reached agreements with countries to provide coverage in disadvantaged areas in remote locations.	Management of electromagnetic fields

Global Compact *compliance*

United Nations Global Compact

Human Rights	Principle 1	Businesses should support and respect the protection of the internationally proclaimed Human Rights within their sphere of influence.	Human Rights compliance
	Principle 2	Businesses should ensure that they are not complicit in Human Rights abuses.	Human Rights compliance
Labour standards	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Freedom of association and social dialogue
	Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labour.	Management of the supply chain
	Principle 5	Businesses should uphold the effective abolition of child labour.	Management of the supply chain
	Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	Diversity management
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges.	Environmental management
	Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.	Environmental management
	Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies.	Energy and climate change
Anti-Corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	Ethics and compliance

External *validation*



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 2014.

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 eighth 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. This year we are pleased to see that Telefónica has extended its use of LBG to include staff paid time dedicated to volunteering. Now the company has the opportunity to expand the use of the LBG model to measure and report on the results from volunteering in future years.

Telefónica has made a number of changes to certain programmes to increase the effectiveness of the impact that they have. We believe that Telefónica is now in a position to be able to report more on the outputs and impacts of some of its more significant programmes and in this way provide a more complete insight into the important contribution that it makes through these programmes.

Corporate Citizenship

2nd. June 2015

www.corporate-citizenship.com

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INDEPENDENT REVIEW REPORT ON TELEFÓNICA S.A.'S 2014 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 2014 Corporate Sustainability Report (the Report) which was prepared in accordance with:

- The Global Reporting Initiative (GRI) Preparation Guide 4 (G4).
- 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 "Structure and scope of consolidation" 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 Reputation & Sustainability Direction and the management of business areas 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 Reputation & Sustainability Direction 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 G4 Global Reporting Initiative (GRI).
4. Checks, on a sample basis, of the quantitative information included 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, Chile, Colombia and Mexico.

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, which have not been subject to review on our part, and about which, therefore, we do not express a conclusion. In the section "GRI references" of the attached Report, Telefónica indicates the status of external verification regarding these indicators.

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).

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid - Inscrita en el Registro Mercantil de Madrid al Tomo 12749, Libro 0, Folio 215, Sección 8ª, Hoja M-23123, Inscripción 116. C.I.F. B-78970506.
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Building a better working world

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 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" section.
  - ✓ **Responsiveness:** Telefónica has the mechanisms to design, develop, evaluate and communicate the responses necessary to meet the principal expectations of stakeholders, which are reflected in the "Interaction with stakeholders" section and included in the various sections of the accompanying Report.

Recommendations

We also presented Telefónica's Corporate Reputation & Sustainability Direction 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:

Telefónica has different dialog channels with stakeholders at both corporate and local level, which are used to gather their expectations and needs. We recommend establishing more quantitative targets, in order to provide a more accurate picture about the sustainability actions carried out, while improving clarity in the monitoring of annual targets.

b) Relevance:

In 2014, Telefónica has identified material aspects regarding sustainability reporting, based on the principles established by version G4 of the GRI. Our recommendation is that Telefónica continue working periodically on identifying the most significant risks at both local and corporate level, in order to include these aspects in local and corporate reports.

c) Responsiveness

Telefónica includes challenges for its stakeholders in each section of the attached Report. Our recommendation is to gather these challenges and align them with the Telefónica sustainability strategy, in order to improve the understanding of sustainability actions by the stakeholders.

We also suggest the following actions related to the various dimensions referred to in the Report:

1) Economic issues:

During 2014 it has been reported the indirect impact of Telefónica on the communities where the Company operates, as in previous years. Our recommendation is to continue developing new indicators to measure indirect impacts on the communities, given the high relevance of this aspect in the materiality analysis.

2) Environmental issues:

During 2014 Telefónica has intensified its programs for the reduction of resources consumption and the promotion of recycling, reducing significantly the amount of produced waste.

The attached Report contains the amount of managed waste disaggregated by treatment method. We recommend a more detailed reporting of the different types of waste managed.

3) Social issues:

During 2014 Telefónica continued working on its commitment to society, pushing forward projects for the integration of ICT in the educational system and projects for the development of products for people with disabilities, dependent people and chronic diseases. Our recommendation is to establish methods to measure the impact of these projects on society.

This report has been prepared solely for the attention of the Institutional Affairs Committee of Telefónica, S.A., in accordance with the terms set out in our engagement letter.

ERNST & YOUNG

AA1000 Licensed Assurance Provider 000-59

(signed in the original issued in Spanish language)

(Free translation from the Original Report on Independent Review in Spanish dated June 11, 2015. In case of any discrepancy, the Spanish version always prevails)

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Telefónica, S.A.
2014 Sustainability Report

This Report is also available online at:
http://annualreport2014.telefonica.com

The legally required information is available to shareholders and the general public.

Published by:
Global Head Public and Regulatory Affairs Telefónica S.A.

Design and layout:
MRM Worldwide Spain, S.A.

Date of publication:
June 2015

