

RESPONSIBLE MANAGEMENT

Management of diversity

For Telefónica, diversity is a competitive advantage. The growth of the Group is possible thanks to its team of individuals from different cultures, generations, ethnic origins and sexual orientation, and their diverse professional experience

The goal is to integrate and thus achieve a greater benefit from the talent of the Company's members

Diversity is a competitive advantage. Having a team of professionals that accurately reflects the societies in which we operate, allows us to better understand our clients and surprise them with new products that fit their needs. It also makes it possible to offer them high quality services, which subsequently have an impact on our profits.

Our Business Principles include the fundamental right to equality:

"We promote equal opportunities and we treat all individuals fairly and impartially, without discriminating on the basis of race, color, nationality, ethnic origin, religion, gender, sexual orientation, marital status, age, disability or family responsibilities."

However the concept of diversity goes much further, it is a fundamental value. The reasons that diversity is a critical management factor for us are many. But from these we can highlight, first, the need to use all of our talent, and second, the importance of other market segments, of other non-traditional groups with a large purchasing capacity, such as women, handicapped individuals, elderly, etc. The intended impact is achieved through proper management of employee diversity; these employees come from over 25 countries (four of which are represented on the Board of Directors) and belong to more than 105 nationalities.

Strategy

The diversity and inclusion strategy is adapted to our company vision and finds an echo in each of the pillars of this strategy: Discover, Disrupt and Deliver:

- Discover. Diversity is an added value. Our employees' diversity gives us a competitive advantage in revealing and responding to our customers' needs.
- Disrupt. Our employees' diversity boosts our

capacity to innovate. The vision and thought of employees from different origins help us to make positive changes in our organisation and work methods. We attract, hire and retain diverse talent with multiple ideas to help to build new products, services and markets, and broaden the existing ones.

- Deliver. The crucial success factor is not the mere presence of diversity, but the leverage and use of the differences existing in the service of excellent business results. We create awareness in our leaders and we support them in the construction and management of a diverse workforce at all levels.

The diversity project, which received an important push in 2012 through the pilot program in the European region, continued in 2013 with the goal of creating a structure of global diversity and inclusion, aimed at insuring proper management of our various work efforts and an inclusive work environment, as well as raising awareness that diversity and inclusion provide business opportunities and are part of our transformation.

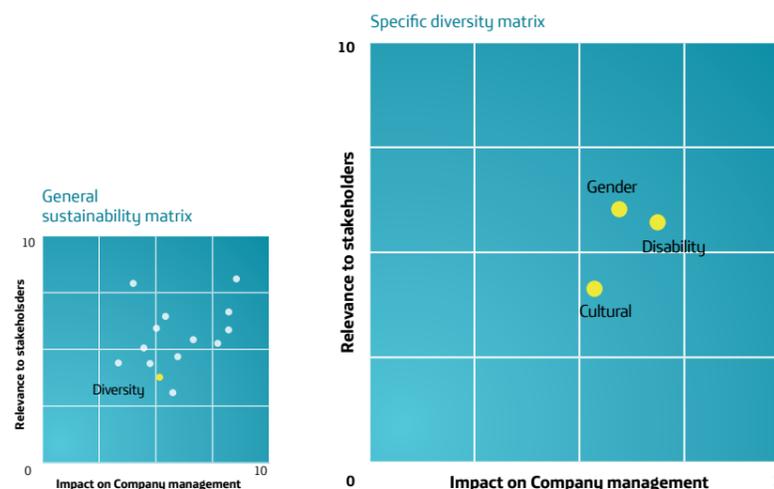
Gender

Therefore, regarding the distribution of men and women on the global workforce, the total number of employees of Telefónica on December 31, 2013 was 126,730. The total number of professional women amounted to 48,553, in other words, 38.3% of the total and the total professional men amounted to 78,177, the remaining 61.68%.

In the same way, in 2013 Telefónica had a total of 1,255 management positions, of which 21% were filled by women, an increase of 1.6 p. compared with the previous year. This increase was the result of optimizing the exchange of diversity good practices within the Group.

Therefore, regarding the relationship between the base salary of men compared with women, in our domestic market (Spain being the most relevant)

Materiality matrix



the average salary for women was 96% in middle management positions and 97% in management positions. This is a decrease compared with the previous year of 0.5pp. and 1.7pp., respectively.

We are aware of the need to progress in diversity. So, during 2013 Telefónica has driven various initiatives. Among them, it is worth mentioning:

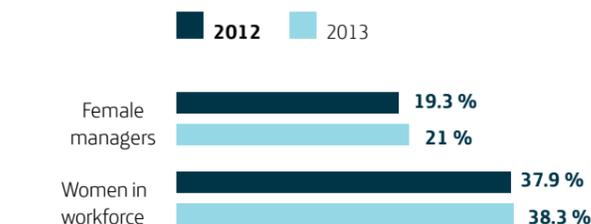
- **The Women in Leadership programme** which began in September 2012 and continued into 2013 in its second installment. Thanks to its success, the programme was extended throughout Latin America and to other divisions of Telefónica. The programme intends to strengthen women's abilities, confidence and personal recovery ability; establish a solid network of female leaders in Telefónica's European companies and increase their visibility; create an environment in which they can share experiences that affect organizational culture, and identify mentors and sponsors that can support them, among other objectives.
- **Telefónica Mexico** has received the award given by Great Place to Work Institute for the last three years, being among the 70 best companies in gender equality. The good practices of the operator in recruiting in talent, for example the *Assessment Center*, allows us to show non-discrimination, by giving more importance to the potential and talent of candidates than any other consideration, whether it be their physical appearance, age, race, or belief.

Women equal 38.3% of the employees at Telefónica and occupy 21% of management positions

Mean salary gender gap for Telefónica's major markets

	2012		2013	
	Senior managers	Middle managers	Senior managers	Middle managers
Spain	96.1%	95.6%	97%	96%
Brazil	93.8%	94.1%	96%	94.3%
United Kingdom	94.0%	109.7%	88.7%	107.2%

Diversity on payroll



	2012	2013
Staff worldwide		
Nº of nationalities on payroll	-	105

Support for people with disabilities

	2012	2013
■ Compliance with the Spanish Law on the Social Integration of People with Disabilities	■ 3.04%	■ 3.2%
■ Volume of contracting with social suppliers	■ 4,225,258	■ 4,548,894
■ Web page accessibility level (W3C)	■ AA	■ AA
■ Dialogue established between organisations representing people with disabilities ⁽¹⁾	■ ONCE, CERMI, CNSE, FIAPAS, FEAPS, ASPAYM Granada and CENTAC	■ ONCE, CERMI, CNSE, FIAPAS, FEAPS, ASPAYM Granada and CENTAC
■ Products and services that incorporate principles of universal accessibility and design for all	■ Bills in Braille or large-type print, platform in sign language, accessible terminals, ATAM (LAVECO, MONDECO, SERVITELCO, DO2, SOSTENIBLE)	■ Bills in Braille or large-type print, platform in sign language, accessible terminals, ATAM (LAVECO, MONDECO, SERVITELCO, DO2, SOSTENIBLE)
■ Investment in social innovation and disability ⁽²⁾	■ 9,328,294	■ 8,688,997
■ Telefónica volunteers who participate in initiatives where the beneficiaries are people with disabilities ⁽¹⁾	■ 1,816	■ 3,051
■ People with disabilities (PwD) benefiting from volunteer activities ⁽¹⁾	■ 12,436	■ 16,397

⁽¹⁾ Pwd: People with disabilities.
⁽²⁾ Data verified by LBG criterion.

'Positive conflict' finds and retains talent, and uses it to grow the company

People with disabilities

We are aware of the need to advance on the path to diversity and even more so if possible when it consists of incorporating people with disabilities or dependencies into the workplace.

→ ATAM, the social arm of Telefónica, with expertise in people, disability and dependency, is a registered non-profit organization declared of Public Utility by the Cabinet in 1977.

The objective of the association is making it so that all handicapped individuals have greater access to employment, as a key part of their social integration. Under the principles of their enabler model, they work so that people with handicaps can develop themselves professionally. In addition, the business project of ATAM is configured by firms that operate using the special employment centre's formula, which reinvests their economic profits with the objective of increasing the number of positions offered to handicapped individuals.

During 2013, nearly 16,000 people in Spain have benefited from their work and 774 employment offers have been managed through the Mercadis employment search, among others.

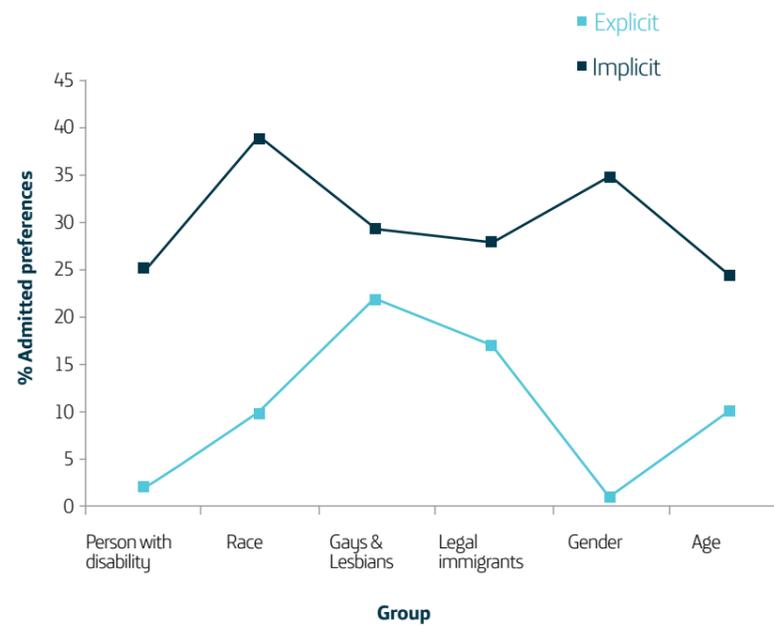
711 professionals have worked in these companies during 2013, of which over 90% suffered some type of handicap.

→ Telefónica, in its commitment to society, makes important social investments and innovations for the handicapped. Among others, we can mention the *Telefónica Ability Awards*, which recognize companies or institutions that have incorporated handicaps into their value chain, or which have developed sustainable business models, which integrate solutions, products and services that meet the needs of individuals with handicaps and deepen their incorporation in society.

→ The next round of the *Talentum Universities* scholarship programme, which will soon be published by Telefónica España, there is a reserve of 5% for young handicapped individuals with degrees to have the

Unconscious prejudices about diversity

Per category



Unconscious prejudices about diversity by categories

The launch of a new course on subconscious prejudice at Telefónica Europa attempts to raise awareness among our managers of how decision-making processes are influenced by the subconscious. We all have prejudices that are developed subconsciously. From a biological and natural point of view we prefer being around people who look like us and who share our interests. This preconceived idea which we develop subconsciously regarding people, limits our ability to manage diverse teams. Greater awareness of prejudices and underlying stereotypes allow us to make more effective and objective decisions. The result is called 'positive conflict', aimed at optimizing the meritocracy and inclusion where there are equal opportunities for all of our talent to have a successful career, allowing us to progress, increase recruitment and the retention of the most important skills, and maximize our growth.

opportunity to access this scholarship programme. Through practical training, they will be able to see the business up close, promoting their integration to it. This measure will doubtlessly result in a significant improvement in promoting the addition of this group to the workforce.

subconscious and how to make this a positive element in management.

Challenges

- Creation of the global work group and employment of regional initiatives within the group.
- Preparation of the diversity map of Grupo Telefónica.
- Development and approval of the corporate diversity policy.

Milestones

- Constitution of the European Diversity Committee as a subcommittee of the Executive Committee of Telefónica Europa.
- Successful completion of the 1st edition of the *Women in Leadership* programme and start of the 2nd edition in Europe and the 1st in Latin America.
- Implementation of the prejudices pilot test to raise awareness among managers of how the decision-making processes are influenced by the

Best practice

Telefónica España joined in the celebration of Diversity Day at Telefónica Europa, by performing awareness actions among its employees.