

BE MORE_ SUSTAINABLE

An intangible asset which guarantees Company legitimacy –

At Telefonica we understand corporate sustainability in the same way as the Dow Jones Sustainability Index does. This means...

The Telefonica Group believes that it is a priority for its employees to be aware of the spirit and content of the Company's Code of Ethics

Lines of progress

At Telefonica we know that corporate sustainability is a clear source of competition and progress: in markets, it reduces the risk premium; from a customer viewpoint, it increases the value of the brand and sets it apart; it helps make employees loyal, because it guarantees a stable image of the Company; and from society's viewpoint, it guarantees legitimacy to operate and allow the sustainable development of the communities we operate in and get our resources from, and revenue is generated.

Achievements

Economic impact

Telefonica believes that it is a priority for our employees to be aware of the spirit and content of our Code of Ethics. Because of this, during 2013, our Business Principles were ratified in Costa Rica, the latest country we started operating in and we activated the mechanisms to ensure compliance. In December 2013, almost 71,000 professionals - 62% of the workforce - had passed the Business Principles course.

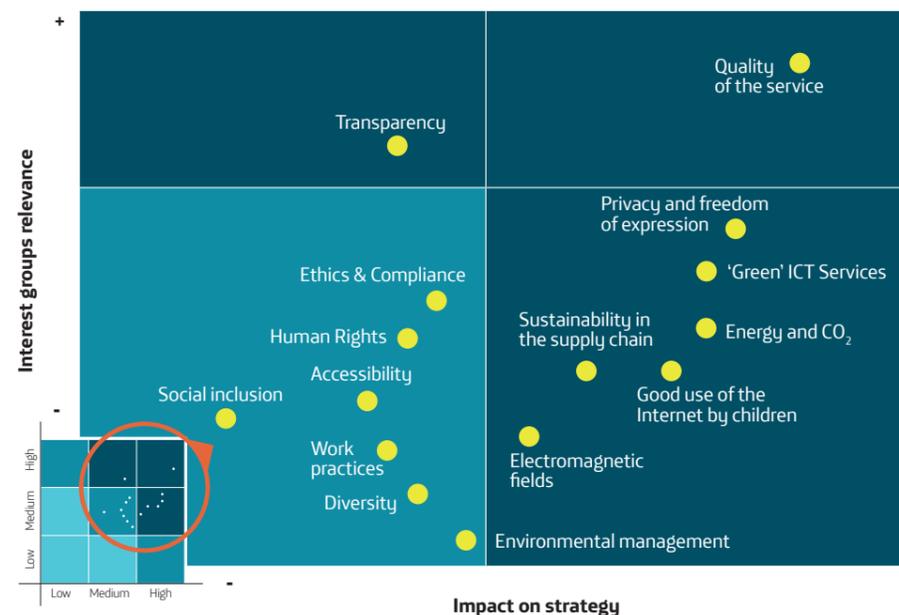
→ Business Principles Office registered, through the Business Principles Compliance Channel, a total of 77 communications. From the 63 with closed investigation, 14 resulted in being deemed appropriate, one of them being for corruption and

none for discrimination. Among the measures adopted in these cases, three disciplinary dismissals were included.

→ Suppliers' sustainability: at Telefonica, we audit the sustainability principles of our suppliers' performance. For prior knowledge, we use the Ecovadis platform, based on international standards and where there are currently 86 assessed suppliers and 36 undergoing assessment. In the whole relationship and afterwards, Allies, our Regional Programme in Latam is the largest of its kind in the region, and along with the Group's Annual Audit Plan, we were able to carry out over 14,400 administrative audits and over 1,760 of Risk suppliers, where 757 improvement plans came out of it.

→ Privacy policy: user privacy and confidence are crucial for Telefonica. In early 2013, the Company approved the Privacy Policy, which establishes guidelines which any Telefonica Group company must follow to protect our clients' privacy and all the interest groups that entrust their personal data to Telefonica. This policy is built on three pillars: self-regulation which goes further than international and local laws; privacy as a driver for increasing confidence and strengthening Telefonica's reputation; and privacy as a key element for encouraging innovation, well-being and prosperity in the Digital World.

Materiality Matrix



To facilitate the development and compliance of this Policy, a Privacy Committee for the Group has been created which is headed by the Chief Privacy Officer and formed by representatives of key areas of the Group, both in business and Security and Infrastructures. In order to guarantee that Telefonica local businesses are aligned, as well as the communication, and the suitability of actions at local level, a Data Privacy Officer role has been created in each country.

→ Protection of minors: at Telefonica we are committed to promoting environments where children can use ICT avoiding misuses. In order to do this, in 2013, we made progress with product and service such as Familia Digital, along with the Forum of Interactive Generations to foster digital education and help parents and educators resolve the doubts they have about new technologies. We have also contributed to the implementation of hotlines such as Te Protejo in Colombia, and we

have made progress with the implementation of the commitments of the ICT coalition for a better use of the Internet by children.

Environmental impact

We have a global strategy for Green ICT and the Environment with three convergent objectives: to manage the environmental risks of our operations, to promote internal eco-efficiency and to make the most of business opportunities in order to provide integrated telecommunications services that promote a low carbon economy.

→ Environmental management: we rely on an environmental policy and a global environmental management system which is applied to all of the Group's companies. We promote a shared infrastructure - over 34,400 sites towards the end of 2013 - and the development of the technical assessments to reduce the visual impact of our

Materiality

At Telefonica we wanted to go one step further in terms of our materiality matrix in order to identify those issues that are key to our business and our core stakeholders.

Thus, Telefonica has conducted a materiality analysis that has allowed us to understand the most significant material aspects for the Organization and which are highly relevant for the evaluations and decisions of stakeholders. Therresult is a more comprehensive overall matrix reflecting what matters are being reported and a specific matrix for each relevant material aspect. For such, the following process was conducted:

1. Identification of overall relevant issues
2. Identification of specific relevant issues
3. Identification of affected stakeholders
4. Evaluation of the impact on Management of the Company
5. Evaluation of the Relevance to interest groups.



More information on Telefonica's 'CR and sustainability' website.




1,760
 risk supplier audits


757
 improvement plans arising from audits


95%
 of the workforce will receive Ethics and Compliance courses


40 M€
 in revenue for sale of waste


16 global
 energy efficiency projects with savings of 9.1 GWh and 4.7 M€

base stations. The waste that is generated by our technical and commercial operations is managed by qualified agents and in compliance with the environmental legislation. On average, the waste management processes generated, in 2013, revenues for the Company of around 40 million euros.

→ Energy and CO₂: we have made progress in the achievement of our corporate targets to reduce energy consumption and emissions: to reduce electricity use in the network by 30% by 2015 and 30% less in CO₂ emissions by 2020; both by equivalent client access. Thanks to energy efficiency measures, electricity consumption in our network only grew 2% annually since the year 2010 and our CO₂ emissions have basically remained stable in the last three years. In 2013, 16 global energy efficiency projects were carried out which reduced our bill by 47 million euros.

→ Green Services to Customers: residential customers are provided with e-billing services (43.6 million end customers in 2013) or recycling and reuse services for unused mobile devices (231 tonnes of managed waste in 2013). In terms of corporate clients, we provide services that efficiently use resources such as Fleet Management, Inmotics for energy efficiency and Smart Metering, among others. In 2013, the British government awarded Telefonica 02 UK authorisation for connectivity management of the biggest Smart Metering programme in Europe, where it is expected to generate revenues of 1.8 billion Euros in the next 15 years. In 2013, the SmartSantander project led by Telefónica was successfully concluded as the largest Smart Cities platform in Europe with 20,000 sensors connected sensors to improve the sustainability of the Spanish city and to be a model of management at global level.

Social impact

→ Wayra UnLtd: in the UK, Wayra and UnLtd (The Foundation for Social Entrepreneurs), a foundation which promotes social entrepreneurship, joined forces to set up Wayra UnLtd, in a bid to support innovative companies aiming to improve society. The objective of this new initiative was to develop 10 social companies by the end of 2013.

→ Campus Party: as part of the Campus Party activities in London, Hacking For Something Better (H4SB) took place, aiming to bring together two types of social hackers: Social Challengers, that is, people familiar with and aware of social problems such as youth and unemployment, disabilities, active ageing and new forms of social participation and Social Makers (those who help us build solutions).

→ Accessible products and services: during 2013 services were developed such as RADIO ME, which allows people to receive and send voice messages through a messenger app such as Whatsapp or Line through a familiar radio-like device and by simply pressing two buttons. It was thought up for the older generation, which is not so adept with new technologies. And Whatscine, a tool that allows the deaf and the blind to enjoy films through an accessibility system.

→ M-Inclusion. M-Inclusion is a project which is co-funded by the European Commission and set up by a consortium led by Telefónica that in 2013 developed a road map in which the key elements were identified to make inclusion a reality through mobile solutions for users, developers and private and public bodies.

Challenges

The aim of Telefonica's Sustainability Policy is its integration into the DNA of all of its businesses. To do this, the Company has to move forward with sustainability management in the value chain. Furthermore, considering the fundamental character of issues such as data protection, it is important to spread and set up policies related to this. The Company also has to continue working in the development of accessible services, and on the realisation of Green ICT services which contribute to positioning the sector and Telefónica as a centre for climate change solutions.

The Company's work for contributing to mitigation activities and adapting to climate change and the support of initiatives that will encourage competition in strategic cities and sectors of the economy through efficient communication networks and Green ICT solutions.

Action priorities	Achievements	Challenges
Economic		
<ul style="list-style-type: none"> Ethics and compliance 	<ul style="list-style-type: none"> Over 60% of employees trained. New obligatory training actions on the Code of Ethics at global level A single and global Business Principles Compliance Channel for all operations 	<ul style="list-style-type: none"> 95% of the workforce to be trained by the end of 2015 Global standards linked to ethical principles
<ul style="list-style-type: none"> Privacy 	<ul style="list-style-type: none"> Creation of the global Privacy Committee headed by the Chief Privacy Officer Reinforcement of the commitment with participation from the Industry Dialogue Group for Privacy and Freedom of Expression 	<ul style="list-style-type: none"> Definition and agreement of public commitment to privacy; construction of Privacy Center
<ul style="list-style-type: none"> Minors 	<ul style="list-style-type: none"> Development of products and services like Familia Digital, together with the Forum for Interactive Generations Contribution to implementation of hotlines like Te Protejo 	<ul style="list-style-type: none"> Adoption of Familia Digital portal in six countries Implementarion of internal regulations on minors for the operators, with the alert button on the web
<ul style="list-style-type: none"> Supply chain 	<ul style="list-style-type: none"> Over 14,400 administrative audits and over 1,760 <i>in situ</i> ones for potentially doubtful suppliers from which 757 plans for improvement emerged 	<ul style="list-style-type: none"> Setting up of the EcoVadis tool in 150 risk suppliers; annual audit plan focussing on global suppliers
Social		
<ul style="list-style-type: none"> Management of Diversity 	<ul style="list-style-type: none"> Constitution of the European Diversity Committee First edition of the Women in Leadership programme: launch of the second edition in Europe and the first in Latin America. 	<ul style="list-style-type: none"> Creation of the Global Work Group and setting-up of regional initiatives in the Group Development and approval of Corporate Diversity Policy
<ul style="list-style-type: none"> Digital inclusion 	<ul style="list-style-type: none"> Connection of 70 isolated Amazonian communities with broadband internet services and 3G mobile technology Creation of M-Inclusion road map 	<ul style="list-style-type: none"> Creation of collaborations between agents and institutions in the public, private and third sectors, as a source of opportunities in social innovation
<ul style="list-style-type: none"> Social innovation 	<ul style="list-style-type: none"> Wayra UnLtd.: Accelerator for projects seeking to improve society Accessibility: development of Walker and Whatscine products Launch of the third edition of the Ability Awards for 2014 	<ul style="list-style-type: none"> Progress towards an accessible Digital Telco Presentation of the Ability Awards in 2015
Environment		
<ul style="list-style-type: none"> Environmental management 	<ul style="list-style-type: none"> Economic value assessment of electric and electronic waste, e-waste 34,000 sites shared minimising the environmental impact 	<ul style="list-style-type: none"> Encourage customer e-waste programmes Implement environmental management systems in countries with high impact: Brazil and Chile
<ul style="list-style-type: none"> Energy and climate change 	<ul style="list-style-type: none"> 16 energy efficiency projects 4.7 million Euros in economic savings 	<ul style="list-style-type: none"> Energy consumption target to achieve the 2015 reduction Account for scope 3 emissions Increase the number of energy efficiency projects
<ul style="list-style-type: none"> Green ICT services 	<ul style="list-style-type: none"> Smart Metering in the United Kingdom Consolidation of the Smart Cities sustainability model 	<ul style="list-style-type: none"> Increase the Green ICT services market Consolidation of Green ICT services standardization