

RESPONSIBLE MANAGEMENT

Sustainability in the supply chain: responsible minerals provisioning

We at Telefónica are committed to respect for human rights and work with our suppliers to apply our supply chain responsibility policy with efficiency, seeking the correct way to handle the impact of our operations

The extraction of minerals and the impact associated come within the scope of international action to reduce the negative effects in the relevant regions

Foreword

Extracting and processing minerals to obtain metals involves a series of actions which cause a significant environmental and social impact that linger over time beyond the activity period of said extractions.

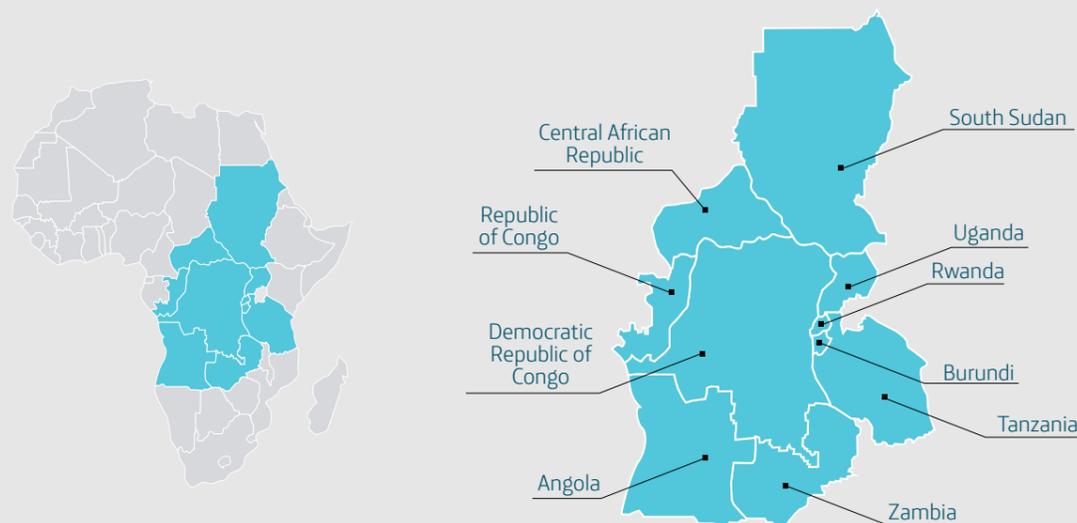
Many services are now incorporating digital technology which means that metal is present in a number of sectors, ranging from the automotive industry and equipment manufacturers to the technology sector and terminal manufacturers. This rise in the use of electrical components has increased the impact on society and the environment. This is why the responsible supply of minerals has become an increasingly important and current topic, both from a regulatory and public opinion standpoint.

Mineral extraction and its associated impact is moving into the arena of international action to reduce the negative impact in the following regions:

The Great Lakes region: Conflict minerals
It refers to four types of minerals which mainly come from The Democratic Republic of Congo ("DRC") and the Great Lakes Region – Angola, Burundi, Central African Republic, The Republic of Congo, Rwanda, South Sudan, Tanzania, Uganda or Zambia.

The name "conflict minerals" refers to the fact that the profits gained by selling these minerals finances armed groups in the region which prolongs conflict and advocates human rights abuses.

The region of the African Great Lakes



Un minero sostiene en su mano fragmentos de coltán. / Fotografía cedida por Responsible Sourcing Network

Conflict minerals, also known as the 3TGs are:

- **Cassiterite.** A mineral from which the metal tin is extracted. Cassiterite is used in electronic apparatus (welding), coatings and as a stabiliser in plastics.
- **Columbite-tantalite or "Coltan":** Is a high-conductivity mineral from which tantalum is extracted. Coltan is used for manufacturing electronic apparatus.
- **Wolframite.** A mineral from which the mineral tungsten, used as a cable for electric and welding appliances, is extracted.
- **Gold.** Used in jewellery and electronics.

Indonesia: Tin extraction
A third of the world's tin comes from Indonesia and its extraction plays an important role in local development. Contrary to what happens in The

Great Lakes region, the situation in Indonesia is not determined by conflict but rather by the impact in extraction on both the environment and human rights. It is important to note that the former affects marine and terrestrial ecosystems. The latter essentially refers to the dangerous working conditions and child labour that are characteristic of secondary mining in the area.

Practice is increasingly to consider all 3TG minerals to be conflict minerals regardless of their origin; hence, this list might be extended in the near future.

Telefónica follows the directives of the OECD and drives their application to the supply chain, with special attention paid to minerals from zones of conflict

Telefónica's situation on regulatory requirements for conflict minerals

We follow the OECD guidelines set forth in its "Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" report. In this regard we:

- Have adopted a company policy, described in this document.
- Have structured internal management to support a supply chain due diligence, according to our Supply Chain Responsibility Policy.
- Are implementing a system of control and transparency over the conflict minerals supply chain.
- Have strengthened our engagement with relevant suppliers.
- Will establish a company grievance mechanism.
- Report on supply chain due diligence.

Furthermore, Telefónica as a listed company on the New York Stock Exchange duly complies with Section 1502 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*.

In addition, in March 2014 the European Commission released a draft conflict minerals Regulation that will create a voluntary process in which importers of tin, tantalum, tungsten and gold (the 3TGs) into the EU can self-certify that they do not contribute to financing armed conflict.

Telefónica's approach

At Telefónica, we're committed to respecting Human Rights and we work with our suppliers to efficiently implement our Supply Chain Responsibility policy by finding an appropriate way to manage the impact of our operations.

We believe that, in some areas, extracting, processing and trading minerals could lead to armed conflict or cause a breach of Human Rights for the affected people and communities. We understand that mineral extraction is an important economic driving force in the previously mentioned countries and regions; meaning that if mineral extraction and processing were to stop, it would have a negative impact on the development of said places.

We are aware that finding a solution for this type of situation is complex and that it goes further than companies. This is why a joint commitment - from local governments and authorities, companies and the non-profit sector - to take action is necessary so that the different initiatives that are being launched can succeed. These actions are oriented to promote the transparency of the supply chain to obtain conflict-free minerals or to manage properly the impact of mineral extraction and processing has on the environment and working conditions.

In the spirit of the UN Guiding Principles, any 3TG minerals will be considered "conflict minerals" by Telefónica. For this reason we encourage our supply chain to conduct effective due diligence processes – according to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas - to ensure traceability of 3TGs and risk mitigation (including risks of financing armed groups and committing other human rights abuses), wherever necessary and possible.

Telefónica supports and forms part of the main initiatives in our sector oriented towards reducing the impact of and bettering these types of situations. Section 4 of this document identifies the main international initiatives which affect conflict minerals.

Working with our suppliers and establishing alliances

Telefónica does not have direct business relationships with smelters or refiners (SORs), but we actively work to include the sustainability criteria in the whole value chain.

→ We have included in the *General Conditions for the Supply of Goods to Telefónica S.A. and Corporations from its Group*, Procurement Policy (MCT. NI.003), 8.1 Edition, March 2014, a requirement for the submission of offers: The express warranty that to the best of their knowledge following due and careful analysis, the products offered do not contain any of the so called "Conflict Minerals". "Conflict Minerals" are considered as any those meet the following two conditions:

- That such minerals are any of the following: Cassiterite, Columbite-Tantalite, Gold; and Wolframite, and
- 2. That these minerals were extracted from the Democratic Republic of Congo, Angola, Burundi, Central African Republic, Republic of Congo, South Sudan, Tanzania, Uganda, Zambia or any other Country considered as conflict area in the future.

→ THE SUPPLIER must have a clear policy on Conflict Minerals that promotes the adoption and use of OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights for internal use and within its extended supply chain. To support its policy, THE SUPPLIER must have a management system.

This requirement is mandatory and there is no possibility of agreeing otherwise in the specific conditions or any related documents.

→ We are checking our level supplier compliance through external assessments. The main tools to achieve this goal are:

- 360 degree assessments of our risk suppliers, thanks to a signed agreement with EcoVadis¹ in May 2013.
- Audits of our main risk suppliers, where the risks associated to minerals have a specific monitoring.

→ We follow the OECD guidelines set forth in its "Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" report and encourage its implementation among our suppliers who work with these minerals. We expect our suppliers to set up an appropriate management system addressing the issue, to conduct a risk identification and assessment of their own supply chain, to define a risk management plan wherever appropriate, to conduct an independent third-party audit as necessary, and report on progresses to proactively mitigate risks of human rights abuses.

→ Since its formation in November 2011, Telefónica has formed part of the Public-Private Alliance for Responsible Minerals Trade - a joint effort of the U.S. Department of State, the U.S. Agency for International Development, non-governmental organizations, companies, and industry organizations - to take on the challenge of addressing conflict minerals concerns while delivering solutions that benefit those involved in responsible minerals trade in DRC and the Great Lakes Region. In this way, previous initiatives in which we were previously involved are integrated, for example the iTSCI (www.itri.co.uk) project.

Participating in the sector's initiatives

In order to achieve a major impact on the responsible supply of minerals and also to facilitate the actions developed in collaboration with our suppliers, we actively participate in various existing initiatives in the sector. Among them are the Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI) Extractives Working Group.

This Group has developed a range of programmes which aims to guarantee the traceability of minerals used, from the moment of extraction to the final product, as well as initiatives which move transparency in the supply chain.

Telefónica supports and is part of the principal initiatives in our sector directed at reducing the impact and redressing this kind of situation.

¹ EcoVadis promotes the improvement of environmental and social practices of companies by leveraging the influence of global supply chains. EcoVadis elaborates recognized ratings of supplier sustainability performance. Besides that EcoVadis offers monitoring tools that allow companies to manage risks associated to their supply chain. www.ecovadis.com.

4. Main international initiatives

Global and Regional initiatives	Main organisation involved	Aim	Type
OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict Affected and High-Risk Areas	Organisation for Economic Co-operation and Development (OECD)	Provides recommendations for responsible action in supply chains of minerals on a global scale. It helps companies respect human rights and avoid contributing to conflict through their mineral or metal purchasing decisions and practices. It promotes accountability and transparency in terms of conflict minerals within the supply chain. www.oecd.org/investment/mne/mining.htm	Voluntary
United Nations Due Diligence Guide to mitigate the risk of direct or indirect support of the conflict in the Democratic Republic of Congo.	UN Group of Experts in the Democratic Republic of Congo - UNGoE	Issued in May 2011, it complements the American Dodd-Frank Act (2010) Section 1502. The guidelines aim to avoid (i) the abuse of human rights and (ii) the promotion of armed conflict through the extractive operation. It promotes accountability and transparency for conflict minerals within the supply chain. www.un.org/sc/committees/1533/egroupguidelines.shtml	Mandatory
The Public-Private Alliance for Responsible Minerals Trade (PPA)	Participant representatives from government, industry, and civil society Main members: http://www.resolv.org/site-ppa/governance-committee-and-work-groups/	Multi-sector and multi-stakeholder initiative to support supply chain solutions to conflict minerals challenges in the Democratic Republic of Congo (DRC) and the Great Lakes Region (GLR) of Central Africa. The PPA provides funding and coordination support to organizations working within the region to develop verifiable conflict-free supply chains; align chain-of-custody programmes and practices; encourage responsible sourcing from the region; promote transparency; and bolster in-region civil society and governmental capacity. www.resolv.org/site-ppa/	Voluntary
Conflict-Free Smelter Program	Global e-Sustainability Initiative (GeSI) together with the Electronic Industry Citizenship Coalition (EICC)®	An initiative which offers companies and their suppliers a guide and tools to identify the origin of the mineral supplies. This is how smelting and refineries can be catalogued as "conflict-free". It holds a workshop twice a year which gathers hundreds of industry, government and civil society representative to discuss the best practices in this matter. www.conflictreesmelter.org/	Voluntary

Global and Regional initiatives	Main organisation involved	Aim	Type
Conflict-Free Gold Standard and tools from the World Gold Council	World Gold Council (WGC)	Establishes a common framework for mining companies to act responsibly in the extraction of gold and for them to show that their mining operations do not provoke conflict or abuse human rights. www.gold.org/about_gold/sustainability/conflict_free_standard/	Voluntary
LBMA Responsible Gold Guidance	London Bullion Market Association (LBMA)	Ensures that all gold stock and all gold produced in refineries are conflict-free. It allows companies who provide mining supplies to identify and have a conflict-free smelter programme. www.lbma.org.uk/pages/index.cfm?page_id=137	Mandatory for LBMA-accredited refineries
RJC Chain of Custody certification from the Responsible Jewellery Council	Responsible Jewellery Council (RJC)	Certification programme launched in March 2012. It supports the identification and monitoring of the origins of conflict-free precious metals – gold, platinum, palladium, rhodium – throughout the supply chain thanks to documentation in the chain of custody. www.responsiblejewellery.com/chain-of-custody-certification/	Voluntary
ITRI Tin Supply Chain Initiative (iTSCi)	ITRI; Tantalum-Niobium Pact International Study Center; Channel Research	Supports units responsible for contracting Central Africa through the development of: <ul style="list-style-type: none"> ▪ A physical chain of custody which follows and monitors minerals from the mining to the smelting process. ▪ A due diligence system which includes third-party audits and assessments of the mining locations and transport routes. www.itri.co.uk/index.php?option=com_zoo&task=item&item_id=2192&Itemid=189	Voluntary
German certified Trading Chains	Federal Institute for Geosciences and Natural Resources (Germany) (BGR)	Supports units responsible for contracting Central Africa by creating a certification framework for artisanal mining sites. www.bgr.bund.de/EN/Themen/Min_rohstoffe/CTC/Home/CTC_node_en.html	Voluntary
ICGLR's Regional Certification Mechanism	International Conference on the Great Lakes Region (ICGLR)	Establishes a certification mechanism for mining and the trade of conflict minerals coming from the Great Lakes Region. www.oecd.org/investment/mne/49111368.pdf	Mandatory for member countries

Source: CONFLICT MINERALS DISCLOSURE RULE/SEC's Actions and Stakeholder-Developed Initiatives - July 2012



What we expect from our suppliers

While specific due diligence requirements and processes will differ depending on the mineral and the position of the company within the supply chain, companies should review their choice of suppliers and sourcing decisions and

integrate into their management systems the following five-step framework for risk-based on *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict Affected and High-Risk Areas*.

1

- **Establish strong company management systems**
 - Adopt a company policy
 - Structure internal management to support supply chain due diligence
 - Establish a system of controls and transparency over the conflict minerals supply chain
 - Strengthen engagement with relevant suppliers
 - Establish a company grievance mechanism

2

- **Identify and assess risk in the supply chain**
 - Identify 'to the best of their efforts' smelters or refiners (SORs) in the supply chain
 - Engage with SORs to obtain mine of origin and transit routes
 - Assess whether SORs have carried out all elements of due diligence according OECD Guidance
 - Where necessary, carry out, including through participation in industry-

driven programmes, joint spot checks at the SORs' own facilities



OECD due diligence guide on mineral extraction

3

- **Design and implement a strategy to respond to identified risks**
 - Develop report finding of list of SORs at risk
 - Define risk management plan.
 - Implement/track/monitor performance of risk mitigation efforts
 - Undertake additional fact and risk assessments for risks requiring mitigation, or after a change of circumstances

4

- **Carry out independent third-party audit of supply chain due diligence at identified points in the supply chain**
 - Define scope
 - Execution on a regular basis.
 - Input other steps

5

- **Report on supply chain due diligence**