

RESPONSIBLE MANAGEMENT

Labour practices: Fair pay and performance recognition

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

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

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

Principles of the remuneration policy

1. Concept of Total Remuneration

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

2. Compensation for meeting business and individual targets

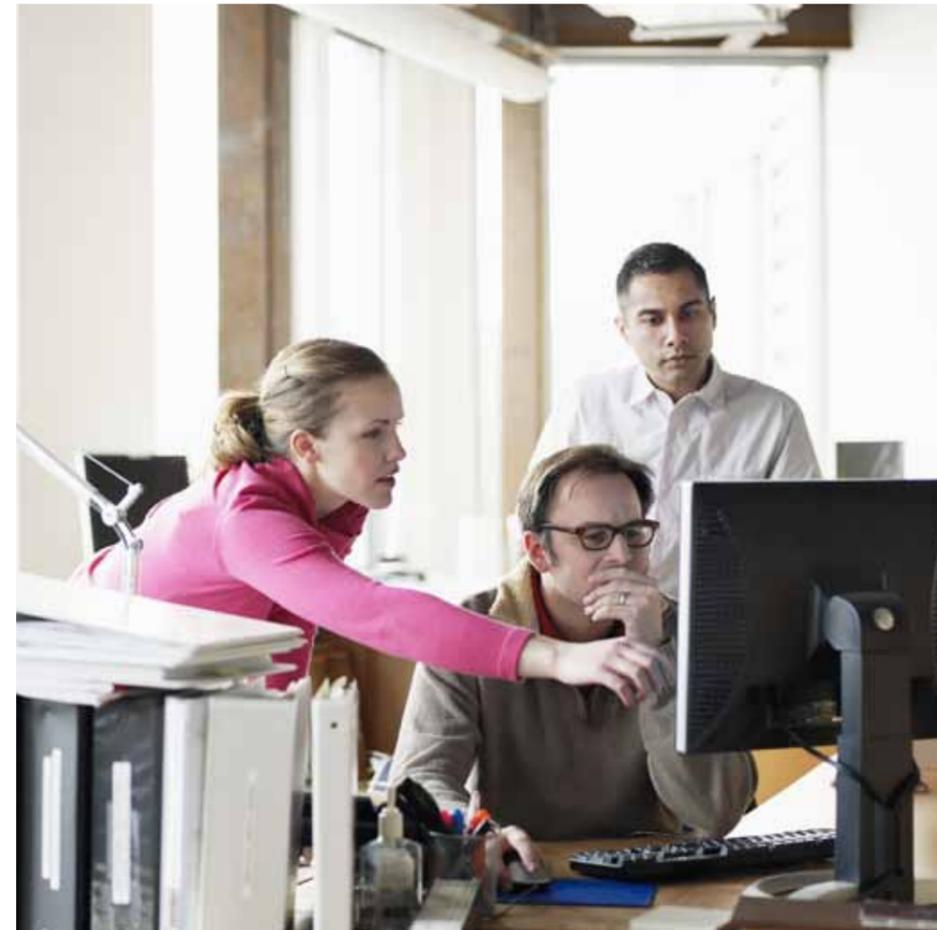
Telefónica recognises a variable component linked to fulfilment of objectives in its remuneration policy. This variable pay will be calculated annually as a percentage of the base salary, a percentage linked to the fulfilment of objectives by Telefónica Group, and another linked to the targets of the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

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

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

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

* Wage per hour.



4. A clear model of governance

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

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

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

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

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



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

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

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

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

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

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

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

Awards

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

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

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

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

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

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



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

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

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

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

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

In the regional edition for 2013 the winning projects were: *Project Tereza BRAZIL, Renewal of the Mobile Concession PERÚ, Geographical Information System IASI-GIS ECUADOR*.

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

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