

BE MORE_COMMITTED

The people at the heart of the transformation

What differentiates one company from another is the people who make things happen

In 2013, the Commitment Index reached 77.7% with 79% of employees participating

This statement is evident in the information technology sector where knowledge is key for the development of business and becomes a competitive advantage. This is where Telefónica, in its objective of turning into a Digital Telco, is making its biggest effort: execution is achieved through people.

The communications sector continues to face challenges and unceasing changes that have made it completely redefine in a short period of time, with new business ecosystems appearing which oblige companies to adapt and transform in view of new realities. This peremptory need for transformation is linked to that for innovation and companies have to create ecosystems which promote innovation to ensure long-term success and that means putting people at the heart of the business.

Lines of progress

These new environmental realities, plus the transformation process of Telefónica into a Digital Telco, have made us focus on three clearly defined areas in our management of people: to have the best team, the most effective company culture and the simplest organisational structure possible, making us able to adapt to the changing needs of our customers. These three people-based priorities support the implementation of the strategic transformation programme of Telefónica, *Be More_*, a crystal-clear company programme to accelerate transformation, focusing on execution, with three attitudes reflecting our working philosophy:

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

→ **Disrupt.** We anticipate this change and will be innovative, using our knowledge of the digital world and our open-mindedness. *Disrupt* means to improve the rules of the game to create greater value for our customers and for Telefónica.

→ **Deliver.** We will take advantage of our global presence, while remaining agile, allowing us to fulfill our commitment of taking technology to people.

Achievements

The best team

Having the best team is achieved through recruitment and personnel development in areas which are crucial to the business at that moment and ensuring that we are attractive to a diverse range of new talent. During 2013, 5,700 new employees aged below 30 were recruited through the *Talentum* programme.

In addition, training is still a key lever for the development and generation of talent. During 2013, we provided more than 2.9 million hours of training within the Group. The opportunities are structured at a global level through different tools: classroom training (*Universitas* and specialised courses) and *online* training (*e-learning* programmes).

The employees trained at *Universitas* Telefónica have increased by 64.8%, totalling 4,610 employees, with 55% of the teachers being employees of Telefónica (in 2011, this number stood at 5%). Additionally, an *offshore Universitas* has been created for the classroom training in other locations: China, United Kingdom, Ireland, Brazil, Peru and Germany.

Action priorities

Achievements

- The best team
 - 700 new employees within the *Talentum* programme.
 - More than 2.9 millions of training hours provided.
 - 4,610 employees trained at *Universitas*.
 - The Global Index of Climate and Commitment 2013 (ICC) reached 77.7%, with 79% of participation.
 - For the third consecutive year, among the 20 best multinational companies to work for worldwide (16th place), and 4th in Latin America.
- A suitable education
 - Global launching of the transformation programme *Be More_*, and its defining attitudes, *Discover, Disrupt and Deliver* (3Ds), to contribute to *Be More_* with them.
 - More than 200 workshops to promote the internalisation of the Company transformation programme *Be More_*.
 - Consolidated the global model of goal achievement measurement, measuring not only the objective attainment (*What*) of the Company and individual ones, but the way (*How*).
- A simple organisation
 - We simplify the global organisational chart and reinforce the transversal areas to improve flexibility and agility in decision-making.
 - More than 126,000 employees of whom less than 1% were managers.
 - 105 different nationalities across the Group, distributed in 24 countries.

Challenges

- To keep the commitment to training and development of internal talent (*Universitas* and A+).
- To incorporate external talent with the correct capacities.
- To develop the digital capacities of the personnel.
- To ensure knowledge of the *Be More_* programme, and the 3Ds, mobilising the organisation in the transformation into a Digital Telco.
- To keep promoting the Diversity agenda.
- To encourage the global agenda of the Group in projects of Corporate Welfare (*Workplace Wellness*).
- To define new programmes of long-term remuneration and bonuses.
- To lead the transformation and simplification of the organisation.
- To define global people management policies.



Telefónica is one of the 20 companies worldwide that most promotes talent

The *e-learning* offer is a fundamental formative lever that aims at encouraging the digital evolution of our professionals through the A+ training model, which is dynamic and collaborative with unique access for all users fostering the self-development of our employees.

In 2013, the e-learning model has been consolidated, with more than forty-seven thousand unique users (47,109) and almost three hundred and eighty-three thousand (382,982) accesses in corporate schools. The growth in unique users in comparison to the number in 2012 (29,017) stands at 62%.

The most effective culture

During 2013, Telefónica focused its effort on communicating the critical need for transformation throughout the organisation, ensuring the commitment and alignment of the employees with the global transformation programme *Be More_*.

This transformation involves the solid maintenance of the Global Index of Climate and Commitment (ICC) of employees as an objective.

In 2013, this index reached 77.7%, with the participation of 92,550 employees, which represents 79%+. Telefónica also remained part of the *Great Place to Work* ranking, ranked for the third consecutive year among the 20 best multinational companies to work for worldwide (16th place), the fourth best in Latin America.

Aiming at increasing awareness of the transformation programme *Be More_* amongst all employees, there have been workshops to train our people to take a fresh perspective on the Company, introducing the new '*Company Belief*', and allowing them to take on board what it means to *Be More_* on a daily basis. More than 200 workshops took place up to December, in 20 countries. 150 trainers were trained to prepare more than 12,000 employees. The satisfaction surveys answered by 50% of the participants gave an average of points of 9.2 out of 10.

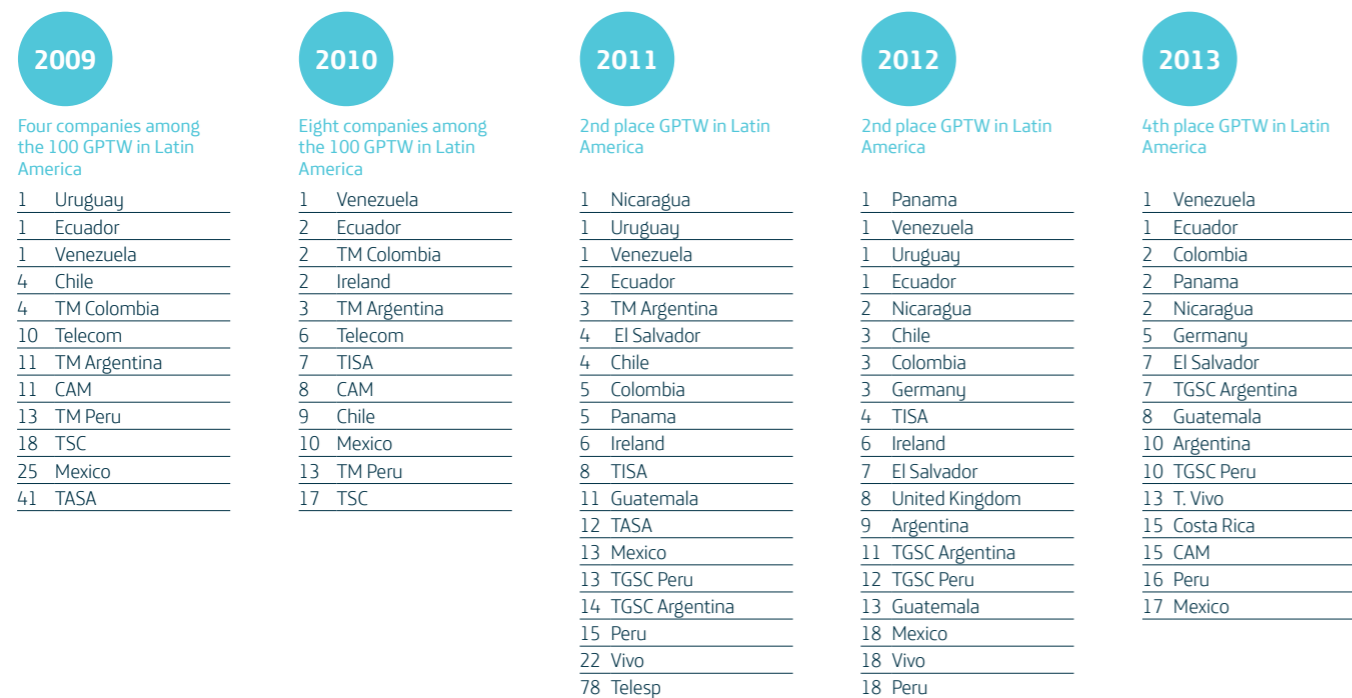
As part of this transformation, the global model of goal achievement measurement has been consolidated, differentiating between performance and potential and joining it to variable incentives. The *performance* model measures not only the achievement of Company and individual goals (*What*), but the way (*How*) these goals have been



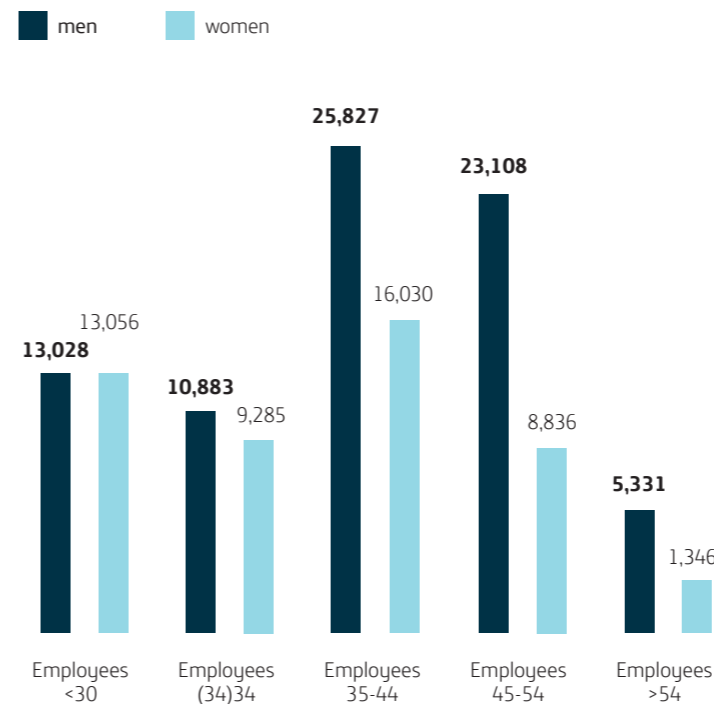
More information in the 'Sponsorship' section of the corporate website.

Externally, we have opted for GPTW as the reference

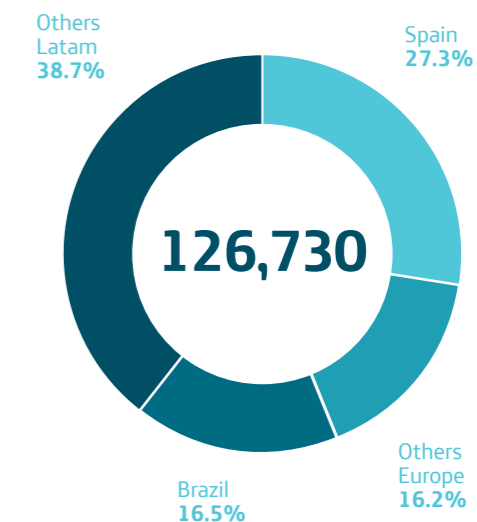
Evolution of the comparative chart of participation and ranking in the last five years



Distribution of the personnel by age



Geographical distribution of the personnel



94% of employees have indefinite contracts and women represent 38% of the workforce

achieved using the 3Ds (attitudes defined in the *Be More_* programme, as elements of evaluation).

Other initiatives such as the *Be More_ Experience* or *Recognise D*, reinforce the Company programme by helping employees bond with the three attitudes, acknowledging when they successfully practised them. This acknowledgement comes from the employees themselves who, through a simple tool, can give 'virtual awards' to those whose daily attitude at work fits in with *Discover, Disrupt and Deliver*.

Be More_ TV is a new communication channel trying to bring the personnel all the *Be More_* related happenings across the Company: it reports on programmes, actions, attitudes... but mainly, people.

Additionally in 2013, a policy of international mobility consistent across the Group was implemented, offering an international professional career to the employees.

A simple organisation

The *Be More_* programme has materialised in the transformation of the Company's organisational structure. This organisational transformation totally responds to the 12 strategic priorities defined in the *Be More_* programme. The objectives pursued with this new structure, announced in February 2014, are to increase our income, modernise the networks and systems,

obtain higher efficiency, and reinforce our leadership in the digital ecosystem. For that reason, the Company has decided to give more visibility to local operators, approaching them to the corporate decision centre, simplifying the global organisational chart and reinforcing the transversal areas to improve flexibility and agility in decision-making. To maintain the capacity for innovation within Telefónica, it is imperative to promote simplification in the organisation, optimising its design.

At the end of 2013, Grupo Telefónica had more than 126,000 employees, of whom less than 1% were managers. Personnel were streamlined by 4.9% compared to the previous year, in accordance with the transformation of the Company into a simpler structure.

Telefónica also supports fixed employment: 94% of the personnel have indefinite employment contracts and the number of women in the staff stands at 38%. Moreover, the number of directives increases each year, reaching 21% in 2013 - an increase of 1.7 percentage points since last year.

Diversity is another key factor, Telefónica counts on more than 105 different nationalities across the Group, who are distributed in 24 countries, with Latin America still contributing the highest percentage of personnel. The individual country with the most employees is Spain, with 34,602; followed by Brazil, with 20,878; Argentina, with 17,139; and Peru, with 9,824.

Challenges

The first challenge is to attract new talent and to develop internal talent, in order to guarantee that the business will have the necessary profile to compete in 5 or 10 years, and excellent leadership is the first element needed. In this sense, we are working on capturing young, talented professionals. We are on course to recruit 14,000 people younger than 30 to new positions by 2016 and, at the same time, we are focusing on the training and development of internal talent to extend their capacity, empowerment and commitment. This, we believe, is the only way to compete in the future.

The second working focus is to continue with the development of the new corporate culture, responding to the transformation programme of Telefónica: *Be More_* and the 3D's (*Discover, Disrupt and Deliver*). We have to accelerate and adapt the programme to create true alignment amongst our 125,000 employees. Another priority regarding Group culture is to provide our managers with

the skills they need to lead during change; and we are supporting them in developing adaptability, flexibility, innovation and supporting diversity and developing of new models of remuneration. Finally, we are enhancing the global Corporate Welfare plan (*Workplace Wellness*), which looks at how to stimulate our employees and improve their environment to actively increase their level of welfare and health. We mean to promote the adoption of new healthy habits into their lives and others close to them through four fundamental axes: nutrition, physical activity, person and health.

Together with the right people and corporate culture, we need to have a simpler and more efficient organisation that offers us the necessary flexibility to keep competing. The future is yet to be defined, and therefore we need to provide the staff with the flexibility they need to be their best whatever comes.

Telefónica will incorporate into its personnel, by 2016, 14,000 highly-qualified youngsters aged below 30