

RESPONSIBLE MANAGEMENT

Ethics and compliance

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

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

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

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

Code of ethics

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

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

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

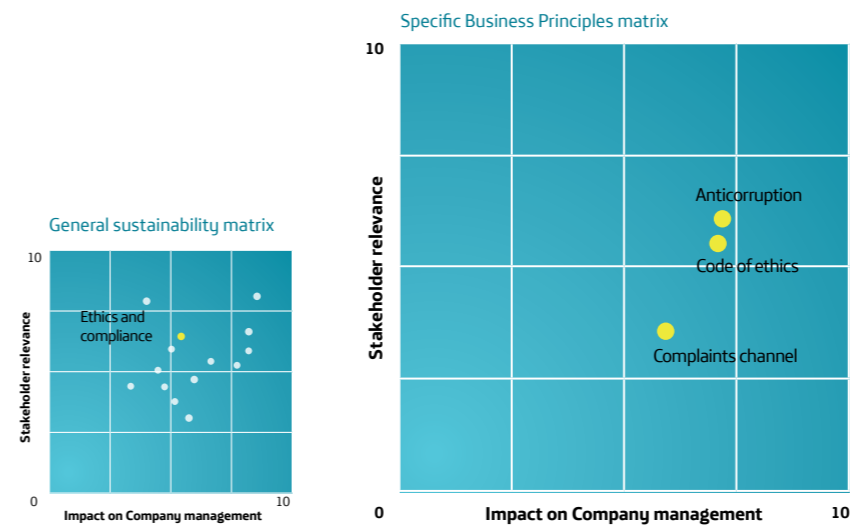
In 2013, the *Business Principles* were ratified in Costa Rica, where Telefónica began commercial operations at the end of 2011, and all the mechanisms to ensure their fulfilment have been put into place.

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

Training

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

Materiality matrix



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

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

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

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

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

Business Principles Channel

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

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

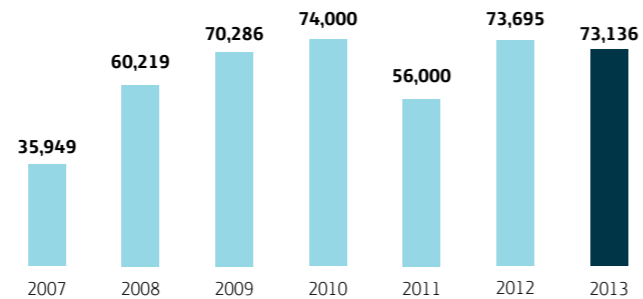
In 2013 the Business Principles Office recorded a total of 77 communications through the Business Principles Channel. Of the 63 whose investigation has concluded, 14 turned out to be well-founded, one of them being for corruption and none for discrimination. Among the measures adopted there were three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

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

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

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

Telefónica employees who have passed the Code of Ethics course



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

Anticorruption

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

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

Regulations

Our Business Principles include our commitment in matters of anticorruption.

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

Some of these are:

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

Risk management

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

Organisational elements

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

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

Controls

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

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

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

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

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



Best practices

Training at Telefónica Vivo

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



Integrity

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



Dow Jones Sustainability Index

- Among the best practices in the sector (*Best in Class*) according to the *Dow Jones Sustainability Index* (DJSI) ranking, one of the most demanding in the world, Telefónica was outstanding in code of conduct and anticorruption policies, among other aspects.