

2012

**Corporate
Sustainability Report**

The future is
commitment

Telefonica

Contents

| | | |
|------------|---|-----|
| 1_ | Letter from the Executive Chairman | 05 |
| 2_ | About this report | |
| | Background to the Telefónica Sustainability Report | 06 |
| | Consolidation perimeter for the information contained | 08 |
| | Report structure | 10 |
| 3_ | Materiality analysis | |
| | Methodology for dialogue with stakeholders | 12 |
| | Materiality matrix | 14 |
| 8_ | Commitment to human rights | 134 |
| 9_ | Telefónica Indicators | 144 |
| 10_ | Table of milestones and challenges | 146 |
| 11_ | Recognition of excellence | 148 |

4_

| | |
|---|----|
| Sustainability tool for creating value | 16 |
|---|----|

5_

| | |
|---|----|
| Economic dimension | |
| Driver of progress | 18 |
| Telefónica as responsible investor | 22 |
| Risk management | 24 |
| Code of Ethics and Business Principles | 26 |
| Customer relations management | 30 |
| Privacy and data protection | 34 |
| Privacy as a key element in digital businesses | 40 |
| Safe use of the Internet by children | 44 |
| Innovation at Telefónica | 48 |
| Wayra, stimulating ideas | 52 |
| Sustainability of the supply chain | 54 |
| Programa Aliados: building sustainable relationships with suppliers | 60 |
| Relations with our shareholders | 64 |
| Compliance with regulations and competition law | 66 |

6_

| | |
|--------------------------------|----|
| Environmental dimension | |
| Green ICT & environment | 68 |
| Global Green ICT | 70 |
| Green from ICT | 74 |
| Green by ICT | 78 |
| Environment | 82 |

7_

| | |
|---|-----|
| Social dimension | |
| Telefónica relies on its staff | 88 |
| Work environment, conciliation and commitment | 90 |
| Training and management of talent | 94 |
| Attraction of employees and talent retention | 96 |
| Fair pay and recognition of good work | 98 |
| Commitment to diversity | 100 |
| Freedom of association and social dialogue | 102 |
| Communication and transparency with our employees | 104 |
| Health, safety and well-being at work | 106 |
| Growing through inclusion | 110 |
| Disability | 114 |
| Telefónica Ability Awards | 116 |
| ATAM, commitment and responsibility | 118 |
| Social projects | 120 |
| Fundación Telefónica | 122 |
| Response to emergency situations | 124 |
| The impact of telecom services | 126 |
| Stakeholder engagement | 130 |

12_

| | |
|-----------------------|-----|
| GRI Indicators | 150 |
|-----------------------|-----|

13_

| | |
|---|-----|
| References to the Global Compact of the United Nations | 160 |
|---|-----|

14_

| | |
|------------------------------------|-----|
| Verification and validation | 162 |
|------------------------------------|-----|

15_

| | |
|--------------------------|-----|
| Glossary of terms | 166 |
|--------------------------|-----|

Our Sustainability Commitment

César Alierta Izuel Chairman & CEO



It is a pleasure for me to write to you and introduce the eleventh Annual Sustainability Report of Telefónica, corresponding to the 2012 fiscal year, which we publish to promote our unavoidable commitment to transparency with all our interest groups, and our objective to value the integrity and sustainability of our management and society in general.

We consider sustainable management the best way to reach our vision to transform possibilities in reality, with the aim to create value for employees, clients, shareholders, global partners, and for all of society in general.

In short, corporate sustainability is a clear source of competitiveness and progress of our Company. It increases brand and difference value in Telefónica's client relationships. It helps to attract and retain our employees and offer them a stable project in our Company. Corporate responsibility faces society, because it strengthens our genuineness at the time of offering our digital services and allows the sustainable development of the communities in which we operate.

At Telefónica, we actively participate in the debate to promote sustainability as part of international and regional public agendas. It is for this reason we have been publishing our report according to World Agreement principles and in virtue of the international standards such as *Global Reporting Initiative* (GRI-G3.1), and as in previous years our Report is verified externally according to AA1000 criteria. In addition, we have adhered to the new initiatives such as the *International Integrated Report* or the *Global Compact Lead* platform, a project formed by close to 50 multinational companies that seek to promote

the idea of Sustainability under the impulse of the United Nations.

The important advances on sustainability of our company in 2012 are discussed on this report based on a triple perspective: financial, environmental and social.

This report outlines the financial dimension of sustainability among other subjects, highlighting the advancement achieved in the identification and quantification of reputational risks. As regards the scope of the Principles of Conduct of the Group, it is important to indicate how Telefónica continues to work on the implementation and dissemination of the ethical code, which is the ground for the creation of a new corporate culture supported on transparency and integrity.

As regards the protection of data and privacy, the activity of the Company in this scope has revolved mainly around four pillars, the creation of a security environment, the inclusion of security of new products, the development of initiatives related with the responsible use of Information and Telecommunication Technology and the collaboration with international organizations.

In the environmental field, Telefónica has based its strategy on the management of environmental risks, promotion of internal eco-efficiency and search of business opportunities through Information and Telecommunication Technology Services that promote an economy with lower carbon dioxide emissions.

In short, in 2012, Telefónica positioned itself among the world top five leading companies

in Telecommunications in the Carbon Disclosure Project (CDP), the highest investment index on global energy and climate change issues. Furthermore, the company highlights the advancements on energy efficiency, which entail direct energy savings of 5 million Euros. Additionally, Telefónica established a new CO₂ (carbon dioxide) emissions reduction level of 30% per client for 2020.

The social field section inside the report outline among other subjects, those issues related with work environment, commitment, security and health, diversity, digital inclusion and social projects.

In this occasion, I want to highlight some of our digital inclusion projects, such as the initiative carried out in Peru to identify the best inclusion initiatives in rural zones based on Information and Telecommunication Technology Services. Wanda, the company created together with MasterCard for the development of mobile payments in Latin America is noteworthy for persons with lower technology resources who cannot access a bank account even though they own a mobile device. On the other hand, the M-Inclusion project, co-financed by the European Commission has been implemented in order to carry out the first Platform of Social Inclusion through mobile solutions for Europe and Latin America.

During 2012, we have analyzed the evaluation of the Group impact on issues of human rights. In relation to this last subject, Telefónica signed the Governing Principles of Freedom of Speech and Privacy of the Information and Telecommunication Technology Services and developed the Methodology Guide for the identification and evaluation of child labor risks.

Background to the Telefónica Sustainability Report_

Here Telefónica presents its 2012 Corporate Sustainability Report, a document gathering together all the progress made during the year with respect to social, environmental and corporate governance criteria.

Telefonica is one of the world's leading integrated telecom solutions providers in the areas of communication, information and entertainment, with operative presence in Europe and Latin America.

The Company is present in 24 countries and has a customer base of over 315 million at December 2012. It is a company incorporated in Spain in 1924, with more than 1.5 million direct shareholders, listed on the continuous market of the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia) and on those of London, New York, Lima and Buenos Aires. The Group occupies the eighth position in the world in the telecommunications sector in terms of stock market capitalization, first position as integrated European operator and 15th in the Eurostoxx 50 ranking, which covers the largest companies of the eurozone.

Telefónica boasts one of the most international profiles in the sector, generating more than 75% of its business outside its domestic market. Movistar, Vivo and O₂ are the principal brands under which Telefónica operates in their respective countries: Vivo for Brazil; Movistar for Spain and the rest of Latin America; and O₂ in the UK, Ireland, Germany, the Czech Republic and Slovakia.

This publication covers the progress made in social and environmental matters, and those of good governance, during the 2012 reporting period, as well as the objectives that we have set for the Company for 2013. To compile the qualitative and quantitative information in this report, internal and external tools and utilities were used, especially eSIF for themes related

to Human Resources and Credit 360 for those related to customers, community and the environment. The implementation of these tools has allowed us to carry out self-diagnosis and to verify each datum from its division of origin, as well as to follow its traceability, routing and reliability at distinct levels of grouping, this in turn passing through two checking and verification procedures, both internal (management control/CFO in some countries and corporate environment and sustainability departments) and external (Ernst & Young, Aenor, LBG).

According to the Global Reporting Initiative (GRI)

This report has been externally validated and is based on the principles of the Global Reporting Initiative (GRI) and AA1000APS for disclosure, the most widely recognized and used standards in the preparation of this type of report, with the overriding aim of facilitating understanding, comparability and maximum transparency with respect to our stakeholders.

The 2012 Sustainability Report was prepared in accordance with the general principles G3.1 issued by the Global Reporting Initiative (GRI). This chapter provides a brief explanation of how the GRI G3.1 reporting guidelines were applied in the preparation of the report and lists the principles for defining the content and for ensuring report quality. In order to ensure a balanced and reasonable representation of the organization's performance, what should be included had to be determined. This was done in the light both of Telefónica's experience and aims, and the interests of our stakeholders.

Content principles

- **Materiality:** the information in the report covers the topics and indicators that reflect Telefónica's significant economic, environmental and social impacts or those that would substantively influence the assessments and decisions of our stakeholders, based on a combination of internal and external factors.
- **Stakeholder inclusiveness:** Telefónica has identified its stakeholders and explains in this report how it has responded to their reasonable expectations and interests.
- **Sustainability context:** Telefónica presents its performance in the widest context of sustainability. Telefónica presents its understanding of sustainable development and draws on objective available information for the topics covered in this report, as well as on measures of sustainable development, conditions and goals, relation to the Company's long-term strategy, risks and opportunities, debates with stakeholder groups and performance in the various geographical contexts where it operates.
- **Completeness:** coverage of the topics and indicators and the definition of the report boundary are sufficient to reflect the significant economic, environmental, and social impacts and to enable stakeholders to assess Telefónica's performance in the reporting period.

Quality principles

- **Balance:** the report reflects the positive and negative aspects of the organization's performance so as to enable a reasonable assessment of overall performance.
- **Comparability:** the report and the information contained within can be compared on a year-to-year basis through tables and charts, thus highlighting any significant variations in the boundary and scope. In addition, the CR ATLAS facilitates comparability of key performance indicators in Telefónica's CR management.

- **Accuracy:** the report information is sufficiently accurate and detailed (data, sources, measurement techniques, bases for calculation, underlying assumptions and estimates) for our stakeholders to assess Telefónica's performance. This information is contrasted with an independent report by Ernst & Young.
- **Timeliness:** reporting occurs on a regular schedule so that stakeholders can make informed decisions.
- **Clarity:** the report presents information in a way that is understandable, accessible and usable by our stakeholders with respect to risks and opportunities and with respect to other stakeholders.
- **Reliability/validation:** the information and processes used in the preparation of this report were gathered, recorded, compiled, analyzed and presented for external validation.

According to AA1000APS

The standard AA1000AS (2008) was developed to "assure the quality of an organization's sustainability reporting and the processes, systems and competencies to execute them throughout the organization". Validation was performed by Ernst & Young in accordance with the principles defined in the Standard:

- **Inclusivity:** this refers to the participation of our stakeholders in developing and achieving an accountable and strategic response to sustainability.
- **Relevance:** this means that Telefónica has determined the relevance or significance of an issue to its stakeholders.
- **Responsiveness :** this report offers Telefónica's response to the demands of our stakeholders in terms of the Company's sustainability objectives and the targets included herein.

This report has been compiled by the team of the Department of Corporate Reputation & Sustainability of Telefónica S.A., under the direction of Silvia Guzmán Araña.

For further information about this Report and its content, please contact:

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- www.rcysostenibilidad.telefonica.com/blogs
- www.youtube.com/rcysostenibilidad
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Should you prefer to contact us by post, our address is:

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28050 Madrid

Consolidation perimeter for the information contained_

The Sustainability Report includes the most relevant information from the year 2012 relating to Telefónica, S.A.'s sustainability and corporate responsibility in terms of its economic, environmental and social aspects.

To prepare this report, Telefónica relies upon an online system which coordinates and consolidates the information received from each country for each of the indicators, both qualitative and quantitative. This system allows analysis for every one of the countries in which we are active in a uniform, weighted and measurable way, always with the aim of using it as a management tool.

In the annual sustainability and corporate responsibility report, we wish to define clearly the scope of the operations that are covered. Apart from the corporate report, in 2012 we have also issued local sustainability reports for Telefónica in Germany, the United Kingdom, the Czech Republic, Argentina, Brazil, Colombia, Ecuador, Mexico, Panama, Peru and Venezuela. The above reports are available for consultation at <http://Atlas.telefonica.com>

In 2012, the restructuring of Telefónica, S.A. initiated at the end of 2011 and which divides the Company, basically, into four large operational areas, became established: Telefónica Europe, Telefónica Latin America, Telefónica Digital and Telefónica Digital Services. Thus, information about Telefónica's telecom services provision business is presented, divided into the following two large regions: T-Europe (Spain, United Kingdom, Germany, Ireland, Czech Republic and Slovakia) and T-Latam (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela). So, in order to maintain transparency and comparability with the preceding year for all projects and indicators, we have decided to aggregate the information for 2011 related to Telefónica Spain and Telefónica Europe, which had been consolidated as two separate business units. The sources of the information are as follows:

→ **Corporate governance and shareholders:** this derives from the same sources as the information that appears in the 2012 Corporate Governance Report.

→ **Economic and financial information:** this derives from the same sources as the information included in the 2012 Financial Report, audited by Ernst & Young.

→ **Innovation:** this was collected by the corporate innovation department of Telefónica S.A., in collaboration with Telefónica R&D. The sources of the data for investment in innovation were obtained from the purchasing systems, and no criterion of proportionality has been applied.

→ **Customers:** this derives from Telefónica, S.A.'s own quality control systems and from those of the operations of Telefónica Latin America and Telefónica Europe. It should be pointed out that the total number of accesses for Telefónica need not coincide with the sum of the country-by-country accesses, as for reasons of uniformity, the corporate management control department has to standardize some criteria for accounting accesses. The standardization criteria are given in the corresponding chapter.

→ **Staff:** this derives from the human resources management systems, and in this report the concept of 'person' is used, instead of the equivalent notion of 'employee' generally used in financial reports. In those cases in which aggregated information is given, the number of employees is used as a factor of proportionality.

→ **Environment and climate change:** this derives from the environment and operations departments in each of the countries. This information is obtained from online questionnaires and other kinds of digital platforms made available to the different companies and countries. The information is aggregated by simple summation and, in the case of climate change, taking into account the emissions factors of the GHG Protocol.

→ **Suppliers:** this derives directly from the contract adjudication system of the purchasing departments. The information has been consolidated without using any factor of

Sustainability Report consolidation perimeter 2012

Economic dimension

| | Telefónica Europe | Telefónica Latin America | Telefónica Digital | Telefónica Global Services | Atento Venezuela(*) | Rest of Atento(*) | Other subsidiaries | Corporate centers |
|--|-------------------|--------------------------|--------------------|----------------------------|---------------------|-------------------|--------------------|-------------------|
| Driver of progress | ● | ● | ● | ● | ● | ● | ● | ● |
| Telefónica as responsible investor | | | | | | | ● | |
| Risk management | ● | ● | ● | ● | | | | ● |
| Code of Ethics and Business Principles | ● | ● | ● | ● | ● | ● | ● | ● |
| Customer relations management | ● | ● | ● | ● | | | | |
| Privacy and data protection | ● | ● | ● | ● | | | | |
| Safe use of the Internet by children | ● | ● | ● | ● | | | ● | ● |
| Innovation at Telefónica | ● | ● | ● | ● | ● | ● | ● | |
| Sustainability of the supply chain | ● | ● | ● | ● | ● | ● | ● | ● |
| Relations with our shareholders | | | | | | | | ● |
| Compliance with regulations and law | ● | ● | ● | ● | ● | ● | ● | ● |

Environmental dimension

| | | | | | | | | |
|---------------------------|---|---|---|---|--|--|---|---|
| Green ICT and environment | ● | ● | ● | ● | | | | ● |
| Green from ICT | ● | ● | ● | ● | | | | ● |
| Green by ICT | ● | ● | ● | ● | | | ● | ● |
| Environment | ● | ● | ● | ● | | | ● | ● |

Social dimension

| | | | | | | | | |
|----------------------------------|---|---|---|---|---|--|---|---|
| Our professionals | ● | ● | ● | ● | ● | | ● | ● |
| Digital inclusion | ● | ● | ● | ● | | | | |
| Response to emergency situations | ● | ● | ● | ● | | | | |
| Social projects | ● | ● | ● | ● | ● | | ● | ● |
| The impact of telecom services | ● | ● | ● | ● | | | ● | ● |
| Stakeholder engagement | ● | ● | ● | ● | | | | ● |

(*) Atento Group was sold by Telefonica in December 2012, except Atento Venezuela.

proportionality, and it is broken down by country and line of business. This chapter includes the whole economic perimeter of the Telefónica Group. It is important to emphasize the difference between the data for "provisioning" in the aggregated accounts of the financial statements (according to the criterion of accrual and the consolidated accounting perimeter of Telefónica, S.A.) and the criterion of "purchases allocated" which we have used in various sections of this report and which refers to the purchases which are approved in the period, independently of the criteria for accounting and periodicity applicable to the expenditure.

→ **E-inclusion:** this derives from the systems of quality control, operations and regulation of Telefónica Latin America, Telefónica Europe, Telefónica Digital and Fundación Telefónica.

→ **Social action:** this derives from the management control systems and the patronage committees of Fundación Telefónica, ATAM and Telefónica S.A., and it is integrated with LBG validation in a single digital platform.

→ **Exchange rates:** all the information in this report is expressed in real euros, except where the contrary is stated. The exchange rates used have been the annual averages for each period.

Exceptions to this perimeter

There are some operators of telecom services whose information is not included in the report because the stake held is well below 50% and so is not a controlling interest.

→ China Unicom: company in which Telefónica has a strategic shareholding of 5.01%

→ Telecom Italia: company in which Telefónica has a strategic shareholding of 10.50%.

In agreement with the criterion of relative impact, the units of Atento, Telefónica Content (Telefe, Telefónica Music Services or Telefónica Audiovisual Services), and others of small turnover are not included in the report except where specifically indicated in the tables given.

Report structure_

As in previous years, Telefónica presents its 2012 Corporate Sustainability Report, compiled upon foundations of credibility, rigour and transparency.

The report includes the improvements and advances made in terms of sustainability, monitoring of indicators and evaluation of compliance with our achievements and targets, as well as the commitments undertaken by the Company for the coming years.

The report first presents the **materiality analysis** based on the recommendations of the AA1000 standard for identifying those aspects most relevant to sustainability at Telefónica, as well as the **strategic positioning** of the Company in terms of sustainability and its overall organizational structure.

Then, we present Telefónica's Sustainability Report from the perspective of the **triple bottom line**, offering indicators and management reports for the most important advances made by the Company in matters of economic, environmental and social sustainability. To order the various categories and subcategories, we have taken into account the standard SAM classification of the worldwide Dow Jones Sustainability Index (DJSI) for the telecommunications services sector, with the objective of offering the reader an easier comparison of our impacts with those of other leading companies in matters of sustainability.

As a summary, and to give a rapid quantitative representation of how the material aspects of Telefónica are evolving in matters of sustainability, we offer a **table with the data corresponding to the basic indicators (KPIs)**

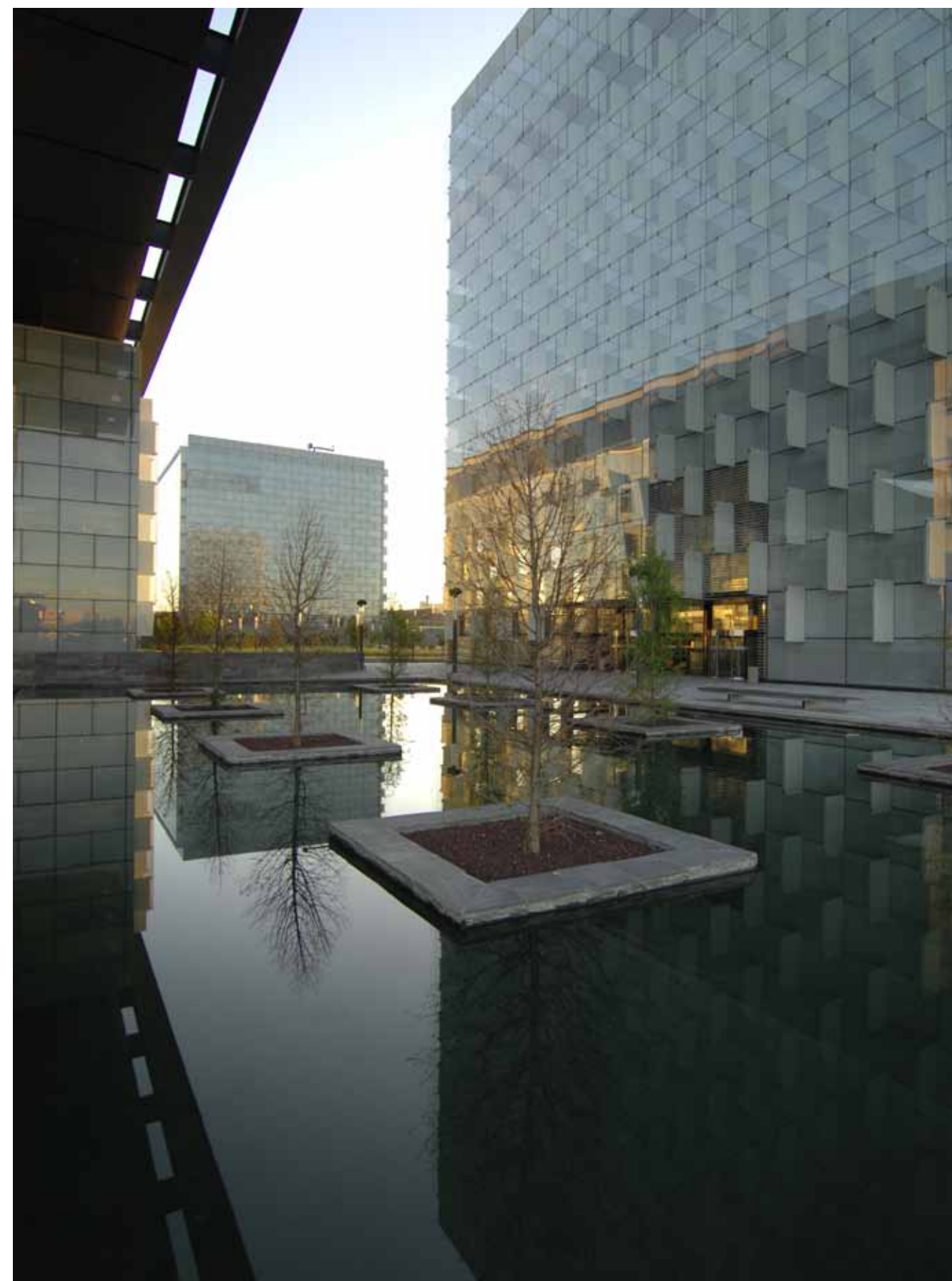
for the last three years, bearing in mind the principles of transparency and comparability.

Throughout this report, the way in which each project meets the **Global Compact Principles**, of which we at Telefónica are signatories, is indicated. We want to have a general, global and inter-sectorial criterion which allows comparability for the reader, improves the transparency of the actions carried out, and reflects the advances in management, following the spirit of the Global Compact progress reports.

Analysis of all the impacts is based on the principles of inclusiveness, materiality and response (principles of the AA1000 standard), as well as on the compilation guide for Sustainability Reports of the Global Reporting Initiative (GRI), version 3.1 (copy attached), which refers to the answers given in the different chapters which comprise the report.

We also attach the letters of external validation for the information offered throughout this report.

For further information about matters of corporate governance and the financial performance of Telefónica, some parts of this report refer to the 2012 Corporate Governance Report and the 2012 Financial Report, which complement the present document and which the reader can consult, respectively, at [Annual Corporate Governance Report](#) and [Report on the Compensation Policy of the Board of Directors of Telefónica, S.A.](#) and [Financial Report](#).



Methodology for dialogue with stakeholders

Telefónica needs to know the issues that most concern its stakeholders. This is the basis for its Sustainability and Corporate Responsibility projects.

At Telefónica, we know that continuous dialogue with our stakeholders is essential to identifying and mitigating risks, identifying and developing new business opportunities, and to so helping generate sustainable value in the Company. The result of these long-term relations established according to the criteria of transparency and responsibility is one of the bases for the analysis of materiality at our Company and which makes up this report.

Among our stakeholders can be found all the people, groups and institutions affecting Telefónica's social actions, or who are affected by them. Among these we can distinguish as main players our customers, staff, investors and suppliers, as well as the various professional, governmental and non-governmental organizations with which we collaborate closely, as is appropriate for an organization as relevant as Telefónica to the development of the communities in which we operate.

The reader can find more detailed information about how the actions of habitual dialogue with our stakeholders are carried out in practice in the Stakeholder Engagement chapter of this report.

Survey on materiality for professionals

In January 2012, an online survey for professionals covering materiality in Telefónica was carried out in *Diario Responsable*. For three weeks, it was available to readers of *Diario* and links to it were given in all the communication channels and social networks relating to sustainability and corporate responsibility at Telefónica, in all countries in which we operate. The main objective of the project was to learn about the evaluations of, and possible improvements to, the materiality aspects of our sustainability reports, from the professional perspective.

The survey was completed by a total of 334 experts, of whom 32% were professionals in the field of sustainability and CSR, 22% professionals from education, 21% professionals in communication, and 12% from the third sector (NGOs). Of these, 58% answered from Spain, 27% from Latin America and the rest from other European countries.

The conclusions which emerge from these questionnaires are that the indicators presented as the basis for elaborating our materiality matrix are clearly in tune with the level of relevance awarded by the experts consulted, and that the great majority of the subjects we deal with are considered to be very relevant or fairly relevant by a high percentage of those polled. All these matters are covered in the course of this report.

The indicators considered most relevant by the expert public were, in this order: protection of minors, transparency in rates, privacy and Green ICT.

The proposed indicators about which there was least consensus were: electromagnetic fields and responsible marketing.

As regards unprompted (not suggested) responses in the areas of sustainability and corporate responsibility related to Telefónica, those that most stand out were: transparency, aspects linked to employment policies in our Company and other aspects related to customer service.

The responses linked transparency, above all, to the remuneration received by directors and senior managers of the Company. As regards this, we have included full information in the Corporate Governance Report and in the Telefónica Board of Directors' Compensation Policy Report attached to it.

| Stakeholders identified | Methodology for dialogue | Some examples of dialogue |
|---------------------------------------|--|---|
| Customers | By means of the channels we establish at the moment of sale, and through customer services, monitoring of satisfaction, SDC, and through our services of marketing and market research, fora and trialling of our products and services, insofar as Sustainability and Corporate Responsibility are concerned. | http://info.telefonica.es/es/servicio_defensa_cliente/html/ http://www.telefonica.com.br/institucional http://forum.o2.co.uk/ http://www.movistar.com.mx/Contacto-Foro-Conectados#ForoConectados http://comunidad.movistar.com.ar/ https://twitter.com/#!/search/users/Telef%C3%B3nica https://twitter.com/#!/search/users/O2 |
| Staff | Through the annual survey of all our professionals, where there are specific questionnaires on sustainability, internal round tables on our Business Principles, various internal channels for lodging complaints, the Telefónica intranet, its blogs and Twitter accounts. | https://twitter.com/#!/UniversitasTef http://www.observatoriocomunicacioninterna.es/Imagenes/ponencias/PresentacionTelefonica-EstrategiadeComunicacionInternaOnline.pdf |
| Shareholders | By means of continuous meetings with individuals and groups, with institutional investors and analysts from the sector, as well as through online channels to find out what subjects turn out to be of most interest to the investor community and to answer their questions, so as to establish direct and longlasting lines of communication. | http://www.telefonica.com/es/shareholders_investors/jsp/home/home.jsp http://serviciosaccionistas.telefonica.es/Registro.do?idioma=es http://www.telefonica.com/es/shareholders_investors/html/presentaciones/confinversores.shtml http://www.telefonica.com/es/shareholders_investors/html/presentaciones/index_foros.shtm |
| Suppliers | Through the biannual Supplier Satisfaction Survey, and the assessments of quality included in the different operators' quality control systems. | http://www.telefonica.com/es/suppliers/html/modelo_compras/como_ser_proveedor.shtml |
| Industry organizations | We participate actively in fora and associations which debate the particular themes of Sustainability and Corporate Responsibility affecting our sector with the objective of improving measurement, standardizing indicators and sharing best practices. | Global e-Sustainability Initiative (GeSI) GSMA and GSM Europe CSR Europe International Telecommunications Union (ITU) |
| Governmental organizations | Dialogue can be classified mainly by geography, grouping different parties according to the scope of their activity: local, regional, national and global. Within each field of action we maintain a fluid dialogue with those responsible for telecommunications services, innovation, consumers, education, social policy, regulation and economic policy, etc., and we take an active part in the development of debates on public policies through our offices in Brussels, New York, etc. | http://www.rcysostenibilidad.telefonica.com/blogs/2011/02/03/eclm-2012-promueve-la-continuidad-de-la-atencion-social-y-sanitaria/ |
| NGOs (Non-governmental organizations) | Agreements of collaboration and continuous dialogue. The following are our principal advisers on products and services developed by Telefónica for persons with some disability: | ONCE and its foundation ASPAYN Granada CNSE and its foundation FIAPAS FAPS |
| Professional public | The opinion of professionals in sustainability and corporate responsibility is very constructive for identifying items of materiality. To this end, we asked the professional journal <i>Media Responsable</i> to carry out a survey, as a result of which 334 questionnaires offering opinions on indicators of materiality, on Telefónica and its transparency policy, as well as on new areas of interest for these experts, were returned. | http://www.diarioresponsable.com/portada/ultimas/14945-cuestionario-on-line-sobre-materialidad-telefonica-diario-responsable.html |

Materiality matrix_

Telefónica's materiality analysis is grounded in the sector, the Company strategy and the expectations of stakeholders.

In preparing the 10th Corporate Sustainability Report, as in past years, we have elaborated an analysis of material issues (according to the AA1000AS assurance). The objective is to address issues that are relevant, observing the requirements and issues related to the Company's stakeholders.

In Telefónica, the materiality analysis is performed in two different stages. The first one starts from an analysis of the telecommunication industry, where the Company strategy is analyzed, as well as stakeholder expectations. This work allowed us to detect up to 48 relevant issues.

For this analysis, the following sources were used:

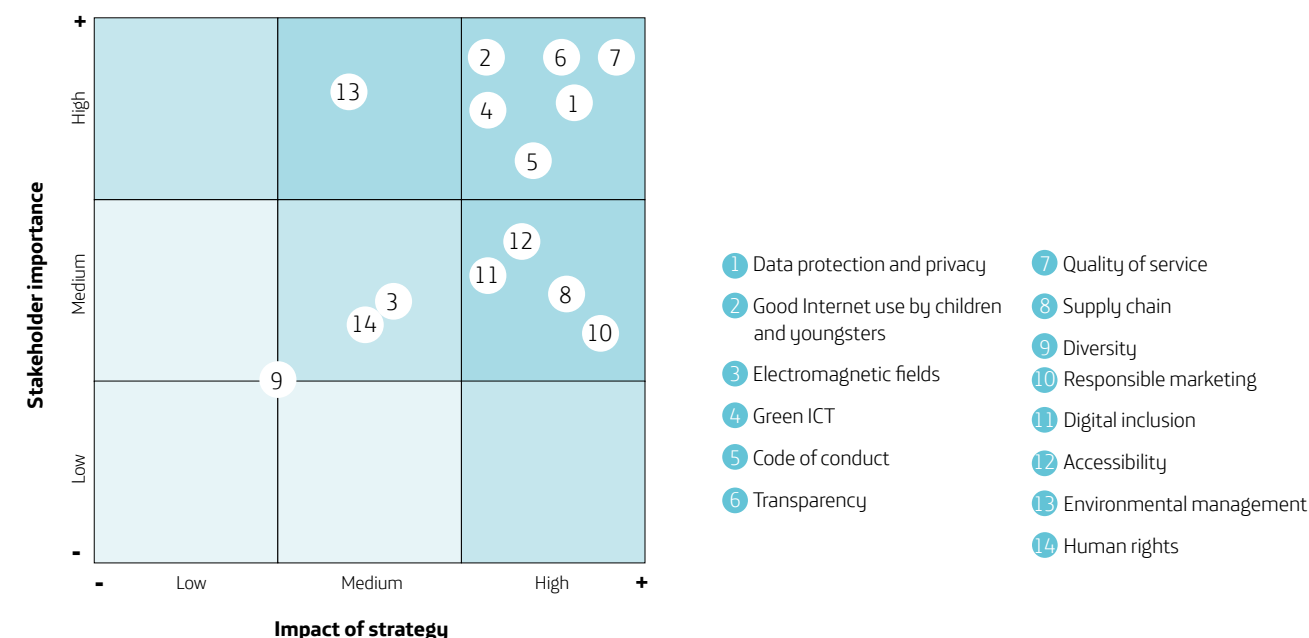
- Requirements and requisites of international bodies, such as the OECD, ILO, European Commission and Digital Agendas.

- Investment indexes such as the Dow Jones Sustainability Index and FTSE4Good.
- Industry associations and the expert public.

Afterwards, a second analysis is carried out, more focused on Telefónica's reality. It comprises internal sources, like the reports of industry experts, Telefónica's risk analysis and the analysis of financial results, the impact on the Corporate Business Principles and local factors, and the study of the results of the RepTrack reputation indicator. This work allowed Telefónica to prioritize on 18 key projects.

Another source of information - besides the multi-stakeholder dialogue panels carried out in most of the countries on the Corporate Responsibility Report - is information gleaned from digital sources. In 2010, the 2.0 dialogue

Materiality matrix



channels were consolidated (website, blogs, Twitter, YouTube, and Flickr).

Between 2011 and early 2012 a survey was conducted on materiality among the expert public, taken into account this year.

Later on, the results obtained were prioritized based on two variables:

1. The actual or potential impact on the Company's strategy, in order to capture digital opportunities, to reinforce profitability and sustainability of the business, and to speed up the decision making process and simplify the processes.
2. Depending on the level of interest of the stakeholders.

We have also conducted a survey with experts, which has been taken into account this year

Sustainability tool for creating value_

At Telefónica, sustainability is understood as the mechanism for creating value through the active management of the economic, environmental and social risks and opportunities the Company's activity generates.

Strategy

Transparency and the management of integrity through the Business Principles of Telefónica creates trust in the markets and in general among the stakeholders of the Company. Corporate sustainability is a clear source of competitiveness and progress; it helps to reduce the risk premium in financial markets, increases the value of the brand and the differentiation before clients, facilitates employee fidelity, ensures a stable project as a Company and before society, strengthens the ability to operate and allows for a sustainable development of the communities where Telefónica is present.

In Telefónica, sustainability projects are analyzed from a value perspective, with three main guidelines: growth in activity, increase in profitability and reduction of risk.

This translates into 13 key Sustainability projects — many of them across other sectors of the Company — related to decision making based on the ethical code established in the Business Principles. This reports details the work done in each project.

Continuing with the transparency policy, it was decided two years ago to change the traditional Corporate Responsibility report towards a sustainability model under the triple bottom line — economic, social and environmental dimensions — giving an integrated response to DJSI and GRI A+, and verified externally according to the AA1000 criteria framework.

To assess compliance with the strategic objective, besides the internal management indicators, the Company has two indexes monitoring its activity, the Dow Jones Sustainability Index (DJSI) and the Carbon Disclosure Project (CDP), both viewed from a business perspective.

Organizational structure

At Telefónica, the management of Corporate Sustainability is part of the competences of the Public & Corporate Affairs Directorate.

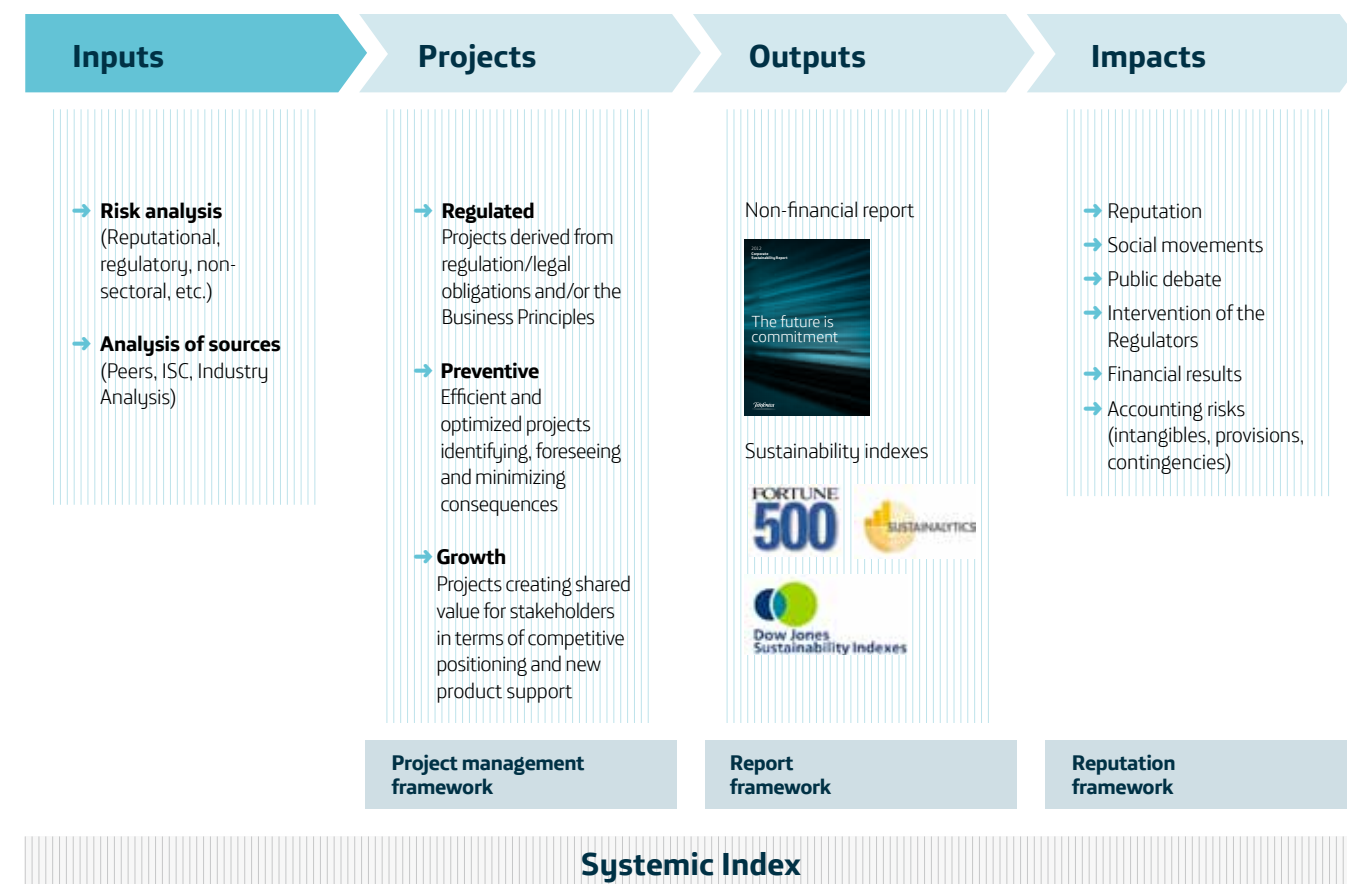
In order to integrate these issues into the organization, so that they are an integral part of its DNA, the Company has a Board of Directors' committee. In fact, Telefónica was the first Company in the Ibex 35 index with this body, created in June, 2002. The Human Resources, Reputation and Corporate Responsibility Committee is made up of five Directors (four independent and one proprietary), and meets periodically and whenever the Board requests its intervention.

Duties of the committee

Promote implementation of Company values

- Encourage the correlation of the values with the identity of Telefónica.
- Supervise the incorporation of the values in operations, especially in the areas related to the management of intangible assets.

Risk management process



- Know and control the degree of identification of stakeholders with the values.

Boost development of Corporate Reputation project

- Monitor the reputation risks.
- Manage the perception of stakeholders.
- Communicate the results of reputation studies to the Board of Directors
- Foster the participation of Telefónica in initiatives and groups, especially the presence of the Company in the socially responsible investment indexes.

Ensure ethical and responsible behavior of Telefónica

- Supervise the diffusion and implementation of the Business Principles in all business areas and in countries where the Group is present.
- Encourage the adoption of corporate policies that are common in matters of Corporate Responsibility derived from the Principles.

Boost verification of Corporate Responsibility Report or the balance of intangible assets of the Group

- Activate the measurement of performance of Telefónica in the management of intangible assets (ethics, values, sustainability, identity, etc.)
- Foster transparency through the Reports on Corporate Responsibility, monitoring the Indicators framework affecting the relationships of Telefónica with its groups of interest.
- Inform the Board of Directors about the results achieved, as well as reporting them before the government bodies.
- Receive from the external checkers opinions on the verification of the Corporate Responsibility Reports.

On the other hand, it is worth noting that in order to perform its work, the Global Corporate Reputation & Sustainability Directorate has an international presence through direct collaborators in the countries where Telefónica carries out its operations.

At Telefónica, Corporate Sustainability management is one of the competences of the Public & Corporate Affairs Directorate



Driver of progress

The Company has demonstrated significant improvement in its financial flexibility thanks to strong asset management and cash flow generation.

In 2012, the total amount distributed by Telefónica increased by 0.9% to reach 78,840 million euros. As regards revenues, it is important to emphasize that a significant part of this sum comes from permanent financial divestments in China Unicom and Atento, commitments which had already been announced by Telefónica with the aim of improving our financial flexibility and ensuring that the Company's obligations to its stakeholders are covered in 2013. It should also be said that these divestments compensate for the fall in net income that has taken place in the period, mainly impacted by the complex environment for operations in Europe, exchange rates and regulation.

This commitment to improve our financial flexibility also explains the notable fall in payments to shareholders, since it implied the

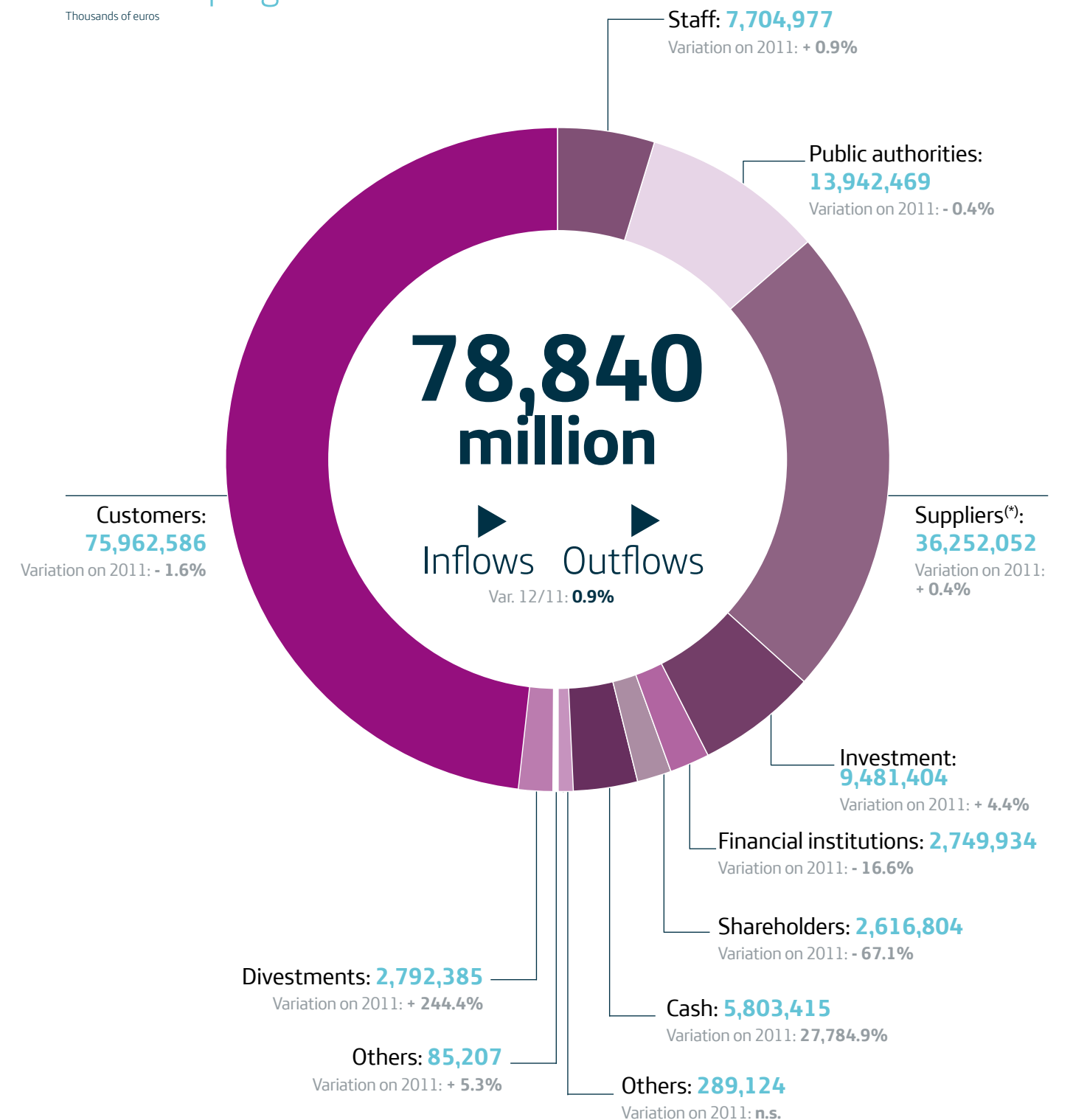
suppression of one of the dividend payments in 2012.

This financial flexibility manifests itself in an important increase in the liquidity position of the Company, which reached 5,803 million euros at 31 December and reduces the net debt ratio over OIBDA from 2.46x to 2.36x. In addition, we have managed to reduce payments to financial institutions by improving the management of the debt, which has allowed us to reduce the effective rate of interest from 5.50% to 5.37%.

Just as in the previous reporting period, disinvestments in non-strategic towers also stand out, in the context of a series of initiatives carried out by the businesses to optimize the use of capital and make the provision of services to our customers more energy efficient.

Driver of progress

Thousands of euros



Notes:

- The information in this chart was calculated using payment criteria and the consolidation perimeter for the audited accounts presented in Telefónica's financial statements.
- Employee salaries do not match those included in the indicator table, where they are given net of social security payments.
- Includes suppliers by interconnection.

Contribution to progress

All economic data in million euros

| | Economic impact | Revenue/GDP(*) | Indicators | |
|----------------------------|-----------------|----------------|----------------------|----------|
| Spain 2012 | | | | |
| Revenue | 15,173.3 | 1.5% | Staff | 37,014 |
| Payments | 3,602.6 | | n° local suppliers | 2,137 |
| | 2,864.3 | | % local purchases | 88.8% |
| | 2,899.9 | | Accesses (thousands) | 43,140.3 |
| | 1,692.0 | | | |
| Germany 2012 | | | | |
| Revenue | 5,514.9 | 0.2% | Staff | 5,792 |
| Payments | 2,098.6 | | n° local suppliers | 1,701 |
| | 481.0 | | % local purchases | 62.3% |
| | 497.0 | | Accesses (thousands) | 25,372.8 |
| | 609.0 | | | |
| Ireland 2012 | | | | |
| Revenue | 620.6 | 0.4% | Staff | 965 |
| Payments | 186.5 | | n° local suppliers | 481 |
| | 74.7 | | % local purchases | 87.9% |
| | 69.2 | | Accesses (thousands) | 1,572.7 |
| | 192.0 | | | |
| United Kingdom 2012 | | | | |
| Revenue | 7,235.1 | 0.4% | Staff | 11,256 |
| Payments | 3,692.4 | | n° local suppliers | 1,553 |
| | 659.8 | | % local purchases | 72.5% |
| | 555.9 | | Accesses (thousands) | 23,842.2 |
| | 748.0 | | | |
| Czech Republic 2012 | | | | |
| Revenue | 1,787.8 | 1.2% | Staff | 5,869 |
| Payments | 518.9 | | n° local suppliers | 134 |
| | 231.1 | | % local purchases | 92.2% |
| | 302.4 | | Accesses (thousands) | 7,900.1 |
| | 248.0 | | | |
| Slovakia 2012 | | | | |
| Revenue | 188.6 | 0.3% | Staff | 416 |
| Payments | 72.8 | | n° local suppliers | 16 |
| | 13.7 | | % local purchases | 48.0% |
| | 21.5 | | Accesses (thousands) | 1,354.2 |
| | 19.6 | | | |
| Argentina 2012 | | | | |
| Revenue | 3,912.5 | 1.1% | Staff | 16,792 |
| Payments | 931.7 | | n° local suppliers | 1,228 |
| | 795.0 | | % local purchases | 91.7% |
| | 1,175.7 | | Accesses (thousands) | 24,136.0 |
| | 519 | | | |
| Brazil 2012 | | | | |
| Revenue | 14,303.5 | 0.8% | Staff | 21,863 |
| Payments | 3,134.7 | | n° local suppliers | 3,261 |
| | 1,813.2 | | % local purchases | 81.5% |
| | 5,905.4 | | Accesses (thousands) | 91,369.8 |
| | 2,444.0 | | | |
| Chile 2012 | | | | |
| Revenue | 2,576.9 | 1.2% | Staff | 5,363 |
| Payments | 617.2 | | n° local suppliers | 1,367 |
| | 301.2 | | % local purchases | 74.6% |
| | 280.8 | | Accesses (thousands) | 13,147.0 |
| | 606.0 | | | |
| Colombia 2012 | | | | |
| Revenue | 1,778.6 | 0.6% | Staff | 3,452 |
| Payments | 503.2 | | n° local suppliers | 646 |
| | 161.9 | | % local purchases | 71.8% |
| | 372.4 | | Accesses (thousands) | 14,126.1 |
| | 352.0 | | | |

(*) Revised by IMF in February 2013.

Contribution to progress

All economic data in million euros

| | Economic impact | Revenue/GDP | Indicators | |
|-------------------------|-----------------|-------------|----------------------|----------|
| Ecuador 2012 | | | | |
| Revenue | 473.4 | 0.9% | Staff | 1,328 |
| Payments | 130.0 | | n° local suppliers | 331 |
| | 47.6 | | % local purchases | 66.2% |
| | 92.4 | | Accesses (thousands) | 5,019.6 |
| | 85.0 | | | |
| El Salvador 2012 | | | | |
| Revenue | 130.2 | 0.7% | Staff | 311 |
| Payments | 54.5 | | n° local suppliers | 156 |
| | 16.0 | | % local purchases | 43.8% |
| | 17.1 | | Accesses (thousands) | 1,959.1 |
| | 21.1 | | | |
| Costa Rica 2012 | | | | |
| Revenue | 50.3 | 0.1% | Staff | 263 |
| Payments | 37.1 | | n° local suppliers | 101 |
| | 12.0 | | % local purchases | 70.5% |
| | 2.9 | | Accesses (thousands) | 423.2 |
| | 25.6 | | | |
| Guatemala 2012 | | | | |
| Revenue | 177.3 | 0.5% | Staff | 517 |
| Payments | 74.4 | | n° local suppliers | 253 |
| | 24.7 | | % local purchases | 58.3% |
| | 21.7 | | Accesses (thousands) | 3,304.3 |
| | 21.2 | | | |
| Mexico 2012 | | | | |
| Revenue | 1,742.5 | 0.2% | Staff | 3,024 |
| Payments | 634.6 | | n° local suppliers | 735 |
| | 230.2 | | % local purchases | 90.1% |
| | 191.7 | | Accesses (thousands) | 20,326.9 |
| | 427.0 | | | |
| Nicaragua 2012 | | | | |
| Revenue | 153.0 | 2.5% | Staff | 398 |
| Payments | 54.3 | | n° local suppliers | 157 |
| | 8.5 | | % local purchases | 55.3% |
| | 28.6 | | Accesses (thousands) | 2,367.2 |
| | 22.9 | | | |
| Panama 2012 | | | | |
| Revenue | 166.8 | 0.6% | Staff | 440 |
| Payments | 53.4 | | n° local suppliers | 146 |
| | 17.0 | | % local purchases | 66.5% |
| | 19.7 | | Accesses (thousands) | 1,660.2 |
| | 40.0 | | | |
| Peru 2012 | | | | |
| Revenue | 2,470.0 | 1.6% | Staff | 9,369 |
| Payments | 538.4 | | n° local suppliers | 1,166 |
| | 382.2 | | % local purchases | 73.1% |
| | 589.3 | | Accesses (thousands) | 20,299.9 |
| | 378.0 | | | |
| Uruguay 2012 | | | | |
| Revenue | 254.8 | 0.7% | Staff | 384 |
| Payments | 60.2 | | n° local suppliers | 359 |
| | 19.6 | | % local purchases | 36.3% |
| | 36.1 | | Accesses (thousands) | 1,843.5 |
| | 28.0 | | | |
| Venezuela 2012 | | | | |
| Revenue | 3,388.5 | 1.3% | Staff | 7,022 |
| Payments | 870.0 | | n° local suppliers | 932 |
| | 338.5 | | % local purchases | 88.5% |
| | 696.5 | | Accesses (thousands) | 11,664.6 |
| | 463.0 | | | |

Telefónica as responsible investor

Socially responsible investment from the Company's pension fund (Fonditel) reached 71.11 million euros during 2012, a figure that represents 2.21% of its total assets.

Fonditel Pensiones EGFP, S.A., is the entity that manages the pension funds of the Group in Spain.

Socially responsible investment (SRI), which specifically takes into account environmental, social and good governance criteria, known as ESG criteria, in the employees' pension funds of the Telefónica Group, "Empleados de Telefónica de Spain, F. P.", and "Fonditel B, F. P.", which includes the pension plans of other companies of the Group in Spain, reached 71.11 million euros in 2012, representing 2.21% of their assets. These investments, whether direct in companies or via specialized funds, were distributed in the following way:

¿What is Fonditel Pensiones EGFP?

Fonditel is a founder member of SPAINSIF, the Spanish forum for Socially Responsible Investment. SPAINSIF is a non-profit organization made up of 32 founding entities, interested in promoting SRI in Spain, and is a

platform which includes financial institutions, fund managers, suppliers of SRI services, non-profit organizations connected to SRI, and trade unions.

2012 main milestones

In 2012, Fonditel Pensions sponsored the XVIII Telefónica Staff Pension Plan Days. This event was a forum for information related to management of extra-financial risks and its programme was entirely about SRI/CSR.

Finally, we should say that during 2012 Fonditel collaborated with the joint Spanish-French research project concerning the commitment and the practice of active dialogue among shareholders being led by the Universitat Jaume I in Castellón, in collaboration with the Economics Laboratory of the École Polytechnique (Paris), the FDIR Finance Durable et Investissement Responsable Chair (Paris) and L'Association Française de la Gestion Financière (AFG).

71.11 M€

Socially responsible investment reached 71.11m euros in fiscal year 2012

In support of society

26.31 M€

37.37%
in environmental companies and funds, in renewable energy, water and forestry

36.12 M€

50.08%
in companies dedicated to affordable housing for rent

8.68 M€

12.55%
in funds of good corporate governance



Risk management

A common methodology allows Telefónica to manage consistently and effectively the risks identified in the Group, and assess both the economic and reputational impacts of each.

Based on the best risk management practices available on the market, we have developed a Risk Management Model, which we apply throughout the Company and which has led us to define a total of 60 kinds of risk, divided into four large categories - business risks, financial risks, operational risks and global risks. All of these are subject to a single risk management process: identification, evaluation, response to the risk and follow-up/reporting.

- The process of **identification** used takes as its focus the notion of self-assessment (Risk Self-Assessment) where each manager is responsible for the identification and assessment of the risks that affect their area of responsibility. Once identified, they are classified according to the categories of the risk management model so as to be able to proceed to their evaluation.
- The **evaluation** phase allows us to quantify the exposure of Telefónica to the risks identified. For this, we consider two variables: the probability of occurrence and its impact.
- Once the evaluation has been carried out, we define the best **response** to each of **the risks** identified, developing such plans of action as will avoid, mitigate or deflect their negative effects upon the Company.
- Finally, we periodically revise the degree of implementation of the plans, as well as the evolution of and changes in the risks identified. Their **follow-up** allows us to update the **report** for our governing bodies, in line with the natural tendency of risk and its consequences to change with time.

Reputational risks

During 2012, in keeping with the objective of continuous improvement in our processes,

we updated our Methodology for Managing Reputational Risks, with the aim of facilitating the identification and evaluation of all those risks that have an impact on the reputation of Telefónica.

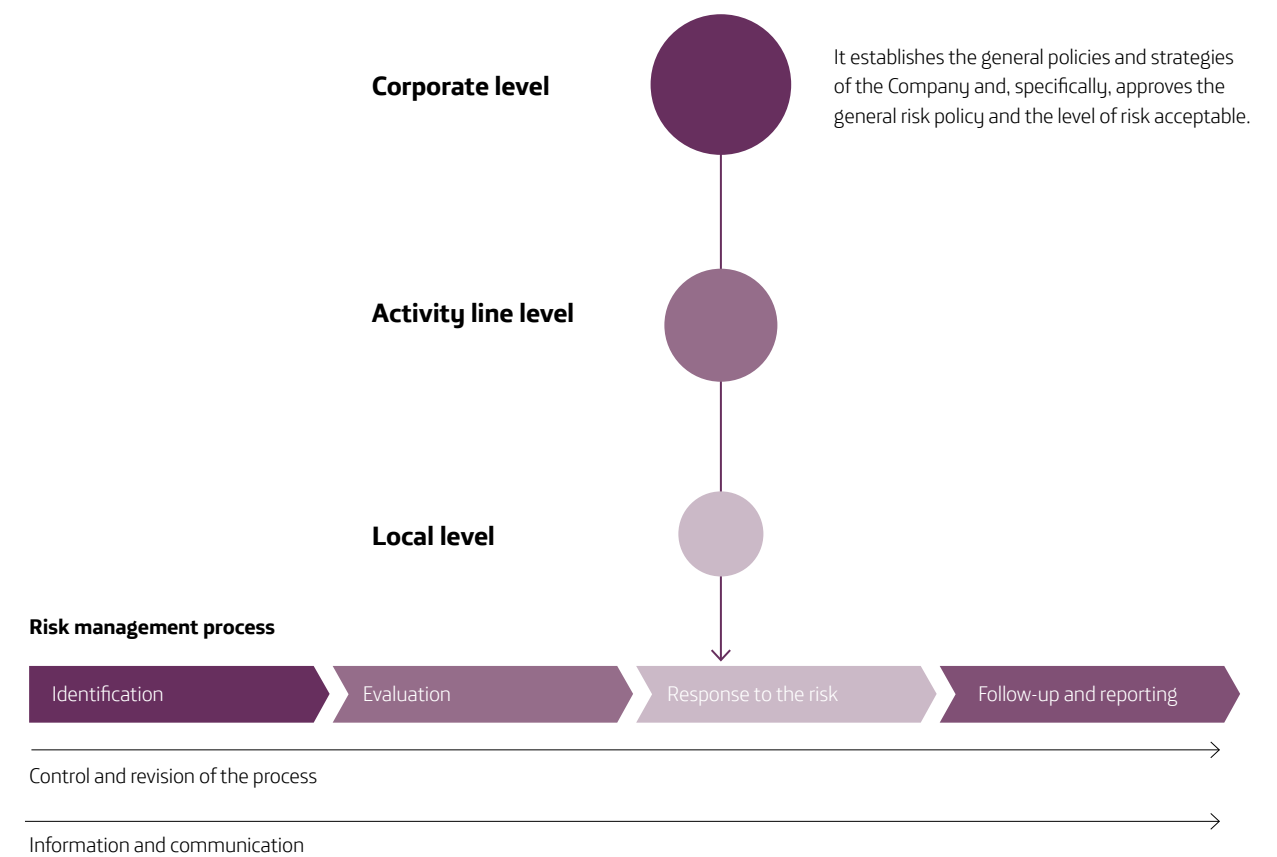
In this way, managers not only evaluate the economic impact, but also assess whether the identified risks will have an impact on the Company's reputation. For this evaluation, they have the support of the Reputation Department in each of the countries.

The possible reputational risks identified may be due to:

- events of business, financial or operational risk which impact upon our reputation.
- events of pure reputational risk, such as: possible direct attacks on and/or rumors about Telefónica's management from external agents, or possible inappropriate actions by one of the operators of the Group or one of its partners.
- events which might signal possible non-compliance with the Business Principles or with internal policies or rules, and which have not been included as factors deriving from business, financial or operational risks.

To evaluate them, just as with all other risks, we take two variables into account, the probability of occurrence and the quantification of its reputational impact. This quantification will depend on the visibility and relevance of the event among the different stakeholders (shareholders, customers, suppliers, staff, etc.).

At Telefónica, we have been working since 2005 on the analysis of our reputation and its levers using the model RepTrakTM. We have done this, taking into account the weights for the different dimensions and attributes of the model, to be able



to calculate the relevance for our stakeholders of this kind of risk. We quantify the possible damage to our reputation according to negative variations along one or more of the seven dimensions of the model (offer, innovation, work, integrity, citizenship, leadership and finances).

During recent months we have been working to establish this methodology in the different countries, with the final objective for 2013 of being able to update our maps of reputational risks and so be able to concentrate our efforts on specific mitigation projects.

Fundación Telefónica risk map

One of the principles which guide the actions of Fundación Telefónica is that of alignment with the best existing operational practices of the Company. Thus, in April 2012, the Strategy Committee of Fundación Telefónica Spain approved the inclusion of the Corporate Risk Management Policy into the processes of Fundación Telefónica. This commitment serves to reinforce the positioning by endowing it with the maximum transparency and control of all its activities, and giving it the best management tools.

→ **In the first phase**, we worked to adapt the Corporate Risk Management Model to the specific reality of the Fundación as a non-profit organization - we reduced the possible types of risk to 50, redefined some of them and adjusted the impact quantification methodology.

Following this adaptation, we began to introduce it in Spain, ending the year with a record of the risks of each of the functional areas of the Fundación, which has allowed us to create its first risk map, including the evaluation of reputational impact for all the identified risks. So, for each of the 20 risks which comprise its risk map, a respective action plan has been defined, which will be developed in the course of this year, with the objective of mitigating the negative effects on both the activity of the Fundación and on its reputation.

→ **In the second phase**, we have started to introduce the same process in the local Fundaciones (foundations), focussing initially on Argentina, Colombia, Brazil and Mexico. The other countries will be incorporated progressively during the year, thus fulfilling the established objective of being able to create the risk map for each of the Fundaciones Telefónica.

Telefónica's management model has identified 60 types of risk

Code of Ethics and Business Principles

Telefónica builds its reputation on the basis of its Business Principles, earning the confidence of stakeholders and maximizing long-term value for shareholders and society in general.

At Telefónica, we continue to refine the establishment and dissemination of our Code of Ethics and Business Principles, which together form the basis for the creation of a corporate culture founded on transparency and integrity.

One of the fruits of this ongoing work is the evolution of the favorable perception that our professionals have of the way in which we act, which has increased by 10 percentage points in the past year.

Externally, we can point to the score we obtained in the Dow Jones Sustainability Index 2012, in the Code of Ethics/Compliance/Corruption and Bribery section, of 96 percentage points, at only 1pp from the best-in-class, and at 18 from the average for our sector.

During 2012, the Business Principles Office, which reports to the Board of Directors of Telefónica, S.A through the Commission of Human Resources, Reputation and Corporate Responsibility, held three meetings. It followed up by introducing the Code of Ethics to the new operations and observing it through continuous training, channels for complaints and the approval of rules which ensure an adequate control environment.

Thus, after the purchase of VIVO in July 2010, and within the process of integration of the fixed and mobile operational areas, the Business Principles have been ratified for our operation in Brazil. This ratification is the result of an exhaustive and detailed analysis of the former

Code of Ethics of VIVO and that of Telefónica, in which synergies and compatibilities between the two codes were sought.

During 2013, the Office will work on approving the ethics code in Costa Rica, where commercial operations began recently.

Training

The Business Principles Office continues to communicate the Code of Ethics to all the professionals who make up Telefónica, in all the companies of the group, including their security staff, by means of a compulsory online training course included in the induction plans for new recruits. As of December 2012, some 73,700 professionals had passed the Business Principles course, which is 63.4% of the workforce. By regions, in Europe 45,171 employees were trained by December 2012 (78% of the Company) In Latin America, the percentage was around 50%, representing 28,524 workers who had gone through the training.

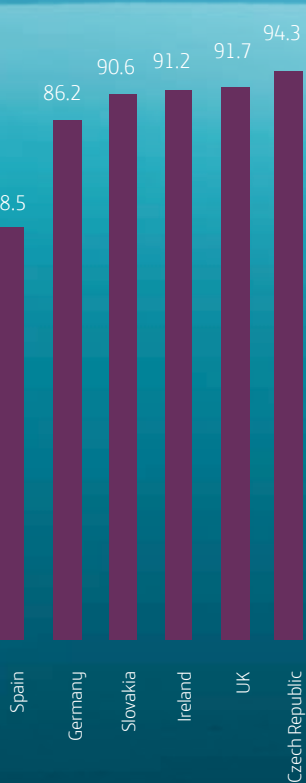
Besides online training, the local Business Principles Offices, which support the Corporate Office in the implementation works in all the countries of Latin America where we are active, have developed classroom-based training plans. This training develops some of the aspects or principles included in the code, aiming to offer more detailed awareness of their applicability.

Telefónica acts with integrity and responsibility



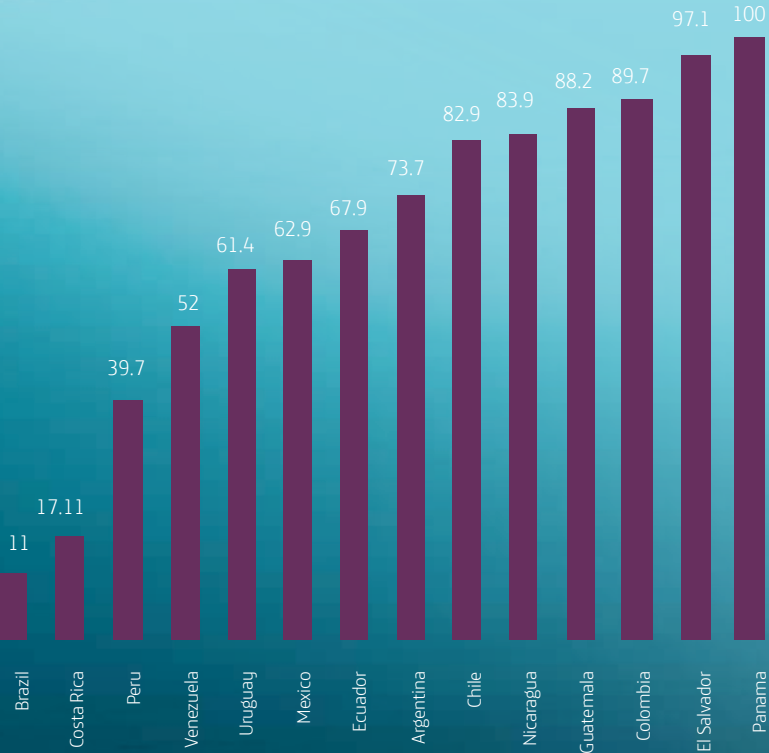
Training in Europe

Percentages
In Europe in 2012, 45,171 employees were trained, 78% of the workforce in the region.



Training in Latin America

Percentages
In Latin America, the percentage was around 50%, representing a total of 28,524 of employees who took the course in 2012.



Notifications received via the confidential channel



The Corporate Business Principles Office received a total of 65 communications through the confidential channel in 2012

For instance, the face-to-face workshops developed in Mexico, the talks on ethics given by the legal department in Nicaragua, and the courses given in Colombia by members of the local Business Principles Office in those areas where the result obtained in the ethics indicator was below the score obtained in the survey on atmosphere and commitment, should all be highlighted.

Together with this classroom-based training, campaigns of communication to all staff on specific subjects have been carried out by different means: on payslips, by internal memos, in staff newsletters, on the intranet, with merchandising, etc.

Confidential hotline

In 2012, the Corporate Business Principles Office received a total of 65 communications through the confidential channel, of which the investigation is closed in 34 cases. Of the latter, only 7 were considered well-founded, 1 being for corruption, and none for discrimination.

Among the measures taken, there were 2 dismissals.

All communications received were treated in accordance with the principles of respect and confidentiality, informing the Audit and Control Commission in those cases in which some irregularity was identified.

Everybody at Telefónica has the opportunity to ask questions, seek advice and raise matters related to compliance with the Business Principles, either anonymously or in person. The confidential channel is available on the intranet for staff, and at the portals provided for different stakeholders.

Integrity and transparency

Along with the Business Principles, we at Telefónica have developed a series of structures of organization, regulations and monitoring, which together make up an adequate environment of total intransigence towards corruption.

950

internal audits and inspections



20%
Financial or information system audits

15%
Fraud prevention actions, complaint investigations or reviews of staff actions

14%
Spending and investment cycle analyses

5%
Verification of correct compliance with other legal obligations

46%
Other internal audits and inspections

Our Business Principles cover the principles of conflict of interest, corruption, the refusal of gifts and bribes, and the principle of political neutrality; having analysed the database of payments, there were no donations to political parties in 2012.

Additionally, in February 2012, we approved regulations on gifts, invitations and expenses, which set out behavior guidelines regarding the acceptance or offer of gifts or invitations, with the objective of avoiding that employees engage in conduct which could be considered corrupt or close to corruption. These regulations are to be taken as minimal.

Within the environment of control, we should say that in 2012 about 950 internal audits and inspections were carried out. Among these, 20% were audits of finances or 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. It should be said that the Group has issued a certificate of no material or significant

weaknesses, in relation to compliance with the Sarbanes-Oxley Law, and the external auditor has verified both the results and the efficacy of the revision process. Another 15% were aimed at the prevention of fraud, investigation of complaints or review of personal actions, another 14% were total or partial analyses of the processes related to the cycle of expenditure and investment, and 5% were aimed at verifying correct compliance with other legal obligations.

In these activities, some cases of misuse or misappropriation of Company assets were detected, giving rise to 121 dismissals. All these were of minor importance, and in no case was there implication of senior members of the main companies of the Group.

Telefónica has no activities in tax havens, according to the list of tax havens included in the 1st additional clause of the Law 36/2006 on measures to prevent tax evasion, and after the modifications that arise following the coming into force of agreements on double taxation and exchange of information.

Customer relations management

Telefónica is moving towards a more transparent relationship with its customers, more effectively managing complaints and greatly simplifying tariffs.

Movistar Fusión has become the best convergent offer on the Spanish market, aligned with customer needs

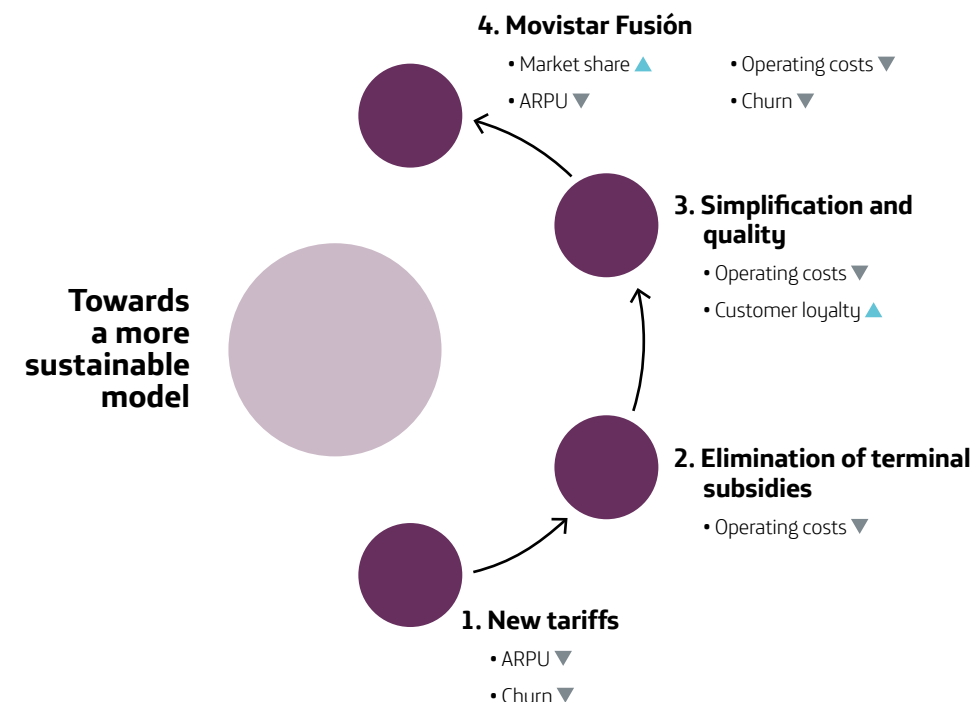
Telefónica is continuously trying to improve customers' experience and their emotional bond with the brand. From the viewpoint of the sustainability of relations with its customers, Telefónica recognizes the fundamental value of transparent communication, as evidenced by its simplification of tariffs. The objective is clear: to facilitate the perception of the competitiveness of its products and services, as well as the security and high level of flexibility for adapting itself to the true needs of its customers. In this way, Telefónica has consolidated a work culture of cooperation and of sharing that has made it possible, over the course of recent years, to exchange the best commercial practices and customer experiences and to implement them in those countries in which it is present in Europe and in Latin America.

In this respect, the launch of Movistar Fusión at the end of 2012 signified a key step for Telefónica Spain in putting the customer at the center of all activities and listening to their demands through a multitude of surveys and interviews. Movistar Fusión's USPs (unique selling points) are saving, transparency and simplicity. This is the first offer that is truly integrated into the Spanish market: one single invoice brings together fixed, mobiles, fixed and mobile broadband and even television, into one sole product. And for the first time, with the subscription charge included in the price. It is

important to highlight that products such as this contribute towards a more sustainable model in customer relations. In fact, they imply both significant falls in both the total cost spent by the client and the churn, which assists the reduction of the operating costs for the Company and the increase in market share.

In the rest of Europe, highlights included the success involve in the service effort carried out for the Olympic Games and the Paralympics of London 2012, which were converted into the first wholly multimedia Olympics. This effort made it possible to bring the Telefónica brand and its gurus closer to all of the customers in the different stores prepared for the event. In 2012, it was additionally set underway the Facebook customer service centre in Germany. This is a full service, with a new direct contact application.

In Latin America, we would stress the introduction of gurus in Brazilian stores, already operating in the countries of Telefónica Europe and Colombia. The function of these experts is to educate and inspire the users with the use of the technology so that, in short, their experience is more satisfactory. In this way, the Vivo stores will be converted into a technological reference point and support point in Brazil, as well as an online service channel.



Telefónica in figures

The total accesses of the Company grew by an 0.3% inter-annual rate, reaching 315.7 million at the close of 2012, with a significant increase in customers on contract and fixed and mobile broadband. We can highlight the evolution of the customers pool in Latin America (67% of the total), which increased by 6% as compared to December 2011. What is also eye-catching is the sustained growth of the mobile services contract segment (+7% interannual) that now represents 33% of the total of cellular accesses (52% of the net gain of the year).

The Telefónica customers have this year opted for greater power for the smartphones, which has represented a net gain of 15.4 million in 2012 (+20% interannual) and now demonstrate 19% penetration on the basis of mobile accesses (+6 interannual percentage points). It is also worth pointing out the increase in mobile broadband customers, which had risen to 52.8 million by December 2012.

Customer satisfaction

In Telefónica, a lot of importance is given to the CSI (Customer Satisfaction Index), the methodology of analyzing the satisfaction of its customers. A sign of its relevance is that this indicator is reported periodically, along with

the rest of the management information, to the Board of Directors of the Company. The Company also has a specific committee dedicated to the quality of service and sales care. This meets every quarter to reinforce the orientation towards the customers of the Group.

In 2012, the Customer Satisfaction Index (CSI) of Telefonica was 7.12, very similar to that of the previous year. A substantial improvement has taken place in how Telefónica compares to its competitors, where the distance as compared to its main competitor has improved by 0.09 points, reaching 0.13. This is fundamentally due to the good evolution of the indicator in Brazil. The percentage of dissatisfied customers is also at a level similar to 2011, and it comes to about 11%.

Movistar again became the Company with best customer service in 2012, according to the latest report from the Pro-Civil, Economic and Social Rights Association (ADECES). The report analyses, for the operators, all of the aspects related to the sales service and to the technical service that they offer to the customers. The last study, done with 1,132 calls, again places Telefónica as the best commercial brand with a score of 3.24 out of 5. This is a piece of data that represents a slight improvement as compared to the 3.23 achieved in the financial year 2011.

Key figures

- The Company's total accesses grew by **0.3%** year on year, reaching **315.7 million** at the close of 2012
- The customer pool in Latin America (**67%** of the total) increased by **6%** compared to December 2011.
- Smartphones represented a net gain of **15.4 million** in 2012 (**+20%** year on year).
- Mobile broadband customers grew to **52.8 million** at December 2012.



Movistar Spain is the operator with fewest complaints in the sector for fixed telephony, access to Internet and voice and data packages

Customer ombudsman and complaints service

Satisfactorily resolving complaints is crucial for the reputation of Telefónica. Resolving the complaints has a decisive influence on both the consumer satisfaction indices and the recommendation of the services between customers. For these reasons, Telefónica has professional teams exclusively dedicated to dealing with any complaint, whether by email, telephone or ordinary post. During 2012, the Group has worked intensively so as to reduce these with a program made up of diverse initiatives in each one of the countries in which it is present.

The criteria used in each country for measuring complaints are very different and they are not comparable and cannot be consolidated between them. The range is due to the fact that the data are verified following the criteria that the different regulators use in its countries and that notably vary between some regions and others. In this way, while account is only taken in some countries of the complaints when made at the second level (as is the case with the United Kingdom), others consider all of the calls received at the customer service centers that have asked for action by the Company. This is the case for the most material market for the Company, Spain, where they represent 2.7% and 1.5% of the customer pool for fixed and mobile businesses, respectively, for the final quarter of 2012. These figures represent an improvement of between 39% and 25% respectively, in relation to the 2012 start data. This success has been one example of the cross-sectional work of many of the areas of the Company. Weekly progress

monitoring has been performed by operating and executive committees, and the Company's Senior Management has been involved as well as suppliers and stores.

According to data from the Telecommunications User Service Office of Spain, Movistar is the operator with fewest complaints of the sector for fixed telephony, Internet access and voice and data packages. In the case of mobile telephony, for example, it is only beaten by one operator. It should finally be noted that, during 2012, the Movistar voice and data packages showed a rate of complaints of just 2.15 for every 10,000 customers. This figure is a quarter of that shown by the operator holding third place. All of the information about the patterns of the complaints is available at <http://info.telefonica.es/es/calidad/html/home/setsi.shtml>

Telefónica stands out as the only telecommunications operator in Spain that has voluntarily created a second tier for complaints management in the Customer Ombudsman (CO), an independent business area used as a higher level of appeal in the event of an unsatisfactory response from the business service areas. The CO decisions are based on criteria of fairness and independence, they are binding on the Telefonica business and they are reported to the Service Quality and Customer Attention Committee of the Board of Directors of Telefónica. In the financial year, the CO of Spain handled 5,862 cases, after 2011 the greatest activity since the CO was created in 2006. Of these cases, 77% of them were admitted to proceedings and 87% of them were resolved favorably in the customer's interests.

Telefónica has also maintained communication channels with diverse consumer bodies and the regulator. Meetings have taken place in this respect with the General Consumers Association (ASGECO), the companies' User Service Office and diverse Municipal Consumer Information Offices (MCIOs).

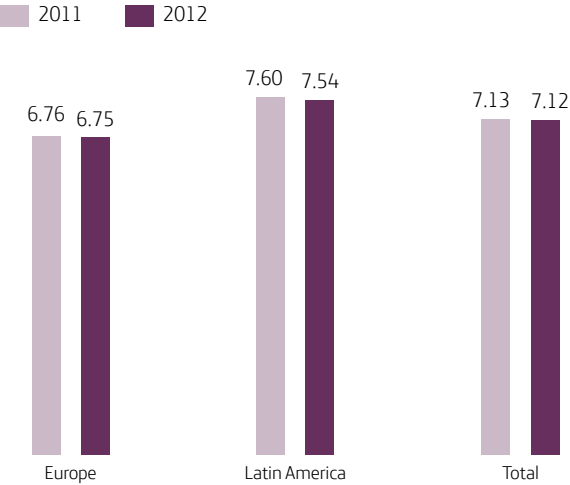
Responsible marketing

Telefónica Spain is a member of Autocontrol, thus assuming its Advertising Code of Conduct in all communications, based on the Advertising Good Practices Code of the International Chamber of Commerce. This certifies the Company at the Corporate Social Responsibility level and it has not been penalized in relation to compliance with decisions of the Autocontrol Advertising Panel.

Details of new commercial offers the Company has underway in each of the markets in which it operates are available at the website, <http://www.telefonica.com/>

Similarly, on the web site, <http://info.telefonica.es/es/calidad/html/te/> quality certificates for products and services that Telefónica offers in Spain can be found.

Customer Satisfaction Index (CSI)



Accesses

| Non-audited data (in thousands) | December 2012 | % Interannual change |
|---|---------------|----------------------|
| End customer accesses | 310,010.8 | 2.9 |
| Fixed telephony accesses ^{(1) (2)} | 40,002.6 | (0.3) |
| Data and Internet accesses | 19,402.6 | 1.4 |
| Narrowband | 653.2 | (28.2) |
| Broadband ⁽³⁾ | 18,596.2 | 2.9 |
| Others ⁽⁴⁾ | 153.1 | (3.5) |
| Mobile accesses ⁽⁵⁾ | 247,269.5 | 3.6 |
| Prepaid ⁽⁶⁾ | 165,759.7 | 2.2 |
| Contract ^{(2) (7)} | 81,509.8 | 6.5 |
| Paid TV ⁽⁸⁾ | 3,336.2 | 0.8 |
| Wholesale accesses | 5,731.3 | 8.2 |
| Rented loop | 3,308.8 | 13.0 |
| Shared loop | 183.5 | (10.5) |
| Fully unbundled loop | 3,125.3 | 14.7 |
| Wholesale ADSL ⁽⁹⁾ | 800.6 | (5.7) |
| Others ⁽¹⁰⁾ | 1,621.8 | 6.8 |
| Total accesses | 315,742.1 | 3.0 |

1. PSTN (including PUT) x1; Basic Access ISDN x1; Primary Access ISDN; Digital Accesses 2/6 x30. It includes self-consumption. It includes all the "fixed wireless" accesses. Includes voice over IP and free ADSL. Since the third quarter of 2012, the fixed-telephony accesses include 384,000 VoIP customers of Germany and 65,000 fixed telephony clients in the UK, homogenized to Telefónica criteria.

2. Fixed telephony accesses include the reclassification in the fourth quarter of 2012 in Argentina of 157,000 "fixed wireless" accesses, previously known as mobile accesses of the contract segment.

3. ADSL, fiber optic, cable modem and broadband circuits.

4. Rest of retail circuits other than broadband.

5. In the first quarter of 2012, 2.0 million inactive accesses were removed in Spain.

6. In the first quarter of 2012, 1.2 million inactive accesses were removed in Spain. In the third quarter of 2011, 360,000 inactive accesses were removed in Chile. In Brazil 1 million inactive accesses were unsubscribed in the fourth quarter of 2011 and 1.6 million inactive accesses in the second quarter of 2012.

7. In the first quarter of 2012, 800,000 inactive accesses were removed in Spain.

8. Includes 150,000 customers of TVA from June 2011.

9. This includes rented loops by Telefónica Germany and Telefónica United Kingdom.

10. Circuits which end customers are operators. Includes wholesale line rental Telefónica (AMLT) in Spain.

Privacy and data protection

Building an open, safe and transparent Internet.

Our commitment

Privacy is a fundamental right recognized by the Universal Declaration of Human Rights. At Telefónica we understand privacy as the scope of personal and family life; in other words, private life, which has the right to be protected from any external intrusion which is illegitimate or without consent.

In a context where universal use of the Internet has increased markedly the amount and kind of information to which both companies and users have easy and immediate access, the sense of responsibility with which businesses manage personal data in their daily activities has become even more important.

Our Business Principles, in force since 2006, set out common behavior guidelines for all our companies, and in particular, with reference to privacy, state that:

- "We protect the confidentiality of the information entrusted to us, whether it refer to the Company, customers, shareholders, employees or suppliers."
- "We provide our stakeholders (customers, employees, suppliers, shareholders, etc) with relevant information about how we use and archive their personal data. We also tell them

how to access and correct it. Their personal data is stored with appropriate security measures. If security is compromised at any time, we act quickly and responsibly."

Our lines of action in 2012

During the year, Telefónica's work in this field has revolved around four pillars:

- Enhancing security.
- Inclusion of security in new products.
- Development of children-related initiatives.
- Collaboration with international organizations.

Our determination to create a secure environment

As well as implementing a global security policy across the Group, audits and employee preparation have improved in the area of data protection, training and security.

a) Data protection

At Telefónica we respect the quality and security standards for the protection and use of personal data, complying with the legal framework of the countries in which we are present and so



responding to the requirements of our customers, employees, shareholders and Business Principles.

With this in mind, in 2012 we redoubled the efforts we made in 2011, increasing internal data protection audits by 47%. Moreover, we extended their reach, carrying out 43% in collaborating bodies in seven Latin American countries and the remaining 57% in Group companies in Spain and Latin America.

The most important aspects revised were: application of security measures in treatment of personal data, control of access to them, quality of information, consent to their processing and the possibility that those affected can exercise their ARCO (Access, Rectification, Cancellation and Objection) rights.

b) Training and raising awareness

During 2012 we continued with the plan for training in data protection started in 2011, in both regions.

- **Telefónica Europe**, where around 35,000 employees have received up-to-date training in privacy and data protection. This represents more than 80% of the staff of O2 at whom the course is aimed. These employees were from the United Kingdom (9,932), Germany (4,170), the Czech Republic (5,718), Ireland (862) and Spain (14,000).

- **Telefónica Latin America**. Actions directed at training of and raising awareness among employees were reinforced, with courses in information security and data protection being carried out, including:

- **Brazil**, where over 4,000 people were trained in prevention of fraud, information security and scrutiny of documents.
- **Chile**, with more than 2,246 people trained by eLearning.
- **Mexico**, where training in ARCO rights began, with 13 courses attended by over 160 people.
- **Ecuador**, where 100 senior managers received classroom-based training.

c) Information security

We at Telefónica dedicate great efforts to guaranteeing security in communications and information, for both the Company and our customers. To this end, we have implemented our Information Security Policy globally in our operations; it is based both on our own experience and the principal international standards.

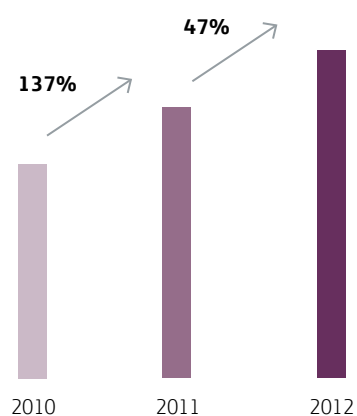
Telefónica protects the confidentiality of the information with which it is entrusted



34,682

employees have received up-to-date training from Telefónica Europe on data protection and privacy

Data protection



The Nemesys center handled 6.4 million emails in 2012 containing alerts and complaints related to Internet security, fraud and abuse

At Telefónica we manage local security solutions as well as world-critical infrastructure, in addition to collaborating with the world's governments and police forces in swapping experiences and protecting services from cyber threats. Furthermore, to promote Internet security, we cooperate with other Internet providers (ISPs) certification bodies (CERTs), participating in organizations and consortia of the sector, such as GSMA, FIRST, ETIS, ETNO, etc.

» Nemesys

The main responsibility of the Nemesys center is dealing with incidents of security, fraud and abuse of the Internet in general involving our customers in their regular Internet use.

The center manages notifications of problems related to virus, spam, cyber attacks, illegal content, distribution of malware, frauds like phishing (the fraudulent acquisition of confidential information), copyright, defamation, etc. All these are Internet abuses which affect our customers, our network or pages hosted on our servers.

For this we work in coordination with the

management of Operations, Engineering, our Legal Advisors and the Business Units of the Company, together with other operators and organizations which look after Internet security.

Its creation, more than a decade ago, was a pioneering initiative at international level and in that time it has evolved at the dizzying speed of technology, reaching over 6.4 million emails with alerts or complaints in 2012, of which 4.5 million were for music, films, or games downloads, in other words, those in breach of laws on intellectual property. For further information: www.movistar.es/nemesys

» Certification in Ecuador

Continuing a process started the previous year, the actions in Ecuador in 2012 are of particular note, since we achieved ISO 27000: 2005⁽¹⁾ certification there for the following processes:

1. ISO 27000: series of standards developed by ISO (International Organization for Standardization) to provide a framework for managing information security.



- Service of "Provision and Support of Stable Data and Dedicated Internet for the Large Companies Segment", and
- the "Electronic Top-up Service" from reception of order to emission of receipt.

Privacy of children and teenagers

We at Telefónica are committed to protecting the privacy of the most vulnerable parts of society like children and adolescents. These groups take full advantage of the power of the Net in their capacity as digital natives, but they are also very exposed to risks related to privacy, as they are more likely to share and reveal personal information without thinking of the future uses that other people or agents might make of it, because of their age.

In 2012 Telefónica carried out numerous initiatives to promote safe and responsible use of ICT, including:

a) CEO Coalition to make the Internet a better place for children

The coalition was formed in December 2011 with the aim of defining a 12-month action plan to make

the Internet a better place for children. During 2012 Telefónica has participated actively in the development of recommendations for each of the five action lines established by the CEO Coalition:

- Provision of simple mechanisms for reporting complaints.
- Implementation of privacy configuration appropriate to the age of the user.
- Use of content classification.
- Offering tools for parental control.
- Improvement of procedures for eliminating contents of abuse of minors.

For further information on the progress made by each working group, see: <http://ec.europa.eu/digital-agenda/en/news/better-internet-kids-ceo-coalition-1-year>

b) Principles for improving the safety of children and young people on the Internet

Telefónica is one of the nearly 30 companies in the ICT sector to have agreed to these principles

"I am convinced children can enjoy the online world and that their safety is the responsibility of everyone"

Neelie Kroes

Vice-President of the European Commission



Telefónica is one of the companies pushing the eSafety Label certification for schools and colleges

with the objective that kids benefit from the advantages offered by the Internet without being exposed to the potential abuses and misuse that so worry parents.

This is based on key aspects such as content, parental control, dealing with abuse or misuse, child pornography, privacy control, education and raising awareness. To learn more, please see: http://www.rcysostenibilidad.telefonica.com/blogs/wp-content/uploads/2012/01/Principios_TIC.pdf

c) International Safer Internet Day

This event was held on February 7 last, when Telefónica implemented different actions around the world, including:

- In Spain, we promoted, together with the NGO *Protégeles*², a congress called "Young and Online" in which over 1,000 young people aged between 11 and 16, from all over the country, took part.
- In Ireland, employees of Telefónica gave talks in schools on correct Internet use.
- In the United Kingdom, the Company supported debates with different stakeholders and unveiled the new version of its website with updated advice and answers to the questions that families might have about the Internet.
- The day was rounded off perfectly by the presentation of the "eSafety Label" initiative carried out in Brussels. This initiative, launched by the European Schoolnet organization,

financed by the European Commission and dedicated to the inclusion of ICT in education in schools, has been promoted by Kaspersky Lab, Liberty Global, Microsoft, Telefónica and the Ministries of Education of Belgium/Flanders, Italy and Portugal.

More detailed information about this can be found in the chapter, *Safe use of the Internet by children*.

Services with privacy as a key aspect

At Telefónica we believe that privacy should be built into the design, by default, in our products and services. Examples of this are Tuenti, our platform for social communication, or the products we develop by means of our Telefónica Digital unit, such as Smart Steps.

In both cases, further information can be found in the chapter, *Privacy as a key element in digital businesses*.

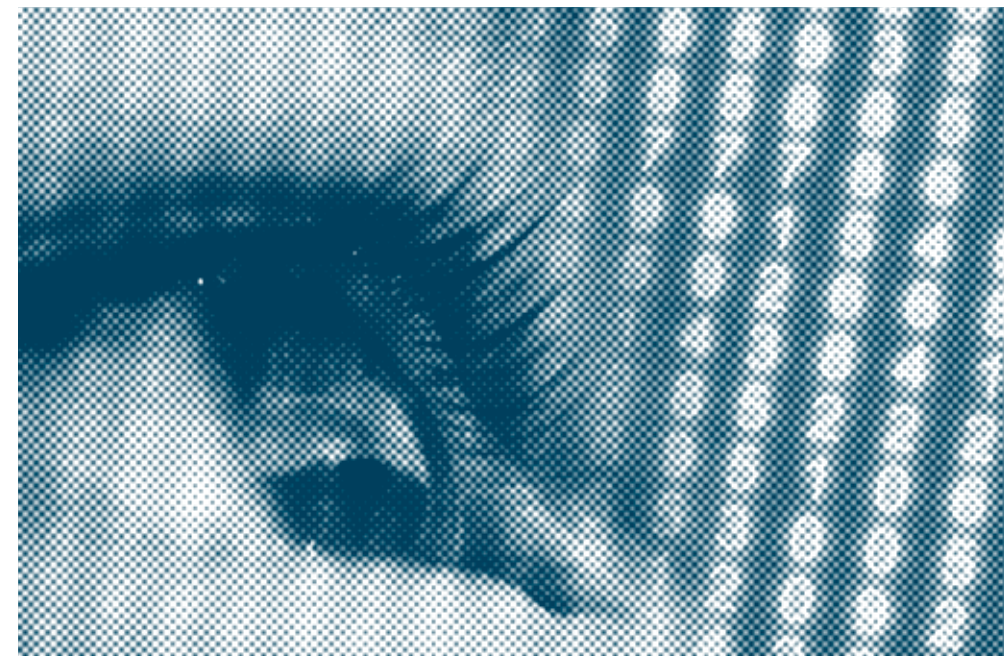
Collaboration with international institutions

The regulatory framework for privacy and data protection is currently evolving at international level. Here at Telefónica, both on our own and through sectoral associations, we have participated actively in the institutional debate aimed at the creation of a regulatory framework that takes the privacy and data protection needs of consumers and the industry into account.

European Union regulatory framework

In Europe, the European Commission unveiled its proposals for revision of the current rules on January 25, 2012. The package of reforms is made up of:

- General description



- Proposal for Data Protection General Regulations
- Personal Data Protection Directive in the framework of prevention, investigation, detection and prosecution of criminal offences and the implementation of sentencing.

At Telefónica we have undertaken an exhaustive and detailed analysis of the Commission's proposal, and we have suggested numerous amendments that in our view would improve the final text of the Regulations.

In addition, during 2012, we made many statements and representations at all levels to make this proposal widely known and so achieve a regulatory framework which is legally watertight and facilitates the development of new services.

- In March, we participated, together with (EU Telecoms) Commissioner Reding, in a debate on data protection organized by *European Voice*.
- In April, we took part in a debate organized by EIF (the European Internet Foundation) with the Director-General for Justice of the European Commission, the MEP Alexander Alvaro (Vice-president of the European Parliament) and Jan Philipp Albrecht MEP (Rapporteur for the Regulations).

These debates were complemented by other actions, both as an individual company and through industry bodies.

- We chair the Working Group on "Data Protection: Trust and Security" of ETNO (the European Telecommunications Network Operators' Association).
- We also lead a sectoral coalition made up of the principal European business associations (GSMA Europe, ECTA, CableEurope and ETNO). The coalition has prepared a series of position statements highlighting the concerns and opportunities offered by the Proposal for Regulations. These joint declarations are much appreciated by the Commission, Members of the European Parliament and other interested parties, because they represent the opinion of the industry through a single voice on such an important matter for the competitiveness of EU companies. (See the following link: <http://www.GSMA.com/GSMA/GSMA-ETNO-briefing-papers-on-the-data-protection-regulation/>)

Information Security Forum (ISF)

In March, Distrito Telefónica hosted the Information Security Forum (ISF) which now has more than 300 members, and of which Telefónica has been a member since 2007.

The objective of these annual meetings, made up of members of the Council and the Executive Committee of the ISF, is to make progress in the definition of overall strategy and in the range of tools and utilities offered to its members.

At the meeting, some agreements were reached, including the launching of a project to evaluate the risk to information from the use of cloud services, and the management of privacy in these external systems.

² Non-profit organization that operates as a complaints line against child pornography and other illegal content on the Internet. www.protegeles.com

Privacy as a key element in digital businesses

The information society requires and gives rise to a massive amount of data. For Telefónica, the protection of data of a personal nature is a maxim that applies to all processes and activities.

Privacy has become one of the most important values of our digital society, where people are more aware of the importance of preserving our private life and protecting our personal data. At the same time, we the users drive the information society forward, offering and sharing information, creating content, etc. In short, creating and/or accessing an unprecedented amount of data.

In this context, it is fundamental that providers of the new digital services guarantee that personal information is secure, protecting and ensuring user privacy.

We at Telefónica believe that the notion of privacy should be built in by design and by default. Examples of this are Tuenti, our platform for social communication, or the products we develop by means of our Telefónica Digital unit, such as Smart Steps.

tuenti: Tuenti, a synonym of privacy, safety and trust

Our platform for web and mobile communication began operating in 2006 in Spain. In 2012, apart from launching the virtual mobile operator "Tuenti Móvil", it embarked on its internationalization by the worldwide launch (in beta) of its multiplatform application available in 12 languages. By December 2012, it had 15 million registered users, more than 10 million active users¹ and over 6 million unique users of its mobile apps every month.

In the current context, what matters most is the positioning of Tuenti as the most private and secure social network on the market, offering the user maximum control over their personal data and in particular not selling it to third parties. Reflecting this commitment, Tuenti has introduced different measures to improve privacy and has carried out awareness-raising efforts in collaboration with a wide variety of organizations. As a result of this, the number of incidents involving profiles and photos in Tuenti has gone down by 52% in the last two years.

During 2012, the main actions in this area were:

- In January, **it became the first social network to have mechanisms of user identification** using the electronic DNI (national identity document). This is especially significant in Spain, the country with the most widely implemented electronic identity document² in the world.
- In May, its **Privacy Policy** was reinforced, becoming one of the most restrictive on the market: <http://corporate.tuenti.com/es/privacy>. The highlights are:

¹ According to ComScore.

² By November 2012, more than 25 million electronic DNI (DNIe) had already been issued. The Spanish government estimates that by 2015 the entire population of Spain will have a DNIe.

- Only real and verified identities are permitted.
- All users have the maximum level of security activated by default.
- User profiles are not indexed by search engines.
- The well-established security concept of sharing with friends is maintained, but the notion of 'contacts' is introduced, so allowing users to chat with their contacts without the latter having access to the content of their profile: "Chat with everybody but share only with your friends". One benefit of this, for example, is that parents can communicate with their children as contacts in Tuenti without the need to have them as friends and therefore, respecting more the privacy of their communication.
- Implementation of the **proactive and reactive monitoring protocol**, for checking suspicious profiles that do not comply with the instructions for use. Any content or user behavior which might constitute a criminal offence is reported directly to the police.

- In September, the **online help and security center** www.tuenti.com/privacidad was launched, with resources for users, parents, educators and society in general. This space is open to everyone, whether or not they are members of Tuenti. Similarly, an educational video was made in collaboration with 15 institutions which work in the area of online privacy and security, including the police, the Guardia Civil, and AEPD (the Spanish data protection agency). This video is also the first initiative of the Expert Advisory Committee on Security and Privacy which was also formed that month.

- **Promoting responsible use of the Net**
Tuenti has worked on various projects during the year, some of them continuing work that had begun earlier, and others started for the first time with new collaborators, among which the following stand out:

- In January, Tuenti and 'Plataforma de Infancia de España' (an organization that helps children) signed a collaboration agreement with the aim of promoting active and responsible Internet participation of young people.
- In February, Tuenti inaugurated the activities held to mark Safer Internet Day in Spain, promoted by the European Commission and coordinated (in Spain) by *Protégeles*, the center for Internet safety.
- In May, two agreements, with the Fundación Maia and CECU (a confederation of consumer and user organizations in Madrid), were signed. The object of these is to encourage awareness of consumer rights and of responsible behavior on the Internet, especially for the young and minors, so that they know how they should protect their privacy.

"Information is owned by the user, so the user is the only one with the right to control the collection, use and diffusion of whatever data about himself/herself."

Óscar Casado

Tuenti's Legal & Privacy Director

netiquétate

Campaign Netiqueta

best Internet practice (Net etiquette)

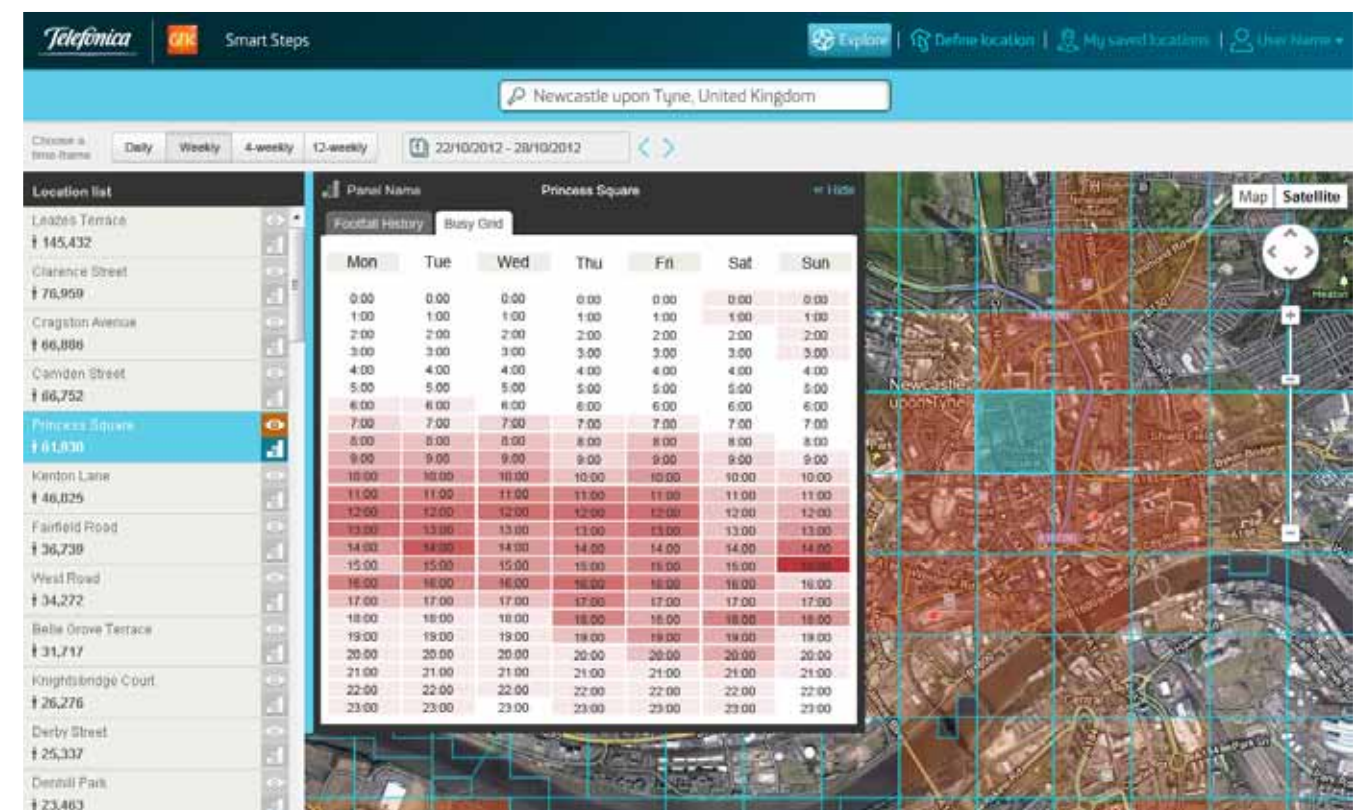
1. **Seek permission before tagging** photos uploaded by others.
2. **Consider carefully any criticisms** you are thinking of making before publishing them.
3. **Ask yourself what of other people's information you should display.** Be sure it won't bother them.
4. **Help others respect** our privacy and intimacy.
5. **When something bothers you,** try to react calmly and non-violently.
6. **Avoid malware** and safeguard your password.
7. **Look after your image** and how others could perceive you.
8. **Take responsibility for what you do** - on the Internet too.
9. **Think carefully first before publishing** something on the Internet, even in an apparently private area.
10. **Don't believe you know everything** or are always in control.

- In June, Tuenti and Fundación ANAR (which helps children and adolescents at risk) signed a collaboration agreement to initiate joint actions by which to deal with and advise minors using the social network, and to promote responsible use of it.
- Tuenti collaborated in various campaigns carried out by the NGO 'Controla Club' in 2012, to promote good habits within and beyond the Net, and to prevent the use of alcohol and drugs. This work was recognized by an award presented by the health minister of the Valencia regional government.
- In October 2012, an agreement was signed with Pantallas Amigas to encourage responsible use of the Net: <http://corporate.tuenti.com/es/help/security/es#14>

Likewise, in December, in collaboration with the same body, the Netiqueta (the word is a play on Net etiquette) campaign for good practices on the

Internet was launched: <http://mediateca.pantallasamigas.net/2012/03/06/jovenes-y-redes-sociales-recomendaciones-parapnte/>

- Collaboration with Pantallas Amigas, together with EUKids Online, has permitted the development of a privacy simulator which was launched at the end of January 2013, on Privacy Day.
- In November, and coinciding with the 23rd anniversary of the approval of the UN Convention on the Rights of the Child, an agreement with GSIA (which groups sociologists specializing in childhood and adolescence) was signed to guarantee the defence of the rights of children and adolescents in ICT.
- In December, a collaboration agreement was signed with the NGO 'Padres 20' in Spain, to work together on the spreading of messages related to privacy, security and responsible behavior by young people on the Internet.



Smart Steps, by Telefónica Digital

Telefónica Dynamic Insights is a new global business unit with a business model to supply analytic data to increase the efficiency of the management of companies and organizations.

The first product launched in 2012 was Smart Steps, which uses aggregated and completely anonymous data from the mobile network - on which statistical extrapolation is carried out - and which allows private companies and public organizations to measure, compare and understand which factors influence the number of people who visit a particular place. These data will help companies to make the best decisions over when to offer products, in which shops, where to find the best locations, etc.

Smart Steps was successfully launched in October 2012 in the United Kingdom. This launch found echo in Germany, where there was a certain amount of debate in the media about the service and its possible introduction in that country, though at the moment there are no plans to do so.

The experience of Telefónica in the area of Big Data tells us that to develop and implement products using this data source, it is necessary to:

- Ensure coordinated action, both internally among the different companies of the Group, and at an external level with the organizations and authorities involved.
- Establish means of dialogue beforehand with the main institutions and interested parties, to present the products correctly, indicating the benefits of and the support in the area of security and privacy for the data made available.

Big Data is one of the key aspects of the digital economy which needs to be dealt with responsibly to encourage transformation in society and in businesses.

Big Data is one of the digital economy's key features and should be treated responsibly

Safe use of the Internet by children

Protecting boys and girls from bad use and abuse that can lead to them becoming victims of the Internet is one of Telefónica's battles. This is how the Company is working in this sphere:



4 pillar strategy

Self-regulation

Standards and codes for promoting the good use of ICTs

Strategic alliances

Collaboration with the public and private sector to unite strengths

Products and services

Antivirus, filters and tools to protect minors

Education

in best practices, defense and protection mechanisms

These days, ICTs are fundamental elements in education, social relations, leisure, and indeed, in development through childhood and youth. Thus it is important to promote an environment in which minors can use them while avoiding the negative uses.

To this end, Telefónica, keen to help generating a positive impact through its activity in the economic, technological and social spheres of its environment, has developed a strategy based on four pillars: self-regulation, strategic alliances, products and services, and education.

Self-regulation

We have voluntarily signed agreements and formed coalitions with the principal companies in the ICT sector, with the aim of multiplying efforts to attain a common goal: to offer the best possible environment for children on the Internet.

In the same vein, we are working on the creation of an internal regulation similar to that of the CEO Coalition, to be applied in all the countries where we operate, such that there be a single, aligned strategy in all the Group's operations.

Mobile Operator Alliance In 2008, Telefónica was a founder member of the Mobile Operator Alliance against sexual abuse images on the Internet, and so, proactively, proceeds to block this type of content, following the guidelines and lists provided by the Internet Watch Foundation (www.iwf.org.uk), a British organization in which Telefónica is an active member, and which since 2012 collaborates internationally to eradicate online images of sexual abuse of children.

National Code of Conduct Telefónica signed the Framework Agreement of 2007 under the auspices of the European Commission to encourage safe use of mobile phones by children, which was implemented in member countries through national codes of conduct. Within the context of the Spanish Code of Conduct, an icon was introduced in 2011 which, located on operators' websites, allows users to report to *Protégeles* such content that is potentially illegal as they may have found while surfing the net. Mexico and the Czech Republic are including a similar icon on their webs. *Protégeles* received 2528 alerts via this icon between March 2012 and February 2013.

As Internet access is increasingly by smartphone and tablet, a downloadable application was created in 2012, which also

permits reporting to *Protégeles* while surfing from these devices. Between March 2012 and February 2013, *Protégeles* received 3,150 alerts from the application, which was downloaded 1,415 times.

1.3. Coalition of CEOs for a better Internet for children (CEO Coalition) 2012 was a year of intense work for members of the CEO Coalition, an alliance to create a better Internet for children launched by the European Commission in December 2011. The principal companies of the ICT sector have worked intensively on innovation in products, services and tools aimed at encouraging better use of the Internet. The commitment of members of the Coalition has been made tangible in five areas of work:

- **Facilitating simple mechanisms for reporting complaints**, such as icons on websites, apps for smartphones and tablets, and browser extensions.
- **Implementing improved privacy configurations appropriate** to the user's age, which are kept in a database.
- **Broadening the scope of content classification** to include applications and content created by

users themselves, encouraging the unification of criteria and interoperability.

- **Extending tools of parental control** to all types of devices with an Internet connection.
- **Fighting against sexually-abusive content reaching minors on the Net**, increasing collaboration with national forces of law and order and hotlines.

1.4. Coalition of ICT companies In January 2012, some 30 companies from the Information and Communications Technologies sector formed the ICT Coalition for safer use of the Internet by children and adolescents. The ICT Principles are supported by companies from across the ICT sector and they have been developed in a series of key themes, such as content, parental control, dealing with abuse or misuse of the net, illegal content, privacy, and education and raising awareness.

Strategic alliances

The Company needs allies to develop its strategy, in which collaboration with the nodes of Inhope and Insafe within each country, local NGOs, the European Commission and

The Internet Guardian 30,000 games online

In April 2012, Telefónica in the Czech Republic launched a game on Facebook called "Internet Guardian" to promote the use of parental controls and generally raise awareness among users and educate them about the most common misuses of the Internet. The followers of the game played nearly 30,000 times, surpassing prior expectations by about 400%.





On Telefónica's websites, information exists on how to act in the face of cyberbullying, unwanted phone calls and computer theft

the International Telecommunications Union, among others, should all be mentioned.

One outcome of these cross-collaborations between public and private organizations was the launch in Colombia in May 2012 of *Te protejo*, the first hotline, and a member of Inhope, in cooperation with the Interactive Generations Forum, the Colombian Ministry of Telecommunications and *Red Papaz*, among others. As at December 31, 2012, the number of complaints recorded was 2,192.

Education

With regard to education, we offer resources for educators, parents and guardians to teach the young about responsible use of new technologies, and help them to identify the risks which may be entailed by the misuse that some people make of them.

We have developed microsites on the Group's websites with specific information on the correct use of ICT, including recommendations of what to do in cases of cyberbullying, nuisance calls, theft of devices, etc.

Interactive Generations Forum

At the moment, the forum works in 10 countries. Argentina, Brazil, Colombia, Chile, Ecuador, Spain, Guatemala, Peru, Mexico and Venezuela. Throughout 2012, Interactive

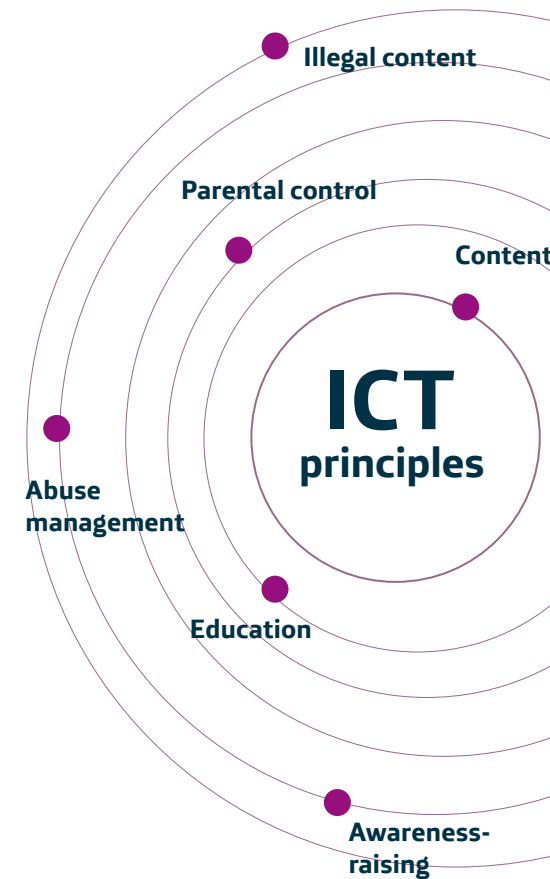
Generations trained more than 10,100 minors, parents and teachers about responsible use of ICT in Spain and Latin America thanks to sessions taught by volunteers from the organization, who now number 55.

In addition, two educational books: "Y tu ¿quién eres?" (Who are you?) and "La Gran Decisión de Digipato (Digipato's Big Decision)", and various training workshops, were launched.

In 2013, Telefónica will create a joint resource center with the Forum, which shall become available in stages in all the European countries in which we are present, starting with Spain, the United Kingdom and Ireland, with the aim of offering training and educational tools for all users of new technologies.

eSafety Label

This is a mark that accredits schools in the European Union which foment responsible use of ICT in their classrooms. This initiative has been promoted by European Schoolnet together with Telefónica, Kaspersky Lab, Liberty Global, Microsoft and the European Ministries of Education of Belgium/Flanders, Italy and Portugal. In addition, it has had the support of the Ministries of Education and educational organizations in Austria, Estonia and Spain.



eSafety Label

for the responsible use of ICTs in classrooms



Aula 365:

didactic multimedia content for learning



Aula 365 (Argentina, Colombia and Peru)

Aula 365 is a free educational support service with multimedia content for the whole family. This portal facilitates advanced Web 2.0 tools so that children learn, improving the academic performance of students of all ages, with the support of a virtual teacher to clarify points and answer questions.

All this is within a safe environment in which children cannot offer personal data or photographs, and always moderated so that minors can never access inadequate content.

Products and services

Finally, we at Telefónica have designed products and services to encourage appropriate use of ICT by children and adolescents, and tools to prevent them falling victim to abuse by persons of ill will or having access to inappropriate or damaging content, either by mobile phone or by Internet and television. Among other things, we offer antivirus programmes and content filters to guarantee safe navigation on the Internet, and the adult content in Imagenio is only available with a parental PIN code.

Publications

designed for teaching what's on the Internet



Filters

to guarantee safe navigation



Innovation at Telefónica

With 5.77 billion euros allocated to research, Telefónica is one of a select group of companies which sets aside over one billion euros per year for this activity.

At Telefónica, we are aware that technological innovation is key to attaining sustainable competitive advantages which allow us to differentiate our products and services. With this in mind, and despite the general economic situation, in 2012 we increased our efforts in technological innovation, allocating 5,770 million euros to it, which represents a 13% increase with respect to 2011. Of this total investment, 1,071 million is allocated to R&D, 9% more than in 2011 (983 million), joining the select band of companies who invest more than 1,000 million euros in R&D.

The 25th anniversary of the birth of Telefónica R&D, which was one of the first private R&D centers in Europe, falls around this time. Throughout these years, Telefónica R&D has carried on adapting to the needs of the business and today all areas of the Company are imbued with innovation, both in the transversal units driven by Telefónica Digital and Telefónica Global Services, and in the local operators together with a huge variety of collaborating companies, so making up one of the world's largest networks of innovation in the ICT sector. In recent

years, this open model has permitted the opening of the platforms of our Company to collaboration with third parties, the support of new technology-based enterprises through venture capital initiatives, and entrance into companies of technological interest.

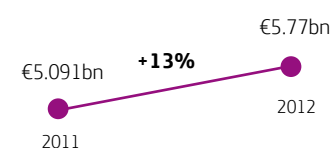
As a result, we are now established as a worldwide point of reference with one of the most promising projects: Firefox OS, the open mobile operating system which has been developed jointly with the Mozilla Foundation, and; for example, we are now leading the FI-WARE project financed by the EU, which is developing the European platform of reference for the Internet of the future.

In this area, the Company always bears in mind that:

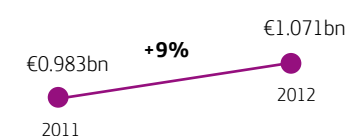
→ **The innovation model at Telefónica regards talent as one of its fundamental assets.** At Telefónica, we are committed to recruiting talent in strategic fields such as software development. At present, Telefónica has R&D centers in the United States, Israel, the United Kingdom, Brazil and Spain, where professionals of more than 20

Innovation investment

Total



Capital allocated to R&D



25 years
of R&D in Telefónica

87 new
patent families in 2012

9% more
R&D investment in 2012



nationalities work. Telefónica's innovation model is results-oriented.

To measure the return on our innovation effort, at Telefónica we take into account the development of new products, platforms and technologies, as well as the creation of patents and other intangible technological assets.

In 2012, we at Telefónica generated 87 new families of patents which contribute to the protection of all the products and technologies developed at Telefónica R&D.

→ The innovation model be customer-oriented.

At Telefónica we still consider that the customer is one of our main sources of inspiration when it comes to defining new solutions, platforms and technologies. Because of this, the User Experience Unit is one of the main areas of Telefónica R&D; through it we define jointly with our customers the most innovative services by means of the incorporation of flexible and dynamic innovation methodologies (such as Agile, Scrum, Lean Startup, etc.), which encourage coordination of teams of innovators.

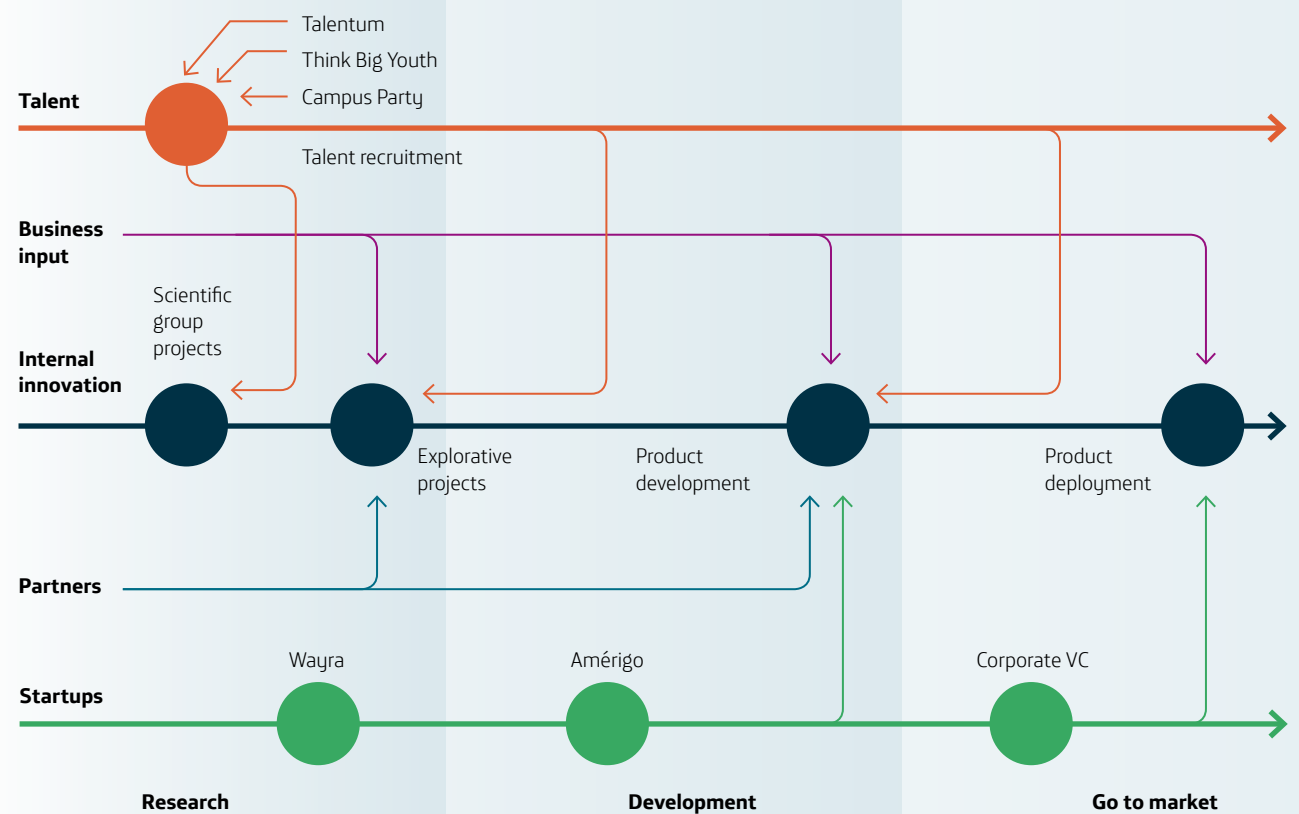
Innovation in Telefónica Digital

The history of Telefónica has been based on connecting our customers with people and things through the landline and mobile networks. But over the next few years we will go beyond mere connectivity. The evolution

towards a digital world is an opportunity to be seized. With this vision, one year ago, Telefónica Digital was created with the objective of promoting new solutions for the Group's present and future customers. In this unit, we hope to create 5,000 million in revenue for Telefónica in 2015, with an annual growth rate of 20%, and at the moment we are working in areas such as inter-machine connection (M2M), health services (eHealth), new video services, operating systems for smartphones and other projects through our different departments:

- **Product Development & Innovation** - with focus on the development of software for these new solutions for customers, and exploring new opportunities through such activities as applied research, proofs of concept, building of prototypes and development of new technologies.
- **Partnership & Venture Capital** - by means of open innovation, we analyze the opportunities that the (business) ecosystem offers for collaboration with large and small companies.
- **New Digital Services** - new products and services based on key segments.
- **New Business Areas** - new solutions in areas such as communications over the Internet (TU), Big Data (Telefónica Dynamic Insights) and HTML5 (Open Web Devices).

The inspiration process



In 2012, some activities have stood out, such as TU Go (which converts telephone service into an app which can be installed on whatever device is considered most appropriate), Firefox OS (created with the intention of making intelligent telephones which uses open web standards and where all functionality can be developed with HTML5 applications, and which already has more than 2,500 developers), Remote Patient Management (pioneering experience in conjunction with the Valencia health agency, involving more than 500 patients who suffer from one or more chronic conditions), Thinking Things (a simple solution in the development phase which connects any device wirelessly to the Internet).

Innovation in Telefónica Global Resources

We at Telefónica have the objective of achieving an increase in the efficiency of the network and its operations, as well as moving forward in the transformation of telecommunications infrastructure so that it is much lighter and more flexible and configurable. We have therefore created the area of Global CTO (Chief Technology Office), which carries out transversal

activities with technological potential, helping us to build a much more digital company.

Developments that stood out in 2012 included the copper pair (exploring the techniques of vectoring, phantom, bonding and moving the standard G.FAST forward), in optical fiber (NG-PON) and mobile architectures and technologies (LTE, LTE-Advanced, heterogeneous networks, multilayer load balancing and Wi-Fi offloading). With regard to home networks, we have worked on a prototype device for the home which improves Wi-Fi connectivity substantially, by means of an algorithm centered on controlling the transmission potential and automatic change of channel. In addition, we have worked on endowing the transport network with more flexibility and efficiency, with a pilot project to automate the core network (Core Network) together with Adva at Telefónica Germany.

In the area of optical transport networks, we have succeeded in carrying out the first ever transmission of optical superchannels at 10 Tbps, using a technology compatible with the fibers and amplifiers currently deployed in the operator's transport networks.

Innovation in local operators

Innovation at Telefónica is not only the responsibility of the Digital and Global corporate areas, but pervades all business units and local operators. Some examples of innovation in local operators in 2012 were:

Brazil

This is the innovation arm in Latin America, sharing global guidelines for the development of projects with modern methodologies: customer-oriented innovation, user experience, Agile/Scrum and quality assurance.

The launch of convergence services and the development of "fixed wireless" technology outside Sao Paulo to maintain presence in the main metropolitan areas of the country was a highlight. In television, the new TV service platform using IPTV and the launch in December of the OTT Vivo Play service stood out. In broadband, the new 200 Mb fixed broadband fiber network offer was launched, a milestone in the market.

Spain

Activities included: strategic innovation agreements with suppliers such as Ericsson, close collaboration with universities by means of the Cátedras Movistar (Movistar Chairs), and ad hoc agreements with research institutes such as the Fraunhofer Institute in Germany. Highlights included:

- the Betas program (aimed at evaluating pre-commercial experiences in a controlled environment with real customers and novel services, in order to obtain early feedback)
- initiatives carried out at the **Mobile World Congress**, such as: Home Nursing, a technology aimed at helping doctors follow how closely patients adhere to the instructions for their medication; Seamless Mobility WiFi-3G solutions; remote control of domestic robots in the home; fitting sensors to firefighter uniforms; videoconferencing with Teletouch visual contact, etc.
- **InnovaTE¹**, a wandering marquee traveling to cities in Spain to exhibit new technologies, and
- the Corporate Innovation Center, a demonstration space located in Distrito T with solutions for smart city, eHealth, retail, workspaces, etc.

Chile

Highlights included Movistar Innova, the first business incubator in Chile, which in 2012 was managed around the themes of entrepreneurship, innovation and the creation of technological spaces.

Also during the year, Movistar Innova supported the creation of the "Escuela de Innovación de Telefónica" (Telefónica School of Innovation), with 11 participants trained over a period of 2 months in three innovation disciplines (Design Thinking, Innovation Management System and the 4D Follow-up Methodology). This led to the convocation of the Innovation Week (involving 2,000 internal collaborators), where seven innovation talks were given between April and October with over 700 participants, 15 workshops and six fora which attract over 2,000 people.

1. <http://innova.telefonica.es/carpa-innovate/>

Wayra, stimulating ideas

Telefónica has launched its own initiative offering a helping hand to technology startups the world over. The idea is to introduce entrepreneurial talent to venture capitalists.

Wayra is the bridge that brings startups closer to Telefónica, whose global expansion and market leadership are the main features which attract entrepreneurial talent and venture capital investors. Entrepreneurs see in this link the immense potential of being able to distribute their ideas in the markets in which Telefónica is present, with more than 300 million customers, as well as getting access to its vast network of partners and businesses all over the world. For Telefónica, Wayra is the perfect vehicle for identifying talent and helping it to become competitive as quickly as possible. A high proportion of the projects accelerated by Wayra are focused on key strategic areas for business, from OTT applications and financial services to cloud computing.

After just over 18 months of operations, Wayra already has 12 fully functioning academies for entrepreneurs in 12 countries, almost twice the number in 2011. So, our presence in Argentina, Brazil, Colombia, Chile, Germany, Ireland, Mexico, Peru, Spain (Madrid and Barcelona), the United Kingdom and Venezuela, to which Wayra's new base in the Czech Republic will be added in the first half of 2013, means that Wayra is an accelerator with a completely global spirit.

Meeting and work places

The academies are meeting places and workplaces, designed architecturally in accordance with the latest trends in co-working, with access to the best technology and mentoring, where one can interact with other projects, and incorporating facilities for connecting with the other countries where Wayra is present. So far, Wayra has accelerated more than 180 companies of which 172 have been accelerated in the 12 Wayra Europe and Latin America academies.

The work which the startups carry out in the academy culminates with the presentation of their products to investors. On "demoDay", entrepreneurs share, with leading people from their sector,

the advances made in their projects during the acceleration period, and they present a detailed report on the future plans for their businesses in terms of offer, development of products and above all, expansion plans.

Investment opportunities

During 2012, Wayra gathered hundreds of venture capital investors together in more than ten cities for different events of this type, showing off the potential of the companies in its portfolio. In December, the first international "demoDay" was held in Miami, which was attended by over 100 investors, business angels and outstanding entrepreneurs from Europe, Latin America and the United States. There, for the first time, 17 startups representing 11 countries had a chance to present their products and investment opportunities to leading figures from the international investment community.

Nevertheless, the work of an accelerator is not done when its companies graduate: rather, the unceasing quest for more and better talent goes on. From 2013, Wayra will recruit startups and entrepreneurs through a new system of competitions which will no longer be country specific. From now on, the accelerator will hold three competitions per year which will offer places in the different academies, openly and simultaneously, to any entrepreneurs in the world who wish to propose their projects. This new model arises from the need to keep pace with the speed at which new technologies emerge -now decentralized and from any part of the world - and the need to offer more tools so that the academies can accelerate projects with greater agility and flexibility.

It needs to be pointed out that these accelerated companies at the same time position themselves as important actors for employment and commercial activity, since to function they are looking for technical resources and professionals with profiles which include developers and specialists in design and user experience.



Wayra has 12 centers in Germany, Argentina, Brazil, Colombia, Chile, Spain (Madrid and Barcelona), Ireland, Mexico, Peru, United Kingdom and Venezuela



Wayra in numbers

- **More than 180 startups accelerated** from a total of **13,748 projects** submitted in 2012.
- **The 12 academies are in seven Latin American countries** (Brazil, Argentina, Colombia, Mexico, Peru, Chile and Venezuela) and **five European countries** (two in Spain, and one each in the United Kingdom, Germany and Ireland, with one more to open soon in the Czech Republic).
- **A total area of more than 10,000 square meters** designated for acceleration of projects and innovation; together, the academies have more space than 2 FIFA football pitches.
- **More than 17,000 ideas and projects have been received**, turning us into one of the world's largest accelerator programmes and a trend spotter. This is more than one project per hour since Wayra was launched.
- **Over 230 new companies selected for acceleration**, representing a total investment of €7.5 million by Telefónica.



Sustainability of the supply chain

With nearly 20,000 suppliers in 68 countries, responsible and transparent management of Telefónica's supply chain is becoming increasingly important.

Our commitment

In 2010, we undertook a commitment to promote sustainability in our supply chain, aiming to increase greatly the positive impact of our activity. This commitment, available at the Supplier Portal¹, becomes more relevant if the scale of our supply chain in 2012 is considered:

- More than 900 professionals in 16 countries.
- Nearly 20,000 suppliers from 68 countries used.
- 85.6% of supplier contracts awarded locally.
- Value of contracts awarded close to 28,000 million² euros.
- Over 249,000 professionals from our suppliers carry out key support and customer service activities in Latin America, playing a fundamental role in the satisfaction of our customers.

These statistics represent an opportunity because of the dimension and scale of our sphere

¹ <http://www.telefonica.com/proveedores>
² Volume awarded in 2012 and corresponding to the 2012 budget.

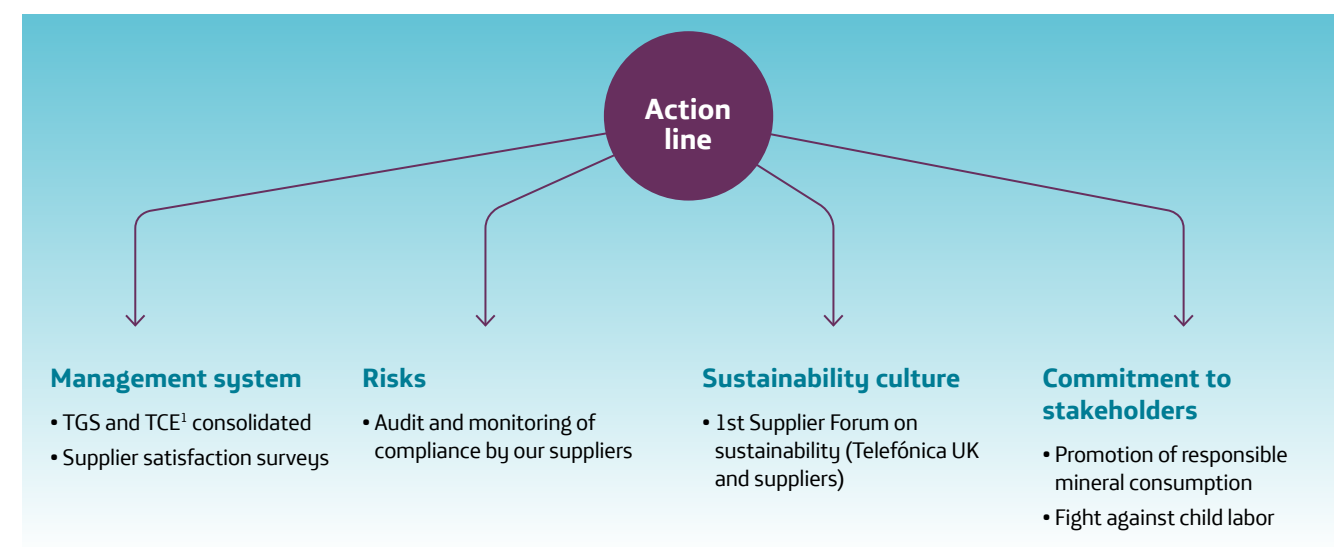
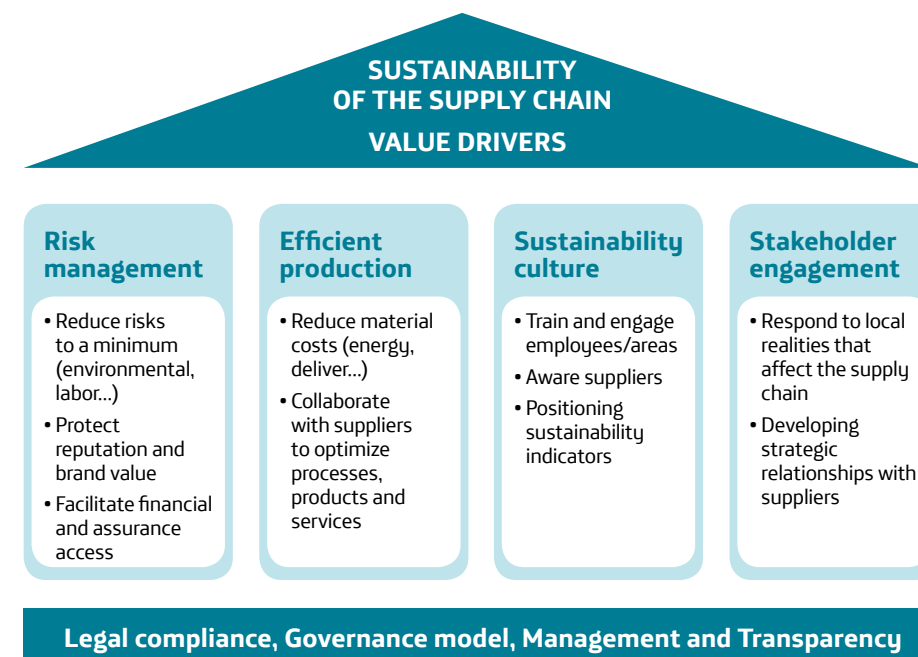
of influence. At the same time, they bring with them great responsibility and imply great effort to attain respect for the ethical, working, social and environmental criteria in such a global and diverse value chain.

Management and transparency model

At Telefónica, purchasing is managed by using the Global Purchasing Model which is based on the principles of: Transparency, Simultaneity and Equality of Opportunity, Objectivity and Unanimity in decisions to award contracts, Orientation towards internal and external customer service, and mutual Compliance with commitments to suppliers.

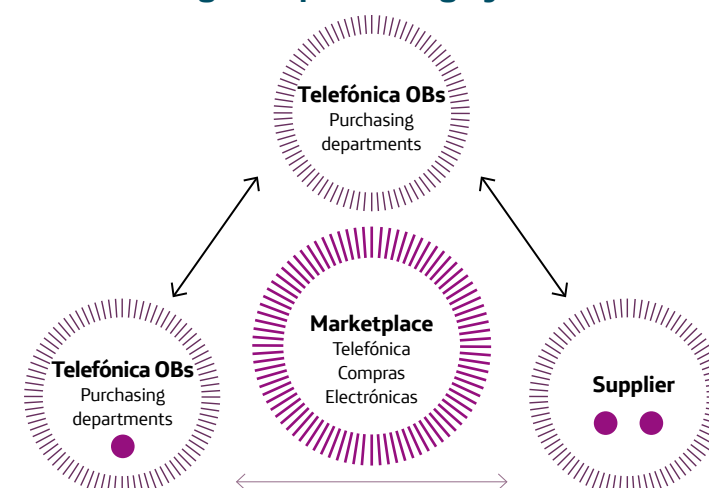
Our Purchasing Model is focused on global management which, at the same time, addresses the needs of the different markets and countries, guaranteeing coordinated and transparent management between the Telefónica Group and its suppliers.

For further information: please see the Supplier Portal: <http://www.telefonica.com/es/suppliers/html/home/index.shtml>



¹ TGS: Telefónica Global Services. TCE: Telefónica Compras Electrónicas (Electronic Purchasing).

Integrated purchasing system





The main advances made in 2012 in our management model were:

→ **Telefónica Global Services (TGS).** In accordance with our objective of global management of procurement, and of strengthening and simplifying the relations with our professionals, in 2012 we negotiated through TGS over 20,300 purchasing processes whose total value exceeded 15,400 million euros.

Along these lines, in February 2012 we held a Vendor's Day, where we shared our challenges for 2012 with our principal suppliers and together we identified alternatives which would increase the efficiency of the processes of negotiation and satisfaction of contracts, seeking mutual benefit.

The main suppliers in 2012 by value were: APPLE, SAMSUNG, ERICSSON, HUAWEI, ATENTO, NSN, NOKIA, ALU, RIM, TELECOM VENEZUELA, C.A.

→ **Telefónica Compras Electrónica (TCE).**

In accordance with our Business Principles, we make sure that our activity is carried out with transparency and integrity.

The tools of electronic commerce have helped us towards the fulfilment of these principles. In fact, in 2012:

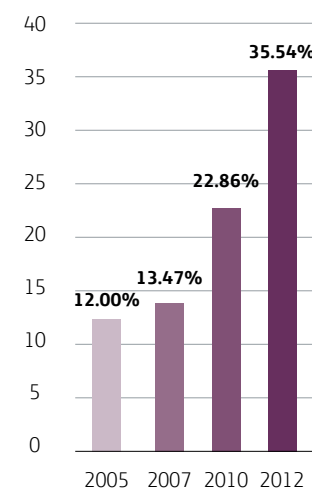
- We negotiated electronically more than 35,000 million³ euros and more than 6,000 million euros via online auctions.
- We carried through more than 13,500 million operations of electronic formalization which includes letters of adjudication, orders and contracts.
- We made progress in the deployment and consolidation of the use of electronic billing, with over 355,400 invoices issued.

In 2012 we began the task of interconnecting the ERP⁴ systems of the companies of the Telefónica Group with the external systems of suppliers. As a result of this, connected suppliers receive,

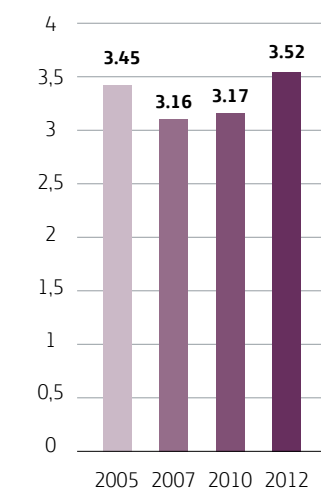
Global assessment

The Company performs a survey every two years to find out the level of satisfaction among suppliers.

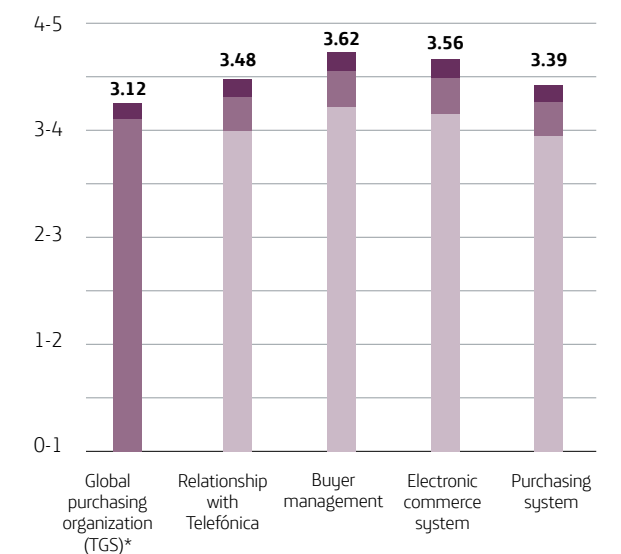
% participation



Global assessment of purchasing system



Other aspects



* Since 2010

directly from the Marketplace and on their own systems, the orders placed by companies of the Group. Similarly, the providers connected to the Marketplace issue their invoices completely electronically from their own system.

Integrating these processes, benefits are obtained by both parties: simplification of processes, minimization of errors, elimination of paper, reduction of costs, etc. In 2013 we shall continue to promote this initiative, started in Spain, so as to widen our database of connected suppliers and roll out its availability in other countries. Furthermore, we offer regular training in tools for negotiation and electronic formalization. In 2012, more than 2,000 suppliers were trained in the use of electronic negotiation, order management and electronic billing.

Apart from the tools of electronic commerce, in 2012 we have improved the functionality of our systems for the evaluation of suppliers, to ensure better knowledge, quality, availability and management of the information supplied by them. In 2012 this module was used to evaluate

suppliers of terminals. In 2013, we will implant it in other especially relevant categories within Telefónica's procurement strategy.

→ **Survey of supplier satisfaction.** In order to get closer to and strengthen our relations with our suppliers, every two years we carry out a survey to see how satisfied they are and to identify which aspects were evaluated most positively and which could be improved.

The aspects most highly rated were: professionalism of the buyer, the Corporate Responsibility policy, ease of negotiation, opening up of markets thanks to TGS, honest and transparent action by buyers, electronic formalization and electronic billing, user support for the electronic commerce tools, etc.

The suppliers indicated that the following areas could need improving: the time spent on each purchasing process, need for more awareness of the Corporate Responsibility policy in the supply chain, the remittance of orders correctly and on time, and more clarity in the specifications.

Connected suppliers receive orders from different Group companies directly from our "Marketplace"

³ Volume negotiated in 2012, independently of the year in which the budget is used.

⁴ Information systems which integrate and manage many of the Company's internal processes.

Risk management system



Telefónica UK held its first Supplier Forum on supply chain sustainability

Risk management

We at Telefónica work for the prevention and reduction of the possible negative impacts arising from our activity, and this is why in 2012 we have continued with our implementation of methods of control and follow-up of the risks from our suppliers' activity.

Risk management at Telefónica focuses on two regions with distinct situations:

- **Europe.** Manufacturers of terminals and network infrastructure equipment operating in low cost geographies.
- **Latin America.** Contracts and call centers, both technical and commercial.

In Europe, Telefónica UK continues to lead the process of sustainability in the supply chain. In 2012 it carried out 11 audits of key suppliers, as well as a follow-up of 8 plans for improvement. The principal points arising from these audits, now incorporated into improvement plans, are:

- Weaknesses in the management of the supply chains of the providers audited.
- Health and safety issues in the suppliers based in Asia.

- Delays in updating the documentation for workforce support in Latin America.

In Latam, we have continued to implement the Aliados program, where more than 13,900 administrative audits and 1,244 audits in situ were undertaken. The Aliados program, initiated in 2008, sets out an action framework that encourages sustainable management with third parties. The principal activity and advances in this programme in 2012 can be found in the chapter on Aliados.

Culture of sustainability

We at Telefónica are always looking for new ways, apart from those mentioned earlier, to work together with our suppliers on ensuring that the premises of sustainability are respected.

Telefónica UK held its first supplier Sustainability forum with 40 of its major suppliers participating. The forum was used to introduce the suppliers to our sustainability strategy and enlist their support in its delivery. It was explained that we will in future use our procurement spend with suppliers as an agent for change by using business placement to motivate greater social contributions and environmental protection from within our



supply chain. Suppliers were enthusiastic and supportive.

At the forum, we discussed with suppliers the need to move faster than legislation in removing hazardous substances from our supply chains and launched a joint initiative with suppliers to develop a controlled substance list to that end. Additionally, we introduced suppliers to Telefonica's youth programmes, designed to support youth employment, and many suppliers agreed to launch similar initiatives of their own.

Similarly, a proposal to raise the number of SMEs and social providers in the supply chain was announced.

Building solid relations with our stakeholders

In 2012 we maintained our commitment to key aspects in the supply chain, as well as those of high social impact:

- **Responsible trade in "rare minerals"**, such as coltan: Telefónica renewed its participation in the Public-Private Alliance promoted by the US Under-Secretary of State for Democracy and

World Affairs. For further information: <http://www.resolv.org/site-ppa/>

- **Fighting child labor:** we reinforced our commitment to the eradication of child labor in the value chains of businesses. This is a key aspect, especially in Latin America, where it is estimated that there are over 14 million child workers. To the work that Fundación Telefónica has been undertaking since 2001, with the 'Proniño' program - through a holistic model of childhood - three new initiatives have been added, allowing this task to be aligned with Telefónica's sustainability strategy:

- **Colombia.** Compilation and distribution of a guide to the identification and mitigation of the risks of child labor in the value chain of businesses.
- **Ecuador.** Telefónica is a founder member of the 'Business Network for an Ecuador Free of Child Labor'.
- **Chile.** Creation of a 'Business Network against Child Labor'.

For further information on these initiatives please consult the chapter on Human Rights.

Building sustainable relationships with suppliers

Telefónica's footprint in society is determined in large measure by the actions of its suppliers. We must, therefore, share the same Business Principles. The "Aliados" partnership program is designed to help in this respect.

Telefónica's goals

- **Promote** management aims and practices that ensure sustainable relationships with companies we collaborate with
- **Mitigate risk.** Define and implement control and monitoring methods that minimize risks
- **Reduce contingency levels.** Through strategies which resolve current and mitigate future contingencies
- **Identify and take advantage** of differentiation and leadership opportunities, working together in processes
- **Develop partnerships.** Telefónica is looking to maximize the performance of its collaborators

At Telefónica we are aware that our impact on the societies in which we are present and our reputation depend to a great extent on our suppliers.

In a globalized world, companies share more and more stages of their value chain with their suppliers and contractors. This implies the need to share and extend our Business Principles with our collaborating businesses, and to verify their compliance with them.

This is why, in 2008, we launched the *Aliados* (Allies) Program) in Latin America, aimed at encouraging sustainable management along with our collaborating businesses and third parties, who become "Allies" ("Aliados") of Telefónica, helping us to contribute to sustainable development and improve customer satisfaction. The scheme seeks to improve compliance with social and workplace standards, foment the development of collaborating businesses and guarantee customer service excellence.

Management model and indicators

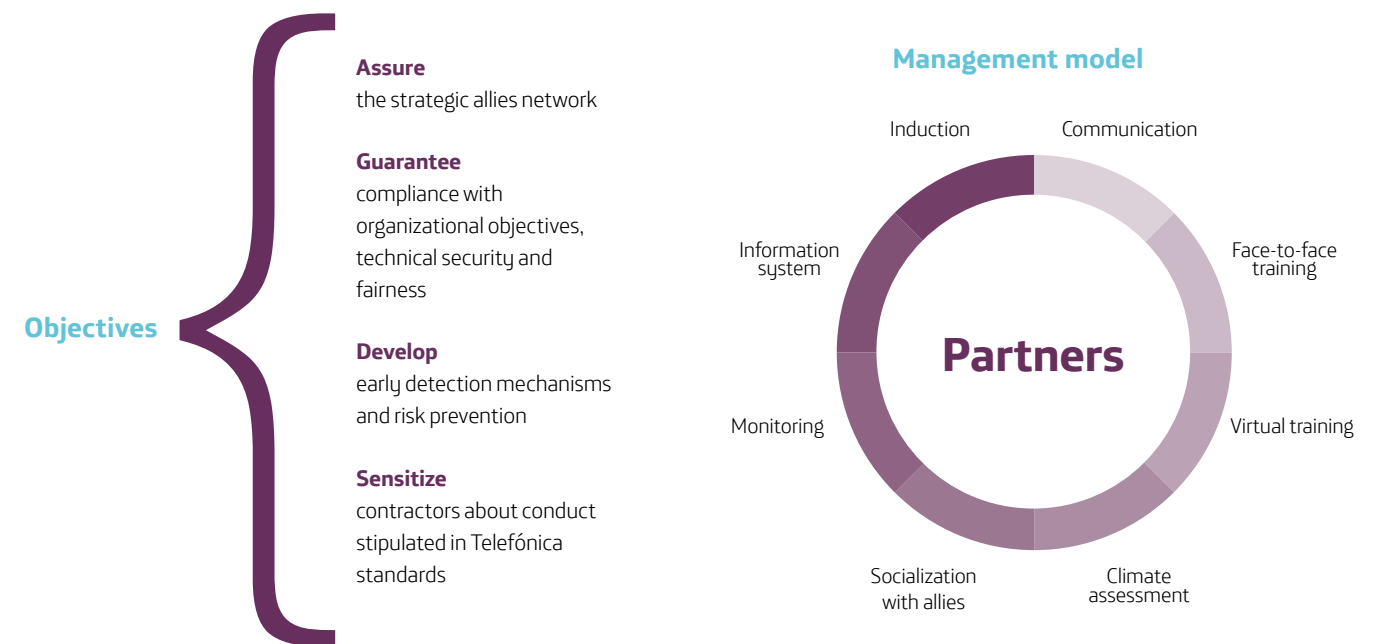
The program sets out a framework for activity that encourages sustainable management with third parties. In 2012, against the complex

background of the integration of fixed-line and mobile operations in our most significant markets, we looked at the program again with the aim of boosting homogeneity, promoting sustainability and improving our suppliers' service quality.

The main indicators of the program in 2012 were:

- Administrative audits: more than 13,900.
- *In situ* audits: 1,244.
- Regional audits with unified checklist: 56.
- Suppliers with nonconformances: 342.
- Improvement plans proposed and implemented: over 340.

The following graphs show the distribution and principal outcomes of the regional audits, which demonstrate the important progress made in increasing awareness of the Business Principles in our value chain.

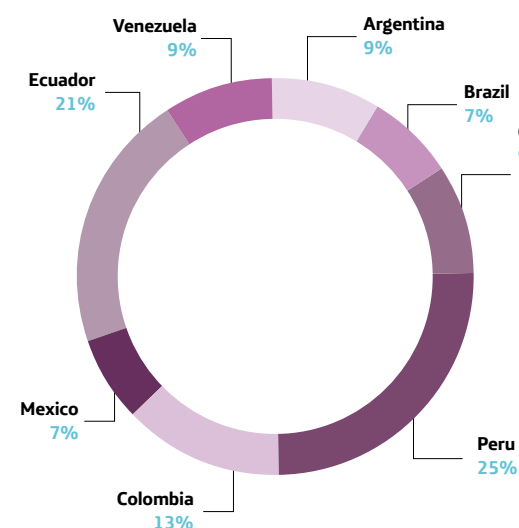


Telefónica's responsibilities

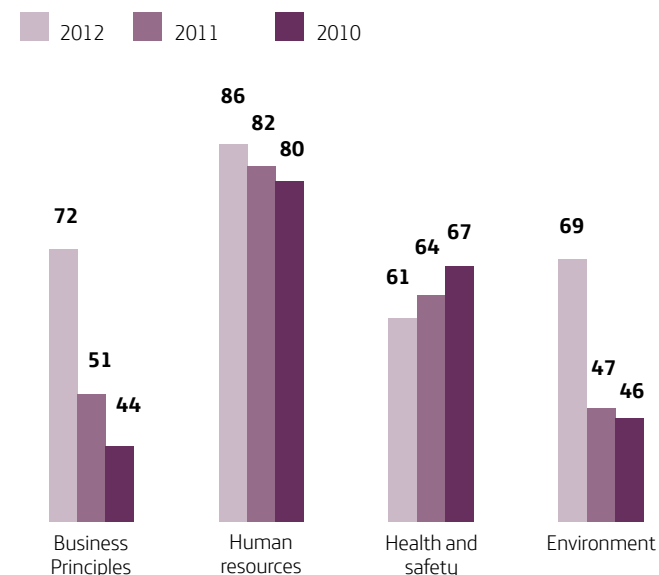
- **Complying** with legislation and the Business Principles
- Supervising **health** in the social environment
- Preparing a **map of risk and opportunity**
- Developing **contingency plans**
- Inspiring **development programs and plans**
- Verifying **correct pricing** throughout the supply chain



Regional audit breakdown



Level of compliance found



Telefónica has made available more than 4,700 courses to its allies

Main lines of work

In 2012, Telefónica's Latin America operators continued to implement the model, with the following actions being especially significant:

- **Unification of regulations for fixed and mobile operations**, particularly in Brazil, given the size of Vivo and novelty of the model for mobile operators.
- **Revision and updating of the regional audit model**, following two distinct checklists of activity to be audited, customer service or technical work.
- **Training of Group employees who deal directly with Aliados** member companies: 700 courses were given in the region, attended by 9,100 people.
- **Reinforcement of channels of communication** to obtain feedback and the alignment of values between allied businesses and Telefónica in both operational and commercial processes.
- **Supplier awareness**: over 4,700 courses were held for allied companies, imparting more than 61 million hours of lessons and training over 106,000 collaborators. Suppliers also access the online iCampus platform, which in 2012 was home to over 640 courses with 70,000 training hours. And the ESTELA platform for certification of technicians benefited over 1,200 providers in 2012.

Similarly, the online course on the supplier portal, on responsibility in the supply chain, explains what Telefónica requires of its providers and was updated: <http://contenidos.telefoniclearningservices.com/pdaProveedores/es/index.html>

Best practices identified

» Argentina

An internal benchmarking process was carried out, to identify good practices in the integration of responsible management of the supply chain into the procurement process. Internally, this had support from the principal operators in Latin America, while at an external level, multinational companies of the energy and transport sectors took part, as well as sectoral groupings. The work carried out was reflected in less complaints from staff of allied companies who have direct customer contact.

» Colombia

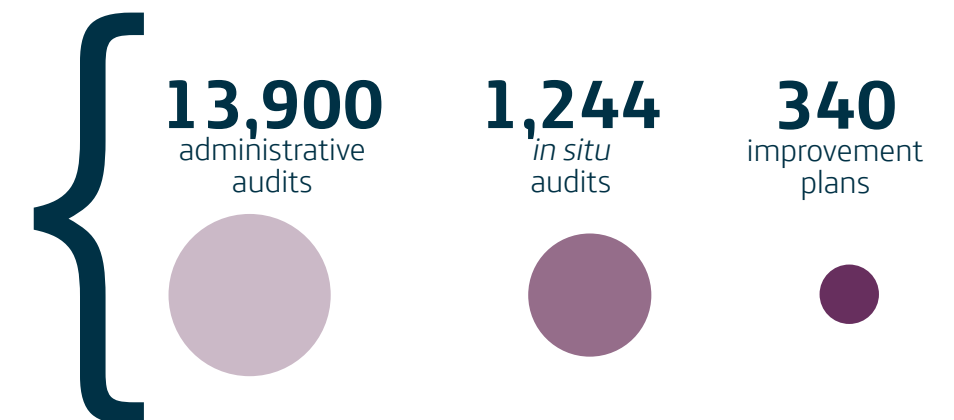
Launch of the Programa Rumbo Pymes (a course for SMEs), in collaboration with Corporación Transparencia por Colombia (an anti-corruption organization). The objective is to integrate SMEs into the dynamics of preventing corruption, providing tools aimed at the development of ethics management systems. Ten companies took part in the course, which closed in December, and it is estimated that once those management systems have been implemented, some 17,000 people will be affected. In 2013, the second edition of the program will be held, and we will invite another 10 allied companies.

» Ecuador

A survey of the principal managers of contracts with allied companies to enable

Indicators

The actions undertaken in 2012 demonstrate the strength of the program



self-diagnosis of the internal handling of these contracts was carried out. A total of 159 contracts in six categories were assessed: staff administration, contract management, employer obligations, Business Principles, the environment program, and overall safety. Arising from this self-diagnosis, three workshops were held for the contract managers, with an attendance rate of 93%, and where over 3,800 action plans were proposed. At the close of 2012, the set objective had been surpassed, with 80% of those plans being implemented. Furthermore, the so-called ScoreCard in contract management was developed to obtain efficient contract management, focusing on impact factors for the organization (Environment, Labor Relations, Business Principles, Occupational Health and Safety).

» Mexico

The induction program started in 2010 continued. In this program the Business Principles are explained to representatives of the allied companies, and they are asked to pass the information on to their collaborators. In the case of providers who have already taken the induction course, this is monitored through audits and follow-up calls to ensure that the information is being passed on. In addition, they receive a bulletin every two months to keep channels of communication open.

» Peru

Suppliers were encouraged to obtain ABE⁽¹⁾ certification (of being a good employer), awarded by AMCHAM (the American Chamber of Commerce) to those companies who comply with their obligations to their workforce and who follow good practices in people management.

» Venezuela

Due to the new local legal framework (LOTTT), the scheme and policies of Aliados have been revisited, establishing 2013-2015 work plan for checking and adaptation of all services contracted.

Main challenges for 2013

- Updating the functions of the Allies Program Committee to incorporate changes due to revisions of the management model carried out in 2012.
- Strengthening further the mechanisms of control, assurance, awareness-raising and dialogue with our collaborators.
- Developing and encouraging feedback mechanisms which allow systematic identification of the needs of third parties.

⁽¹⁾ ABE certification recognizes those companies which comply with their obligations to employees and maintain best personnel management practices.



In Mexico, the Allies Bulletin is sent every two months to suppliers

Relations with our shareholders

Telefónica used 4,046 million euros to remunerate shareholders in 2012, which represented 58% of generated cash flow.

Telefónica is a company fully quoted on the Stock Exchange which has a total of 4,551,024,586 ordinary shares with nominal value of 1 euro, held by around one and a half million shareholders. Our shares are quoted on the Spanish continuous market (within the select Ibex 35 index) and the four Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia), as well as those of London (United Kingdom), Tokyo (Japan), New York (United States), Buenos Aires (Argentina), São Paulo (Brazil) and Lima (Peru).

In 2012, we allocated 4,046 million euros in remuneration to our shareholders, an amount representing 58% of the cash flow generated in the reporting period and around 8% of the stock market capitalization of the Company at the end of that period. Shareholders were remunerated by means of cash pay of dividends (3,321 million) and the repurchase of our own shares (725 million). Detailed information about how remuneration of our shareholders has evolved may be consulted in Telefónica's shareholders' site.

Since 2003, when the Board of Directors of Telefónica approved the so-called Spanish Regulations on Communication of Information to the Markets, the Company has immediately and simultaneously released to the markets on which it is traded all information deemed relevant and therefore susceptible to be communicated to the markets. Likewise, these disclosures are published on our website continually, where anyone who is interested can find all the information for reference, both current and historical.

Apart from the website, at Telefónica we have different tools and channels of communication to guarantee the principles of transparency and equality in the relations that we establish with our shareholders, both individuals

and institutions. These are covered by the Regulations of the Board of Directors of Telefónica, which regulates the channels by means of which that relation is established. Our standard practice of engaging in dialogue with our shareholders and other stakeholders about matters of Sustainability and Corporate Responsibility helps us to mitigate risks, identify new business opportunities and improve our financial results. To maintain these channels of communication, we at Telefónica have two specific departments:

→ The Shareholder Office for relations with individual shareholders.

→ The Investor Relations office for institutional shareholders.

Individual shareholders

By means of the Shareholder Office, we ensure transparent and fluid communication with our individual shareholders. At the end of 2012, more than 200,000 shareholders were registered with the Shareholder Office. They receive the Shareholder Card which identifies them as shareholders of the Company, and also receive the magazine "Acción Telefónica". "Acción Telefónica" is a quarterly publication with financial information and reports on recent developments as well as information about the exclusive campaigns to which they have access. During 2012, we sent 593,798 copies directly to shareholders' homes.

At the Shareholder Office, we have a free information line (900 111 004), and during 2012 we received a total of 70,286 calls, with a monthly mean of 5,857 calls answered. For the period

coinciding with the Annual General Meeting, the number of monthly calls went up to 20,690. Apart from these telephone consultations, the Shareholder Office also answered more than 5,348 queries by email (accion.telefonica@telefonica.es) and by post. In 2012, the Shareholder Office was also represented at the stock market fair "Bolsalia" in Madrid. This is the most important event in Spain for professionals from the financial world, savers and investors.

In 2012, we should mention that the Shareholder Office began offering organized trips as a means of personal approach to individual shareholders. Among those that have taken place, two have stood out especially for how much participants enjoyed them: the guided tour of the Real Academia Española and that made to the exhibition space "Espacio" at Telefónica's headquarters.

Institutional investors

We communicate with institutional investors using a specific email address (ir@telefonica.es) and the department of Investor Relations, which reports directly to the Director-General of Strategy, Finance and Development. The Investor Relations department offers personalized attention to institutional investors and is in daily contact with international professionals in investment, as well as representing the Company at many professional events all over the world. Through this department, the markets learn about the principal organizational, operational and business strategies of the Company, and about expectations of future performance, helping to make the shaping of stock market prices more transparent and sustainable.



In 2012, personal meetings were held with 412 investors and 191 analysts. In addition, we represented the Company at nine fora for professional investors in Spain, Europe, Latin America and the United States.

One event that stands out is the organization of the first Investor Conference of Telefónica Digital, which took place in London on the 5th of July. This conference had 370 participants, who were professional investors and leading executives of the Company. About 21% of those taking part did so in person, and the rest were able to follow it via webcast.

Individual shareholders

200,000
registered shareholders
at the end of 2012

70,286
telephone calls taken by the Shareholder
Office

Institutional shareholders

191
meetings with specialist analysts

Over 1.5
million shareholders

Compliance with regulations and competition law

Taking into consideration reports received from the Company's legal advisors in these proceedings, it is reasonable to conclude that said litigation or disputes shall not significantly affect the economic or financial situation, nor the solvency, of the Telefónica Group, even under the supposition that there were an unfavorable conclusion to any of them.

Among the suits whose resolution is still pending or which have been undergoing processing in 2012 in relation to compliance with regulations and competition law, the most important are the ftollowing (those of a fiscal nature are detailed in the Financial Report, Note 17):

Litigation arising from the fusion of Terra Networks, S.A. with Telefónica.

On 26 September 2006, Telefónica was notified of the suit filed by former shareholders of Terra Networks, S.A. (namely, Campoaguas, S.L., Panabeni, S.L. and others), alleging breach of contract for failure to comply with the conditions of the Prospectus for the Initial Public Offering (IPO) of Terra Networks, S.A., dated 29 October 1999.

The suit was dismissed on 21 September 2008, and the plaintiffs were ordered to pay costs. This ruling was appealed on 4 December 2009. On 16 June 2010, Telefónica received written notification of the bringing of an appeal by the plaintiffs. In January 2011, Telefónica responded by opposing this appeal. On 7 November 2011, a measure of organization was pronounced, taking into account the findings of the Commercial Court, and a reporting

magistrate was appointed. Since 14 February 2013, the date on which the deliberations for voting and ruling on the appeal took place, we have been waiting to receive notification of the decision, which is expected to be favorable to Telefónica's interests.

Revocation of the UMTS licence awarded to Quam GmbH in Germany.

In December 2004, the German Telecommunications Market Supervisor revoked the UMTS technology mobile telephone services licence awarded in the year 2000 to Quam GmbH, a company partly owned by Telefónica. On 16 January 2006, after being granted a suspension of the order, Quam GmbH brought suit in the German courts against the order of revocation. This suit had two claims: on the one hand, the annulment of the licence revocation order made by the German Telecommunications Market

Supervisor, and on the other hand, in the case that the anterior claim were rejected, the total or, if appropriate, partial, refund of the sum paid initially for the licence, that is, 8,400 million euros.

The suit was dismissed by the Administrative Court of Cologne. Quam GmbH appealed this decision before the Superior Administrative Court of North Rhine-Westphalia, which also rejected the appeal.

Finally, Quam GmbH brought a new appeal at the third level before the Federal Supreme Court for Administrative Cases, which did not accept it for consideration.

On 14 August 2008, Quam GmbH appealed against this refusal. On 17 August 2011, after oral hearings, the Federal Administrative Court rejected Quam GmbH's case at the third level.In October 2011, Quam GmbH appealed to the Federal Constitutional Court of Germany (Karlsruhe).

Public Civil Action by the Public Prosecutor of the State of São Paulo against Telefónica Brazil alleging a recurring pattern of malfunctioning in the services offered by the company, and by which payment of damages to the customers affected is sought.

This is an action brought by the Public Prosecutor of the State of São Paulo against Telefónica Brazil alleging recurring malfunctioning in the services offered by the company, and by which payment of damages to the customers affected is sought. This is a generic claim by the Public Prosecutor of the State of São Paulo for 1,000 million reais (approximately 370 million euros), taking as base

for the calculation the revenues of the company during the last five years.In April 2010, a ruling at the first level was issued against the interests of Telefónica, though its effects cannot be known until the ruling is final and it is revealed how many affected customers have presented cases. At that moment, the amount of the sanction will be established, and this could vary depending on the number of affected customers, between

1,000 and 60 million reais (approximately between 370 million euros and 22 million euros). On 5 May 2010, Telefónica Brazil appealed to the Court of Justice of São Paulo, and the effects of the ruling have been suspended. Since then there have been no further developments.

Appeal against the Decision by ANATEL (National Telecommunications Agency of Brazil) concerning the inclusion in FUST (Fund for Universalization of Telecom Services) of income received for interconnection to and use of the network.

The operators of Grupo Vivo, together with other mobile operators, appealed against the Decision by ANATEL of 16 December 2005 to include in the taxable base for the calculation of the FUST -a fund which pays for the obligations of universal service- the revenues from and costs of interconnection to and use of the network. The Decision was to be applied retroactively from the year 2000. On 13 March 2006, the Regional Federal Court of Brasilia issued a precautionary ruling by which the Decision by ANATEL was suspended. On 6 March 2007, there was a ruling favourable to the mobile operators, declaring illegitimate the inclusion in the taxable base of the

FUST of income received for transfers from other operators. In addition, the intended retroactive application of the Decision was declared inadmissible. ANATEL appealed against this ruling to the Regional Federal Court of the First Region in Brasilia, which has not yet issued a ruling.

In parallel, Telefónica Brazil and Telefónica Empresas S.A., together with other fixed-line operators through the trade body ABRAFIX, also appealed against the Decision by ANATEL of 16 December 2005, likewise obtaining the precautionary rulings sought. On 21 June 2007, the Regional Federal Court

of the First Region declared illegitimate the inclusion of the revenues from and costs of interconnection to and use of the networks, in the taxable base of the FUST. Again, the intended retroactive application of the Decision was declared inadmissible. ANATEL presented the corresponding appeal against this ruling to the Regional Federal Court of the First Region in Brasilia, on 29 April 2008.

Since then there have been no further developments. The size of this claim can be quantified as 1% of the revenue received for the interconnection.

Appeal against the European Commission's Decision of 4 July 2007 on Telefónica Spain broadband pricing policy.

On 9 July 2007, Telefónica was notified of the European Commission's Decision by which a fine of approximately 152 million euros was imposed on Telefónica and Telefónica de España, S.A.U., for breach of the former Article 82 of the EC Treaty, by applying inequitable tariffs to the offering of wholesale and retail broadband access services. The Decision imputes to Telefónica a consistent pattern of squeezing margins between the prices applicable to its competitors in the offering of wholesale broadband services of regional or national scope and the prices to its customers for the provision of broadband services using

ADSL technology, between September 2001 and December 2006.

On 10 September 2007, Telefónica and Telefónica de España, S.A.U. brought suit for annulment against the above-mentioned decision, before the General Court of the European Communities. The Kingdom of Spain, as an interested party, also brought suit for annulment. For their part, France Telecom and AUSBANC (the Association of Users of Bank Services) presented two suits for intervention in the proceedings, which were accepted by the General Court.

On 23 May 2011, there was a hearing, at which Telefónica set out its case. On 29 March 2012 the General Court dismissed the claims of Telefónica and Telefónica de España and confirmed the sanction imposed by the Commission. On 13 June 2012, an appeal against the latter ruling was made to the European Court of Justice.

In October 2007 Telefónica, S.A. lodged a bank guarantee for an indefinite period to guarantee the principal and interest.

Case before the Directorate-General for Competition of the European Commission – Telefónica/Portugal Telecom

On 19 January 2011, the European Commission opened formal proceedings to investigate whether Telefónica, S.A. (Telefónica) and Portugal Telecom SGPS, S.A. (Portugal Telecom) had infringed the rules of competition of the European Union through a clause in the contract for the sale of the stake held by Portugal Telecom in a joint venture of Brasilcel, N.V. in which both companies were

participants, and proprietor of the Brazilian company Vivo.

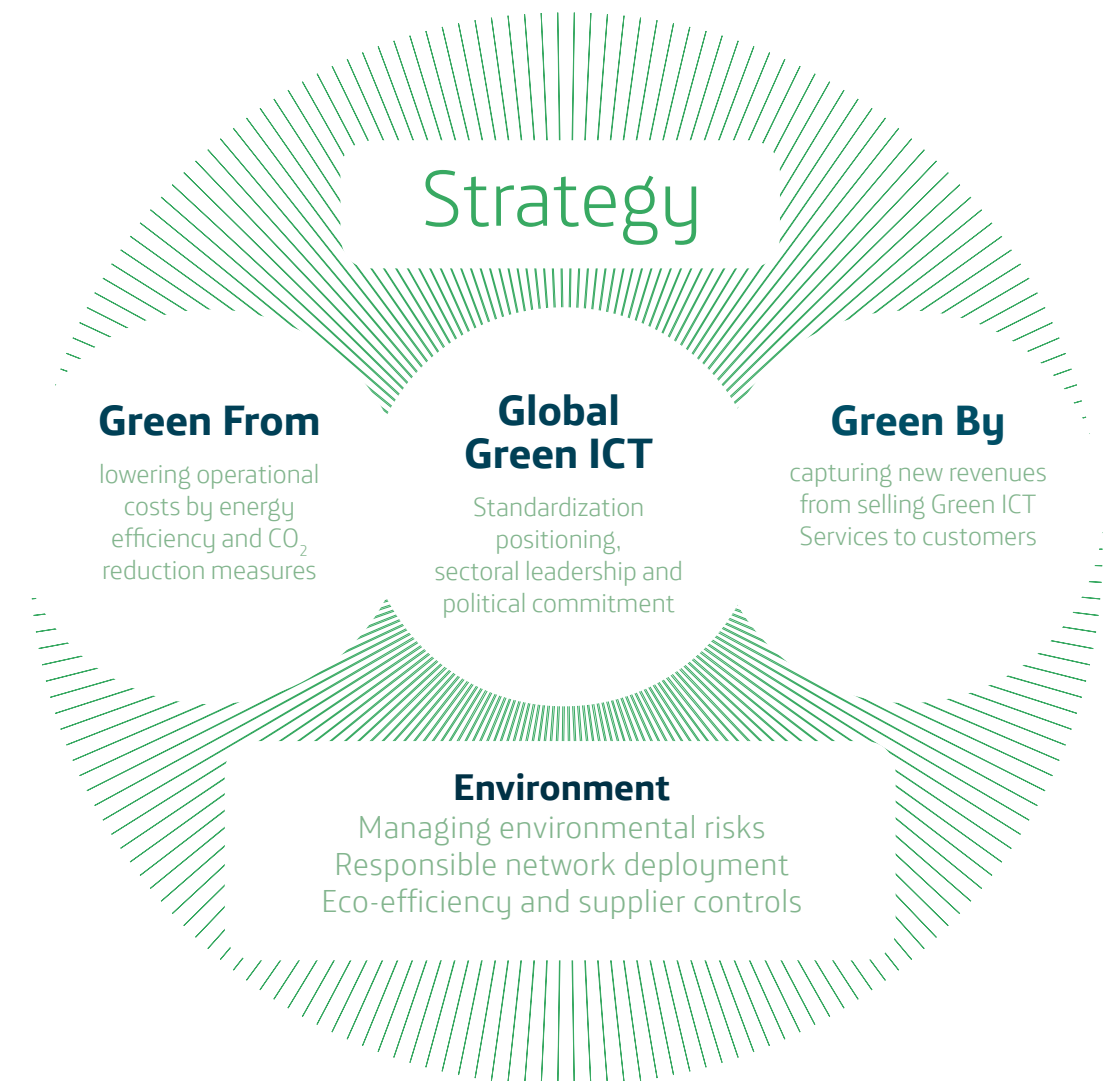
On 23 January 2013, the European Commission adopted the decision to fine Telefónica 67 million euros, on concluding that Telefónica and Portugal Telecom had committed an infraction of Article 101 of the Treaty on the Functioning of the European Union, by having entered into

the agreement included in the ninth clause of the contract for the sale of the stake of Portugal Telecom in Brasilcel, N.V.

Telefónica intends to submit before the General Court of the European Union the corresponding appeal soliciting the annulment of this decision. The period during which this may be presented concludes on 9 April 2013.

Green ICT and environment

The Group's Green ICT and Environment strategy is based on the management of environmental risks, promoting internal eco-efficiency and the quest for business opportunities through ICT services that will lead to a low-carbon economy.



"Green" Information and Communication Technologies (ICT) have transformed our lives. Telefónica sees Green ICT as an extra set of processes and activities which create value for the Company by reducing costs and generating new revenue. Three convergent objectives have been laid out. The first is to promote energy efficiency internally and to reduce GHG emissions. For this, it optimizes global resources and extracts the economies of its scale. The second is aimed at developing competitive Green ICT solutions to improve its customers' eco-efficiency; it is based on the provision of global services in a digital world. The third objective is for the Group to position itself as a leading Green company at global and local levels.

The Office of Climate Change and Energy Efficiency of Telefónica, created in 2007, leads the corporate energy and carbon strategy. The Group's model is structured around three principal strategies: Green From ICT, Green By ICT and Global Green ICT.

All the Company's Green ICT strategy is based on effective management of the environment, oriented at preventing, mitigating and reducing the relevant risks from its operations, fixed and mobile, locally and globally. This perspective rests on principles of eco-efficiency in the use of resources and guarantees responsible network deployment by Telefónica, which respects the communities where it operates, and with the collaboration of its suppliers.

Green ICT create value for the Company, reduce costs and generate profits

Global Green ICT

Telefónica is a leading global company in the fight against climate change.

Both the challenges of the digital world and the scarcity of natural resources motivate this policy. The Company promotes Green ICT all over the world.

Establishment of a road map
until 2020

Top 5
for climate change transparency
and performance

Active participation
in the ITU

€3.9m in R&D
invested by Telefónica
for energy efficiency

The Company's global positioning policy is based on four pillars: trust and transparency, Green ICT standards, innovation, and policies fomenting eco-efficiency.

Trust and transparency



Clarity in matters of environment and climate change should be accompanied by a correct identification of the risks and opportunities, which should be based on processes and a correct attribution of responsibility. During 2012, Telefónica continued to work on the management of regulatory risks associated with energy consumption and CO₂ emissions. For this, it looked at the measurement of internal energy consumption and the quantification of its own carbon footprint and that of its services. These indicators have allowed it to take correct decisions now and going forward, and they have been the basis of the route map to 2020.

In addition, in response to its 1.4 million shareholders, the Company has placed itself among the five leading telecoms companies in relation to the Carbon Disclosure Project (CDP), the main investment index for energy and climate change in the world.

The commitment of the Company to trust and transparency extends to all its stakeholders: investors, shareholders, customers, regulators, etc.; it has created specific channels of communication for its strategy and results through annual reports, the website, Twitter, Facebook and blogs on sustainability, public policy and technology.

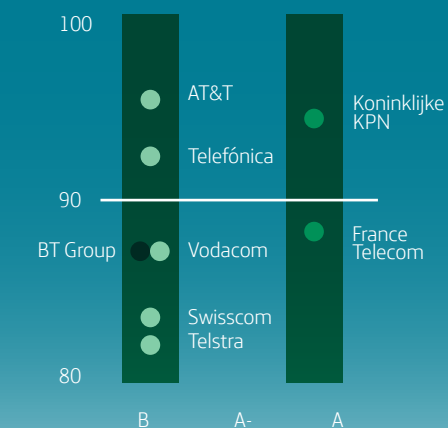
Telefónica has been reporting its GHG emissions, verified externally, in a detailed and transparent way since 2007, on the basis of sectoral and global methodology.

Leadership of Telefónica in the Carbon Project (CDP)

In 2012, the Company again found itself among the leaders of its sector, within the Top 5 of the CDP, the main investment index for carbon, which works with 551 institutional investors with assets of 71 billion dollars. The CDP is made up of two indicators which reveal the transparency and performance of companies in relation to climate change.

Management of energy and CO₂ emissions, green services, and in general, the seizing of opportunities and the minimization of the risks of climate change have been decisive in obtaining this position.

Top Disclosure Scores versus Top Performance Bands¹



1. The first of these indices evaluates transparency regarding climate change; the second, performance in emissions reduction.

Key Green ICT reports



Environmental sustainability tools in ICT

Telefónica participated in the Report on *Environmental Sustainability Tools for the ICT Sector* by the ITU, whose objective was to identify best practices. The report paid special attention to corporate headquarters, e-waste management and the end of useful life, corporate metrics, etc. The Company's activity was in the chapter, *Environmental Management Indicators for the ICT Sector*.



Eco ratings in mobile telephony

The Company was involved in the technical document *Programmes of Environmental Evaluation and Classification for Mobile Phones*, which looked at initiatives of eco ratings for these devices. In 2013, Telefónica is leading the process to develop a global tool within the ITU.

Green ICT standards



Telefónica continued to participate actively in Study Group Number 5 (SG5) on Environment and Climate Change of the ITU-T¹, responsible for developing methodologies to measure the environmental impact of ICT.

During 2012, the Group made important contributions to the ITU's work, above all in the set of methods which assess the environmental footprint of Green ICT services and ICT in cities.

In 2012, SG5 approved Recommendation ITU-T L1001 on the technical requirements and specifications of AC adapters for fixed ICT equipment (modems, decoders, domestic routers or fixed telephones, among others). It is estimated that the general adoption of a type of universal energy-efficient adapter would represent 300,000 tonnes less of

e-waste per year. Furthermore, it would reduce consumption of energy and GHG emissions of these external power sources by between 25% and 50%.

Meanwhile, the Company was also involved in a pilot test initiative by the European Commission's DG Connect Group, to establish the challenges to the use and implementation of ITU-T's methodologies, and those of other standards bodies. In this, 27 firms participated, most based in Europe. The project has highlighted the work the ICT sector is doing to reduce the carbon footprints of its own and its customers' activities.

During 2012, Telefónica participated together with the ITU in the drafting of two international reference documents to identify gaps in the Green ICT standards, for future work.

1. ITU: International Telecommunication Union. ITU-T: The ITU telecoms standards section.

Telefónica in forums and strategic working groups



Highlights of Telefónica in the Río+20 Summit



Río+20 Vivo

Development of application 'Río+20 Vivo' as a real-time information guide to the event

Smart cities

Presentation in the Corporate Sustainability Forum of the Company's strategy on smart cities and Green ICT services, jointly with the Spanish network for the Global Compact

Broadband

Telefónica participated in the panel on "Broadband and ICT for smart, inclusive and sustainable societies", organized by the Brazilian Ministry of Telecommunications and the ITU.

Reduction of energy

Telefónica joined many of the largest companies in the world in making public commitments on energy reduction, in the program "Sustainable Energy for All" of the United Nations.

Innovation centers

The Group has established exhibition spaces in its specialized Innovation Centers in Madrid and Barcelona. It has recreated cutting-edge Green ICT Services in them for connected cities: M2M remote measuring for water and energy, building automation services, Near Field Communication (NFC) based solutions and electric cars, among others. In the Smart Cities space in Barcelona, for example, services, technological developments and platforms considered essential to creating towns of the future are displayed. This space has its own way of listening to and understanding what is happening in urban areas and thus makes it possible to take better decisions and provide the information and services citizens need.

Green ICT innovation

Telefónica, a leading Company in innovation at a worldwide level, has worked to develop Green ICT services through its innovation services. In 2012, the team at Telefónica R&D invested 3.9 million euros in processes of energy efficiency (transport, utilities, smart buildings), especially in services based on M2M technology (machine to machine).

Within this vision of green innovation, the Group has set up spaces for demonstrations in its specialized centers in Madrid and Barcelona. Here, leading-edge Green ICT services for connected cities have been created: among others, M2M telemetry, inmotics services, NFC services and electric cars.

Telefónica's Green ICT services should be accompanied by demonstrations and measurements of their benefits in terms of energy and GHG emissions. This will naturally attract the attention of the market, of innovation, investment and development of new technologies of this type.

Promotion of policies

The Company is aware that it can contribute to global actions of mitigation of and adaptation to climate change. It also knows that it can affect the competitiveness of cities and strategic sectors of the economy through efficient communications networks and Green ICT solutions. So, it works in coordination with the ICT sector to place new technologies on the political agenda for the environment, with bodies like ITU, ETNO, COSMA, etc.

For Telefónica, it is important to raise Green ICT up the agenda as far as possible. Its aim is to place IT and communication at the center of the solution to climate change and promote the sector's role as a motor of eco-efficiency at the global level.

In 2012, International Year of Sustainable Energy for All, Telefónica took part in the UN conference Río+20 on the environment and sustainable development, the main event of this campaign. The Company wanted to convey a message about the need to promote intensive use of ICT, which will contribute to efficient management of the networks of energy and drinking water, the transformation

The Company wants to promote ICT as a driver of eco-efficiency all over the planet

of systems of transport, and optimal monitoring of the climate and environmental quality, among other matters.

Also in 2012, jointly with the ITU, the Company developed the second Green ICT Application Challenge. The aim was to seek the most ingenious and useful ways to foment sustainable energy through ICT.



Green applications for sustainable energy

The Green ICT Application Challenge, launched by the ITU and Telefónica, rewards ICT applications which impulse sustainability. Andreas Kamilaris, doctoral student and employee at the Networks Research Laboratory of the University of Cyprus, won this second edition with *SocialElectricity*. This app allows sharing and comparison through Facebook of sustainable ideas and practices to improve energy efficiency. He presented it at ITU Green Standards Week held in Paris in September 2012 and he received a prize of 3,000 dollars to develop it.

In February 2012, Telefónica and the ITU held a Hackathon, with the support of Nokia, SAP and Movistar Spain, to promote this 2nd Challenge. The winner was the app *Bicing Gamification*, by the Spaniard Asier Arranz. In this case, the objective is to help users of so-called "bicing" - urban bicycle rental services - to leave bikes at the most appropriate point for their distribution in the network to be optimal. Through a geolocation system, it offers various options and as an incentive, proposes micropayments to be credited against users' annual subscriptions..

Green from ICT

Telefónica is working intensively to promote energy efficiency internally and reduce greenhouse gas (GHG) emissions in all its operations and processes.

Telefónica's Office of Climate Change and Energy Efficiency is responsible for promoting efficient energy use and identifying opportunities to reduce GHG. Every year, the Office analyzes energy consumption by the Company and the global carbon footprint is calculated according to the GHG Protocol, the ISO 14064 standard and the International Telecommunications Union (ITU) Recommendation ITU-T L.1420: "Methodology to reduce energy consumption and GHG emissions by ICT in Organisations".

Once a year, the Group develops an independent verification process for energy and emissions data to obtain reliable information about the energy consumed and the GHG emitted to the atmosphere. AENOR (the Spanish national standards organisation) is the body responsible for carrying out this process in accordance with global procedures for calculating the inventory of energy and CO₂. This permits the Company to identify improvements in its processes and manage energy and carbon transparently.

Using this quantification and verification Telefónica monitors and evaluates its compliance with the global reduction objectives.

About 90% of the Group's energy consumption is in the networks and to handle this the figure of energy manager, present in all countries where the Company operates, has been created. The energy managers belong to local operations teams and are fully supported by a worldwide operations team. They work closely with the Office and are responsible for developing and implementing different projects to improve energy efficiency in our networks and offices.

Telefónica also has a *Manual of good practices for energy efficiency in networks (101 tips)* and an internal social network where the best practices in this area are shared. Similarly, every year the *Telefónica Global Workshop on Energy and Climate Change* is held, where local energy teams, technological partners and other special guests meet to analyze results, define strategies and share good practices in energy efficiency. Full information can be found at www.eficienciaenergetica.telefonica.com

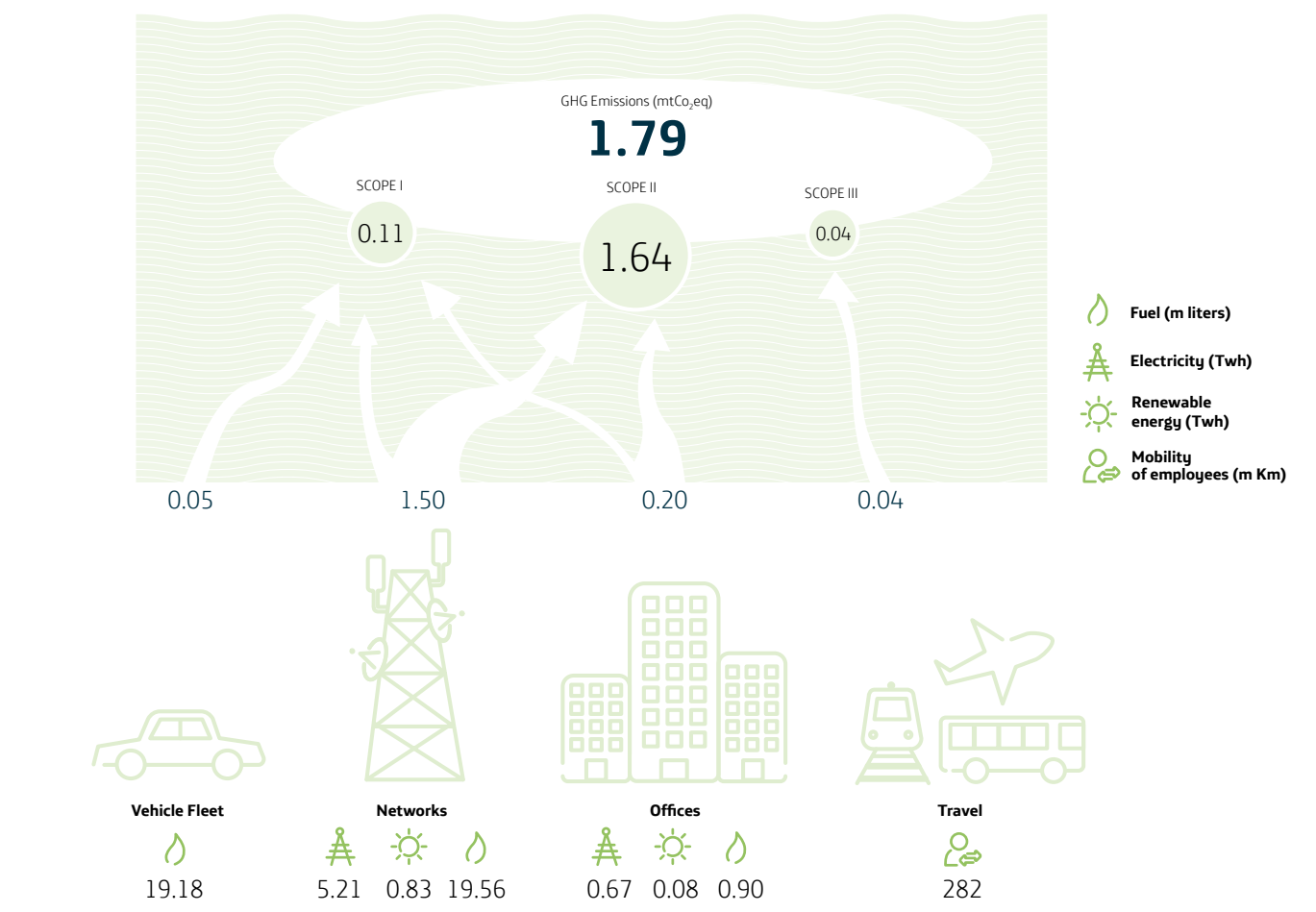
In the course of the *III Telefónica Workshop on Energy and Climate Change*, which took place in November 2012 in Santiago, we set out the objective of reducing our CO₂ emissions by the year 2020, as compared with the base year (2010) figure of 1.7 million tonnes, measured by equivalent customer access.

To keep this commitment, we at Telefónica are working on three main courses of action:

- To improve network energy efficiency by electricity consumption reduction projects.
- To reduce the use of fossil fuels in operations and vehicle fleets, substituting them by more efficient and cleaner sources of energy, using vehicles that consume less such as hybrids or electric cars, and reducing the distance traveled by improved fleet management.
- To foment our own generation of renewable energy wherever electricity is difficult to access.

In 2012, energy consumption in Telefónica's networks and offices reached 5,885 GWh, and CO₂ emissions were 1.79 million metric tons. The

Telefónica energy and efficiency inventory



Company is working to reduce them, and for greater energy consumption efficiency in all of its activities and processes.

Fuel in operations

In 2012, the Group consumed around 18.2 million litres of diesel in its networks to generate electricity in emergencies or where power is not otherwise available.

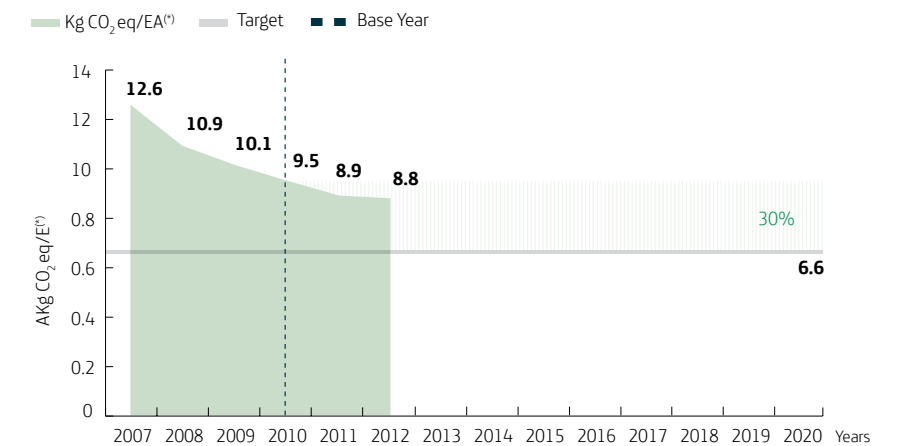
To reduce consumption of fossil fuels, various solutions based on optimization of generators and their substitution by systems of renewable energy generation were proposed.

Optimization of fuel consumption in Peru

The process is based on awareness by those involved in data processing the maintaining infrastructure. Continuous monitoring takes place of maintenance management. As a result, the supplier has a contractual obligation to submit reliable and timely information about fuel consumption in the network.

Telefónica pledged to reduce its CO₂ emissions per customer by 30% by 2020

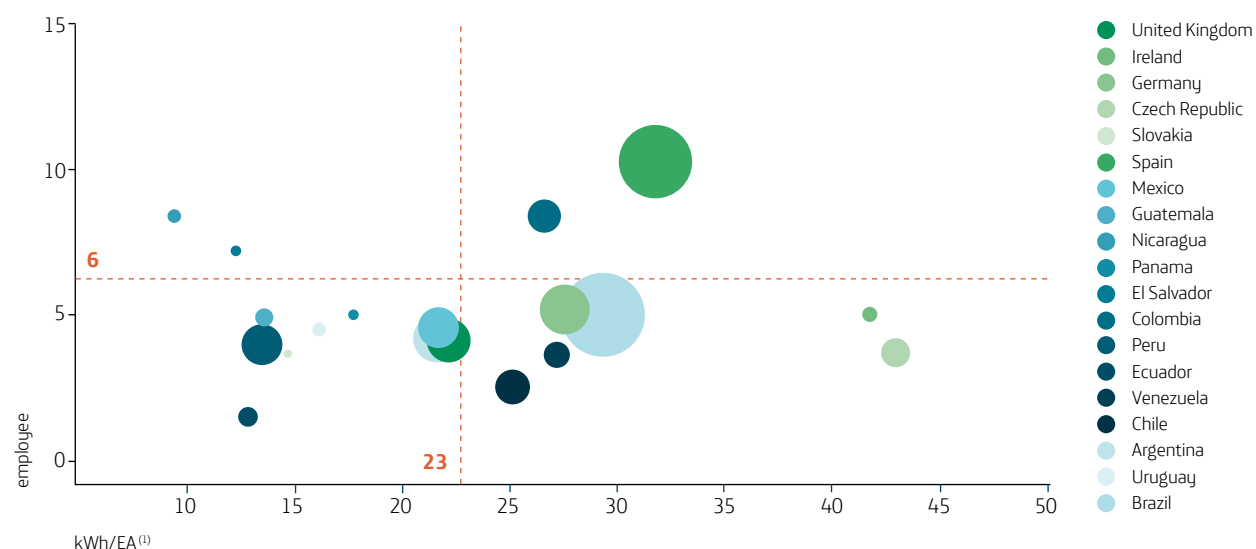
Greenhouse gas emissions reduction objective



(*) EA = Equivalent customer access.

Telefónica's energy constellation

limits of compliance with objectives



Telefónica aims to reduce electricity in kWh/EA⁽¹⁾ by 30%, and MWh/E⁽²⁾ by 10%, for 2015

Energy efficiency in operations and offices

Telefónica consumes around 5.9 TWh of electricity per year around the world. During 2012, over 35 energy efficiency projects were carried out, with which about 15 GWh were saved, representing over 5 million euros in financial terms.

The Group has a global energy efficiency project development model. Highlights include those of free cooling (use of external air to control temperature in mobile base stations and fixed line exchanges) and those of rectifier substitution (their exchange for new high-efficiency ones). Telefónica Uruguay and Telefónica Germany joined these projects.

Free cooling in Uruguay

In the period 2002-2012, Telefónica Uruguay installed free air cooling technology in 85% of its indoor base stations and mobile switching sites. Thanks to this technology, Telefónica is able to take advantage of outside cold air to keep its equipment cool. Thus, when the outside temperature is sufficiently low, the equipment temperature can be controlled without using air conditioning. More recently, refrigeration technology based on free water cooling was installed in mobile switching sites, and where the humidity and air quality are monitored. This system is based on ventilators which use outside air to chill water and so reduce the use and energy consumption of the chillers. This new technology is more reliable and efficient as it avoids problems related to filter maintenance, humidity or air pollution.

(1) AE= Equivalent customer access.
(2) E= Employee

Telefónica has evaluated compliance with its global objectives of energy reduction, established in 2007. By the end of 2012, Telefónica had managed to reduce use of energy in its networks by 20% (per equivalent access). This represents fulfilment of more than two thirds of the objective fixed for the period 2007-2015 of reducing network energy use by 30%.

Telefónica's energy constellation

Presented in the *III Workshop on Energy and Climate Change*, this shows the tracking of the global energy reduction objectives in each of Telefónica's operators from 2007 to date. Each planet corresponds to one country and one operator (19 in total in different countries in Europe and Latin America). The radii of the 'planets' are proportional to their electricity consumption. Brazil and Spain are the largest because their share of the business is, and therefore they have high electricity consumption.

The X-axis (horizontal) in the chart shows kWh in operations per equivalent access (kWh/EA) and the Y-axis shows MWh consumed in offices per employee (MWh/E). Thus the axes represent the KPI (key performance indicators) which measure the global energy reduction objectives. The closer each planet is closer to the bottom left corner, the more energy-efficient the company is. Telefónica's electricity reduction objectives of 30% in kWh/EA and 10% in MWh/E for 2015, with respect to 2007 will be achieved if operators can reach values of 23 kWh/EA and 6MWh/E, respectively. This is how Telefónica as a group will attain these values in its operations and



offices. For further information: <http://www.rcysostenibilidad.telefonica.com/blogs/2012/11/21/eficiencia-energetica-la-constelacion-de-telefonica-english-follows/>

Renewable energy

Telefónica avoided the emission of 310,000 tonnes of CO₂ thanks to the purchase of 892 GWh of energy from renewable sources, where the markets allow it (Germany, United Kingdom, Ireland and Brazil).

Brazil case study: Vivo leader in buying renewable energy

In 2012, the CCEE (a trade body) named Telefónica Vivo as the Brazilian company with most units of renewable energy purchased on the open market. This means that Vivo is the company with most buildings supplied by renewable energy. Linked to ANEEL (the national electrical energy agency), the CCEE's aim is to facilitate commercialization of electricity on the Brazilian energy market. The renewable energy consumed is generated in small hydroelectric and biomass power stations, and substitutes for use of fossil fuels. Thus, environmental impact is reduced and use of renewable resources is maximized.

Thanks to the installed renewable power at its Spain headquarters, Telefónica generated more than 2,300 MWh of clean energy in 2012, which avoided the emission of 557 tonnes of CO₂. The Company is working with the GSMA association and its "Green Power for Mobiles" program to increase the number of base stations with renewable energy in Latin America, where electricity is difficult to access. In 2012, the

renewable energy generated in Telefónica's base stations amounted to 5,544 MWh.

Fuel in vehicle fleets

In 2012, Telefónica consumed 5.3 million liters of petrol and 13 million liters of diesel in its vehicle fleet. To reduce this consumption, different fleet management initiatives were carried out, from the installation of M2M solutions to the application of efficient driving techniques.

Employee mobility

Employees of the Group covered more than 280 million km by plane in 2012. These journeys generated the emission of 33,000 tonnes of CO₂ to the atmosphere. To reduce these emissions, Telefónica has 29 telepresence rooms distributed in the different countries where it operates. During 2012, more than 3,000 virtual meetings which avoided around 9,000 business trips were held.

Energy efficiency with suppliers

To achieve energy efficiency internally, collaboration with technological energy partners is important. Thanks to them, Telefónica is able to employ the most efficient technology in its networks and offices. They participate every year in the *Workshop on Energy and Climate Change* and work jointly with the Group on the search for co-financing models for the development of energy efficiency projects. An example is the ESCO Model, which favours implementation of this type of project thanks to investment by suppliers and sharing savings.

Another of the supplier energy efficiency initiatives is the integrated purchasing model. Under this formula, established by the Telefónica global operations team, the most efficient technology is bought worldwide (for all countries) and the best benefits are obtained.

Spain case study: fleet management

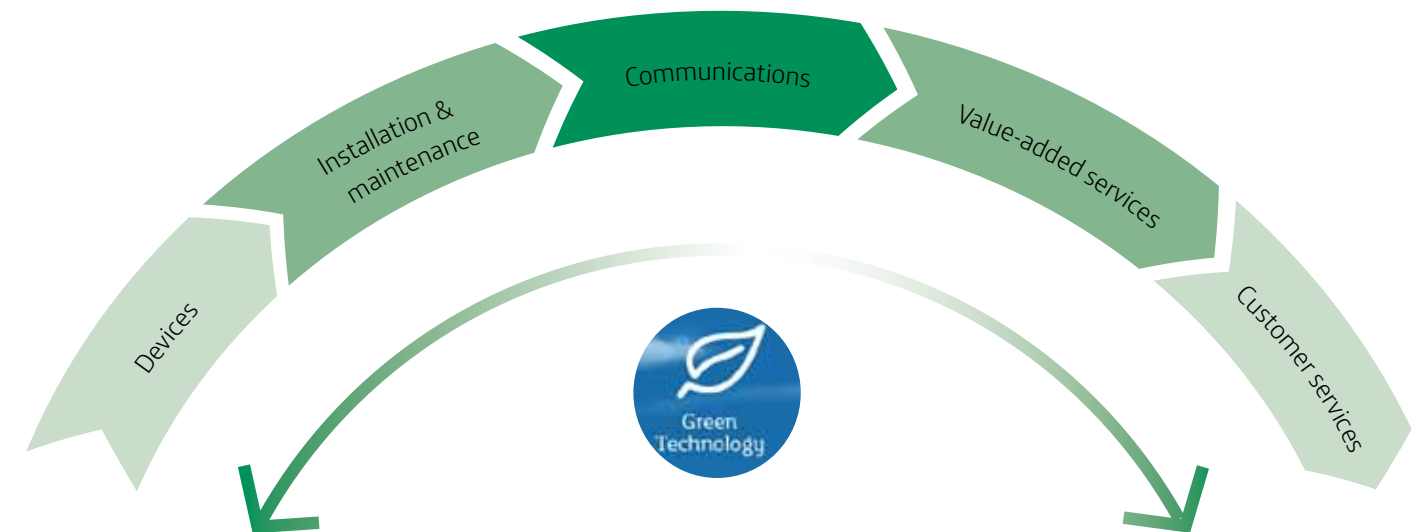
During 2012, the Company installed an M2M solution based on geolocation of the fleet of vehicles of Telefónica in Spain. Thanks to this, it is possible to monitor in real time the position and speed of the vehicles, and obtain activity reports. Among functionality highlights are route management and analysis of efficient driving, which permit optimization of journey times, and reduce consumption of fuel. Apart from improving efficiency, this gives better service to customers, increased safety for drivers and a reduction of costs in general. The solution is adapted to the current and future needs of Telefónica's fleet.

Green by ICT_

The Company wants to make integrated Green ICT solutions available to its customers, to incentivize improvements in environmental management, contributing to the eco-efficiency of transport, construction, industry and service companies, among other sectors.



Telefónica covers the whole value chain...



...with guaranteed worldwide end-to-end service

Our Green ICT services help to promote an eco-efficient economy low in carbon and above all, they favour urban sustainability. As a global and integrated telecoms operator (mobile and fixed), Telefónica works keenly - with its Marketing and Business R&D services at global and local level - to include Green ICT solutions formally in its catalogues of products and services and offer them to its customers, whether residential or business.

In 2012, Telefónica extended its portfolio of Green ICT Services and strengthened its commercial offering to companies, for instance in intelligent building management, optimization of transport and logistics services, and virtual hosting. These services are already in use in the Group's various operations around the world.

The focus of the global service proposals, including Green ICT ones, is aimed at covering the whole of the chain of value required by the customer. Indeed, the Company has an integrated offer which includes

devices, their installation and maintenance, communications, added value and ongoing customer service.

Telefónica's proposal does not merely center on connectivity, but on integrated services and added value. Its different lines of business, above all in the areas of M2M, cloud and applications, work constantly on defining and improving them. The Company also believes that it should collaborate with partners to achieve success in the various markets.

Another of the objectives is implementation of real-time climate reporting solutions, which will permit the identification of worldwide monitoring systems for air quality and pollution.

Telefónica is also working hard to promote Green ICT services for homes, based on its Smart Home M2M technology platform, a domestic energy efficiency service. This service is being tested in various pilot projects in real environments in Spain and Latin America.

In 2012, Telefónica extended its portfolio of Green ICT Services for companies



Telefónica works on measuring the environmental impact of its Green ICT Services

Green ICT Services

Smart Buildings in Spain

Thanks to the Energy Efficiency building automation service supplied by Telefónica in Spain, around 30 clients from banks to large stores have benefited from annual energy savings of 35%. This solution provides for the monitoring and control of different environmental parameters in distinct buildings via presence detectors and sensors and allows remote management through a centralized graphical interface for monitoring consumption. The configuration of the solution, devices and its versatility, permits the adjustment and adaptation of lighting, for instance, at any point necessary without bothering employees. In 2012, Telefónica in Spain obtained revenues of around 4.8 million euros from introducing this service.

Smart Transport in Europe

The fleet management service in Europe, based on M2M products and commercialized jointly with Masternaut, is available to companies for a single monthly payment. It represents a chance to modify their employees' driving style - so that they can reduce their CO₂ emissions and comply with environmental regulations. To achieve this, they are supplied with a control tool for routes and work processes which reduces work time and yields important savings in fuel costs. This is a modular and customizable solution which optimizes management and offers end-to-end support. Its efficiency is demonstrable, as are the savings, which are around 25-30%. It is aimed at all types of fleets: refrigerated transport and control, urban services, security, snowploughs, etc. More than 100 clients - about 6,000 vehicles - have already opted for this service.

Smart Clima in Brazil

Vivo Clima is a weather monitoring system that functions through the installation of rain gauges and M2M equipment using Telefónica-Vivo mobile phone antennae. The system was introduced in Brazil last year and supplies real-time information on rainfall levels in various regions. The process operates using Telefónica Brasil's M2M platform, which has an interface connected to government weather monitoring systems and civil defense bodies. Communities in high risk areas are warned of meteorological phenomena via SMS. A pilot project has begun in Jardim Zaira de Mauá in São Paulo. The site was chosen due to its level of risk and the fact that it is in one of the most populated districts in the province and prone to constant flooding and landslides.

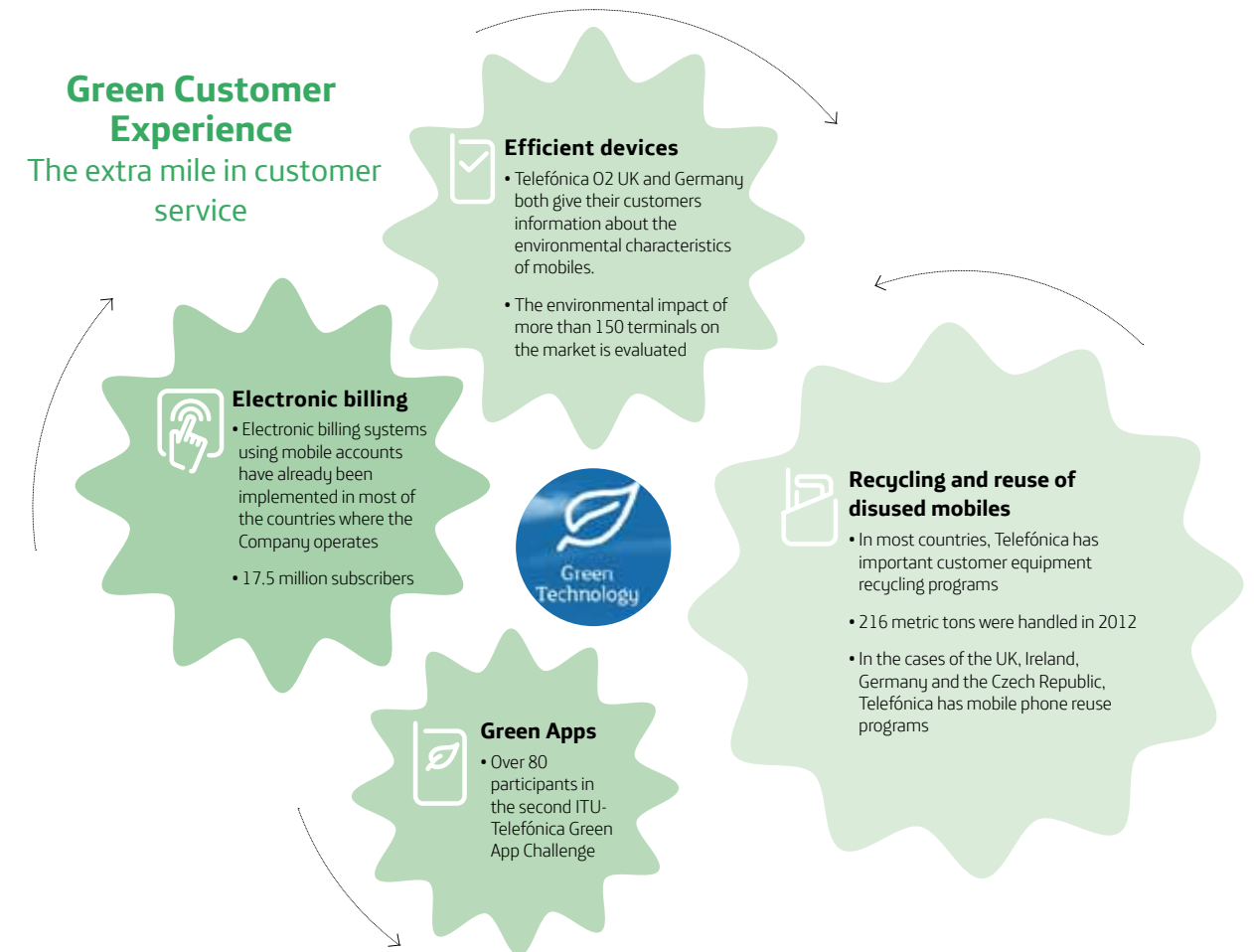
Smart Platform for utilities management

Telefónica has launched the first platform to combine M2M communications with underperforming meter management infrastructure for electricity, gas and water services. Telefónica Digital's new Connected Metering Platform is helping distribution companies improve their capacity to control and supervise meters as well as reducing operational

costs, both in the installation and operation, and maintenance, aspects. To help distributors tackle the challenge of managing a high number of devices, Telefónica has developed an integrated solution simplifying both automated management processes and the commercial use of operational data.

Green Customer Experience

The extra mile in customer service



In 2012, Telefónica reaffirmed the need for Green ICT Services in its smart cities offer, a unified series of solutions for smart cities worldwide, operated from a single technology platform. These services permit the management of environmental objectives in cities, as well as their waste management, public lighting, air quality and transport, among other services.

For the growing residential mobile phone market, Telefónica uses the global model, Green Customer Experience (GCEX). This initiative offers a green experience from when the customer is considering the purchase of a mobile to the end of its useful life. It also includes green applications and functionalities which reinforce energy efficiency, and the use of non-polluting materials in the devices.

In 2012, the distinct operations of the Company reinforced their local green experience activities. Four groups of activities stand out: efficient devices; virtual services, such as electronic billing; green applications; and the promotion of mobile recycling and reuse.

Telefónica works constantly on measuring the environmental impact of the services it delivers to customers, based on sectoral methodologies developed especially in the framework of the ITU's Study Group 5.



Smart cities in Spain

The Spanish intelligent cities network (RECI) and Telefónica agreed in 2012 to work on projects of urban modernization and sustainability in 25 cities. The Company, promoter and creator of the most important smart cities initiatives in the country, contributed with its experience as an integrated ICT operator. These technologies have shown themselves to be an essential driver of new models of production and a key

instrument in optimal management of city services. The agreement will allow Telefónica to use RECI as a testing ground for measuring the environmental impact of smart city services, especially with respect to saving resources. It will also facilitate the extension of best practices from this network to all the countries in which it operates, as part of its global smart cities model.

Environment

Telefónica integrates the environment as another element of its business and seeks a triple purpose: the minimization of environmental risks, a responsible deployment of its network and the maximization of eco-efficiency.

The environmental policy of Telefónica guides the strategy of the Company and sets, in all countries where it is present, the principles of responsibility regarding the environment. The Group, through diverse management systems, controls and minimizes all impacts derived from the development of its activities.

Within its commitment to support the welfare of people, Telefónica offers society ICT as a motor for sustainable development. The policy of the Company in this sense establishes the main acting lines for all companies, business units and employees that integrate the Group regarding the environment and climate change.

In 2012, Telefónica strived to reinforce its environmental management from an integrated perspective, i.e., through the unification of landline and mobile line operators. It also focused on all those countries where legislation is still underdeveloped. Furthermore, it established a valid environmental indicator dashboard for the Group in order to improve performance control.

Ensuring compliance with the Law

The global environmental management system at Telefónica allows for compliance with the Law and improvement of the processes each year. Considering that the environmental aspects of the Company are not intensive, they have a high geographic dispersion, which makes it necessary to have environmental management based on homogeneous processes. The objective is: prevention and mitigation of environmental impacts.

In 2012, there were no cases brought against Telefónica or environmental penalties for the Company.

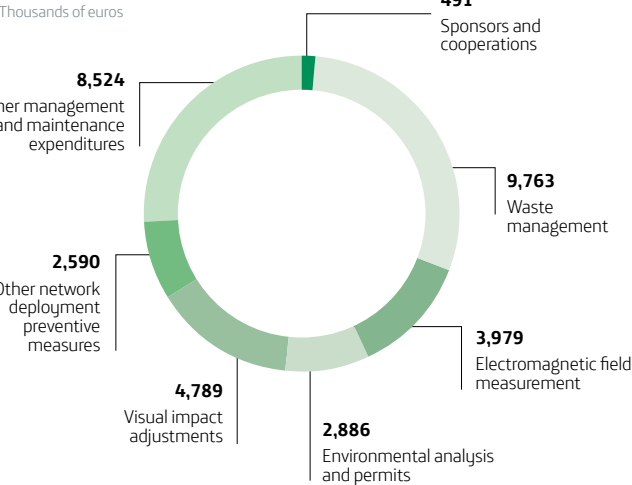
Telefónica invested 14.2 million euros in 2012 for the reduction and mitigation of the environmental impact of the telecommunications network and to implement eco-efficiency measures. In the meantime, expenses in daily environmental management of waste, audits, maintenance, etc., reached 19 million euros.

Certified environmental management systems

| Company | ISO 14001 certificate | Company | ISO 14001 certificate |
|------------------------|-----------------------|---------------------------|-----------------------|
| Telefónica España | ☺ | Telefónica Mexico | ☺ |
| Telefónica Solutions | ☺ | Telefónica Nicaragua | ☹ |
| TIWS | ☺ | Telefónica Panama | ☹ |
| Telefónica, S.A. | ☺ | Telefónica Peru | ☺ |
| Telefónica Argentina | ☺ | Telefónica Venezuela | ☹ |
| Telefónica Brazil | ☹ | Telefónica Uruguay | ☹ |
| Telefónica Chile | ☹ | Telefónica Germany | ☺ |
| Telefónica Colombia | ☺ | Telefónica United Kingdom | ☺ |
| Telefónica Ecuador | ☺ | Telefónica Ireland | ☺ |
| Telefónica El Salvador | ☹ | Telefónica Czech Republic | ☺ |
| Telefónica Guatemala | ☹ | Telefónica Slovakia | ☹ |

Note: the management systems for land-line and mobile-line businesses are in the process of converging.

Expenditures and investment in the environment



All the operators of Grupo Telefónica manage the environmental aspects according to the global management system implemented over the last two years. Nowadays, more than 50% of our companies, representing 61% of total turnover, have environmental management systems that comply with the ISO 14001 standard and which have been certified by an external party.

Responsible network deployment

The most significant environmental aspects of Telefónica's activities are related to the infrastructure needed to provide service to customers, i.e. with the network. Some of these aspects are common to all telecommunications companies, and in all of them, Telefónica innovates to carry out the best practices.

So as to minimize the visual impact, while always guaranteeing the levels of coverage and service quality for our clients, the Group selects the best sites for its infrastructures and performs mimetization actions. The investment in modifications aimed at reducing

the impact reached 4.8 million euros in 2012. In this sense, it is important to mention the sharing of 33,000 infrastructures with other operators.

Telefónica has fuel tanks in support of the telecommunication network, not only for emergency situations. The Company carries out an exhaustive control of them to prevent any soil contamination. In 2012 no relevant spilling was detected.

When Telefónica's network is located in a protected area, the Company is especially conscious of preventing any interference with fauna, flora and landscape. With this in mind, it carries out a series of analyses on environmental impact before starting construction.

Electromagnetic fields

Telefónica is aware of the general concern regarding electromagnetic fields. Thus, it has a transparent communication policy on this issue. When required, the Company

Over 50% of companies today have certified environmental management systems in accordance with ISO 14001

Principles of the environmental policy at Telefónica

- 1
Guarantee compliance with **environmental law** and voluntary commitments
- 2
Implement **environmental management systems**
- 3
Apply **continuous improvement** throughout the Company
- 4
Use **natural resources** sustainably
- 5
Transmit to suppliers **environmental protection** requirements
- 6
Communicate, raise awareness and educate on environmental issues
- 7
Publish an annual **Code of Conduct** on the environment
- 8
Tackle climate change by **reducing GHG emissions**
- 9
Promote ICT services that contribute to **sustainable development**
- 10
Work with **third parties** on more sustainable development models

Telefónica deploys its network respecting all legal regulations, local and international

» Reduction of impact of mobile networks

In 2012, Brazil witnessed the development of a pilot experience that made use of public lightning to install mobile telephony stations. The equipment was placed underground, which led to savings of 10% in energy consumption, and to the prevention of the corrosion of the equipment due to salinity.



Before



After



provides information to public agencies, the local communities and customers about the functioning of the mobile telephony stations. It also cooperates in the divulgation concerning this issue.

Telefónica deploys its network respecting all legal regulations, local and international. In fact, it has adopted as minimums the limits of exposure to radio frequency established by the ICNIRP and certified by the World Health Organization.

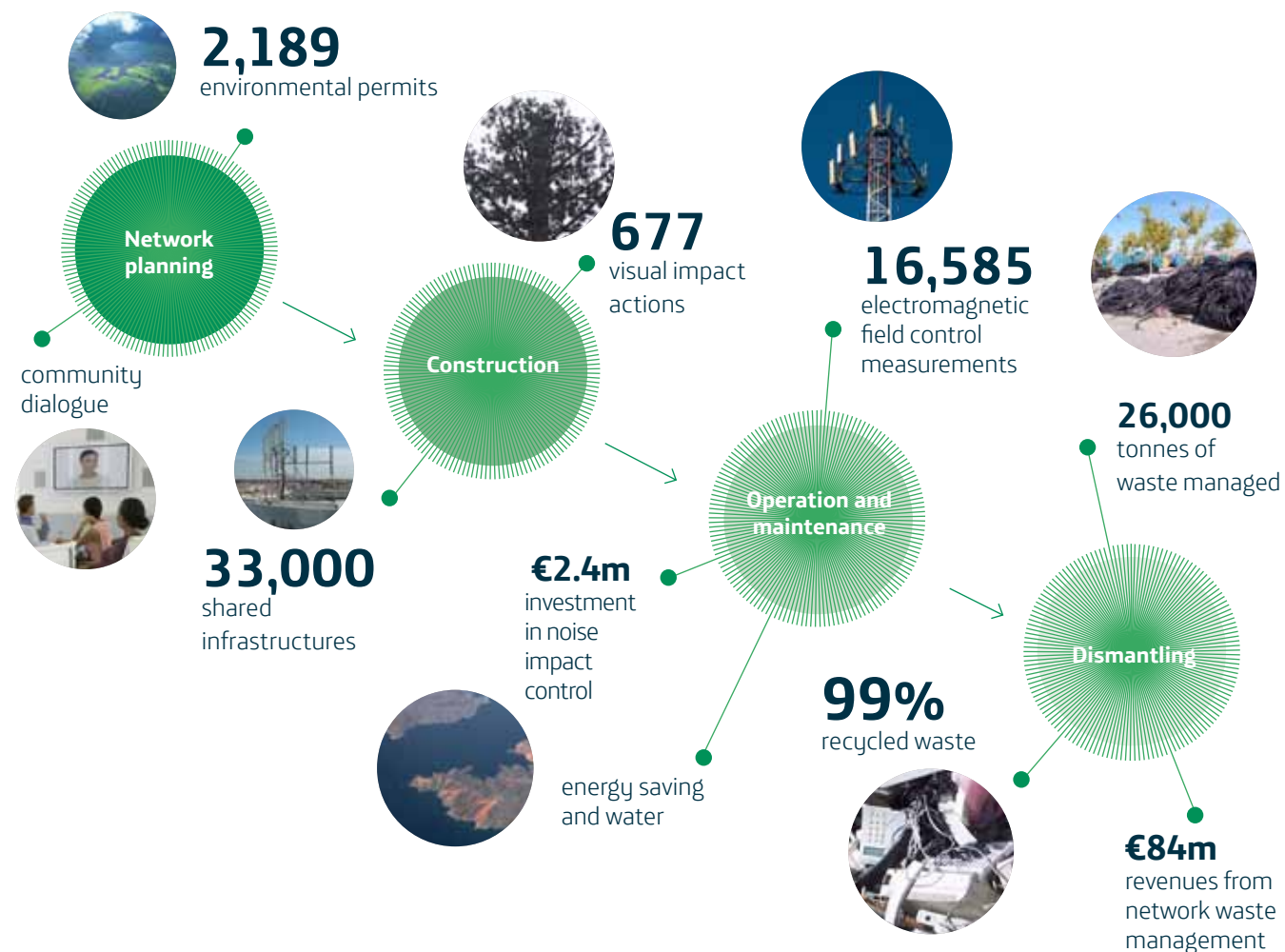
In 2012 the Company made 16,585 measurements of electromagnetic fields in its base stations, with an expenditure of four million euros.

Since 2011 there have been minimum common commitments on electromagnetic fields subscribed to by all Telefónica Group's operators, to:

- Comply strictly with the law and recognized international standards and guidelines, for all products and services.
- Foment legislation based on international guidelines (ICNIRP), especially in those cases where there is no local regulation, and which is in keeping with these for reasons of uniformity and to eliminate barriers to deployment.
- Support and publicize independent scientific research of high quality on mobile communications, recognized by the WHO.
- Communicate openly and transparently to our clients and the public in general all actions made in this regard.

Telefónica participates actively in working groups of the GSMA and the ITU to share the best practices on electromagnetic field management and to share useful information for its clients.

Environmental aspects of network deployment and Telefónica's response



Eco-efficiency

At Telefónica we work to minimize the environmental impact of our activities through eco-efficiency. The Group understands this concept as efficient management that creates value for the Company in aspects such as water, energy, waste or greenhouse gas emissions.

- **Efficient use of water** Water consumption in Telefónica is associated with sanitary consumption and infrastructure cooling processes. The acts carried out are linked to the installation of saving devices, analysis of important consumption points, optimization of the use of spaces and internal awareness campaigns. In 2012, Telefónica used approximately 5.6 million m³ of water.
- **Efficient use of paper** The use of ICT permits reduced use of many resources, among them paper. Telefónica works on the reduction of paper consumption

in its offices and promotes electronic invoicing among its customers.


Regarding internal consumption, in 2012, 1,193 tonnes were used, 2% less than in the previous year. Besides, in many of its companies it favors the use of recycled paper, which nowadays represents 20% of total consumption. The Company also promotes step by step the purchase of paper with sustainable forest certification (FSC or PEFC), a responsible practice already implemented in Europe.

The different operators favor non-paper invoices, a service that uses ICT to avoid the consumption of natural resources. In the last years this service has grown, and nowadays, 17.5 million customers already receive non-paper invoices. In 2012, 296 million electronic invoices were issued, and 10,663 tonnes of paper for customer's invoices, 13% less than in 2011. As a reference for efficient



The use of ICT allows us to decrease the consumption of resources. Telefónica works on the reduction of paper consumption in its offices and promotes electronic invoicing among its customers

management, it is important to note that the use of electronic invoices not only represents an important environmental advantage, but also an economic one: in 2012, it represented savings of approximately 54 million euros⁽¹⁾.

→ **Waste** 
Residues are generated in almost all Telefónica's activities in large amounts, although mostly they do not contain harmful components and can be recycled.

All Telefonica's residues are managed through mechanisms established by law and in accordance with the best practices, favoring reduction, reuse and recycling.

The most important residues are those derived from waste electrical and electronic equipment (WEEE). Large amounts are produced, both internally and at customers' homes. In recent years, laws and controls relating to WEEE have increased significantly. Other relevant residues produced in our telecommunication networks are the cables; 23,000 in 2012.

Another specific action is the reuse of equipment. Whenever possible, it is repaired and reused to obtain environmental benefits in two respects: a considerable reduction in waste volume, and; recycling of equipment and materials. Eco-efficiency in waste management is very important not only environmentally but also economically: in 2012 the practice of landline equipment reuse in Spain translated into savings of eight million euros.

Also in 2012, Telefónica's revenues included 89 million euros for waste management. Thus, waste recovery makes good economic, as well as environmental, sense.

Regarding the mobile residential customer, Telefónica works on promoting programs of reuse and recycling. The starting point is that the best waste is the one that is never produced. Thanks to these initiatives, the customers leave their old mobile phones and benefit economically from doing so. Telefónica also offers the recycling of mobile devices that cannot be reused. In 2012, the Company collected 147 metric tons of customers' phones for reuse and 69 tonnes for recycling.




1. Taking as a reference the invoicing cut-off in Spain.

Waste (tonnes)

■ Recycled
■ Landfill or elimination
■ Reuse



We are all responsible

- **Supply chain** 
Communicating environmental requirements to suppliers and contractors is paramount in order to ensure correct environmental management. Besides incorporating environmental clauses in all its contracts, Telefónica makes communication actions and audits for the control of its supply chain.
- **Staff** 
Likewise, workers are a fundamental pillar in the environmental behavior of the Company and thus the different companies of the Group develop training and awareness programs. In 2012, 37,000 hours of environmental training were taught.
- **Stakeholders and customers** 
Among its customers, Telefónica develops different initiatives focused on the protection of the environment and on raising awareness of the importance of respecting the environment.



» My Tierra Maps in Spain

Telefónica collaborated in the setting up of the platform "Mi Tierra Maps" (www.mitierramaps.com) which seeks to foment awareness of the biodiversity and the culture of the countryside through the use of ICT. Its purpose is to transform the rural world into a sustainable entrepreneurship model. The project shows its resources through the web (with geo-localization tools) and a free app, available for iPhone and Android.



» Biocoal in Mexico

Movistar sponsored an initiative created to generate community biocoal. In this way, it reduced the deforestation in the Sierra Mixteca mountains in Oaxaca and favored the conservation of endemic species like the green macaw (*ara militaris*) and the decrease of deaths of women due to smoke inhalation through the implementation of pyrolysis stoves.

Telefónica relies on its staff

With a deep transformation taking place in the industry, the well-being and efficiency of the staff is a priority for the Company. It is focusing on sustainable policies in order to maintain its leadership.

Telefónica faces important changes if it is to continue being the leader in the new digital environment. Success depends, in great part, on the commitment of the staff, and this in turn, explains the introduction of Human Resources policies developed within a labor environment where each professional gives the very best of him/herself.

The changes force Telefónica to identify and foster its strong points in order to stay at the forefront of the industry. In this way, it is carrying out an important effort to improve the productivity of the workforce, which is undergoing a thorough transformation. For the Company, its workforce has always been a priority, but now its management is more relevant than ever.

Internally, the staff is encouraged to transform the modus operandi of the Company in order to build an organization more centered on the client and at the same time more agile, global, digital and therefore leading better.

In this context, having a committed and properly trained team is paramount. With this aim in mind, actions are designed to build great places to work, something that attracts the best professionals.

The staff in figures

By the end of 2012, Grupo Telefónica had more than 133,000 workers, 1,232 of which held managerial positions. The workforce, distributed in 24 countries, is 4.1% less than in 2011, due to the restructuring processes and new business requirement policies.

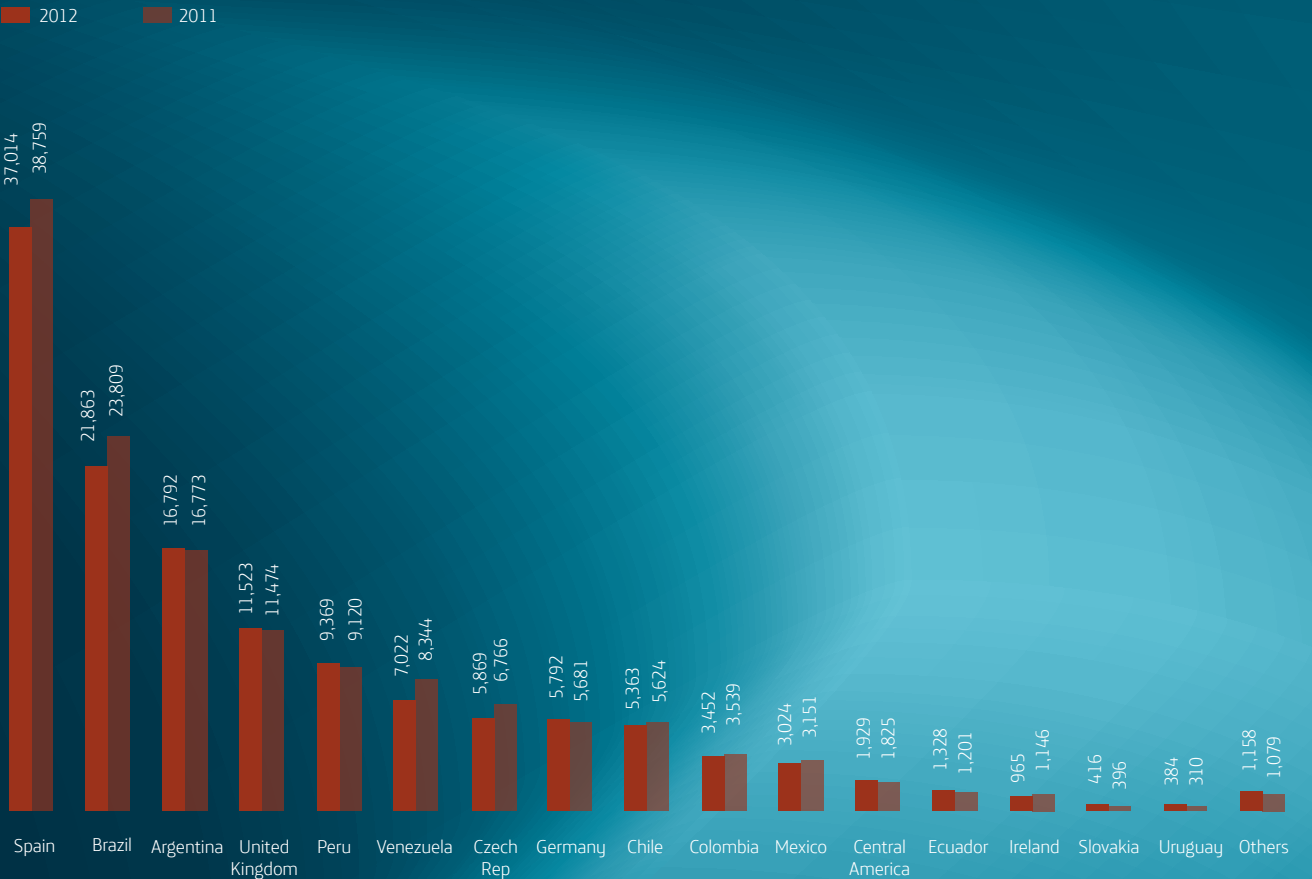
Excluding Atento, the turnover of the Company reached 19.03% at the end of the fiscal year. In 2011, the turnover was 22.39%, not considering Atento.

If we look at the distribution by regions, Latin America continues to have the largest percentage of Telefónica Group staff, with 52.5%. Spain is next (28.5%), followed by the rest of Europe (18.9%). The other 0.9% is shared among countries that do not belong to any of the main regions.

On the other hand, Telefónica encourages sustainable work policies: 95% of the workforce have permanent contracts and the number of women in the workforce is around 38%. Besides, the number of women in managerial positions grows every year, reaching 19.4% at the end of 2012.

The Company invested 49 million euros in staff training, which amounted to around four million hours. Each worker received, on average, 29 training hours.

Staff worldwide



Average age of the workforce



Work environment, conciliation and commitment

The staff is one of the most important assets in Telefónica. Thus, the Group promotes conciliation and flexibility policies that foster an optimum working environment.

In 2012, 103,767 employees from Telefónica (excluding Atento) participated in the global survey on climate and commitment carried out during the last months of the year. Participation significantly increased reaching 80% of the participating workers, which implies a yearly growth of 5% regarding 2011.

The *Global Climate and Commitment Index 2012 (ICC)* - applied uniformly in the Group - reached 78.5%. With this result the objective of the Company for 2012 is exceeded in over 2% (previously set at 76%).

Among the aspects that turned out to have been most strengthened were the pride of belonging, and line manager leadership.

Improvements were noted in all the dimensions analyzed, however.

2012 witnessed the consolidation of the generalized use of new questions to explore with more depth the commitment of the staff to the conditions that help to make the work more efficient. This approach is known as 'effective climate' and allows for optimizing the management of both aspects.

After the surveys - which represent the first part of the chain - the information is distributed among the leaders of the Company. Thanks to these data we design plans to position the Group among the best companies to work at, on an international level.

103,767
employees participated
in the climate and
commitment survey

24
countries responded
to the global survey

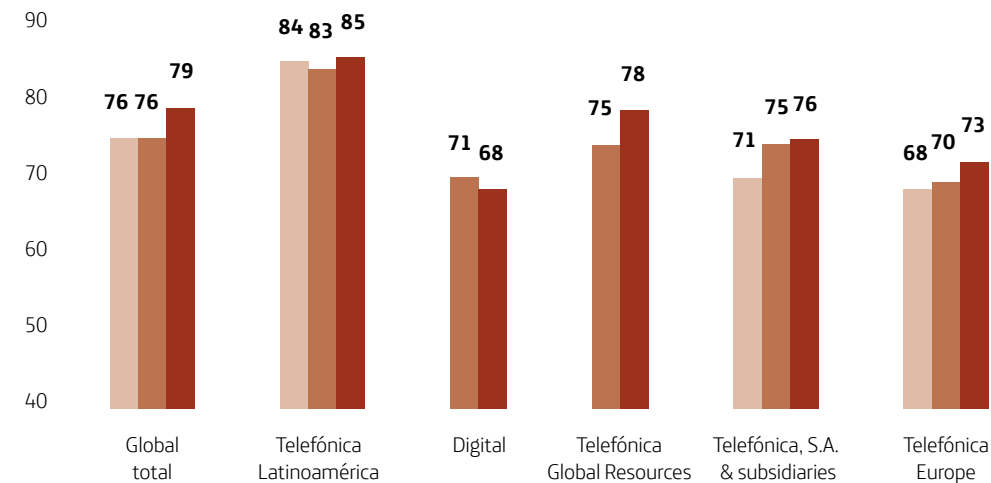
80%
participation among
professionals

5 points
increase in responses
on 2011

Evolution of the Global Climate and Commitment Index

2010 2011 2012

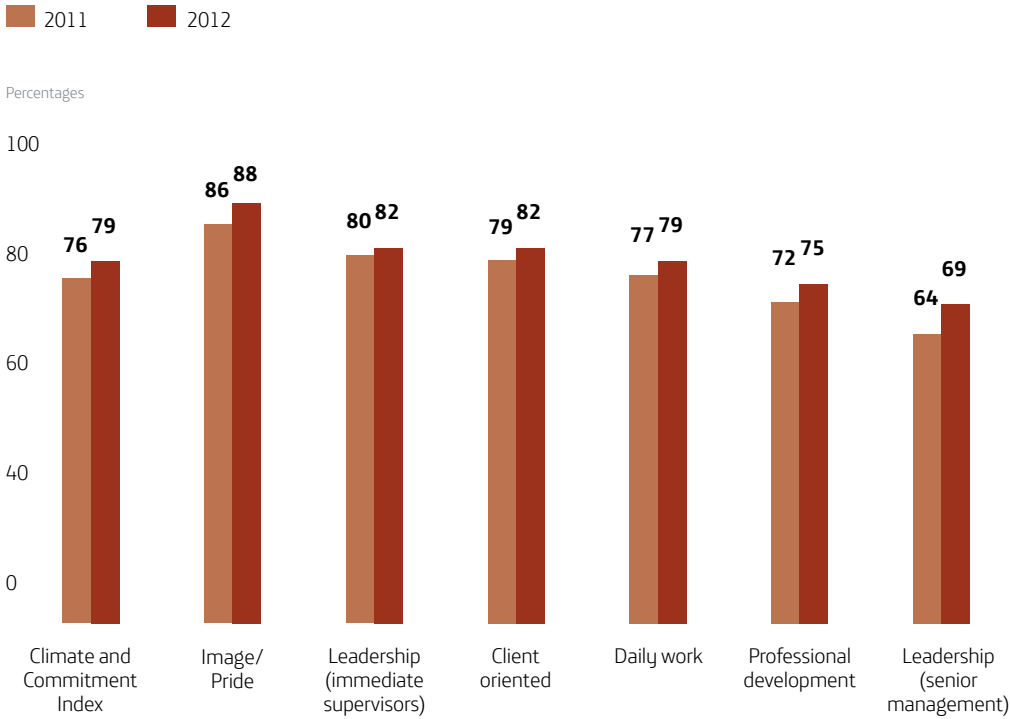
Percentages



Among the aspects that have been most strengthened are the pride of belonging and line manager leadership



Evolution of climate and commitment indicators



In 2012 Telefónica was ranked as one of the 25 best global companies to work for in the world, according to the Great Place to Work Institute

Great Place to Work Prizes

In 2012 Telefónica was ranked as one of the 25 best global companies to work for in the world, according to the Great Place to Work Institute. It is the second time that this international organization, renowned for the elaboration of such local and regional lists, has issued a global ranking.

Specifically, Telefónica ranked number 13 in a selection in which 350 multinational companies from over 45 countries participated. All of them had at least 5,000 employees, 40% of which (at least) had to work in a country other than that of the Company headquarters.

Besides these requirements, for the elaboration of the global ranking, Great Place to Work considered the local results of the surveys, measuring the trust in the companies. Also, it analyzed the data of an auditing on policies and human resources practices of the companies.

In the last years, Telefónica reached this status in countries such as Germany, Ecuador, Uruguay and Venezuela. In the 2012 edition, it was selected also as the second best place regionally in Latin America.

Telefónica was the only Spanish company present in the Great Place to Work ranking, and it did not include another telecommunications company.

Policies and practices on work conciliation

Generally speaking, all companies of the Group strive to implement actions that enrich the life quality of the employees and that go beyond what is addressed by laws. Besides, for the Company, it is a priority that staff can face motherhood or fatherhood with the guarantee of being able to complement their personal and professional life flexibly. With this in mind, there are measures beyond the legislation, that facilitate an employee's return to work after her or his corresponding leave.

Some examples of good practices this financial year are:

» United Kingdom

In February 2012, the largest European event on work flexibility took place, with the remote participation of more than 2,000 people. A year later, approximately 64% of employees teleworked once or twice a week. This generated a saving in



costs and environmental sustainability (3,000 hours fewer journeys, for example), as well as important benefits that are reflected in an increase of productivity and a bigger commitment of the staff. 80% of the people under survey think that working remotely is as productive, or more productive, as working from the office (total, responses 4 and 5), and 36% consider that it is definitely more productive (response 5 only).

» Chile

In the last years, the UNO Program has gained an important relevance. It allows the employees to have free days for personal issues, depending on their needs or personal circumstances, through a credit system during the year, agreed to with a manager. Club Telefónica has also helped to finance in the country 5% of the cultural and sport activities for the staff (theater, photography, running, yoga, etc.).

» Brazil

In 2012 a Health Promotion Directorate was created by a multidisciplinary team in the Health and Safety areas. It operates nationwide through 15 clinics distributed in the main cities. They provide assistance to

employees and families in the workplace, under criteria and standards of high personalization and quality. They have perfectly integrated medical and nursery staff.

» Uruguay

In Telefónica Uruguay a welfare program was developed, based on four main pillars: environment (paper recycling workshops, recycling containers, discussion spaces); physical welfare and health (microsport and health campaign, nutrition, stress relief advice); personal and family life (emotions and immunological systems, drawing contest for children, ideas for the weekend and raffles for shows), and a welfare space (dancing classes, advice to make the best of leisure time, microsites with appropriate contents, etc.).

» Guatemala

In 2012, Telefónica Guatemala proposed a calendar of activities for employees. Besides specific celebrations (birthdays and raffles), the workers have a month dedicated to the theme they choose: conferences on diseases, social networks, vaccination, Father's Day, Mother's Day, etc.

Training and management of talent

Employees of Telefónica have access to a wide training offer, face to face as well as online. For the Company, knowledge management is a priority.

Training and staff development in Telefónica is included in a cycle that begins with the setting of objectives, continuing with the assessment of performance and finishing with the design of a personal development plan. And all this from the opportunities that the Company provides to all its staff. Training opportunities at Telefónica are structured through different tools: classroom-based training (Universitas and special events) and *online training (e-learning programs)*.

Universitas Telefónica

Universitas Telefónica Campus is located 40km north of Barcelona and covers an area of 18,000 m². It includes sports areas where people can enjoy nature and a residential area with capacity for 180 rooms and several meeting rooms equipped with the latest technology for managerial training. It is a meeting place where the culture and values of Telefónica live and breathe, while knowledge and experience are shared, and links and relationships established. In total, 2,546 participants attended the courses 2012 at Universitas Telefónica campus.

In 2012, 40 courses consisting of 40 different programs were given at Universitas Telefónica:

- *Leading & Managing Change.*
- *Leading Self.*

→ *Leading High Performing Teams.*

→ *Telefónica 2020.*

→ *Engaging Reality.*

→ *Customer Focus.*

→ *Global Management Program.*

→ *Innovation & Leadership.*

→ *Postgraduate course in Business Telecoms.*

→ *Powerful Leadership Conversations.*

→ *English Week.*

Within the *Synergy and Cooperation Program*, implemented along with China Unicom, Universitas Telefónica taught for second time a course for the senior management of both companies about strategic innovation.

During 2012, part of the academic portfolio comprised programs designed and given internally by Universitas. The proportion of internal teaching staff rose to 35%, with the active support and collaboration of the Company's senior management, including members of the Board of Directors.



Corporate E-learning (a+)

Within the scope of Universitas Telefónica it comprises the management of the corporate *e-Learning* project. The main achievements in this area in 2012 were:

- The implementation of a new version of the global *e-learning* platform. The objective is to foster even more the internal culture of *Social Learning* through tools that facilitate the shared creation and the management of the interconnected knowledge.
- The consolidation of the Social Learning *model*, with more than 29,000 students and 190,000 accesses in corporate schools. This formula has an average fidelity rate of almost 7 monthly accesses per student, with a high satisfaction rate. It has been used by thousands of employees:
 - School of English language with nearly 18,600 students.
 - School of finance with more than 12,000 students.
 - School of ICT, with over 16,500 students.
 - School of sales and marketing with more than 2,100 students and over 4,000 accesses since its launch in October until December.

In summary, Telefónica employees benefited from over 435,300 training actions, involving 1,043,632 learning hours. A total of 7,262 were carried out in synchronous presence through the Virtual Classroom tool of the a+ platform.

Innovation Week

It comprises a set of activities that provide diverse tools and methods to foster creativity. These techniques seek to awaken the spirit of innovation in all of Telefónica's employees. During the week, collaborators are invited to participate voluntarily in two-hour workshops with the aim of changing the perspective and the way they see things to create and innovate in everyday life.

This initiative was born in Argentina 6 years ago, and since then, it is yearly replicated in Spain and in other Latin American countries. These workshops are taught in a special environment: the Innovation Room, a unique ecosystem so the partners can enjoy the work and be inspired by the environment.

During 2012, part of the academic portfolio consisted of programs designed and taught by Universitas

Attraction of employees and talent retention

Telefónica launched in 2012 its *Performance and Potential Global Management Model*. The objective: verify that the Company has the knowledge needed to ensure the future of the organization.

One of the main milestones of Telefónica regarding talent in 2012 was the launching of the *Performance and Potential Global Management Model*. It allowed the completion of the first evaluation exercise for the Company's managers: approximately 1,000 senior positions were examined regarding performance and potential. This assessment of the performance focuses on determining the contribution of the employee towards the Company in terms of results and achievements in the workplace through a model that includes the achievement of results (the "what") as well as how to get them (the "how"), measured based on the Company's transformation behavior: client, agile, global, digital and leader. As regards potential, this is evaluated by centering attention on the employee's suitability and capacity for maximum development in his or her post and for growth within the organization.

This method, which some organizations have extended beyond the managerial team, is configured as a key lever to boost the transformation of the Company in the new digital environment.

In 2012, one of the focal points of the actions implemented within the talent area was to facilitate international mobility of Telefónica's leaders, as it aids in the development of leadership profiles with a correct combination

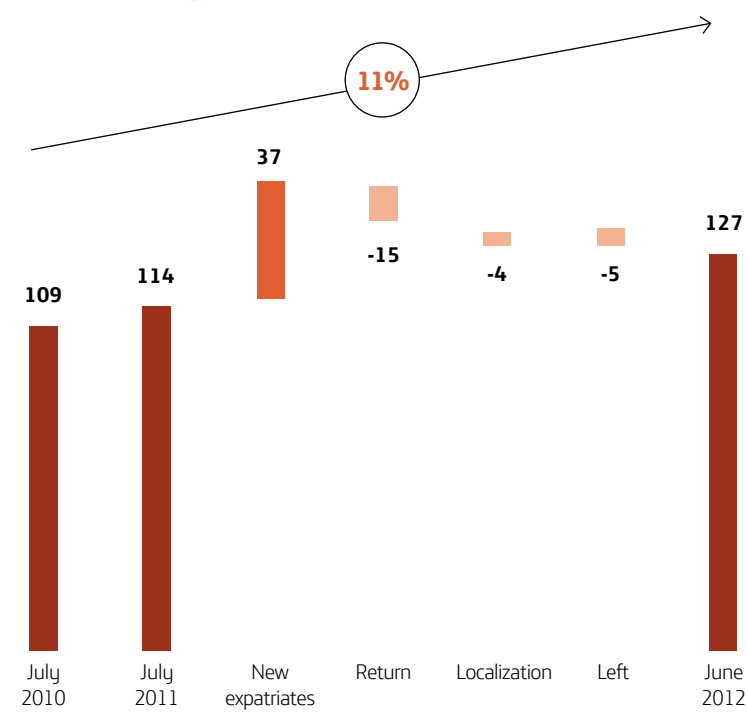
of transnational experience and a global perspective of the business. On the other hand, it is also important to underline the incorporation of a new talent through initiatives such as Talentum (over 1.500 young professionals in Telefónica Europe) or Graduate Programs (centered in the localization and management of knowledge of the Telefónica staff from the very start of their careers). Objective: ensure that the Company has the internal talent needed for succession plans for the different areas and that it is able to build the key abilities for the organization's future.

Talent mobility

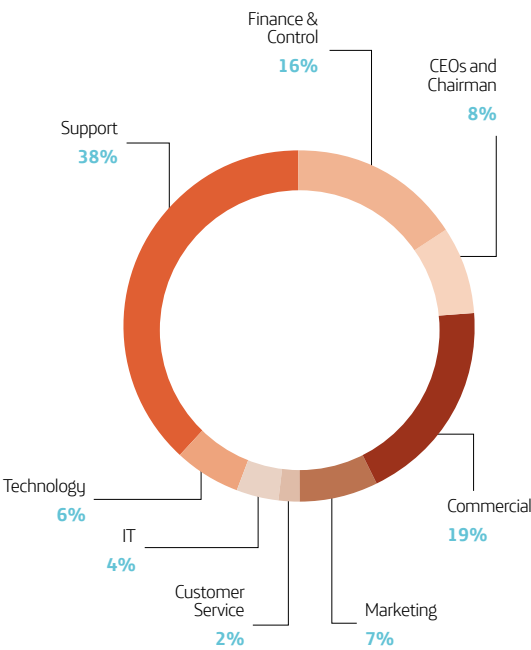
In 2012, Telefónica took an important step towards the international management of its staff with the creation of a new global mobility unit. From it, we offer a single point of reference to advise and solve all issues related to international mobility in Telefónica.

It is a specialized unit that helps in finding good solutions in the event of transferring a person from one company to another one from a different country as a long-term or short-term expatriate, organizing the permanent transfer of a worker to a new country, solving immigration or tax issues, expatriation benefits, etc. The purpose is to provide a consistent and excellent experience.

Evolution of expatriates



Distribution of expatriates by areas



Movement of expatriates between regions

| | T. Digital | T. Europe | T. Latin America | Resources World | TSA | Total |
|------------------|------------|-----------|------------------|-----------------|-----|-------|
| T. Digital | 6 | - | - | - | - | 6 |
| T. Europe | 5 | 9 | 5 | 1 | 2 | 22 |
| T. Latin America | 4 | 6 | 53 | 3 | 1 | 63 |
| Global Resources | 1 | 2 | 1 | 4 | - | 8 |
| TSA | 1 | 6 | 10 | 2 | 5 | 24 |
| Total | 17 | 23 | 69 | 10 | 8 | 127 |

Global mobility is also critical in Telefónica in order to develop equipment with the capabilities and competences needed for the future and so that the Company can be managed in a truly global way. This is the reason why the Company promotes transfer of knowledge and experience, with different objectives:

- To have a senior management team with leadership, in order to operate as a global company;
- Boost understanding and collaboration among the different cultures that make up the Telefónica Group; and

→ Boost development of people with potential, allowing them to have an international experience that enriches their professional growth.

The global mobility figures for 2012 have grown relative to earlier years, with 195 long-term and 63 short-term expatriates, and 120 young professionals on international exchange programs.

Also the international movement of local contracts and permanent contracts between countries has increased, favoring sharing of knowledge and of experiences, besides cultural diversity. In 2012 there were 33 local international moves.

Fair pay and recognition of good work at Telefónica

The remuneration policy of the Company seeks to create the working conditions and payments that attract, retain and motivate its professionals.

The main criteria of Telefónica regarding its workforce is to configure remuneration packages that attract, retain and motivate the best professionals. The objective is for the Company to be able to reach its strategic objectives within the framework of growing competitiveness and internationalization in which its activity is carried out, and at the same time, maintain sustainability of its costs.

Thus, Telefónica carries out weekly surveys in order to hold a competitive position. Besides, it is in contact with global scope consultancies, whose working methods and tools are designed to satisfy the regional needs. The objective is to ensure consistency in the methodology used and in the analysis of the results.

The fixed salary component paid by Telefónica to its employees is, in every case, above the local minimum salaries, in varying proportions. For instance, in the companies with the most employees the differences with respect to the minimum salary are: Telefónica España, 2.36 times; Telefónica Brazil, 1.15 times; United Kingdom, 1.13 times, and Telefónica Argentina, 2.30 times.

In most cases, besides the fixed salary, the compensation package of Telefónica's professionals includes an annual variable part, linked to the achievement of specific business

objectives - measurables and aligned with the social interest which have a bearing on value creation - and to the assessment of individual performance. The objectives are adjusted every year to fit with the strategic priorities of the business.

Share Purchase Plans for Telefónica staff

Global Share Purchase Plan for Employees I (2010-2012)

This initiative was carried out over 24 months, from 2010 to 2012; and included the voluntary participation of over 41,000 professionals.

The Plan was opened for applications in May 2010 and Telefónica offered a second share as compensation for each share purchased by employees within this framework that they kept in their possession until its conclusion. September 2012 represented the end of the holding period, and the more than 35,000 employees that continued participating in this programme received in total 2,204,083 extra shares by Telefónica (valued in more than 22 million Euros at the moment of their delivery). Having received the reward shares, over 92% of the participating workers still hold them (they haven't sold them or transferred them), which reveals their interest in continuing to be shareholders.



Global Share Purchase Plan for Employees II (2012-2014)

Based on the success of the first Global Plan of Share Purchases, Telefónica has launched a second edition for the years 2012-2014. The Programme keeps the spirit and the original functioning characteristics and has enjoyed great acceptance from the employees: more than 25,000 professionals have registered for it. It is worth mentioning that over 70% of the participants have re-applied (they participated in the previous plan), which underlines the interest of the employees in it and their trust on the Company.

Long-term share-based incentive plan of Telefónica, S.A.: Performance and Investment Plan

The General Shareholders' Meeting of Telefónica, S.A., held on May 18, 2011, approved the start of a long term incentive plan on shares called Performance and Investment Plan, addressed to high-potential and performance executives of the Group. This program was designed to promote and compensate individual development in the Company and to boost a bigger commitment in its results, as employees and shareholders.

The Plan shall have a duration of 5 years and is divided in 3 cycles of 3 years each (i.e., with a delivery of shares that correspond in each cycle

to the 3 years since its beginning), independent from each other. This initiative considers that the number of shares to be delivered shall be between 30% of the total of theoretical shares (assuming that the evolution of the TSR of Telefónica, S.A. shares is at least near the median of the Peer Group), and 100% in the event that such evolution is in the third quartile or larger of the Peer Group, being the percentage calculated through linear interpolation for those cases where it is located between the median and the third quartile. On July 1st, 2012, the second assignation of shares under this Plan was carried out, reaching a total of 7,347,282 shares.

Restricted Share Plan (RSP)

At the General Shareholder Meeting of Telefónica, S.A. held on May 18 2011, a new long-term share-based incentive plan was approved, called the 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. Its total duration is five years, with mutually independent timely deliveries that may take place at any time between 2011 and 2015.

The high acceptance of the Global Share Purchase Plan by the staff has led Telefónica to launch a second edition

Commitment to diversity

The Telefónica workforce comprises professionals from more than 25 countries and three continents, diversity that only goes to enrich the Group. Furthermore, women represent 38% of all staff.

The diversity among employees allows us to get to know individual customer needs better

Diversity is a core value at Telefónica. The work of men and women of different citizenships, cultures, ethnic groups, history, generations and abilities makes Group growth possible. The Company is putting strong efforts to give employees the same opportunities, without forgetting that each person is unique. Telefónica considers that equality opens roads for enrichment and professional development, which favors innovation and efficiency, therefore enhancing the quality of service for customers.

Telefónica's Business Principles include this fundamental right: "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."

Thus, the Company staff is made up of people from over 25 countries (four represented on the Board of Directors) from three different continents. The number of women had grown to 50,540, representing 37.9% of the total, by the end of 2012. Also, excluding Atento, 19.3% of the managerial positions were held by women, which represents an increase of 0.48%. With respect to the relationship between the male base salary, in the national

market (Spain, the most relevant), the average woman's salary was 95.5% of this at middle manager level and 95.3% at department head level. This implies a reduction in the difference the year before of 0.3pp and 0.7pp, respectively. The table also includes indicators for the other important markets for Telefónica, Brazil and the UK.

An ambitious project

The Business Principles Office continued in 2012 with the development of its diversity project and with its pilot program for Telefónica Europe. Its main pillars are:

- Clients. During the year, work was carried out on the segmentation of users and the training of professionals in order to provide a better service considering their diversity.
- Leadership Creation of a Diversity Committee.
- Talent. The Company worked on the planning of succession, recruitment and talent retention.

November witnessed the creation of the European Committee on Diversity to boost this value in the businesses of Telefónica in the region. It has two main objectives:

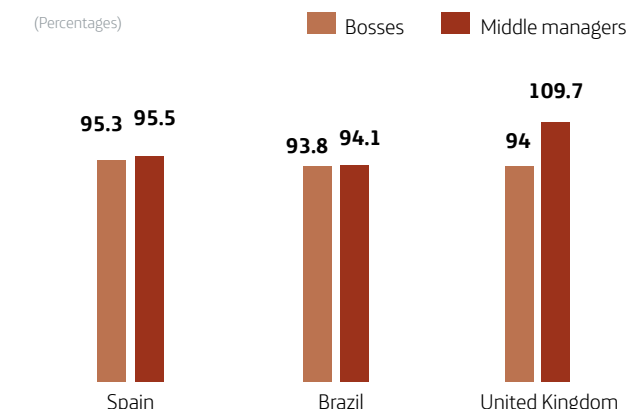
50,540
women professionals in
Telefónica

3
continents represented on the
Board of Directors

19.3%
of Group managers
are women



Average salary variation between men and women in Telefónica's most important markets ⁽¹⁾



⁽¹⁾ 100% indicates that the annual average salary basis for men in one labor category is equal to the average salary for women in the same category.

- Discuss the priorities in this area depending on the business needs, from a client and staff perspective.
- Set guidelines that help prove that a correct management of diversity has a positive impact on the Company culture and its results.

Regarding their functions, the following were established:

- Supervise and, if applicable, decide on the diversity policies applied by the Group in Europe, for example regarding the targets set in relation to gender diversity and the indicators used for its measurement; recruiting, rotation and retention of professionals; balance and wage equality revision between men and women; succession plan; training on diversity and inclusion; inclusive leadership practices and the role of the diversity champions.
- Revise and assess the applicability of the actions that may endanger the reputation of Telefónica Europe and/or its employer brand.
- Compare and foster the diversity activities carried out by the local business units.
- Guarantee compliance with the law on corporate practices in the area of Gender Diversity in Europe, taking into account the changes demanded by the European Commission.
- Consider any other issues related to this aspect that may affect the Board of Directors at Telefónica Europe.

Actions in 2012

During the year, Telefónica backed several initiatives on diversity, many of them related to gender equality. Among them, it is worth mentioning:

- September 2012 witnessed the launch of the *Women in Leadership* program and the selection of candidates for the second edition is already underway. The program seeks, among other things, to strengthen their abilities, confidence and resilience; establish a solid network of women leaders through the European Companies of Telefónica and increase their visibility; create a space where they can share experiences that have an effect on the organizational culture; and identify mentors and sponsors who may provide support.
- During the year, a constant relationship was maintained with Women in Wireless, an association of professional women in the telecommunications industry seeking to promote female talent among industry leaders.
- At the start of 2013, and as a consequence of this collaboration, Telefónica organized one of the events for Women in Wireless: New Year New You. In this forum, there were discussions on issues such as the balance between work and personal life, and the stress of success.
- In 2012, the Company created a short video on the issue of diversity. It sought to promote a debate on gender issues related to the Company, as well as the retention of feminine talent.

The importance of empathy

- In December 2012, Telefónica Germany launched a pilot program for employees working directly with customers on training for empathy and diversity awareness. The idea is to provide tools so that they better understand the individual needs of the users, allowing us to provide a better service.
- The focus is on building a more personal relationship with the clients and introducing the products and technologies of Telefónica in a different way, without focusing only on the technical features. The objective, in short, is that they are capable of creating a different user experience.
- The balance of this pilot program, which trained the staff of five shops in Germany, has been very positive. For this reason, there are already plans to launch it in other sales channels.

Freedom of association and social dialogue

Telefónica insists on the full observance of laws covering the workplace and aims to keep an open and fluid relationship with workers' representatives.

Union rights

- Total workforce
- No. of employees with union agreements

66.0%

133,263

87,989

Total employees
Telefónica

The Business Principles at Telefónica ensure the right of the staff to belong to the union they choose, and favor the development of collective negotiation frameworks. In this sense, by the end of 2012, 66.0% of the staff were under collective work agreements.

Collective bargaining in Spain

The development of collective agreements approved in previous years has allowed the fulfilment of the conventional commitments during 2012. Among the most significant challenges with impact on the Company strategy are:

- Registration of all Telefónica de España professionals for the new classification scheme by professional groups, a fact that allows them to integrate with the corporate reality of the Company with more polyvalence. It also encourages employability and worker mobility.
- Approval and implementation of the new scheme for the Sales Career, which seeks to fortify the sales network and the professionalism of our vendors. This redesign is aligned with the other Professional Careers at Telefónica and is adapted to the existing segmentation of the market and primarily oriented at achieving customer satisfaction.

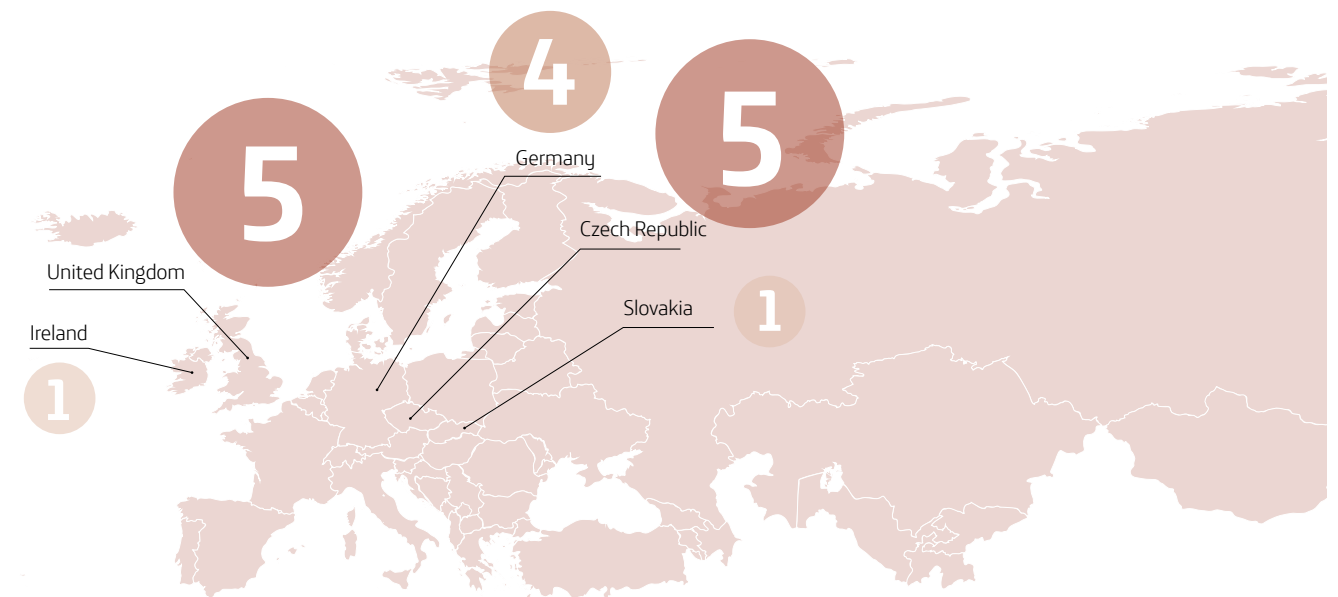
→ The actions implemented in the development of the Equality Plan of Telefónica de España (TdE) and Telefónica Móviles España (TME) give access to participate in the tender issued by the Ministry of Labor, Social Affairs and Equality for the obtention of the qualification granted to companies which stand out due to their diversity policies.

→ We are advancing the model in other companies of the Group, such as Telefónica Solutions (TSOL), to design, diagnose and create an Equality Plan and an Action Plan for cases of harassment in the workplace, sexual harassment or gender-based harassment.

→ During 2012, a special plan of measures that seek to facilitate the conciliation of professional, personal and family life was implemented. Among them, the required age of dependents in order to be able to request a reduction in working hours - for child care - was raised, and different modalities for leave without pay that may be taken together with holidays or long weekends are offered.

→ In June 2012, union elections for staff delegates and representatives of the workers in the provincial company committees were carried out in TME. The process was carried out with all the usual safeguards and in complete normalcy.

Country representatives of the European Business Committee



→ In TME, significant progress has been made in the convergence process regarding working conditions, so that progress can be made in equalizing the conditions of different workforces.

Following this negotiation line, the Company has continued with the agreement reached with the representatives of the workers for the redundancy dismissal procedure (2011-2013). The systems in the Social Plan for retiring from the Company always follow the principles of voluntariness, universality and non-discrimination. During 2012, the net reduction in employment envisaged by the agreement was achieved.

Collective bargaining in Europe

Telefónica Europe has a European Works Council (EWC) which informs and consults the Company's employees to promote dialogue and exchange opinions on transnational matters. Each Operative Business (OB) has a specific number of workers' representatives. They are chosen in accordance with the law or practice in their respective countries. Among the appointed people, the EWC appoints a Chairman, at present Steven Roberts (United Kingdom), and a Secretary, at present Marc Poole (Ireland). The European Works Council has 16 workers' representatives (1 in Ireland, 5

in the United Kingdom, 4 in Denmark, 5 in the Czech Republic and 1 in Slovakia)

Furthermore, the European Works Council appoints 5 people for a Special Committee (SC). This Special Committee meets with the Central Committee more frequently in order to discuss matters of greater urgency, such as the preparation of a new agreement for CER after the expiration of the existing one.

The EWC meets every six months to discuss transnational issues and all issues raised through Telefónica Europe. These issues generally refer to changes in organization and structure, the economic and financial situation of Telefónica

in Europe, the introduction of new working methodologies and technologies, fusions, transfers or reductions and the social and human resources policies, which include health issues, safety and equality of opportunities.

Communication and transparency with our employees

Telefónica has boosted its internal communication channels to support the Company's new strategy and motivate its employees to join in the transformation effort.

In 2012, we have put a lot of emphasis on mobilizing the various channels of communication and opening them to the participation of staff. As part of this, we have brought the Telefónica Daily, a channel of news and information, to mobile devices, both smartphones and tablets, from which the channel can be accessed anywhere. It is also now possible to rate and to comment on the items online.

More digital

The worldwide magazine SOMOS is now no longer published on paper, with three objectives:

- Alignment with the Company strategy of being digital.
- Consistency with Telefónica's environmental objectives and to obtain savings.

It is published in HTML5 format, accessible not just by computer, but from all mobile devices, tablets and smartphones and with functionality to allow voting, commenting and

sharing through the internal social network, Yammer. It incorporates audiovisual elements, photo galleries, audio, interactive graphics, etc. In 2012, we have boosted the use of internal social networks like Yammer, to foment the exchange of ideas and the sharing of best practices and information.

Level of satisfaction

At the end of 2012, we embarked on the first worldwide survey of internal communications, to draw conclusions about the opinion of and level of satisfaction among our professionals, the use of tools and communication channels, and about content.

Among the objectives we have set ourselves for 2013, the creation of a global communication space for our intranets is of particular importance. Information and communications at three different levels (global, regional and local) flow through these, and we want this to be equally available to all our professionals.



SOMOS magazine

Digital, interactive and accessible from anywhere and any device



Health, safety and well-being at work

These are the three pillars of one of Telefónica's most important areas of activity, where the Company is seeking not only to guarantee the protection of its employees, but also to have a direct influence on their satisfaction in working for the Company.

The Occupational Risk Prevention Management System guarantees the integration of the health and safety of workers in all Telefónica's processes and services. It consists of taking advantage of the synergies its global model offers for implementing common policies, procedures and actions. The aim? To identify and share those practices which have directly had positive effects on their well-being and in reducing accidents.

Management structure

The Joint Occupational Health and Safety Service (belonging to the Human Resources and Talent Management Division of Telefónica Spain), is the unit designated as the Center of Expertise of the Telefónica Group, coordinating global actions in the area of occupational health and safety.

Lines of action

During 2012, the following milestones were reached at Telefónica:

→ Audit of the "Occupational Health and Safety Management System"

During 2012 the certification of the Occupational Health and Safety Management System at Telefónica Spain S.A.U. and

Telefónica Móviles Spain S.A., for the workers at Distrito Telefónica, in accordance with the standard OHSAS 18001:2007, was successfully renewed, through the appropriate external audit process.

Along these lines, and new this year, the scope of the above-mentioned certification OHSAS 18001:2007 was extended to the companies Telefónica Soluciones de Informática y Comunicaciones (TSIC), Telefónica Soluciones de Outsourcing (TSO), Teleinformática y Comunicaciones (Telyco) and Telefónica Cable (TCable).

Also, at Telefónica we continue to take the standard mentioned as an objective, bearing in mind that the continuous improvement offered by the OHSAS model ensures that we maintain high levels of protection for the health and safety of our workers, and it also implements a coordinated management system for this, consistent with the objectives and strategies of the organization, because it reduces the accident rate.

→ Telefónica Europe Health and Safety Champions Forum

In June 2012, there was a meeting in Madrid of those responsible for health and safety in the European region, as well as invited



representatives from Israel. During the day, the health and safety reports of each of the countries were put on display, and there was an opportunity to share experiences of best practices.

In relation to this, among the aspects which stood out were the local and European legal safety frameworks, progress in the process of European integration of the safety systems, and the corporate sustainability report, as well as the follow-up of the implementation of the project relative to Human Capital 2.0. At the end of the year the matters dealt with were followed up, and a strategic health and safety calendar was set out for the following year.

→ Working Atmosphere Survey/Psychosocial Factors Project

In 2012 we looked more deeply at the results of the survey on the working environment as a key element in the analysis of psychosocial factors. Starting from the existing questions, we found a correlation with the so-called

constructs to be found in the methodology used by the INSHT (Spain's national institute for workplace safety and hygiene). The results obtained have helped us to establish specific and general improvement plans in line with the results of the survey, which offers large amounts of information given the number of employees at Telefónica.

Preventive activities in the regions

In 2012 we carried on working on the standardization of procedures and instructions in the areas of safety, health and welfare, promoting and communicating "good practices" among operators in the different regions of Telefónica Group.

→ Europe

→ In Europe in 2012, Telefónica Germany stands out especially for having created a video of simple ergonomic recommendations for screen-based work, and this has been published on their intranet.



In Argentina, working conditions were reviewed in over 200 of the Company's buildings

- In the Czech Republic, the OHSAS certificate was successfully renewed.
- In Spain, more work has been done to strengthen the coordination of activities with the different collaborating companies, through processes of audit and coordination meetings at which best health and safety practices were shared. Likewise, we worked in cooperation with business customers to achieve compliance with the different regulatory frameworks which arise.

In Madrid, a conference was held, addressed by the eminent cardiologist Dr. Valentin Fuster, Head of Cardiology at the Mount Sinai Hospital in New York and one of the leading figures in the field of coronary disease, to raise awareness of the importance of prevention in cardiovascular conditions.

We are carrying out an information campaign on the intranet aimed at all

employees, in which various pieces of advice related to road safety are given.

→ Latin America

- In Latin America various countries stood out in the process of continuous improvement in their preventative actions, as is the case of Chile, which has launched an occupational health and safety website, including diverse material related to health and safety, joint committees, accident rates, etc.

- In Argentina, further advances were made in the consolidation of the preventative culture, carrying out actions like verification of the working conditions in more than 200 buildings, evacuation exercises in over 170 buildings, adaptation of working areas to psychophysical capacity, distribution of elements of personal protection and working clothes to more than 5000 employees, etc.

Accident rates

Using the procedure of "accident rate analysis of Telefónica Group" developed for all regions, we have a unified tool which analyzes the accident rates in the different companies and can carry out a comparative analysis and therefore set out processes of continuous improvement.

To facilitate transparency and compare with other companies in our sector, ratios include only Telefónica's core businesses: fixed and mobile telecoms in the countries in which we operate, including all the activities in Spain, as the Company's corporate center. In the calculation of the ratios, employees in activities unrelated to the Company's principal activity

(mainly those in Atento and Terra in Latin America) were not included. Similarly, ATAM social contracting companies were not taken into account, since they would have distorted the comparison of Telefónica with other operators when dealing with activities whose main aim is the incorporation of disabled people.

With respect to the relevant indicators for this subject, one can see a reduction in the proportion of serious accidents, of the mean duration and the accident rate in Europe as a consequence of the applied health and safety policies. Their reduction also significantly affects the GRI ratios for Europe.



- In Colombia, an external audit of the health and safety management system was carried out, in which it received a score of 95%, in accordance with local legislation and the requirements defined by the Colombian Safety Commission.
- In Guatemala, activities carried out included: first-aid training, a study of pre-hypertension, nutritional counseling, monthly preventative medicine talks, etc.
- In Mexico, apart from the benefits of the coverage of major and minor medical costs by insurance, of vaccination campaigns and of prevention-focused health messages, we have put at the disposal of our workers a complete medical service within the installations at Torre Telefónica. In fact, the number of consultations made went up by 182% in two years.
- In Nicaragua, the work hygiene and safety licence issued by inspectors from the Ministry of Labour, was renewed for 2012-2014 for Managua.

Similarly, various training activities related to occupational health and safety were carried out, such as the course directed at those staff who form part of the emergency teams, responsible for general coordination of evacuation drills, and the training course for identification of dangers and risk evaluation in the workplace.

Worker representation on committees

The health and safety model established in the different regions of Telefónica boasts a high level of representation and participation by workers on the corresponding Health and Safety Committees in all Telefónica's regions.

These Committees permit the implementation and consolidation of objectives set in the area of health and safety, by means of continuous analysis and follow-up of the programmed preventative activity.

Latin America

| | 2012 | 2011 |
|---------------------------|--------|--------|
| Accident rate | 11.50 | 10.79 |
| Rate of serious accidents | 468.94 | 323.27 |
| Mean duration | 40.78 | 29.96 |

Europe

| | 2012 | 2011 |
|---------------------------|--------|--------|
| Accident rate | 5.01 | 6.04 |
| Rate of serious accidents | 130.72 | 196.39 |
| Mean duration | 26.08 | 32.50 |

GRI Global Indicators, 2012

| | Total 2012 | Total 2011 |
|-----|------------|------------|
| IR | 0.82 | 0.83 |
| ODR | 0.34 | 0.36 |
| LDR | 29.68 | 25.62 |
| AR | 5,569.21 | 4,436.23 |

IR (Injury rate)
ODR (Occupational disease rate)
LDR (Lost day rate)
AR (Absentee rate)

E-Inclusion

We at Telefónica believe that information and communications technologies (ICT) are a motor of economic, cultural and social development for people and their communities.

One of Telefónica's main aims is to facilitate access to ICT for all parts of society, eliminating the geographical, economic, social and educational barriers, and those due to a disability, thus promoting the development of societies. For this, social innovation is a key element in driving e-Inclusion.

At Telefónica, we use three instruments for developing social innovation projects:

- **Social action** aimed at contributing to the cultural, educational and social development of communities.
- **Enterprise** to create employment and foment the development of solutions to social demands.
- **Inclusive businesses** to promote sustainable businesses which, while generating an economic benefit, also create a social benefit.

In 2012, the social innovation activity of Telefónica was centered on three huge challenges in the public agenda: young people and unemployment, people with disabilities, and the elderly and active old age.

Access to education

Improving access to education is one of the important factors in fomenting e-Inclusion, and ICT play a very significant role in reaching those at risk of exclusion or who live in remote places.

With this in mind, in 2012 the open and free online education platform that Telefónica put into operation

together with UNED (the Spanish distance learning university) and Santander Universitas really stands out. This platform, called 'UNED abierta', is a distance training space with which one can generate open courses freely (and for free) and which permits unrestricted access to teaching materials so that educators can create their own content using free and open tools.

Access to remote areas

In 2012, Telefónica Peru announced the second edition of "ConectaRSE para crecer" ("Connect in order to grow"), a competition to identify the best initiatives developed in rural areas of the country which have had social and economic impact on their communities, using ICT as their basis. A total of 102 initiatives participated in this edition. "ConectaRSE para crecer" aims to become a platform to generate and promote the exchange of information about, and experience of the use of, ICT in rural areas.

In addition, during 2012, the program "Intégrame de Telefónica Perú" (make me part of Telefónica Peru), managed to provide telephone, Internet access and satellite digital TV in rural areas with high levels of poverty in 11 regions, 19 provinces, with 103,617 people benefiting.

The "Foro de Generaciones Interactivas" ("Forum for interactive generations") and the "Asociación Familia y Mujeres en el Medio Rural" ("Rural family and women's association") signed a collaboration agreement with the aim of promoting the



The World Bank
estimates that an increase
of **10%**
in broadband penetration



generates an increase of 1.38%
in the GDP of countries with low or medium levels of income



Apps4Change, a competition run by the M-Inclusion project, recognizes mobile apps encouraging social inclusion

information society in the countryside and offering educational guidelines, for positive and risk-free use of the Internet, to rural families.

Economic and social inclusion

In 2012, Telefónica launched Wanda, the company created jointly with MasterCard to develop mobile payments in Latin America. Wanda will offer mobile payment solutions to over 87 million Movistar customers in the 12 countries of the region where Telefónica operates. Wanda is mainly aimed at people with

few resources who, while they have a mobile, do not have access to a bank checking account. Its deployment and use will favor the economic and social inclusion of these groups.

M-Inclusion is a project jointly financed by the European Commission and developed by a consortium led by Telefónica (and also made up of Econet, Futura Networks Colombia, Innovation Engineering, Nokia Technology Institute of Brazil, the Peruvian Cayetano Heredia University and the Universidad Politécnica de Valencia in Spain), which will embark on the first platform for mobile

Universal Service Fund (USF)

| | Local currency | Euros |
|-------------------------------|-----------------|-------------|
| Argentina ⁽¹⁾ | 110,830,072 | 18,982,642 |
| Brazil | 257,001,492 | 102,702,679 |
| Peru | 56,448,847 | 16,666,127 |
| Colombia | 146,124,892,291 | 63,297,650 |
| Venezuela | 151,227,423 | 27,378,061 |
| Ecuador | 5,148,894 | 4,008,244 |
| Czech Republic ⁽²⁾ | 149,000,000 | 5,926,326 |
| Spain ⁽³⁾ | 37,600,000 | 37,600,000 |

⁽¹⁾ Includes the payment effected to the fund and contributions by means of the "play" programs.
⁽²⁾ Estimate made by experts. Verification and acceptance of this sum by the country's regulator is pending.
⁽³⁾ Net cost in 2011, pending approval by the CMT (Spain's regulator).

solutions to problems of social inclusion in Europe and Latin America (www.m-inclusion.eu).

The project started in 2011 and is envisaged to last for two years, during which it will create a framework for cooperation among developers of mobile solutions in Europe and Latin America, and among different entities and organizations. It will define the road map for the needs of mobile inclusion, promoting user-oriented innovation and the development of affordable mobile solutions.

At the moment, from a web platform created as point of encounter for organizations of end-users and developers, registered users can discuss and participate in the project and access the different services offered, such as a marketplace for mobile applications or open innovation services, or look for financing and partners to develop services.

In 2012, we organized the first edition of the competition "Apps4Change", set up to recognize the best mobile solution that encourages social inclusion. There were 120 applicants from 15 countries, and the competition was won by 26-year-old Byron Llerena of Ecuador for his "Blanco y Negro" ("Black and white") project, consisting of novel software for Android for those with a visual disability.

Moreover, in November 2012, the 1st Open International Forum was held, which took place under the auspices of the MovilForum event organized by Telefónica in Barcelona. It was attended by over 100 people. International

experts, developers, entrepreneurs and final beneficiaries explored the possibilities which mobile technologies offer in daily life, especially for those groups with special needs or at risk of exclusion. Specifically, in this first international forum, services like mHealth, mLearning, accessibility and applications related to the economy were discussed in depth.

M-Inclusion has been awarded the 2013 prize for best project, for its social and environmental commitment, by AUTELSI (the Spanish telecoms and IT services users' association).

Universal service

Universal service is a guarantee of service to the whole population, with basic quality at affordable prices. These services, and the conditions under which they are provided, as well as the operators which take on this responsibility, are specified by the regulator in each of the countries which decide to establish them.

The objective of Universal Service Fund (USF) is to establish appropriate funding mechanisms capable of underwriting projects related to the extension of telecommunications services to the whole of the population under the specified conditions of quality and affordability.

Telefónica offers this service in Argentina, Brazil, Colombia, Spain, Peru, the Czech Republic, Venezuela and Ecuador.

Disability

Investment via sponsorship and other channels in social innovation and disability-related issues amounted to over 9 million euros in 2012.

The Company, following the directives of the Convention on the Rights of Persons with Disabilities, and working closely with national and international associations for the disabled, is developing the Telefónica Accessible program in Europe and Latin America.

Telefónica Accessible is a transversal project which not only links the distinct business areas where Telefónica operates, but also links the various business areas making up the Company's value chain. This cross-cutting project can be divided along four main axes: leadership, customer orientation, internal culture and external communication

Leadership

For the last few years, Telefónica has been working alongside the principal national and international associations for the disabled to promote the incorporation of disabled people into society via Information and Communications Technologies (ICT).

In 2012, Telefónica, together with L'Oreal, the Italian Ministry of Labor and the ONCE Foundation, launched the European Disability Network (CSR+D), whose objective is to promote awareness and integration of disability within the political and business agendas of Corporate Social Responsibility (CSR), with the ultimate aim of favoring inclusion of disabled people socially and in the workforce, in Europe.

In 2012, and following the launch of the second edition of the Telefónica Ability Awards, the Company continues to work together with the other bodies that comprise Club Ability to generate an ecosystem which encourages the incorporation of disabled people into society and the entities that make it up. With the track record which the prizes and Club Ability have generated for Telefónica, at the end of 2012 a collaboration agreement to internationalize the awards and Club Ability from 2013 was signed.

Customer orientation

In order to learn more about our disabled customers, Telefónica carries out market research to get to know their needs. The results of these studies and collaboration with the network of

associations for the disabled are the basis for the introduction of accessible products and services by the Company.

In 2012, the following simple terminals were launched: in Spain, the Alcatel 282 easy terminal; in Telefónica O₂ United Kingdom, the Doro 612; and, in Telefónica O₂ Czech Republic, the Swissvoice SV39, MP50 and Winner WG11, WG8.

Furthermore, Telefónica continues to push forward the development of support services to guarantee accompaniment to disabled people and their dependents. One example is "Teleasistencia de Nueva Generación", consisting of an assistance service both within and outside the home, immediate and at any time, which can satisfy and mobilize the resources required should situations of need or emergency arise 24 hours a day, 365 days a year. It is also a social assistance service which can send reminders about taking medicine or a doctor's appointment, etc.

Another example is the launch by Telefónica in 2012 of the "Aquí estoy de Movistar" service aimed at dependents of the disabled, whose objective is that they look after those most important to them.

In Spain, Telefónica continues to collaborate with Cestel and the CNSE (the confederation of associations for the deaf) on the sign language video interpretation service using the platform Svisual (<http://www.svisual.org/>). Also, in Argentina, Telefónica is developing an intermediation service for persons of impaired hearing or speech. Customers can access this service by calling 126, 125 or by means of a special chat facility. In 2012, there were more than 5,000 calls. In addition, in Brazil, Telefónica is aiming to launch ProDeaf, an application permitting communication between a hearing person and one with hearing difficulties by means of Brazilian sign language.

This type of service can also be found in the Czech Republic through the webpage <http://www.myslimena.cz/en/>, whose functionality is aimed at customer service for the hearing-impaired. Furthermore, on the same website, disabled customers can apply for different discounts, order one of the accessible terminals available, or request billing in Braille. Thanks to this work carried out in

| Activities related to disability | | |
|---|---|---|
| | 2011 | 2012 |
| Compliance with the LISMI (Spanish law on social inclusion of the disabled) | 3.20% | 3.04% |
| Volume of purchases from social suppliers | 3,437,084 | 4,225,258 |
| Accessibility level of the web page (W3C) ⁽³⁾ | AA | AA |
| Dialogue established with organizations representing PWD ⁽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 | LSE Avatar, Billing in Braille, Special rates, ATAM (LAVECO, MONDECO, SERVITELCO, DO ₂ SOSTENIBLE) | Billing in Braille or in large type, LSE platform, accessible terminals, ATAM (LAVECO, MONDECO, SERVITELCO, DO ₂ SOSTENIBLE) |
| Investment in social innovation and disability ⁽²⁾ | 9,877,734 | 9,328,294 |
| Volunteers from Telefónica who participated in initiatives of which PWD were beneficiaries ⁽¹⁾ | 920 | 1,816 |
| No. of PWD who benefited from volunteer actions ⁽¹⁾ | 11,300 | 12,436 |

(1) PWD: persons with disabilities.
(2) Data verified according to LBG criteria.
(3) The website [movistar.es](http://www.movistar.es)

the Czech Republic, Telefónica was placed first in "TOP Responsible Company 2012", the country's most important awards for Corporate Responsibility, in the category of "Best product and responsible marketing", for its strategy of making available products and services accesible to the disabled.

Internal culture

In Spain in 2012, Telefónica complied with the LISMI (the law on social integration of the disabled) to the tune of 3.04%, and the total value of its purchases from special employment centers reached 4.2 million euros.

In Argentina, awareness-raising initiatives for staff, such as the publication of a manual on "Disability and new technologies", available on the local intranet so that any employee has access to it, and talks by specialists on "Diversity and Disability" were given. We also sponsored an event exhibiting practical experiences of disability and research "Discapacidad e Investigación: Aportes desde la Práctica" and the publication by the Pontifica Universidad Católica Argentina of a book of the same name.

In **Venezuela**, 531 of our collaborators received a total of 675 hours of training in this field. There were six workshops on integration of disability, 12 workshops on service to disabled customers, and seven events of practical experience with disabled customers. In addition, there were coaching sessions and 12 "stand ups" on the experiences of a successful woman who has been able to use her special abilities. Also, a certification program for disabled collaborators was designed, to be introduced in 2013. The essential objective is to guide disabled staff through the process of medical certification as far

as their inclusion in the register of CONAPDIS (the national council for disabled people).

Likewise, in the **United Kingdom**, more than 80 employees received training on service to disabled people, and over 200 employees throughout the sales network in the Czech Republic received the same.

External communication

In 2012, the second Spanish edition of the Telefónica Ability Awards was held. These prizes are a recognition of those entities that have incorporated disability into their value chains, so fomenting the social inclusion of the disabled. The media impact of this event is estimated to have reached 32.5 million people.

In the same vein, in 2012, Telefónica in **Spain** began to make all its commercial events and its AGM accessible so that all its disabled customers, staff and suppliers can attend without difficulty.

In **Nicaragua**, the first "Miniparaolimpiadas Los Pipitos-Telefónica 2012" (Los Pipitos mini-paralympics) was held, and together with the local Down's syndrome foundation, the first national congress on education and intellectual disability also took place. Its objective was to raise awareness and give training to teachers and parents of boys, girls and adolescents with intellectual disability.

In 2012, the "Vivo Hackathon Campus Party Recife" was held, in which 200 students competed in the development of accessible applications. The prize for the best accessible application was won by the project "Luz Camera, LIBRAS", the objective of which is training in Brazilian sign language.

Telefónica is introducing support services for disabled and dependent people

Growing through inclusion

The objective of the Telefónica Ability Awards is to recognize those companies and institutions which develop sustainable business models and include disabled people in the value creation chain, whether as employees, suppliers and/or customers. In short, the winners have been able to incorporate disability throughout their production cycle, increasing its value sustainably.

The awards are divided into six main categories:

- Commitment of Senior Management and Leadership of Employees
- Recruitment and Selection
- Accessibility
- Customer Orientation
- Professional Development and Training
- Prevention and Retention

and in three overall categories:

- Best large private company
- Best small or medium-sized private company
- Best public-sector organization.

400 entrants

In 2011, the second edition of the awards was launched, and more than 410 candidatures representing over 230 entities were submitted. One important aspect of this second edition was the high quality of the applications received, and in fact 80% of the organizations which were presented complied with all the requirements laid down in the rules of the competition. In 2012, the preliminary and final meetings of the jury that chose the new winners took place.

The winners' names were revealed at the Awards Ceremony which, for the second consecutive year, was attended by H.M. Queen Sofia in the capacity of Honorary President.

The awards have the support of a number of patrons including those institutions, associations and public administrations involved in the inclusion of disabled people at a national level. Over 25 bodies have been present from the start, and in 2012, they

were joined by the UNED (the national distance learning university) and the Embassy of Ireland.

After the awarding of the prizes in this second edition, the 50 finalists have become part of Club Ability, which in 2012 had more than 100 members from 108 entities involved in the integration of disability into the value chain of organizations.

Best practices

The network formed by Club Ability has been proving from the start that these days Spanish entities are involved in pioneering initiatives which deserve to be shared and to be better known. The Club has therefore become a collaborative space to exchange best practices, helping these organizations to face new challenges and continue improving. Likewise, Club Ability is a source of knowledge and advice which helps other companies and organizations to integrate disability into their business processes.

During 2011 and 2012, three themed workshops were held, as well as an annual meeting which closed the year's activities with the publication of a book of conclusions. The main themes of the workshops were: leadership of organizations, universal accessibility and the creation of employment. In each, there was a debate about what the current barriers to the integration of disability with respect to the theme of the workshop are, and the possible measures that could be adopted. Also, and prior to the workshops, two "dAbility" breakfasts were held, with experts in the field and specialized bloggers, who analyzed the current accessibility barriers in Social Networks, and those to integration of the disabled into the workforce.

The Telefónica Ability Awards had a big media impact, with an estimated 32.5 million people watching or being aware of them in this second edition.



Winners of the Telefónica Ability Awards 2012. Second row, left to right: Jose Boada (Pelayo), Vicente Moreno (Accenture), Javier Monzón (Indra), Pablo Carrasco (RTVA), Esteban Morcillo (Universidad de Valencia), Francisco de la Torre (Málaga City Council), Jesus Garre (Capgemini), Pedro Alonso (Alcampo) and Miguel Ángel Merino (Línea Directa). First row, left to right: Caroline Casey (Kanchi), Ana Mato (Minister for Health), Ignacio González (President, Madrid regional government), H.M. Queen Sofia, Cesar Alierta (Telefónica), Víctor Calvo-Sotelo (Secretary of State for Telecommunications and the Information Society), Luis Abril (Telefónica) and Luis Cayo Pérez (CERMI).

410

candidatures

presented at the Telefónica Ability Awards 2012

6

principal and three overall categories

27

sponsor organizations

Over 100

Club Ability members

Winners of the second edition

| Overall categories | Principal categories | |
|---|--|--|
| <ul style="list-style-type: none">• Best large private company Grupo Línea Directa for the strong conviction and firm commitment of its Senior Management to the integration of persons with disability in all its dimensions: employees, customers and/or suppliers.• Best small or medium-sized private company Pelayo for encouraging the inclusion of this group right across its business model and for favouring the presence of disabled people in posts of greater responsibility.• Best public-sector organization Universidad de Valencia for its efforts over more than 20 years in favor of the education of disabled people, guaranteeing the necessary means for their development. | <ul style="list-style-type: none">• Commitment of Senior Management Indra for the commitment by Senior Management to diversity as a key element in innovation and talent management, permitting disabled people to have access to technology.• Recruitment and selection Alcampo for a commitment to integration of disabled people in the workplace, as an essential source of value creation in its business model, that sets the company apart.• Professional development and training Capgemini for its efforts in favor of the development of talent, taking into account the different capacities of the disabled. | <ul style="list-style-type: none">• Prevention and retention Accenture for its dedication to becoming a point of reference as an employer, fomenting the welfare and flexibility of its professionals, with the aim of retaining talent and preventing conditions from worsening.• Customer orientation Radio y Televisión de Andalucía for the development of accessible content, so that all citizens have access to information.• Accessibility Málaga City Council for making a city and some services more accessible to its inhabitants and tourists, as a source of development and social wellbeing. |

ATAM, commitment and responsibility

ATAM is an association formed by the Telefónica Group with its trade unions back in 1973, to bring about, in the broadest sense, the social integration of people with disabilities.

ATAM is a social project involving 35 companies in the Telefónica Group and nearly 55,000 members linked to them. The project is based on the solidarity of the ATAM members with those who suffer the consequences of disability and dependence. Telefónica and its partners contributed over 14 million euros to the project in 2012, which represented 81% of the total income of the association. In 2012 more than 10,000 people all over Spain benefited from the work carried out by ATAM.

The association centers its efforts on responding globally to the social needs of people with disabilities and their families. It carries out its activity based on the international paradigms, standards and precepts which look after and guarantee the rights of those with disabilities, so that they can participate in their community on an equal footing and have a full and dignified life.

ATAM thus works through two basic lines of action: assistance to families and workplace integration.

Assistance to families

ATAM provides personalized solutions by means of a network of 19 customer care centers for families. The centers include 33 personal advisers, and social and clinical professionals, who are familiar with local resources, both public and private, and work to accompany and guide users in their search for

resources and solutions. The ATAM Clinical Team, made up of health professionals and psychologists, also participates in this task. This team performed 2,212 consultations in 2012.

The association also runs a scheme of individual grants, which reduces the economic cost that having a disability represents. During 2012, ATAM conceded 3,209 grants to 2,037 disabled people, the total value of which was 6,061,800 euros.

As far as prevention is concerned, the services of *TResuelve* and *Aprende* should be mentioned. *TResuelve* offers telephone help for resolving the social and psychological doubts of family members, *Aprende* offers online training which improves quality of life and promotes personal autonomy. In 2012 1,558 families were attended by *TResuelve* and 1,007 students completed the 4 courses offered by the *Aprende* platform.

Workplace integration and employment

ATAM works so that those with disability have access to employment, understanding that this is a key aspect of their integration in the community.

→ **The work integration service** contacts jobseekers and companies to fill vacancies, as well as to carry out other tasks related to counseling, training, adaptation of posts, and elimination of architectural barriers.



Processing of offers and applications is carried out using the Mercadis job bank. During 2012, we registered 2,879 jobseekers and processed 142 job offers.

→ **ATAM's enterprise project** has become a fundamental axis of the association's work, largely because of the crisis that many companies are suffering in these times. The ATAM scheme consists of businesses with the legal status of special employment centers whose profits are reinvested with the objective of increasing the number of posts offered to persons with disability. In 2012, 397 disabled people have worked in these companies. In 2012, the Justice and Disability Forum of the CGPJ (regulator of Spain's judiciary) awarded ATAM the "Prize for Business Action" for its contribution to workplace integration of people with disability.

Other activities

ATAM carries out other activities which are not included in the programs described above, but which also have as their objective the creation of an inclusive, diverse, supporting and sustainable society. The association collaborates with various public and private entities in projects of social innovation, training, volunteering and raising awareness.

ATAM participated in 2012 in "Foros de Innovación Social" ("Social innovation fora") in Santander and

Palencia with the aim of promoting innovative initiatives to generate better services with more commitment to those with disability. Concerning the training of volunteers in disability issues, ATAM also tutors courses in collaboration with Fundación Telefónica. In 2012, 147 students registered for the four courses that have been developed. ATAM also participated in the Telefónica Ability Awards by means of the 'dAbility' workshops and in addition was a member of the final jury that chose the organizations in 2012 which best incorporated disability into their value chain as part of a sustainable business model.

2012 was the European Year for Active Ageing and Solidarity between Generations whose main objective was to promote vitality and dignity for all older people. Taking advantage of this circumstance, ATAM was engaged in two main activities in 2012. The course "Healthy maturity: preparing for retirement" was offered, and a playful sports event was held in collaboration with the Fundación Pilates, to encourage seniors to exercise.

In addition, the Association organized two collaborative sports days in Valencia and Madrid, where exhibitions of various adapted sports such as wheelchair hockey, boccia and goalball were given. Afterwards, those who came had a chance to experience for themselves the feeling of playing an adapted sport, with the help of Paralympic medalists.

Telefónica contributed 14 million euros to ATAM in 2012, 81% of the total income of the association

35
Telefónica Group
companies
involved

10,000
people benefited
in Spain in 2012

€14m
contributed in
2012

55,000
members of the
project

142
managed
job offers

2,037
disabled people
served

3,209
grants
awarded

4
courses offered
by *Aprende*

Social projects

During 2012, Telefónica allocated 158 million euros to social action projects, which involved more than 24,500 employees of the Company as volunteers.

Social action at Telefónica

During 2012, Telefónica allocated 158 million euros to projects of social action, of which 98% was through financial contributions. This sum represents an increase of 10.3% over the previous year and was 0.25% of the Company's net income. Our social action and innovation activities are focused on youth and childhood; active ageing and disability; economic development in rural communities; and education in, and appropriate use of, ICT, whether by direct action, such as through our Fundación or ATAM, or by means of sponsorship and agreements with the third sector.

The criteria for rating the social action projects presented here follow the standardized methodology of the London Benchmarking Group and are validated externally by LBG so as to offer a global vision of the extent and value of our investment in the community, measure the impact our actions have had, help in the management of our relations with the community and the third sector, and facilitate verification.

Employees and volunteers

Telefónica employees can contribute to the Company's social objectives thanks to the Telefónica Volunteer Program, under the auspices of Fundación Telefónica with the collaboration of the divisions of Corporate Responsibility, Human Resources and Communication, at both corporate and local levels. The volunteers form an international network that carries out solidarity actions with a social impact. During 2012, more than 24,500 volunteers from 24 countries participated in some activity or campaign in the world, and together they dedicated 188,951 hours to taking part in the work of 1,458 support initiatives on three continents.

One of the novelties of 2012 was the creation of a new and innovative management and communication tool: our new International Portal <http://voluntarios.telefonica.com/country>

One of the most successful cooperation projects in the volunteer program is "Vacaciones Solidarias" ("Volunteer holidays"), held for the eighth time in 2012 with the participation of 99 volunteers

from 20 countries who worked on 10 projects in seven Latin American countries. For two weeks during our employees' annual holidays, they collaborated in Latin American countries with social organizations associated with Fundación Telefónica's Proniño program (for vulnerable children). Volunteers are selected through a process which takes into account criteria such as experience and dedication as a volunteer (whether inside the corporate volunteer program or not), experience in projects with communities at risk of exclusion, specific aptitudes for or knowledge of social, educational or environmental issues, etc. The Company's objective in this project is to involve staff through personal experience in the Company's social action and to make use of their skills and abilities in social projects which make a difference in Latin America.

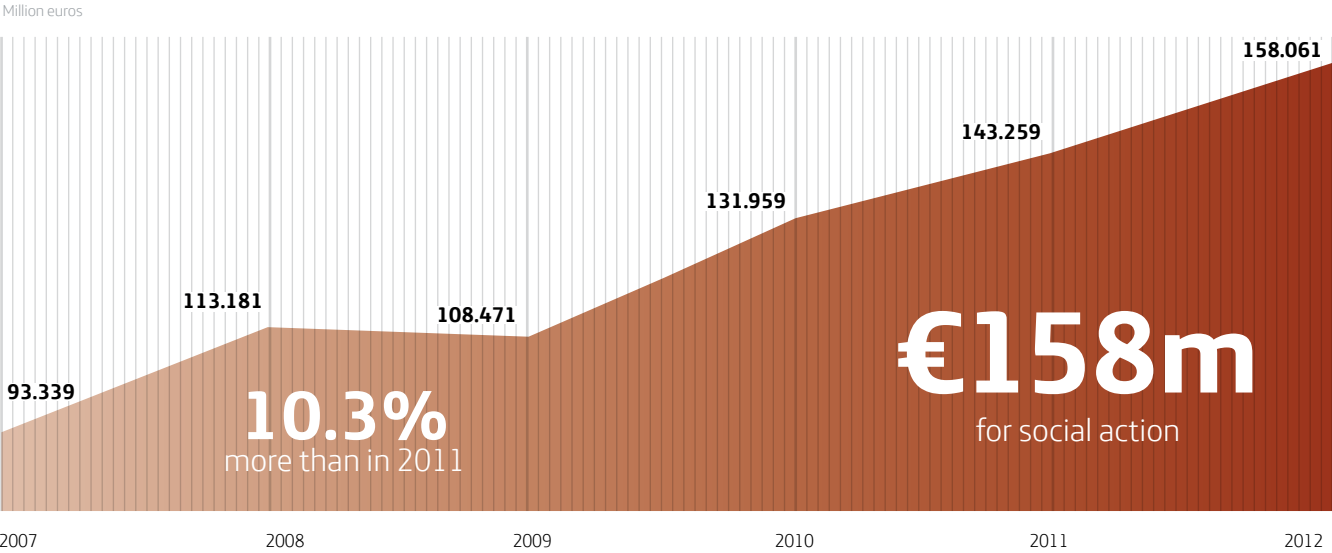
A reason to celebrate

Every year at Telefónica we hold our International Volunteering Day, a day on which Grupo Telefónica makes its volunteering and social action program known, involving all employees who wish to participate in occasional voluntary activities. In 2012, the event was held on October 5, and more than 11,300 employees took part in 233 cities in 24 countries on three continents, and carried out around 600 activities that day to help their communities.

Fundación Telefónica collaborates actively with the main international networks in this field, such as, GCVC (the Global Corporate Volunteer Council) and *Voluntare*, as well as many other bodies that work in this area. We also publish a study together with IAVE (the International Association for Volunteer Efforts) highlighting the contributions of corporate volunteering to the business, such as the value and reputation of the brand, the personal development of the current and future staff, operational efficiency, reduction in workplace risk, direct financial impact, organizational growth and business opportunity. This document can be downloaded for free in English or Spanish from the web of Fundación Telefónica: http://www.fundacion.telefonica.com/es/que_hacemos/conocimiento/publicaciones/detalle/155



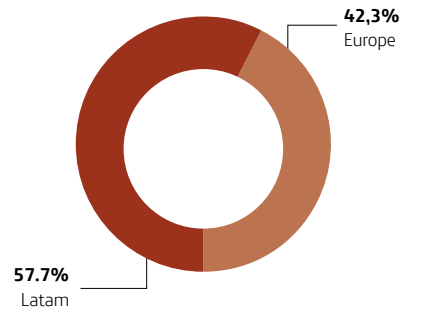
Constant social investment and on the increase



| Classification | Total | % of total | % change over 2011 |
|---------------------------|----------------|------------|--------------------|
| Socioeconomic development | 12,191,223 | 7.7% | 33.8% |
| Culture and the arts | 22,896,895 | 14.5% | -16.2% |
| Education and youth | 101,961,973 | 64.5% | 15.0% |
| Social well-being | 11,294,349 | 7.1% | -8.9% |
| Health | 638,607 | 0.4% | -6.0% |
| Environment | 510,422 | 0.3% | 43.0% |
| Other | 8,567,242 | 54% | 80.5% |
| Total | 158.060.710(*) | 100,00% | 10,3% |

(*) Fundación Telefónica's social investment is awaiting audit.

Social investment by region



Fundación Telefónica

Foster learning and increase knowledge by connecting people and institutions to contribute to the development of individuals and groups. These are the Foundation's objectives.

4 projects to improve the lives of people



A continuous commitment to childhood

The 'Proniño' program has been centered for more than 10 years on offering new opportunities through education to children in especially vulnerable situations in 14 countries of Latin America, in collaboration with 120 social organizations and local governments. The program's intervention strategy is centered on promoting and mobilizing learning of the skills of the 21st century: by this we mean the key abilities that everyone needs for their development and fulfilment, focusing on those aspects less dealt with in contexts of formal education, and which have acquired special importance as we adapt to the Digital Society, for example: communication, the basics of science and technology, computer skills, critical thinking, creativity, decision-making, social and civic skills, personal initiative and the spirit of endeavor, etc.

By December 31, 2012 we had attended to over 337,878 children and adolescents belonging to especially vulnerable groups.

Red Lacti (the Latin American Network against Child Labor) is the meeting space that we have promoted at Fundación Telefónica, together with the International Labour Organization. It is developing a range of efforts aimed at boosting learning, and spaces for debate and reflection which contribute to the eradication of child labor, and whose objective is to exchange experiences, agree on common proposals to support the discussions of the Third World Conference on Child Labour - which will take place in Brazil in 2013 - present, publicize and propose actions within the framework of the Road Map to eliminate the worst forms of child labor by 2016, the World Action Plan and the Hemisphere Agenda for Decent Work 2006-2015, and increase knowledge through capacitation and training of people and social organizations using virtual courses. On 31 December 2012 the network had over 12,000 members: <http://www.redcontraeltrabajoinfantil.com/>

337,878
children and teenagers reached through the 'Proniño' program



'Think Big' a commitment to youth

'Think Big Youth' is Fundación Telefónica's project for young people, a program of innovation and social enterprise aimed at young people between 13 and 25 in the United Kingdom, Ireland, Germany, the Czech Republic, Slovakia and Spain. It has a double objective: first, to offer young people the opportunity to implement an idea beneficial to their surroundings, with the help of Fundación Telefónica; and secondly, to make the ideas and stories of these people known to encourage others to take the reins of their future. The program was launched in Spain, in collaboration with Movistar, in October 2012, and 800 proposals were received from young people all over Spain, of which 117 were selected. Participants receive face-to-face and online training, the support of a mentor, and a small sum of money. The program is possible thanks to the participation of the local operators, both in activating it and in communicating it, and even in its management. 'Think Big Youth' is firmly supported by volunteers from Telefónica, who dedicate some of their time to advising and mentoring these young entrepreneurs.

3,726
projects financed in six countries



Education the center of activity

During 2012 and 2013, the International Educational Encounter is playing host to more than 30,000 teaching professionals. Now in its seventh edition, this face-to-face and online event reflects on the teacher's role in modern education. This project and many others under the umbrella of education, such as the Fundación Telefónica Prize for Educational Innovation and the 'Learn with Technology' report, reflect Fundación Telefónica's commitment to learning in the digital society. Fundación Telefónica carried out an intensive publishing effort in 2012, and the fruits of this have included books on Digital Literacy and Information Skills, Spanish in International Relations, ICT and the Future Financial Sector of the Future, and Learning with Technology, among many other books and papers. Another is the Information Society Report 2012, presented at an event presided over by the Secretary of State for Telecommunications and the Information Society, Víctor Calvo-Sotelo, the Executive Chairman of Telefónica, César Alierta, and the Executive Vice-Chairman of Fundación Telefónica, Javier Nadal.

30,000
professionals involved in training projects



Four innovative spaces dedicated to art and culture

This space, inaugurated on May 9, 2012, has hosted exhibitions such as 'The Cubist Collection of Telefónica, Art and Artificial Life: 1999-2012', and the 'History of Telecommunications, and Photographers: the Will to Tell'. The auditorium of the Espacio has been the scene of debates, presentations, concerts and gatherings such as 'Game of Thrones Day', 'Thinking Party', the 'Big Data' events or 'Transmedia Living Lab' and the cycles of 'Friends of Talent', 'Technology and the Seventh Art', or 'Business 2020'. Workshops for the little ones, concerts for all ages (*El gato del gitano*, Latin jazz) or masterclasses

such as that given by the virtuoso Chinese pianist Lang Lang, rounded off the educational offer for the first year, which augurs well for a strong 2013. This new place for encounters and dialogue in Madrid has very quickly become a cultural point of reference in Spain's capital.

1st year
of an intensive educational offer

Response to emergency situations

The technologies behind Telefónica's products and services allow it to prepare for the worst of emergencies and contribute to improving the efficiency of safety and rescue teams.

Environmental emergencies

At Telefónica we are very aware of the social responsibility that good management of our networks can offer for the prevention, reduction and mitigation of risk in emergency situations. We thus develop and continually improve Business Continuity Plans, to ensure as much as possible that communication services continue as normal in emergency situations, in all the countries in which the Company operates. All these plans adhere to international standards and are created taking the characteristics and risks of each region into account. Their implementation usually implies the use of backup communications platforms to support operations and speed up recovery. In the event of failures in the usual systems, the contingency platforms are used. In addition, as we are present in various countries, this allows the local operators to support each other when necessary.

In 2012 the work carried out by Telefónica in important emergency situations that arose in Spain, Argentina, Guatemala and Peru is worth noting.

Europe

A number of large and serious fires took place in Spain in 2012, putting settlements in Gerona, and on the islands of Hierro and La Gomera, mainly, at risk. The commitment of Telefónica to all the localities affected by the fires led the Company to install satellite trucks so that citizens, local councils, professionals and small businesses of the zone could continue with their normal activity while new cabling was installed at no additional cost to citizens. It is notable that in some rural areas, the opportunity of this work was taken to bring 20MB broadband to isolated localities that had not had it before (Cantalops and Darnius in Gerona).

→ In the area of prevention, we have installed on the mountain of Montserrat, near Barcelona, the first points for emergency mobile coverage, so that visitors and hikers can contact the emergency services if needed. Telefónica has seen the mountain of Montserrat as an ideal space to initiate this project given the number of visitors (more than two million per year) and with some stretches of the most popular tracks having no coverage.

→ Also in Catalonia, in 2012 we launched a pioneering project based on Machine-to-Machine (M2M) communications which allows firemen's suits to be fitted with sensors that detect potentially dangerous gases and sends an alarm signal via mobile to the wearer and to a control center. The project @textil is another demonstration of Telefónica's leadership in technological development for emergency management through the "Internet of Things".

Latin America

During 2012 Telefónica Group's excellent emergency management in Latin America was very much in evidence.

→ In Argentina, there was a fierce storm in April 2012 which battered the city of Buenos Aires and its surroundings, causing major damage. The phenomenon was classified as a tornado of intensity F2, with estimated wind speeds between 180 and 250km/h. There were 17 deaths as a result of the storm, which also caused the fall of thousands of trees, and destruction of houses, billboards, cars and pylons of high and medium voltage. We at Telefónica set up 5,000 public and semi-public telephones for making local calls at no charge, as well as reducing bills for our private subscribers affected, and offering our customers a free service of fixed line-mobile call diversion.



→ In Peru, the National Earthquake and Tsunami Drill was carried out, simulating a shock of magnitude 8 on the Richter scale, and we participated in this, gaining very useful experience of how to respond to these possible calamities. The capacity of the control centers which monitor the networks was assessed, and this information allows us to take measures when it is seen that network use is approaching saturation, and there is a risk of congestion on all the trunk lines. Furthermore, the Company has a backup undersea fiber belonging to Telefónica Internacional (TIWS), battery banks and generators.

Social emergencies

In June 2012, Telefónica joined the Spanish campaign "Companies for a society free from domestic violence" by signing a collaboration agreement with the Ministry of Health, Social Policy and Equality. The agreement sets out the basis to develop a plan for raising awareness and communication, with the objective of letting victims of gender-based violence know where to go if they need some kind of assistance.

In this area, Telefónica already has platforms for two support services for victims of gender-based violence:

→ **System of restraining orders.** Through an agreement between Telefónica, the Ministry of the Interior and Securitas Direct, this protection service for victims of gender-based violence has been operative since 2009. Following a judicial restraining order, and when explicitly ordered by the judge, aggressors can be localized by means of bracelets that monitor their positions and verify that they are conforming to the minimum security distance with respect to the victim and areas of influence (victim's home, children's school, etc.) as dictated by

the judge. The location is monitored by a platform by which Securitas Direct is alerted if the distance is insufficient, so they can contact the protected person and advise the police.

In addition, the protected person carries with them a mobile device which warns them if the aggressor is within the security distance.

This system is currently providing this service to 750 women.

→ **Remote mobile assistance with preventive teleprotection device.** This service, the first of its kind in Spain, is a facility that protects people, in this case victims of gender-based violence, who are in danger of being attacked, but unlike the previous case they do not have a court order which obliges the aggressor to wear a vigilance device. This service includes a state-of-the-art GPS feature as well as location by network cell. The device, in addition to the emergency button, can automatically detect impacts (falls or blows), the surpassing of configured speed limits and the breaching of set security distances.

The device is currently being used in Almería, where the Guardia Civil has expressed its satisfaction with the advances in safety for victims of gender-based violence that it is making possible, since the tool will permit officers "to give an even speedier response in matters of women's protection". Especially worthy of note are the features offered, such as the immediacy and efficiency of the GPS localization service, making it possible to know at all times where the terminal is, and therefore, where the person who has it is.

Since June 2012, Telefónica has formed part of the campaign, "Companies for a society free from domestic violence"

The impact of telecom services_

For Telefónica, facilitating knowledge and the generation of debates around information and communications technologies (ICT) is a priority objective for promoting development in the societies in which the Company is present.

External analysis of the impacts of telecommunications

We at Telefónica believe that information and communications technologies (ICT) are a motor of economic, cultural and social development for people and their communities. So, to facilitate knowledge and the generation of debates about ICT is an objective of Telefónica, in order to promote the development of those societies in which we are present. We thus publish research, organize specialized workshops and foment debate on current topics and those of social impact.

Publications

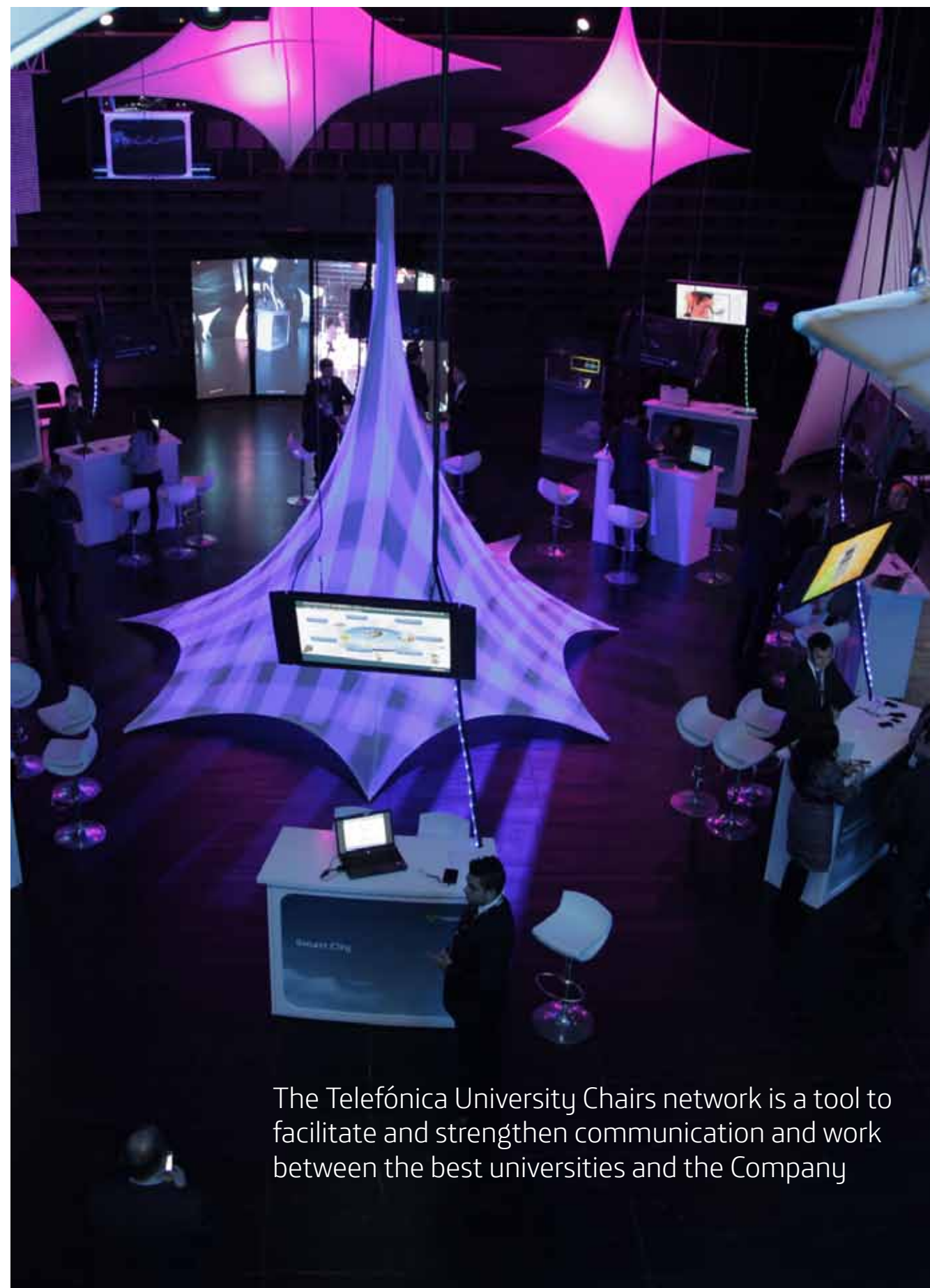
Our publications are the fruit of the labor of research, specialized workshops and debates that we have advanced on current topics and those of social impact. The collection has now reached 105 titles and in 2012 14 new books were published, which included titles such as "TIC, desarrollo y negocios inclusivos (ICT, Development and Inclusive Businesses)", "Universidad 2020: Papel de la TIC en el nuevo entorno socioeconómico (University 2020: Role of ICT in the New Socioeconomic Environment)" or the now traditional "The Information Society in Spain 2011". All the publications are available here: http://www.fundacion.telefonica.com/media/que_hacemos/pdf/Catalogo_2013.pdf

In another vein, Fundación Telefónica publishes the journal TELOS, containing articles on

innovation and communication, which has become an academic point of reference in the study of communications and the impact of ICT on society. During 2012, four new issues were published: number 90 (dossier: from art to journalism and innovation), number 91 (dossier: identity, culture, equality and social networks), number 92 (dossier: gender and use of ICT: in search of balance) and number 93 (dossier: hopes and realistic expectations). All issues can be accessed here: http://www.fundacion.telefonica.com/media/que_hacemos/pdf/Catalogo_2013.pdf

Telefónica University Chairs

In 2012 Telefónica continued to develop and push forward relations with universities through the "Red de Cátedras Telefónica" (Network of Telefónica University Chairs) and consolidated the joint work of these by means of clusters (groupings), especially those of Education, Social Innovation and Energy Efficiency. The Network is an instrument which facilitates and strengthens the communication and joint work among some of Spain's best universities and Telefónica. Further information about studies, publications and debates generated by the Telefónica Chairs can be found here: <http://www.rcysostenibilidad.Telefonica.HOW/blogs/catedrastelefonica/>, as well as in channels of Twitter, Facebook and Youtube under the name "Cátedras Telefónica".



The Telefónica University Chairs network is a tool to facilitate and strengthen communication and work between the best universities and the Company

Smart Cities

TIC y salud personal

Un primer paso hacia la internet de las cosas

Realidad Aumentada

Una nueva lente para ver el mundo

Net Neutrality: Contributions to the debate

El futuro de las publicaciones electrónicas

La Sociedad de la Información en España

Real Time Web

The big tent

Corporate Volunteering in the Global Age

Identidad Digital: El nuevo usuario en el mundo digital

2012

2011

2010

2009

2008

2007

2006

Internal analysis of the impacts of telecommunications

At Telefónica we have been promoting voluntary teleworking among our employees since 2006, which allows us to carry out an internal analysis using our own resources about how ICT favor productivity and workers' work-life balance. The success of this program led to the renovation of the collective agreement that defines labor relations at Telefónica Spain, for 2011-2013.

Meanwhile, Telefónica provides its staff with the same mobile technology that it offers to its customers so they can do their work while away from the office even if they don't have a specific teleworking contract (laptop, Blackberry, iPad, 3G Internet connection, secure client, unified remote access, etc). The Company continues to pay all its employees a

percentage of the installation cost and of the monthly charge for broadband in their homes.

To encourage the use of ICT internally in the Company as a productive factor, Telefónica can point to a host of measures to help its staff, from training courses given by Universitas, the ever more widespread use of e-learning and the digital platform of online training courses. In fact, there were more than 29,000 students and 190,000 accesses in 2012 to the corporate schools, with high fidelity (nearly seven monthly accesses per student on average) and a high level of satisfaction in the different schools.

A novelty in 2012 was the opening of a site on the Intranet for Telefónica's professionals with recommendations for employees of how to behave in public digital media, and where best practices in the use of social networks are shared.

The Telefónica University Chairs Network had 27 members at the end of 2012

| | University | Subject | Cluster |
|----|---|--|---------------------------------|
| 1 | UPM - Polytechnic University of Madrid | New Generation Internet | Security |
| 2 | UPM - Polytechnic University of Madrid | Mobile Applications and Services | Transversal |
| 3 | UC3M - Carlos III University of Madrid | Social Applications to Help Decision-Making | Health |
| 4 | UC3M - Carlos III University of Madrid | Internet of the Future: Security | Security |
| 5 | UC3M - Carlos III University of Madrid | Economics of Telecommunications | Productivity |
| 6 | UPC - Polytechnic University of Catalonia | Analysis of the Evolution and Future Trends in the Information Society | Energy Efficiency |
| 7 | Universidad Pompeu Fabra | Social Media | Education and Social Innovation |
| 8 | Polytechnic University of Valencia | New Technologies for the Environment and Social Inclusion | Social Innovation |
| 9 | University of Deusto | New Technologies for Education | Education |
| 10 | University of Zaragoza | Security and Productivity in the Information Society | Productivity and Security |
| 11 | University of Navarre | Technologies for Processing Information, Storage and Communications in Health Applications | Health |
| 12 | University of La Laguna | Telemedicine | Health |
| 13 | University of Las Palmas de Gran Canaria | Technologies of Accessibility | Social Innovation |
| 14 | University of Oviedo | ICT Applied to the Environment | Energy Efficiency |
| 15 | University of Extremadura | Technologies Applied to Energy Efficiency | Energy Efficiency |
| 16 | University of Seville | Intelligence on the Net | Energy Efficiency and Education |
| 17 | UNED | Corporate Responsibility and Sustainability | Education |
| 18 | University Rey Juan Carlos | Intelligence Services and Democratic Systems | Security |
| 19 | University of Salamanca | Total Security | Security |
| 20 | University of Alcalá de Henares | Improving the Autonomy of People | Social Innovation |
| 21 | University of Valencia | Sustainability and Inclusion | Social Innovation |
| 22 | University of Islas Baleares | Technologies Applied to Tourism and Health | Health |
| 23 | National University of La Plata | Information Technologies Applied to Education | Education |
| 24 | University of Valladolid | Mobile Technologies Applied to Education | Education |
| 25 | University of León | ICT and Ageing of the Population | Social Innovation |
| 26 | University of Alicante | Impact of Human Language Technologies in Social Inclusion | Education |
| 27 | University of Comillas | Family and Disability | Social Innovation |

Recommendations for responsible use of telecommunications by our customers

We at Telefónica provide our customers with information and recommendations about environmental aspects of the use of telecommunications and the services we deliver for them.

We possess a global model called "Green Customer Experience", to offer mobile phone users a "green" experience from the moment of considering a purchase, throughout its use and to the end of its useful life. This model provides for the possibility that users can get access to efficient devices with specific environmental characteristics, with applications which allow

them to be more efficient. The model also includes information diagrams at points of sale - green corners - in the most representative Telefónica shops to provide information about associated offers and incentives for customers who show environment-friendly behavior. This type of solution is identified by the Green Technology icon.

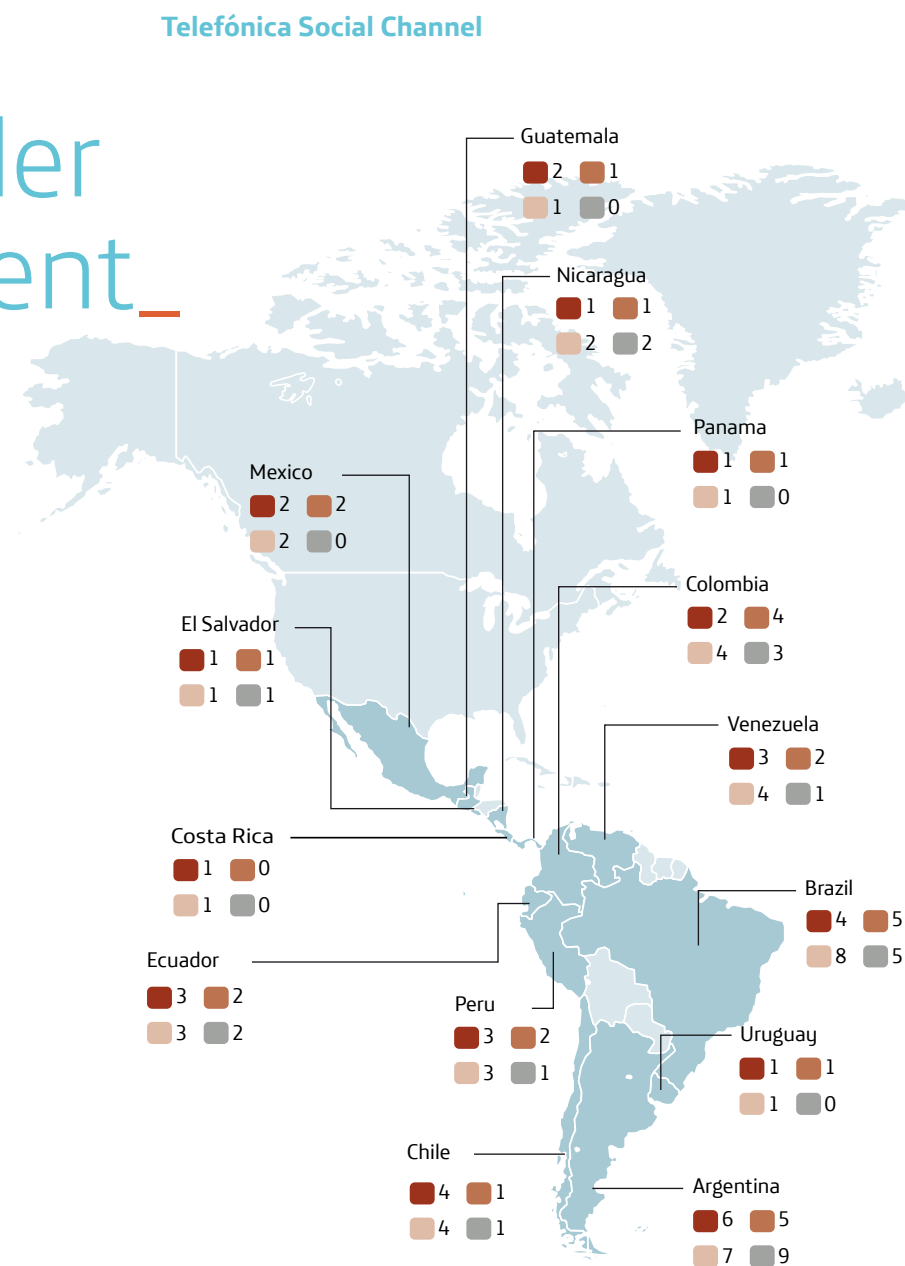
Similarly, within this model we have been working to inform the customer about and provide them with environmentally responsible solutions for when they get rid of their old mobile. Thus, at Telefónica we offer our

customers, in most countries, the possibility of depositing telephones which are no longer used at special points fitted for their recycling or reuse.

For business customers we provide information about the environmental benefits of using Green ICT services which we supply them with, for example fleet management or smart buildings, in terms of reducing energy consumption or emissions using standard methodologies.

Stakeholder engagement

Telefónica's firm commitment to its stakeholder groups translates into an innovative and constant dialogue.



How we talk and what we talk about

Social media has revolutionized the world of communication and become key to it. Combining it with traditional media, we try to innovate and create a new effective and direct dialogue ecosystem.

We see it as our responsibility to share the ICT themes of public debate that most interest and worry us, such as education, health, e-government, social inclusion, climate change or a child's first steps in new technologies. To improve dialogue we collaborate with various specialist stakeholders, such as government bodies, NGOs, consumers, academics and scientists, among others.

→ Face-to-face dialogue

At Telefónica we think that dialogue should serve to strengthen our relations with stakeholders and look for concrete results, positive both for the Company and for the groups involved, and whenever possible, to link them to specific projects. This may mean giving a new twist to the traditional panel or seeking new methodologies, or perhaps even fomenting co-creation in order to develop certain initiatives, products and services with stakeholders.

During 2012 we have boosted the number of face-to-face panels held in the various countries in which we operate, many of them multi-stakeholder panels (employees, customers, the media, government representatives, etc.). We want to know what different stakeholders think and to encourage them to be close to

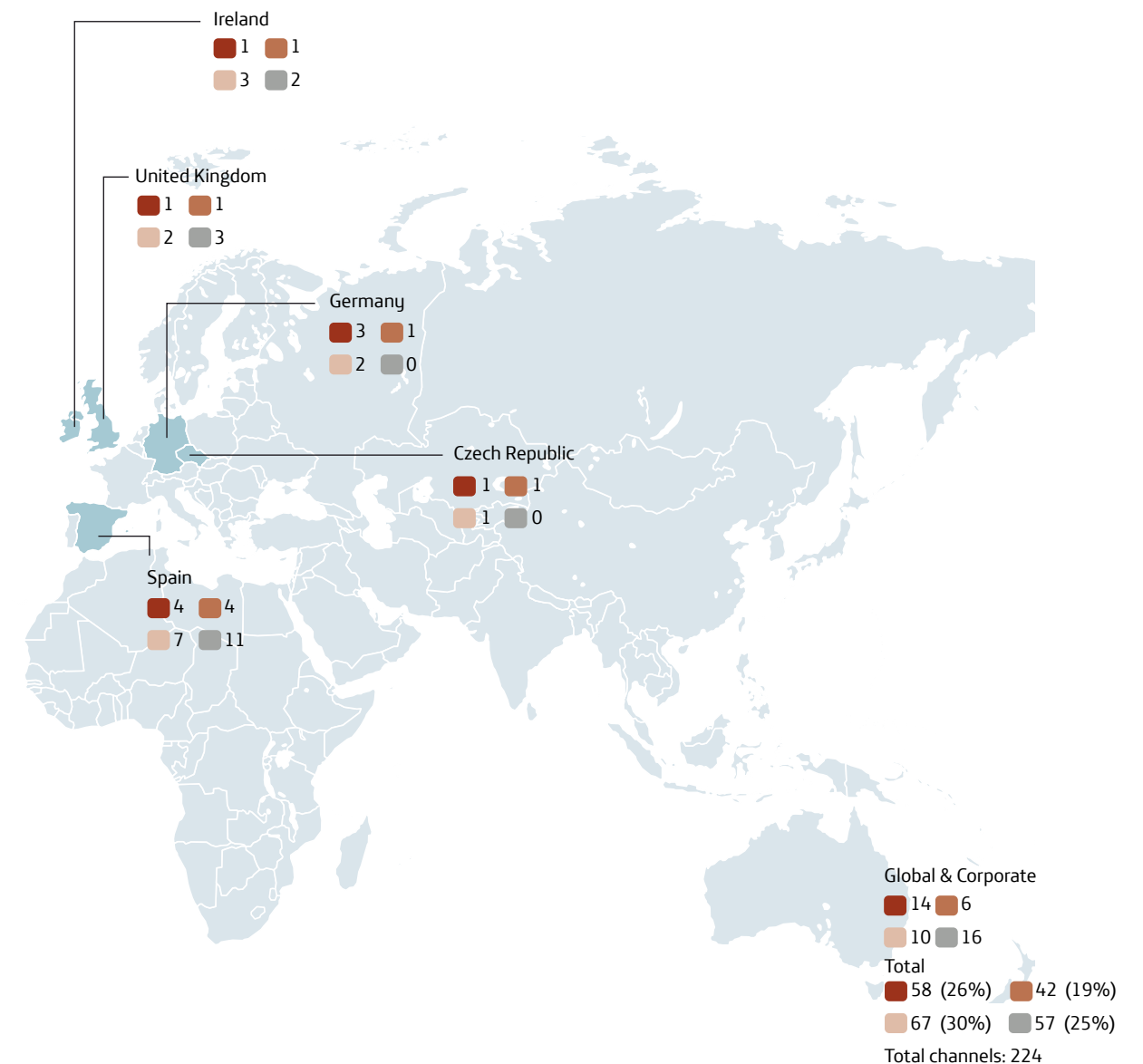
us, accepting their suggestions and trying to incorporate these as much as possible.

→ Dialogue 2.0

The inroads made by this new type of communication have created new ways to interact, be entertained, offer opinions, be informed, work and participate in society. Dialogue 2.0 allows us to make best use of the advantages of social media when interacting with our stakeholders.

At Telefónica we had 224 online social channels in 2012, for the Telefónica, Movistar, O₂ and Vivo brands, for dialogue with the different audiences. Of all these channels, 30% used the Twitter platform; 26%, Facebook; 19%, YouTube; and the rest, used other popular platforms, among which Tuenti, in Spain (25%). We also have a large number of blogs on specialized themes,

Facebook YouTube Twitter Others



224

online social channels feature the Telefónica, Movistar, O₂ and Vivo brands

30% Twitter

26% Facebook

25% Others, including Tuenti

19% YouTube



Through dialogue established in Web 2.0, Telefónica has managed to get to know better the opinions and expectations of its stakeholders

where we publish posts written by Telefónica's own professionals and other experts on the subject, permitting direct contact with our stakeholders and a more direct, rapid, effective and thorough flow of information. Along these lines, in 2011 we created RConversa (www.rconversa.com), a platform whose methodology of dialogue combines Dialogue 2.0 channels with the traditional face-to-face meetings with stakeholders. This year, in 2012, we have organized 15 debates in collaboration with different entities and countries, where specialists and users have discussed themes like 'ICT and Inclusion. The True Value of ICT for Development' or 'What Trends is Digital Culture Setting?'.

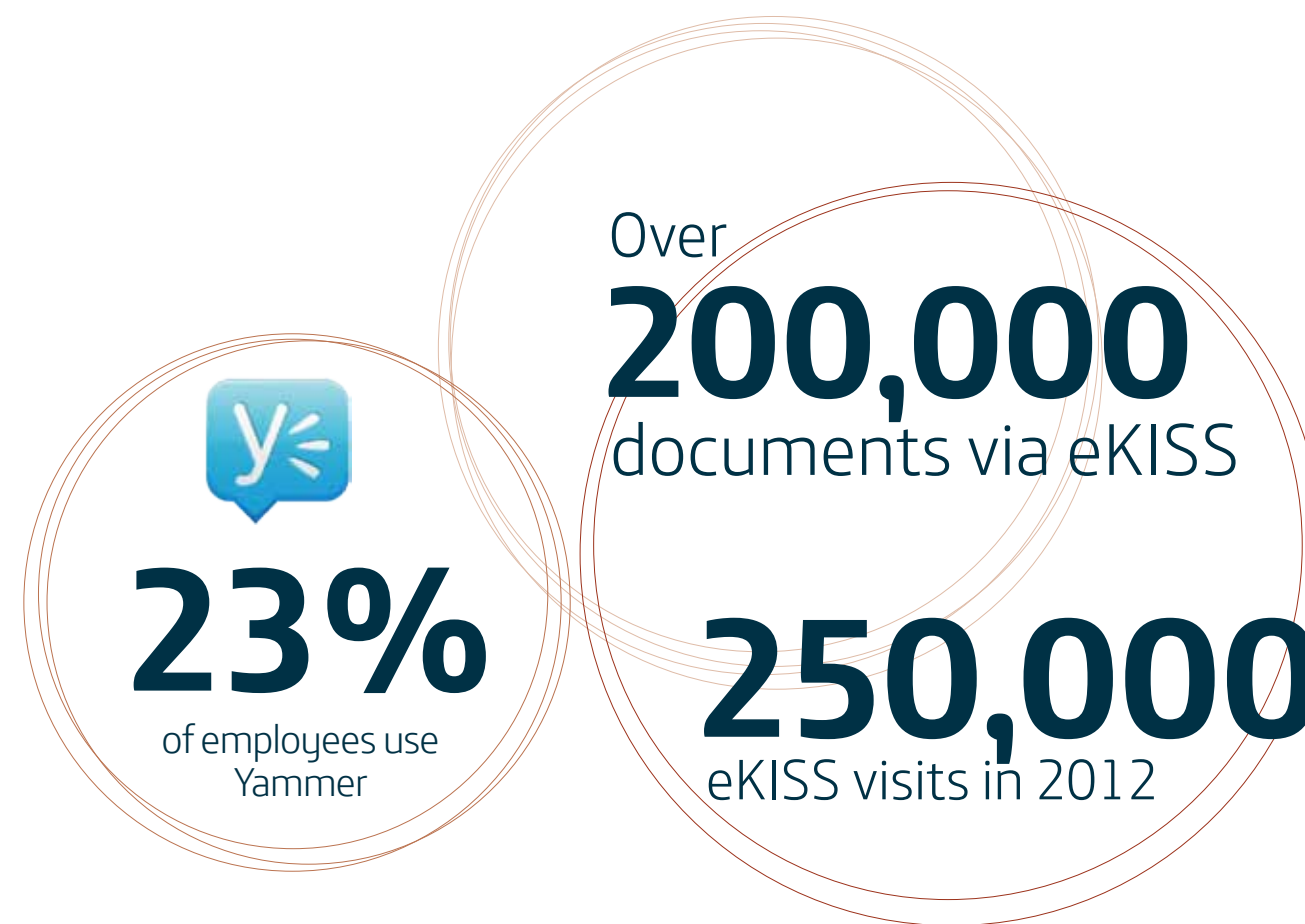
To promote responsible use of social media by staff, last year Telefónica developed a new version of the microsite "Telefónica and Communication 2.0", which includes recommendations and the Company's Social Media Policy. A course on this subject was also given, open to all our professionals. See link at: http://telefonica.telefonica/sites/telefonica_comunicacion_2_0/es/index.shtml

The stakeholder groups to whom we paid most attention in these processes of online dialogue were customers, journalists and the media, staff, academics and students, and in general everyone connected to social networks. The

themes of most interest were: new products and services; quality, provision and customer service; entrepreneurs and enterprise; the use of ICT in education; children and new technologies; the Proniño initiative and themes of e-inclusion.

The objectives we pursued at Telefónica when we established dialogue with our stakeholders using Web 2.0 back in 2011 were, above all, to understand better their opinions and expectations, establishing a more emotional and closer connection; to offer them an agile and effective channel for customer service and problem solving, complementary to the call centers and shops; and to offer them more, and more personalized, information.

In 2012 we at Telefónica have placed more emphasis on more specialized channels of dialogue, and we attained sixth position in the world ranking of social media in themes of sustainability, the "SMI-Wizness Social Media Sustainability Index 2012", having climbed 24 places. On the other hand, our presence in Facebook is clearly growing, as is manifested by the landmark attainment of one million fans by Movistar Peru in this social network, having started 2012 with only 270,000 followers. This is due to a major change in the content development strategy which fomented open dialogue with followers.



2.0 tools for our own professionals

Internally, we at Telefónica take advantage of 2.0 channels to keep our employees informed, encourage dialogue, channel talent and foment collaboration among staff.

Yammer has been converted into a cross-cutting tool of connection among all employees, as it is a space designed to share information, worries, initiatives and real examples of the Company's activity. 23% of all staff are familiar with, follow or participate in this corporate social network: http://telefonica.telefonica/sites/telefonica_comunicacion_2_0/es/como_usar_yammer.shtml

The transfer of knowledge at Telefónica is based on the eKISS platform which surpassed 200,000 documents and 250,000 visits during 2012. In addition, the team organized conferences which attracted over 22,000 people.

In 2012, Telefónica created an online platform with information on themes from the public agenda (health, education, productivity, etc.), and the role of ICT and Telefónica in contributing to transformation. The tool also includes a map of the institutions with which the Company relates. The aim is that staff use this material to improve their engagement with these entities and reinforce our character as a strategic ally in the societies in which we operate.

New methodology for dialogue on sustainability and the RCySost ecosystem

In 2012, Telefónica intensified the discussion around the key themes for its stakeholders, and for society in general: education, health, social inclusion and enterprise as ways to create employment and take advantage of the talent of young people. The debate focused on the role of ICT as a driver of progress in these areas.

This was supported by the ecosystem of social media on Corporate Responsibility and Sustainability – made up of a website (<http://www.rcysostenibilidad.telefonica.com/es/>), a blog (<http://www.rcysostenibilidad.telefonica.com/blogs/>), a Twitter account (<https://twitter.com/RCySost>), a YouTube channel (<http://www.youtube.com/user/rcysostenibilidad>), a Flickr account (<http://www.flickr.com/photos/rcysostenibilidad/>) and the online dialogue platform RConversa (www.rconversa.com).

Commitment to human rights_

Telefónica has drawn important conclusions from evaluating the impact its activities can have on human rights, not forgetting that Company services can also help to prevent abuses.

Respect for and commitment to human rights is included in our Business Principles, in force since 2006 and for the whole Group. In addition, as members of the Global Compact, we have assumed the commitment to respect and protect them, in accordance with its 10 Principles.

We are convinced that the overall management of human rights is fundamental for the sustainability of our business, and this belief is articulated in three points:

- We are a global operator present in 24 countries.
- We are simultaneously witnessing the digital revolution and a growing demand for companies to be accountable in the area of human rights. The situation is most relevant for those human rights more specific to our sector such as, for example, freedom of expression, privacy and content restriction.
- Since 2006, and in line with our Business Principles, we have developed numerous lines of action within the scope of human rights, and we needed to have a transverse and uniform vision.

Because of this, in 2012, and making use of the single framework offered by the Guiding Principles on Business and Human Rights¹, we set

ourselves the objective of having a uniform vision of the impact of our activity, so as to be able to subsequently define a global plan in this area.

Implementing the Guiding Principles on Business and Human Rights: due diligence

For the implementation of the Guiding Principles we have defined a formal process to simplify the proactive management of the risks and to make the most of the opportunities, involving our principal stakeholders.

To this end, and with the external support of BSR, Business for Social Responsibility², we carried out a global assessment of our impact as regards human rights, taking into account the following objectives:

- To raise awareness and develop internal expertise and experience within the organization, based on interdisciplinary teams.
- To obtain an overall vision of the impact of our activity as related to human rights, identifying the risks and opportunities, both at corporate and local level.

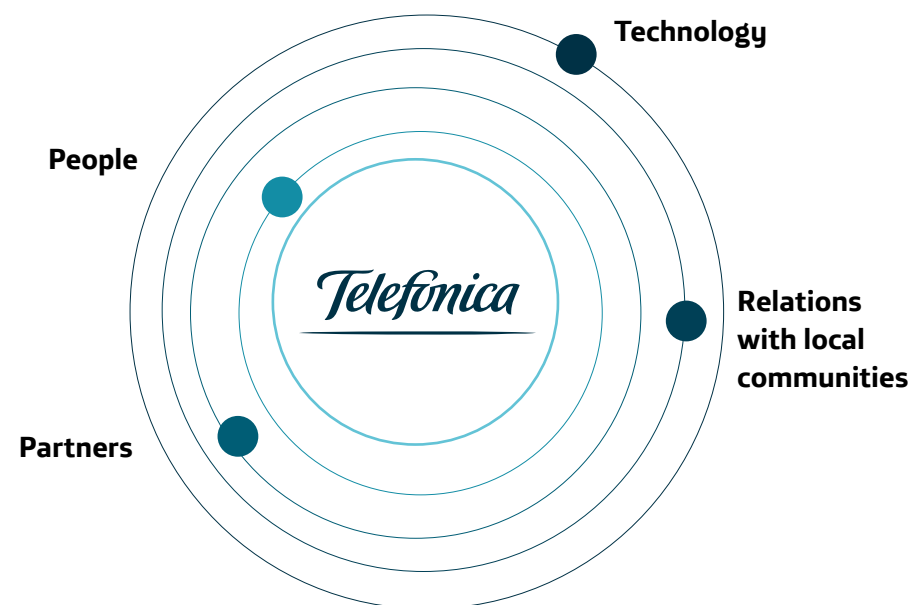
This evaluation allowed us, in 2012, to prioritize the most important aspects and to define a road map for the Company for 2013-2015, in this area.

(1). Guiding Principles on Business and Human Rights: put into practice within the framework of the UN to "protect, respect and remedy", unanimously approved in 2011.
(2). <http://www.bsr.org/>



Project road map in 2012

| Apr-May | Jun-Sep | Oct-Nov | Nov-Dec |
|--|---|--|---|
| Preparation and corporate evaluation <ul style="list-style-type: none">Internal policy evaluationCalibration of toolsIntroductory workshops | Local evaluation <ul style="list-style-type: none">Initial policy examinationLocal assessment with internal and external stakeholders | Analysis and prioritization <ul style="list-style-type: none">Analysis and main conclusionsAlignment with key priorities | Strategic road map <ul style="list-style-type: none">ObjectivesStrategiesRecommendations on next steps |
| 71 rights identified | 300 relevant documents | 200 people involved | 32 reports and local presentations |
| 15 priority areas identified | | 200 themes assessed | 1 corporate presentation |
| | | | 9 transversal reports |



Our people

We have close to 133,000 staff and we know that they are the key to our leadership and one of our main driving forces for creating a culture which allows us to build sustainable relationships with customers, staff, shareholders and investors, communities and strategic partners.

We want to be the best place to work and we have assumed the responsibility, in line with our Business Principles⁽³⁾, of ensuring practices which prove it.

Best practices identified

After the analysis and the conclusions of the evaluation, practices which reinforce our efforts and performance in these areas in certain countries, and which can serve as a global reference, independently of their local context, have come to light.

- **Spain.** There is an Equal Opportunities Plan and a protocol for action, to combat any kind of discrimination or harassment. The Equal Opportunities Commission and a technical committee subordinate to it, are responsible for supervising and monitoring its effective fulfilment.

Telefónica España has a documented health and safety system, which covers all operational risks.

Staff receive compulsory training. The number of hours of training given in 2012 was 85,466⁽⁴⁾.

Staff are consulted and are encouraged to participate within the scope of all matters which affect their health and safety at work, and have the right to make suggestions aimed at the improvement of health and safety protection levels in the Company.

- **The United Kingdom.** There is a Diversity Committee, among other initiatives, to develop innovative strategies with recruitment agencies to emphasize greater gender equality in senior posts. (See the chapter on diversity)
- **Nicaragua.** There is a non-discrimination policy and systems which demonstrate great efforts in favor of promotion of indigenous women within the Organization. As evidence for this, we can point to the hiring of indigenous women on the Caribbean coast (of Crioll, Miskito and Garifonas origin) in our call centers.
- **Germany.** Specific objectives are set for diversity with the aim of increasing the number of staff from "vulnerable" groups such as the young, elderly and disabled.

⁽³⁾ "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, incapacity or family responsibilities."

⁽⁴⁾ Telefónica de España (TdE) 72,190 h. Telefónica Móviles España (TME) 13,276 h.

Guiding principles for privacy and free speech

In an ever more connected world, the rights to privacy and freedom of expression become even more relevant, and especially for companies in the telecom sector. Likewise, the UN's International Council on Human Rights recognized at its July 2012 meeting that these rights should be promoted and protected both physically and digitally.

Along these lines, Telefónica, along with other operators and manufacturers in the sector, formulated the Industry Dialogue in 2011, with the aim of dealing jointly with the facets of freedom of expression and privacy in the context of telecommunications.

On March 12, 2013 the Industry Dialogue group published the Guiding Principles on Freedom of Expression and Privacy in the telecom sector. These Principles, based on internationally recognized human rights laws and standards, and within the scope of the "protect, respect and remedy" framework of the UN, deal specifically with the interaction (and its scope) between the duty of the State to protect human rights and the social responsibility of telecom companies to respect them.

The Dialogue group, made up of Alcatel-Lucent, France Telecom-Orange, Millicom, Nokia Siemens Networks, Telefónica, TeliaSonera, Telenor, and Vodafone, has formalized in a memorandum the working process to follow after the ratification of these Principles, to maximize awareness of them.

With the aim of maximizing awareness, and to have the support of a leading organization in this field, the Group has also signed an agreement with GNI. By this agreement, GNI will house the work of the Group, as well as provide a common platform for the exchange of best practices.

Our technology

As a leading technology provider with global operations - we have nearly 316 million customers and are among the 50 largest companies in the world by revenue⁽⁵⁾ (1st in Europe) - we are aware that our services could be used to promote or to impede human rights abuses. We believe that our technology is a useful instrument for producing a positive impact on human rights.

Best practices identified

At Telefónica we respect the rights and freedoms of individuals, among which is the fundamental right to the protection of personal data. Our Business Principles enshrine this fundamental right and set out common guidelines of behavior for all our companies. The following practices after the evaluation demonstrate initiatives which strengthen this right and which can be applied globally:

- **Colombia.** There is a privacy policy in which we respect "habeas data" and the privacy of our clients. There are regular training programs for our staff and contractors in matters of privacy, "habeas data" and data protection.

- **Brazil.** Implementation of the Conduct and Ethics Policy to improve management of treatment of information of Vivo customers. The Policy is available to all staff on the intranet and contractors are required to sign a non-disclosure agreement drawn up by the legal department.

There are solid processes and systems that allow them to manage, detect and prevent risks related to information leaks.

- **Germany.** The privacy policy is public and applies to its commercial partners and providers. It establishes a "Data Protection Officer" who judges, monitors, audits and deals with all complaints related to information processing, through a specific channel.

The department of special services manages government data protection requirements.

⁽⁵⁾ *Financial Times Global 500* (2011).

Context, initiatives and management systems:

The perceptions of external stakeholders let us understand the local context and the most important needs in each aspect, in such a way that it can be used to improve our existing management systems and initiatives.



Strategy:

It is also important to develop a broad and flexible enough strategy to be capable of adaptation to local needs.

Two keys:

It is important to raise awareness within the organization and to have an interdisciplinary team specialized in the application of human rights to companies.

Our commercial partners

Within the Group, we are aware of our responsibilities in the supply chain, both because of our international presence and because of our impact and that of our direct⁷ providers.

Best practices identified

We establish, encourage and maintain high levels of social responsibility in our lines of activity, promoting compliance with ethical, working, environmental and health and safety standards throughout our supply chain.

This philosophy is intended to boost improvement in the living and working conditions of the people who form part of our supply chain, therefore contributing both to the achievement of a better and sustainable world, and reinforcing our commitment to human rights.

→ **The United Kingdom**. The providers, and supply chain policy, guarantee the solid integration of a sustainable procurement strategy within the purchasing systems and processes. (See the chapter on supply chain sustainability)

→ **Peru**. Besides the "Programa Aliados"⁸, Telefónica Peru also has initiatives which motivate its providers to adopt good practices as regards safe and responsible management. Its activities include: on-site or field inspection and verification of documents, as well as drawing up a suppliers' standardization plan using ABE certification⁹. One of the main results of the accreditation has been that 25% of external staff (that is 7,457 workers) belong to companies that currently hold ABE certification.

Our relations with local communities

Telefónica is one of the world's leading integrated telecom solutions providers in the areas of communication, information and entertainment, operating in 24 countries, and we are aware that technological innovation is key to the achievement of sustainable competitive advantages that make our products and services stand out. But we are also conscious that we can cause a positive impact on our communities through innovative responses.

⁽⁷⁾. See the chapter on supply chain sustainability.

⁽⁸⁾. The Aliados program - initiated in 2008 - sets out a framework for activity that encourages sustainable management with third parties. Its objective is to improve compliance with social and working standards, encourage development of collaborating companies, and guarantee excellence in customer service.

⁽⁹⁾. Information systems integrating and managing many of the Company's internal processes.

To reinforce and adapt our current policies, processes and rectification mechanisms according to the lacunae identified.

To give a global response to the risks affecting most countries.



To develop the General Principle of Human Rights of our Business Principles.

Best practices identified

» Brazil

There are e-Health services, such as the "NascerBem", program aimed at pregnant women and pilot programmes for chronic patients. By means of campaigns like SMS Torpedo, campaigns to promote blood donation, prevention of disease and vaccinations are carried out.

» Chile

There are projects for the Ministry of Health's network of health centers to develop Telemedicine throughout the country. There has been a Telemedicine pilot project among hospitals in Talcahuano, San Carlos and Linares, as part of an alliance with the Ministry of Health.

» Peru

There has been commitment to the sustainable development of local communities using ICT; the "ConectaRSE para Crecer" Prize is one of the most important developments that Telefónica Peru has introduced in more than two years. The aim is to recognize initiatives which have had a big impact on rural communities through projects based on ICT. The project received

102 applications from all over the country (20 different regions), and around 30,000 euros have been awarded in the form of supplies or materials to each of the selected organizations.

» Spain

In the area of e-Health, products and services that help to improve healthcare using telemedicine are being created. A good example of this is the service for the management of chronic patients, which makes possible remote care by specialists, allows monitoring of the main vital signs, and includes tools to support education for prevention and to help to care for oneself.

Through the Fundación Telefónica programs, it has been shown that, in 100% of the countries studied, Telefónica supports and facilitates access to education. (See Chapter on Fundación)

Similarly, in 75% of the countries, social innovation in ICT programs have been set up, which offer support to the young, elderly and disabled, and to consumers with low incomes.

Leadership and active participation of Telefónica in strategic working groups

European Commission

The development of a human rights guide has been proposed by an EU working group

GESI

The **Global e-Sustainability Initiative** tackles issues in this area at the global level

GNI

The Global Network Initiative conducts industry's dialogue on free speech, privacy and provides a platform for exchanging best practices, knowledge and tools

Foreign Affairs and Cooperation Ministry, Spanish Government

Working group to prepare the National Plan for Companies and Human Rights.

Safeguarding children's rights_

"All companies must contribute to the elimination of child labor in their corporate activities and business relations."

(Principle 5 of the UN Global Compact)

The commitment

Telefónica regards children as the key to the future, though they are frequently found among the most marginalized and vulnerable members of society. Consequently, the Company is working hard to get respect for their rights.

In line with the statements of Principle 5 of the Global Compact, Telefónica's framework of action to eradicate child labor is articulated in three main pillars:

- Fulfilling the responsibility of respecting children's rights within the Company operations and the supply chain.
- Promoting respect for children's rights, particularly with regards to education and labor-free childhood.
- Galvanizing people into action and forging alliances to achieve a major impact eradicating child labor.

1. Fulfilling the responsibility of respecting children's rights

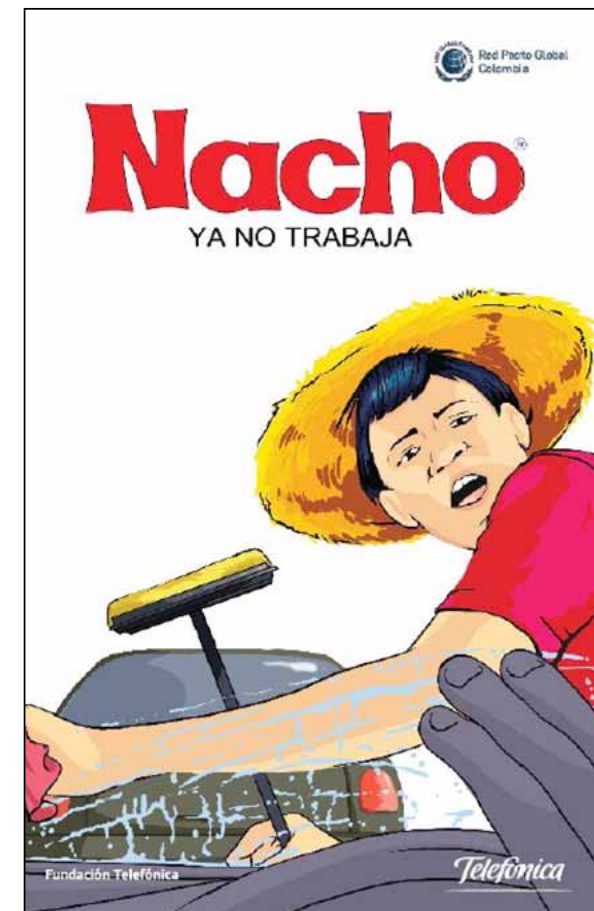
The Group meets local requirements and international standards in young people's recruitment.

The Company supply chain consists of nearly 20,000 providers in 68 countries. In 2010, this scale and the inherent responsibility led to the establishment of a new Responsibility Policy in the supply chain, which promotes the eradication of child labor within the value chain.

2. Promoting children's rights

In 2001, Fundación Telefónica included child labor as one of its main lines of activity, as a result of entering the Latin American market, where more than 14 million children are estimated to be working.

Telefónica wants to change the traditional focus into a more global one, which takes into account all the rights of boys and girls



Guidelines for identifying and reducing the risks of child labor within companies

Based on International Labour Organization criteria, Colombian legislation and the *Eliminating Child Labor Guides for Employers*, the above guidelines have been distributed to diverse audiences.

Traditional focus

- **Prevention of** child labor in the Company's operations and the supply chain
- **Philanthropic actions** to protect childhood



Rights' focus

- Global view of the Company's impact on children
- Products and services design
- Marketing and advertising strategies
- Dignified labor
- Prevention of child labor
- Protection in case of emergency
- Philanthropic actions
- Government relationship



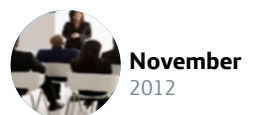
World Summit for Eliminating Child Labor



South American networks meeting in Bogotá: training workshop



Signature of the agreement with the Global Compact network in Colombia



Presentation to local networks of the Compact in South America



Guidelines presentation to Global Compact

The Fundación 'Proniño' program seeks to protect, train and prepare children so that they can shape their own destiny

In this respect, it established an integrated childcare model applied identically in 13 countries and which, up to 2012, has benefited more than 431,000 children. This experience has allowed the acquisition of a body of knowledge, highly valuable to formulate effective strategies to eradicate child labor.

The intervention strategy in the 'Proniño' program of Fundación Telefónica is aimed at children of both sexes, especially to protect them, train them, and prepare them to live their lives, and to be in control of their own destiny. The aim of the program is to contribute to the generation of conditions which guarantee the elimination of situations where child labor could be seen as an option. Thus, the project transcends the scope of schools in a project focused on the lives of children and which includes families and other social agents, networks and local institutions.

In addition to carrying out direct intervention projects in each country, one of the purposes is to convert experience into social knowledge, foster the development of the competences of united local agents to carry out the proposals, contribute to encourage public policies as a way of ensuring child labor eradication, and to mobilize other networks under Social Responsibility principles.

Systemizing good practices, generating strategic alliances with key agents, providing administrative support for social management and encouraging research that promotes synergy, are all areas in which the Company is supporting the campaign.

3. Encouraging actions and promoting alliances to achieve a major impact on the elimination of child labor
Fundación Telefónica and the Global Compact have developed Guidelines for identifying and reducing the risks of child labor within the value chain of companies.

Structure and purpose
The Guidelines present a methodology to identify, assess and manage the risk of child labor within the business field, based on a self-assessment. The book has been written according to the criteria of the International Labour Organization, Colombian legislation, and Eliminating Child Labor Guides for Employers.

The content is structured into two sections:

- Development of conceptual framework, based on international regulations on child labor; principles included in international volunteer initiatives of self-regulation, and principles of the UN Convention on the Rights of the Child.

- Development of methodology and tools to identify, assess and manage the risk of child labor occurring as a result of business activity - including in the Company's supply chain. In addition, business case studies illustrating the proposed methodological steps are included.

Since their development, Telefónica has taken many actions to promote the Guidelines and achieve a strong impact on their application and on the number of companies following them.

Collaborating with the Global Compact Network in Colombia will facilitate their circulation, since a more simplified version of the guidelines is being created, as well as web support to apply the phases described within the document.

The challenge

So far, the acknowledgement of the companies' responsibility towards childhood has been frequently focused on the prevention and elimination of child labor.

Telefónica is working to change this traditional focus into a more global one that allows for a complete view of the Company's action in the field of the rights of the child, such as is described in UNICEF Children's Rights and Business Principles.

All companies must...

- 1. Fulfil** the responsibility of respecting and promoting the rights of the child.
- 2. Contribute to the elimination of child labor** in their corporate activities and business relations.
- 3. Provide dignified labor** to young people, parents and carers.
- 4. Guarantee children's protection** and safety in all business activities and company premises.
- 5. Ensure** that products and services are safe, and that the rights of the child are promoted through them.
- 6. Do marketing and advertising** that respect and defend children's rights.
- 7. Respect and promote** the rights of the child regarding the environment, as well as land acquisition and use.
- 8. Respect and promote** the rights of the child through security regulations.
- 9. Help protect** children affected in emergency situations.
- 10. Intensify the efforts** of communities and governments to protect and assert the rights of the child.



Responsibility Policy within the Supply Chain
Elimination of child labor

- Child labor shall be eliminated in **the interests of the children affected**.
- The companies shall develop, participate in or contribute to the establishment of policies and plans to **facilitate the detection of working children**, with the purpose of rectifying the situation and allowing them to have quality education.
- Children and young people under 18, who in accordance with local legislation are permitted to enter the labor market, **shall not work nights or under hazardous conditions**.
- In any case, the action taken **shall be done in the interests of the child**, in accordance with the regulations of the ILO Convention No. 138, and shall be coherent with the UN Convention on the Rights of the Child.

Telefonica Indicators_

| Economic aspects | Unit | 2010 | 2011 | 2012 | % Chg. |
|---|-----------|--------|--------|--------|--------|
| Telefónica's revenue | Million € | 60,737 | 62,837 | 62,356 | -0.8 |
| Technological innovation | Million € | 4,814 | 5,091 | 5,771 | 13.4 |
| Tax contributions ⁽¹⁾ | Million € | 12,894 | 13,768 | 13,806 | 0.3 |
| Total salary expenses | Million € | 8,409 | 11,080 | 8,569 | -22.7 |
| Investment in infrastructure | Million € | 10,844 | 10,224 | 9,458 | -7.5 |
| Volume of purchases awarded | Million € | 26,828 | 27,295 | 27,958 | 2.4 |
| Investment in R&D | Million € | 797 | 983 | 1,072 | 9.1 |
| Total for local suppliers | % | 87.5 | 90.2 | 85.6 | -5.1 |
| Number of employees dismissed for failure to comply with Business Principles | Employees | 7 | 5 | 2 | -60.0 |
| Number of corruption incidents investigated by the Business Principles Office | Incidents | 5 | 2 | 1 | -50.0 |
| Employees trained in Business Principles ⁽²⁾ | % | 59.7 | 48.4 | 63.43 | 31.2 |
| Number of audits performed on at-risk suppliers | Audits | 1,163 | 1,773 | 1,244 | -29.8 |

| Social aspects | Unit | 2010 | 2011 | 2012 | % Chg. |
|-------------------------------------|----------------|---------|---------|---------|--------|
| Total workforce | Employees | 285,106 | 291,004 | 133,263 | -54.2 |
| Permanent staff | Employees | 231,124 | 238,783 | 126,123 | -47.2 |
| Absentee rate ⁽³⁾ | Days | 5,560 | 4,436 | 5,556 | 25.2 |
| Thousands of hours of training | Thousands | 13,052 | 17,438 | 3,912 | -77.6 |
| Women in workforce | % | 51.5% | 53.9% | 37.9% | -29.7 |
| Female executives | % | 16.8% | 19.1% | 19.3% | 1.0 |
| Number of persons with disabilities | Employees | 1,610 | 1,568 | 1,065 | -32.1 |
| Total social investment (LBG) | Thousand euros | 131,959 | 143,259 | 158,061 | 10.3 |
| Hours of volunteer work | Hours | 109,796 | 112,943 | 188,951 | 67.3 |

| Environmental dimension | Unit | 2010 | 2011 | 2012 | % Chg. |
|--|----------------|--------|--------|--------|--------|
| Responsible network deployment | | | | | |
| Visual impact reductions | Units | n.a. | 488 | 677 | 38.7 |
| Shared infrastructure | Units | 26,781 | 27,989 | 33,013 | 17.9 |
| Electromagnetic field measurements | Units | 14,315 | 15,571 | 16,585 | 6.5 |
| Environmental investments and expenses | Thousand euros | 23,558 | 12,164 | 33,020 | 171.5 |

| | | | | | |
|--|--------------|-----------|-----------|-----------|-------|
| Environmental investment and cost | | | | | |
| Total consumption of new paper (including bills) | Tonnes | 15,243 | 13,672 | 11,856 | -13.3 |
| Customers with e-billing | Thousands | n.d. | n.d. | 17,491 | - - |
| Water consumption | Cubic meters | 4,003,984 | 4,197,800 | 5,602,572 | 33.5 |

| | | | | | |
|-----------------------------------|--------|--------|--------|--------|-------|
| Waste | | | | | |
| Total waste managed | Tonnes | 29,461 | 24,024 | 30,410 | 26.6 |
| E-waste from devices (operations) | Tonnes | 2,082 | 2,690 | 1,309 | -51.3 |
| E-waste from devices (customers) | Tonnes | 1,644 | 1,700 | 1,134 | -33.3 |

| Energy and CO ₂ inventory ^{(4) (5) (6)} | Unit | 2010 | 2011 | 2012 | % Chg. |
|---|-----------------|-----------|-----------|-----------|--------|
| Energy | | | | | |
| Fuel consumption fleets (petrol and diesel) | Thousand liters | 24,696 | 23,407 | 18,404 | -21.4 |
| Biofuel consumption fleets (ethanol and biodiesel) | Thousand liters | 1,640 | 928 | 758 | -18.3 |
| Diesel consumption: operations and offices | Thousand liters | 18,301 | 17,559 | 18,227 | 3.8 |
| Natural gas consumption: operations and offices | Nm ³ | 6,618,637 | 5,273,932 | 5,328,936 | 1.0 |
| Electricity consumption operations | MWh | 5,106,693 | 5,229,432 | 5,210,667 | -0.4 |
| Electricity consumption offices | MWh | 770,956 | 767,035 | 669,920 | -12.7 |
| Renewable energy generated and purchased | MWh | 669,439 | 737,038 | 897,974 | 20.0 |

| | | | | | |
|---|------------------------------------|-----------|-----------|-----------|-------|
| GHG emissions | | | | | |
| Direct emissions (Scope 1) | tCO ₂ eq ⁽⁷⁾ | 128,582 | 120,392 | 109,708 | -8.9 |
| Indirect emissions (Scope 2) | tCO ₂ eq | 1,569,658 | 1,613,036 | 1,642,455 | 1.8 |
| Other indirect emissions (Scope 3) ⁽⁸⁾ | tCO ₂ eq | 45,846 | 45,563 | 36,995 | -18.8 |
| Emissions avoided ⁽⁹⁾ | tCO ₂ eq | 251,369 | 282,156 | 311,753 | 10.5 |
| Total emissions | tCO ₂ eq | 1,744,086 | 1,778,990 | 1,789,158 | 0.6 |

1. This figure differs from the one published in the section, Telefónica as a driver of progress in the communities in which it is present, in that it is expressed on an accrual and not a cash basis.
2. The data on employees trained in the Business Principles does not include those in Atento.
3. Absenteeism rate (AR). AR = (total no. of lost days through absence during the period/total no. of days worked by the workforce during the same period) x 200,000.
4. Checked by Aenor.
5. Inventory based on ISO 14064, GHG Protocol & ITU-T L.1420
6. Energy and emissions data for 2011, verified in 2012. Energy and emissions data for 2012, in process of verification.
7. CO₂eq = CO₂, CH₄ & N₂O.
8. Other indirect emissions due to business trips and use of fuel in collaborating companies' fleets.
9. Emissions avoided thanks to the generation and purchase of renewable energy.

Table of milestones and challenges

Identification and management of reputation Risks.

| Milestones 2012 | Challenges 2013 |
|---|---|
| Update of the risk management methodology with impact on reputation (included in the corporate procedure for risk management). | Gradual implementation of this methodology in the different countries and updating of the corresponding reputation risk maps. |
| Incorporation of the risk management corporate policy (including the risks with impact on reputation) to the processes at our Foundation. | Publication of the reputation risk maps for local Telefónica foundations. |

Ethical code: our Guiding Principles

| | |
|---|--|
| Implementation of the Ethical Code in Telefónica Brazil, following the integration process for the landlines and mobile lines areas after the purchase of Vivo in 2010. | Confirmation of the ethical code within our operations in Costa Rica and implementation of the associated mechanisms. Definition of a new global training activity for the mandatory ethical code. Definition of training objectives for 2013-2014 and elaboration of implementation plans for each operation. |
| Start of the confirmation process for our Guiding Principles in Costa Rica, where we have recently initiated commercial operations. | Strengthen the Guiding Principles channel as a way where all employees will have the possibility to present questions, seek advice and present issues regarding the observance of the Guiding Principles and associated rules, in a direct or anonymous way. |

Privacy

| | |
|---|--|
| Active cooperation with the European Commission for the revision of the regulatory framework. | Strengthen the public positioning, actively cooperating with public and private institutions leading the Privacy issues. |
| Design privacy related to our default products: Tuenti, <i>SmartSteps</i> . | Communicate the Group's Privacy Policies, among all employees and collaborators. |
| | Boost the basic internal procedures ensuring the preservation of privacy as a default feature in the new digital services. |
| | Definition of the Chief Privacy Officer of the Group and the Data Protection Officer in each country. |

Responsibility in the supply chain

| | |
|--|---|
| Consolidation of the Global Purchase Management and impulse of electronic commerce tools; achieving an improvement of 11% in the global assessment of the purchase model by the suppliers. | Ensure sustainability in our Supply Chain, progressively implementing a 360º assessment system within the high and medium risk suppliers. |
| Celebration of Vendors Day with our main suppliers. | Adapt sustainability criteria to the Purchasing platform. |
| Consolidation of the Aliados program in Latin America as a key factor in the awareness and sustainability assurance within our suppliers. | Strengthen the control mechanisms, assurance, awareness and dialogue with our suppliers. |

Environment

| | |
|--|--|
| Publication of the commitment to reduce CO ₂ emissions, 30% over equivalent access by 2020. | |
| Strengthening of our cooperation with the ITU regarding the preparation of standards to measure the environmental impact of the ICT. | Retain place among leading companies in the Carbon Disclosure Project. |
| 35 projects implemented regarding energy efficiency, resulting in a reduction of 15 GWh in 2012, 5 million euros of savings and avoiding 3.300 tonnes of CO ₂ . | |
| Inclusion of ICT green services within smart cities at Telefónica. | Measurement of CO ₂ emissions avoided in our services, according to the ITU standards, especially Green ICT Services in cities. |
| Consolidation of the environmental risks management framework in Telefónica. | |

Labour security and safety

| | |
|--|---|
| Extension of the Health and Safety Management Systems to other branches. | Standardization of procedures and instructions between regional business units. |
|--|---|

Digital inclusion

| | |
|---|---|
| Celebration of the 1st Open International Forum in Barcelona. | Transform the M-Inclusion marketplace into a reference platform as a repository of the best applications for groups under exclusion risk. |
| | Presentation of the mobile phone technology trends roadmap to facilitate social inclusion within the groups under risk of exclusion. |

Correct use of Internet by children

| | |
|--|---|
| Implementation of the complaint button for smartphones and tablets. | Elaboration and implementation of the corporate framework for a better Internet for children. |
| Reaching of the objectives of the coalition of CEOs for a better Internet for children. | Elaboration and implementation of the new corporate principles for contents. |
| Implementation in Colombia of the first Hotline for the Inhope network in Latin America. | Implementation of the Child Safety Advisory Center in Spain, Ireland and the United Kingdom. |

Human rights

| | |
|--|---|
| Elaboration of the impact assessment of the Group in relation to Human Rights. | Development of Telefónica's Commitment with Human Rights. |
| Signing of the Guiding Principles regarding Freedom of Speech and Privacy in the ICT Industry. | Publication and implementation of the Guiding Principles within the Dialogue Group. |
| Development of the "Methodology Guidelines for the identification and assessment of child work risks". | Publication of the Guide and implementation within the Guiding Principles framework in the main Latin American countries. |

Recognition of excellence_

Recognition of Telefónica's sustainability management during 2012 included:

World

Global Volunteer Program Award of the International Association for Volunteer Effort for the work of the volunteers of Fundación Telefónica.

Best non-American operator according to Fortune's World's Most Admired Companies ranking.

2nd best company to work for in Latin America and 13th in the world according to the Great Place to Work Institute.

15th best company in the world, and 4th in its sector according to the Newsweek index of the greenest companies.

Germany

3rd best place to work according to the Great Place to Work Institute.

Telefónica Germany won the "Politikaward" prize in the Corporate Responsibility category for the Think Big program.

Argentina

Prize for Best Social Report in Argentina for its Corporate Sustainability Report awarded by the For Ecuménico Social (Ecumenical Social Forum).

Brazil

Operator with best performance indicators for customer service in the country, according to the Ministry of Justice's Project for Public Indicators of Consumer Rights.

Connecting Amazonia: Global Mobile Award 2013 for best mobile initiative for e-inclusion of emerging markets.

Chile

3rd best place to work according to the Great Place to Work Institute.

1st place in the Business Innovation Ranking (BIR) 2012 compiled by the ESE Business School (Universidad de los Andes).

3rd Best Place for Working Parents, given by the Fundación Chile Unido.

Colombia

3rd best place to work according to the Great Place to Work Institute.

Accenture Award for Innovation 2012 for the mobile app "Yo digo aquí estoy".

1st company in the telecom sector for Corporate Responsibility according to the Merco ranking.

Ecuador

Best company to work for according to the Great Place to Work Institute.

Spain

The Justice and Disability Forum of the CGPJ (the regulator of the judiciary) has awarded one of its prizes to ATAM in the category of Business Action, for its contribution to the integration of people with disabilities into the workplace.

The AECA prize for Business Transparency for companies listed in the Ibex 35, in recognition of the quality and transparency of the information communicated through the corporate web (1.0 and 2.0), in the area of financial reporting and good corporate governance.

Best rated company in the telecom sector according to the 10th edition of IPSOS's KAR study for its support of and contribution to society, and its care for and respect of the environment.

Spanish company with the best customer service, according to the most recent report by ADECES (a civil, economic, and social rights association).

The M-Inclusion project was the best rated project for social and environmental commitment in 2013, according to AUTELSI (the national association for users of telecom and IT services).

Ireland

O2 Money Card, best prepaid product in the Best Global Prepaid Consumer Program.

Mexico

Prize for "Ethics and values in industry" in the category of Best Practices in Social Responsibility, awarded annually by CONCAMIN (the national confederation of chambers of commerce of Mexico) in coordination with FUNTEC (the Mexican foundation for innovation and technology transfer in SMEs).

Central America

The first report in Panama to obtain Global Compact Advanced Level.

Prize awarded by UniRSE (the Nicaraguan union for business social responsibility) for best practices in Corporate Responsibility, for social programs in the category of economic empowerment and development in the community.

Peru

Distinction for Socially Responsible Company awarded by Peru 2021.

United Kingdom

Company of the Year in the 2012 Business Green Leaders Awards.

Czech Republic

First place in the "TOP Responsible Company 2012" ranking compiled by the independent body Business for Society, for services to disabled customers.

Best company in the ICT sector in "Sodexo Employer of the Year 2012".

Venezuela

Best company to work for, according to the Great Place to Work Institute.

GRI Indicators_

STANDARD DISCLOSURES PART I: Profile Disclosures

1. Strategy and Analysis

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|---------|--|---------------|---------------|--|--------------------------|
| 1.1 | Statement from the most senior decision-maker of the organization. | √ | √ | Letter from the Executive Chairman | |
| 1.2 | Description of key impacts, risks, and opportunities. | √ | √ | Risk management and Annual Report 2012 | |

2. Organizational Profile

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|---------|--|---------------|---------------|--|--------------------------|
| 2.1 | Name of the organization. | √ | √ | Background to the Telefónica Sustainability Report | |
| 2.2 | Primary brands, products, and/or services. | √ | √ | Background to the Telefónica Sustainability Report | |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | √ | √ | Financial Report 2012 and Annual Report 2012 | |
| 2.4 | Location of organization's headquarters. | √ | √ | Background to the Telefónica Sustainability Report | |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | √ | √ | Consolidation perimeter for the information contained | |
| 2.6 | Nature of ownership and legal form. | √ | √ | Background to the Telefónica Sustainability Report and Annual Corporate Governance Report 2012 | |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | √ | √ | Customers relations management | |
| 2.8 | Scale of the reporting organization. | √ | √ | Consolidation perimeter for the information contained | |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | √ | √ | Consolidation perimeter for the information contained | |
| 2.10 | Awards received in the reporting period. | √ | √ | Recognition of excellence | |

3. Report Parameters

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|---------|---|---------------|---------------|---|--------------------------|
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided. | √ | √ | Background to the Telefónica Sustainability Report | |
| 3.2 | Date of most recent previous report (if any). | √ | √ | Background to the Telefónica Sustainability Report | |
| 3.3 | Reporting cycle (annual, biennial, etc.) | √ | √ | Background to the Telefónica Sustainability Report | |
| 3.4 | Contact point for questions regarding the report or its contents. | √ | √ | Background to the Telefónica Sustainability Report | |
| 3.5 | Process for defining report content. | √ | √ | Background to the Telefónica Sustainability Report | |
| 3.6 | Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance. | √ | √ | Consolidation perimeter for the information contained | |
| 3.7 | State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope). | √ | √ | Consolidation perimeter for the information contained | |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | √ | √ | Consolidation perimeter for the information contained | |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols. | √ | √ | Consolidation perimeter for the information contained | |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods). | √ | √ | Consolidation perimeter for the information contained | |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | √ | √ | Consolidation perimeter for the information contained | |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | √ | √ | Report structure | |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | √ | √ | Background to the Telefónica Sustainability Report | |

4. Governance, Commitments, and Engagement

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|---------|--|---------------|---------------|---|--------------------------|
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight. | √ | √ | Annual Corporate Governance Report 2012 | |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | √ | √ | Annual Corporate Governance Report 2012 | |
| 4.3 | For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members. | √ | √ | Annual Corporate Governance Report 2012 | |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | √ | √ | Annual Corporate Governance Report 2012 | |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance). | √ | √ | Annual Corporate Governance Report 2012 | |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | √ | √ | Annual Corporate Governance Report 2012 | |
| 4.7 | Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity. | √ | √ | Annual Corporate Governance Report 2012 | |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. | √ | √ | Code of Ethics and Business Principles | |
| 4.9 | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | √ | √ | Sustainability tool for creating value | |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | √ | √ | Annual Corporate Governance Report 2012 | |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organization. | √ | √ | Risk management | |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. | √ | √ | The impact of telecom services | |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic. | √ | √ | Throughout the Report | |
| 4.14 | List of stakeholder groups engaged by the organization. | √ | √ | Stakeholder engagement | |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | √ | √ | Stakeholder engagement | |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | √ | √ | Stakeholder engagement | |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. | √ | √ | Materiality matrix | |

STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)

| G3 DMA | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|--------|-------------------------|---------------|---------------|-------------------------------|--------------------------|
| DMA EC | Economic dimension | √ | √ | Economic dimension | |
| DMA EN | Environmental dimension | √ | √ | Environmental dimension | |
| DMA LA | Labor dimension | √ | √ | Social dimension | |
| DMA HR | Human rights dimension | √ | √ | Commitment to human rights | |
| DMA SO | Social dimension | √ | √ | Social dimension | |
| DMA PR | Customer dimension | √ | √ | Customer relations management | |

STANDARD DISCLOSURES PART III: Performance Indicators

Economic

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|----------------------|---|---------------|---------------|------------------------------------|--------------------------|
| Economic performance | | | | | |
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | √ | √ | Driver of progress | |
| EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change. | √ | √ | Environmental dimension | |
| EC3 | Coverage of the organization's defined benefit plan obligations. | √ | √ | Telefónica as responsible investor | |
| EC4 | Significant financial assistance received from government. | √ | √ | Financial Report 2012 | |
| Market presence | | | | | |
| EC5 | Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation. | No | √ | Commitment to diversity | |

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|---------------------------|--|---------------|---------------|--|--------------------------|
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | √ | √ | Driver of progress | |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | No | √ | Attraction of employees and talent retention | |
| Indirect economic impacts | | | | | |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | √ | √ | Innovation at Telefónica | |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. | √ | √ | Driver of progress | |

Environmental

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|-----------|--|---------------|---------------|----------------|---|
| Materials | | | | | |
| EN1 | Materials used by weight or volume. | √ | √ | Environment | |
| EN2 | Percentage of materials used that are recycled input materials. | √ | √ | Environment | |
| Energy | | | | | |
| EN3 | Direct energy consumption by primary energy source. | √ | √ | Green from ICT | |
| EN4 | Indirect energy consumption by primary source. | √ | √ | Green by ICT | |
| EN5 | Energy saved due to conservation and efficiency improvements. | √ | √ | Green from ICT | |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. | √ | √ | Green by ICT | |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | √ | √ | Green by ICT | |
| Water | | | | | |
| EN8 | Total water withdrawal by source. | √ | √ | Environment | |
| EN9 | Water sources significantly affected by withdrawal of water. | No | No | | This indicator does not apply for the Company's set of activities |
| EN10 | Percentage and total volume of water recycled and reused. | No | √ | Green by ICT | |

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|--------------------------------|---|---------------|---------------|----------------|---|
| Biodiversity | | | | | |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | No | √ | Environment | |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | √ | √ | Environment | |
| EN13 | Habitats protected or restored. | No | √ | Not applicable | |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. | √ | √ | Environment | |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | No | No | | This indicator does not apply for the Company's set of activities |
| Emissions, effluents and waste | | | | | |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | √ | √ | Green from ICT | |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | √ | √ | Green from ICT | |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. | √ | √ | Green from ICT | |
| EN19 | Emissions of ozone-depleting substances by weight. | √ | √ | Green from ICT | |
| EN20 | NOx, SOx, and other significant air emissions by type and weight. | √ | No | | This indicator does not apply for the Company's set of activities |
| EN21 | Total water discharge by quality and destination. | √ | No | | This indicator does not apply for the Company's set of activities |
| EN22 | Total weight of waste by type and disposal method. | √ | √ | Environment | |
| EN23 | Total number and volume of significant spills. | √ | √ | Environment | |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. | √ | √ | Environment | |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. | No | No | Environment | This indicator does not apply for the Company's set of activities |

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|-----------------------|---|---------------|---------------|--------------|--------------------------|
| Products and services | | | | | |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | √ | √ | Green by ICT | |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | √ | √ | Environment | |
| Compliance | | | | | |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. | √ | √ | Environment | |
| Transport | | | | | |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. | √ | √ | Green by ICT | |
| Overall | | | | | |
| EN30 | Total environmental protection expenditures and investments by type. | √ | √ | Environment | |

Social: Labor Practices and Decent Work

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|----------------------------|---|---------------|---------------|---|---|
| Employment | | | | | |
| LA1 | Total workforce by employment type, employment contract, and region, broken down by gender. | √ | √ | Telefónica relies on its staff | |
| LA2 | Total number and rate of new employee hires and employee turnover by age group, gender, and region. | √ | √ | Telefónica relies on its staff | |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. | √ | √ | Work environment, conciliation and commitment | |
| LA15 | Return to work and retention rates after parental leave, by gender. | No | No | | Maternity leave procedures always include automatic reincorporation; later dissociation from the Company is something voluntary on the part of the employee without their being a need to communicate the reason to the Company |
| Labor/management relations | | | | | |
| LA4 | Percentage of employees covered by collective bargaining agreements. | √ | √ | Freedom of association and social dialogue | |
| LA5 | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. | √ | √ | Freedom of association and social dialogue | |

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|--------------------------------------|---|---------------|---------------|---------------------------------------|--------------------------|
| Occupational health and safety | | | | | |
| LA6 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. | √ | √ | Health, safety and well-being at work | |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender. | √ | √ | Health, safety and well-being at work | |
| LA8 | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. | √ | √ | Health, safety and well-being at work | |
| LA9 | Health and safety topics covered in formal agreements with trade unions. | √ | √ | Health, safety and well-being at work | |
| Training and education | | | | | |
| LA10 | Average hours of training per year per employee by gender, and by employee category. | √ | √ | Training and management of talent | |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | √ | √ | Training and management of talent | |
| LA12 | Percentage of employees receiving regular performance and career development reviews, by gender. | No | √ | Fair pay and recognition of good work | |
| Diversity and equal opportunity | | | | | |
| LA13 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | √ | √ | Telefónica relies on its staff | |
| Equal remuneration for women and men | | | | | |
| LA14 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation. | No | √ | Commitment to diversity | |

Social: Human Rights

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|--|--|---------------|---------------|--|--------------------------|
| Investment and procurement practices | | | | | |
| HR1 | Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening. | √ | √ | Sustainability of the supply chain | |
| HR2 | Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken. | √ | √ | Sustainability of the supply chain | |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. | √ | √ | Code of Ethics and Business Principles | |
| Non-discrimination | | | | | |
| HR4 | Total number of incidents of discrimination and corrective actions taken. | √ | √ | Code of Ethics and Business Principles | |
| Freedom of association and collective bargaining | | | | | |
| HR5 | Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights. | √ | √ | Commitment to human rights | |

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|-----------------------------|---|---------------|---------------|--|--------------------------|
| Child labor | | | | | |
| HR6 | Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor. | √ | √ | Sustainability of the supply chain | |
| Forced and compulsory labor | | | | | |
| HR7 | Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor. | √ | √ | Sustainability of the supply chain | |
| Security practices | | | | | |
| HR8 | Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations. | √ | √ | Code of Ethics and Business Principles | |
| Indigenous rights | | | | | |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | √ | √ | Sustainability of the supply chain | |
| Assessment | | | | | |
| HR10 | Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments. | No | √ | Commitment to human rights | |
| Remediation | | | | | |
| HR11 | "Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms." | No | √ | Sustainability of the supply chain | |

Social: Society

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|-------------------|--|---------------|---------------|--|--------------------------|
| Local communities | | | | | |
| S01 | Percentage of operations with implemented local community engagement, impact assessments, and development programs. | No | √ | Social projects | |
| S09 | Operations with significant potential or actual negative impacts on local communities. | No | √ | Environment | |
| S010 | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities. | No | √ | Environment | |
| Corruption | | | | | |
| S02 | Percentage and total number of business units analyzed for risks related to corruption. | √ | √ | Code of Ethics and Business Principles | |
| S03 | Percentage of employees trained in organization's anti-corruption policies and procedures. | √ | √ | Code of Ethics and Business Principles | |
| S04 | Actions taken in response to incidents of corruption. | | √ | Code of Ethics and Business Principles | |

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|---------------------------|--|---------------|---------------|---|--------------------------|
| Public policy | | | | | |
| S05 | Public policy positions and participation in public policy development and lobbying. | √ | √ | Stakeholder engagement | |
| S06 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. | √ | √ | Code of Ethics and Business Principles | |
| Anti-competitive behavior | | | | | |
| S07 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. | √ | √ | Compliance with regulations and competition law | |
| Compliance | | | | | |
| S08 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | √ | √ | Compliance with regulations and competition law | |

Social: Product Responsibility

| Profile | Description | Reported 2011 | Reported 2012 | Location | Explanation for omission |
|-------------------------------|--|---------------|---------------|---|--------------------------|
| Customer health and safety | | | | | |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. | √ | √ | Innovation at Telefónica | |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. | √ | √ | Compliance with regulations and competition law | |
| Product and service labelling | | | | | |
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. | √ | √ | Customer relations management | |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. | √ | √ | Customer relations management | |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | √ | √ | Customer relations management | |
| Marketing communications | | | | | |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. | √ | √ | Customer relations management | |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. | √ | √ | Customer relations management | |
| Customer privacy | | | | | |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | √ | √ | Compliance with regulations and competition law | |
| Compliance | | | | | |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | √ | √ | Compliance with regulations and competition law | |

References to the Global Compact of the United Nations

Human Rights



| | | |
|--------------------|---|---|
| Principle 1 | Businesses should support and respect the protection of internationally proclaimed human rights, within their sphere of influence | Code of conduct 26 Privacy and data protection 34 Safe use of the Internet by children 44 Fundación Telefónica and Think Big 122 Response to emergency situations 124 |
| Principle 2 | Businesses should make sure that they are not complicit in human rights abuses | Management of privacy in digital services 40 <i>Aliados</i> program for suppliers 60 |

Labor



| | | |
|--------------------|---|---|
| Principle 3 | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | Freedom of association and social dialogue at Telefónica 102 |
| Principle 4 | Businesses should support the elimination of all forms of forced or compulsory labor | Working atmosphere, work-life balance and employee commitment 90 Fair pay and recognition of work at Telefónica 98 Occupational health and safety at Telefónica 106 |
| Principle 5 | Businesses should support the effective abolition of child labor | Fundación Telefónica and Think Big 122 |
| Principle 6 | Businesses should uphold the elimination of discrimination in respect of employment and occupation | Gestión de la diversidad en Telefónica 100 |



Environment




| | | |
|--------------------|--|--|
| Principle 7 | Businesses should support a precautionary approach to environmental challenges | Green ICT in Telefónica 70 Environment 82 |
| Principle 8 | Businesses should undertake initiatives to promote greater environmental responsibility | Green ICT in Telefónica 70 Green from ICT 74 Green with ICT 78 Environment 82 |
| Principle 9 | Businesses should encourage the development and diffusion of environmentally friendly technologies | Green from ICT 74 Green with ICT 78 |

Anti-corruption



| | | |
|---------------------|---|--------------------------|
| Principle 10 | Businesses should work against corruption in all its forms, including extortion and bribery | Code of conduct 26 |
|---------------------|---|--------------------------|

Verification and validation_



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INDEPENDENT REVIEW OF THE TELEFÓNICA GROUP'S 2012 ANNUAL CORPORATE SUSTAINABILITY REPORT

To the Human Resources and Corporate Reputation Committee of Telefónica, S.A.:

Scope of the work

We have carried out the review of the content of the 2012 Annual Corporate Sustainability Report of Telefónica Group (hereinafter Telefónica), which has been prepared based on:

- The Global Reporting Initiative (GRI) Preparation Guide (version 3.1).
- The principles stated in the AA1000 APS 2008 guide issued by AccountAbility (Institute of Social and Ethical AccountAbility).

The scope determined by Telefónica for the preparation of this report is defined in "Consolidation Perimeter" section in the accompanying Report.

The preparation of the accompanying 2012 Annual Corporate Sustainability Report, as well as the information contained therein, is the responsibility of the administrative bodies and management of Telefónica, S.A. They are also responsible for defining, adapting, and maintaining the management systems and internal controls from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

Criteria

Our review was carried out based on:

- Standard ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), with a limited scope of assurance.
- AA1000 AccountAbility Assurance Standard 2008, with a moderate level of type 2 assurance.
- The Guidelines for reviewing Corporate Responsibility Reports, issued by the Official Register of Auditors of Accounts (ICJCE).

Applied procedures

Our review consisted in performing inquiries to the Department of Sustainability and Reputation as well as the various managers of the business units that have participated in the preparation of the 2012 Annual Corporate Sustainability Report, and in applying analytical procedures and sampling review tests as described below.

- Interviews with the persons in charge of Telefónica's Sustainability and Reputation Department and a selection of managers and key management personnel involved in the Report's preparation. The purpose of these was to obtain an understanding of the Corporate Sustainability objectives and policies, as well as how they are put into practice and integrated into the Telefónica Group's strategy.
- Review of the main processes and systems through which Telefónica sets its commitments to its stakeholders, as well as the relevance and completeness of the information contained in the Report.
- Analysis of the adaptation of the structure and content of the Report as indicated in G3.1 Global Reporting Initiative (GRI).
- Test, on a sample basis, of the quantitative information included in the Report, as well as its adequate compilation from data supplied by information sources. The review tests have been defined to provide assurance levels as described in "Criteria" section in this report. Review Works have been carried out for the operations of Telefónica in Spain, Brazil, Argentina, Peru, Colombia, Mexico, Chile, Venezuela, Ecuador, Panama, Germany and United Kingdom.

A review is considerably less in scope than a reasonable assurance report. Therefore, the degree of assurance is also less. This report in no case should be considered an audit report.

These procedures have been applied based on the information provided in the 2012 Annual Report on Corporate Sustainability, except for the information relating to energy consumption and emissions that were not included in the scope of our review, on which we express no conclusion.

Our independence

We have performed our work in accordance with the standards of independence required by the Code of Ethics of the International Federation of Accountants (IFAC).

(Free translation from the Original Report on Independent Review in Spanish dated 29th May 2013. In case of any discrepancy, the Spanish version always prevails)

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INDEPENDENT REVIEW OF THE TELEFÓNICA GROUP'S 2012 ANNUAL CORPORATE SUSTAINABILITY REPORT

Conclusions

As a result of our review of the 2012 Annual Corporate Sustainability Report, carried out with the scope indicated in "Applied procedures" section above, we conclude that:

- No matter came to our attention that would lead us to believe that the Report has not been prepared according to the Guidelines included in the Global Reporting Initiative (GRI) Preparation Guide for Sustainability Reports, as it is stayed on it.
- No matter came to our attention that would lead us to believe that the remaining information and indicators included in the accompanying Report contain significant errors, or that the Report has not been prepared in accordance with the principles established in the AA1000 APS (2008) standard developed by AccountAbility, such as:
 - Inclusivity:** The mechanisms are in place to identify stakeholders, as well as to gain an awareness and understanding of their expectations, as explained in the "Stakeholder matrix and stakeholder engagement procedure" section of the accompanying Report.
 - Materiality:** A materiality study has been developed in order to select the most significant matters to be included in the Report, as described in the "Material issues Matrix" chapter.
 - Responsiveness:** The necessary mechanisms to design, develop, evaluate, and communicate the responses necessary are in place in order to meet the principal expectations of stakeholders, as reflected in the chapter "Highlights and Challenges" included of the accompanying Report and that reflect the commitments assumed.

Recommendations

Additionally, we also presented to the Telefónica's Corporate Sustainability and Reputation Management our recommendations regarding areas of improvement related to the application of the standard AA1000 APS (2008), as well as to actions taken with main stakeholders identified. The most significant recommendations are related to:

- Inclusivity:**
During the year 2012, measures have been taken to enhance the dialogue channels with stakeholders, especially online channels such as "Dialogue 2.0". Our recommendation is to continue with the expansion of these channels gradually to the various stakeholders and to the principal countries in which it carries out its activities.
- Materiality:**
In the attached report, besides the materiality study, a specific section has been included with the relevant information of the most significant risks identified by the Telefónica S.A.'s Business Principles Office in terms of reputation.

Our recommendation is to continue adapting the process of identifying the most significant risks to the needs of each country in which it carries out its activities.

c) Responsiveness

The ongoing assessment of objectives and the proposal of new challenges which were published in the 2012 Annual Corporate Sustainability Report demonstrate Telefónica's commitment to respond to the expectations of stakeholders. Our recommendation is that Telefónica defines the objectives identification process more clearly to ensure that they are directly in line with the stakeholder's expectations.

We also present below a series of recommendations for actions related to the different stakeholders:

- 1) Economic matters**
During the year 2012 Telefónica continued simplifying and clarifying the price and rate policy and working on the implementation of "Supply Chain Responsibility Policy". Our recommendation is to improve the information related to complaints and claims.
- 2) Environmental matters:**
During the year 2012 Telefónica strengthened the services related to "Green ICT", which has led the Company to maintain its leadership in the "Carbon Disclosure Project" within IT sector. Our recommendation is to continue monitoring and improving the policies and indicators regarding waste management.
- 3) The community**
During the year 2012, Telefónica continued working on its commitment to society, increasing its financial contribution to "social action" and keeping its human resources policies, as reflected in work environment surveys and awards like "Best Place to Work". Our recommendation is to establish methods to measure the impact of the projects of "digital inclusion" and to expand the information on various aspects of compensation. In addition, we recommend developing policies and standards for the management of diversity and equality.

This report has been prepared solely for the Human Resources and Corporate Reputation Committee of Telefónica, S.A., in accordance with the terms and conditions set out in our engagement letter.

ERNST & YOUNG, S.L.

 **AA1000**
Licensed Assurance Provider
(000-99)

(Free translation from the Original Report on Independent Review in Spanish dated 29th May 2013. In case of any discrepancy, the Spanish version always prevails)

2



LBG Assurance Statement: Telefónica

Corporate Citizenship has been asked to provide assurance on Telefónica's application of the LBG measurement model for the year to 31st December 2012.

The LBG model provides a robust and credible framework which measures the real value and impact of corporate community investment to both business and society. It moves beyond charitable donations to include the full range of contributions (in employee time, in-kind, and in cash) made to community causes.

Our work has been limited to assuring the correct application of the LBG model. This is the fifth year that Telefónica has used the LBG model and it continues to be an active member of the LBG España group.

In our opinion, Telefónica continues to show that it understands the LBG model and that it applies its principles to the measurement of community activities at home and abroad. Below we identify some improvements that can be made as the company develops its application of the model in the future.

Commentary

Telefónica has achieved a position where it is consistently and comprehensively applying LBG methodology to calculating its community investment. We look forward to Telefónica extending the reach of its application to capturing staff paid time dedicated to volunteering fully, and to reporting it in future years.

In 2012 LBG España has perfected the outputs and impacts part of the LBG model. We trust that Telefónica will report on the outputs and impacts of some of its more significant programmes in future to enable a more complete insight into the lasting contribution that it makes through these programmes.

Corporate Citizenship

23 April 2012

www.corporate-citizenship.com

Glossary of terms

Below is a a short dictionary explaining various concepts published in this report, as well as the most frequently used acronyms.

| Term | Definition |
|-------------------|--|
| A | |
| AA1000 | Family of standards from Accountability, covering the AA1000 Framework for reporting plus standards for assurance (AA1000AS) and engagement (AA1000SES). |
| ARPU | Acronym for Average Revenue Per User, a measure used primarily by consumer communications and networking companies, defined as the total revenue divided by the number of subscribers. |
| C | |
| CDP | Acronym for the Carbon Disclosure Project. The CDP is composed of two indexes which list 551 institutional investors with 71 billion dollars under management and rate companies' transparency and performance vis-à-vis climate change. |
| Cloud computing | Delivery of computing services and storage capacity via the Internet. |
| COSO | The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a voluntary private-sector organization, established in the United States, dedicated to providing thought leadership to executive management and governance entities on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting. |
| Organic growth | In financial terms, it assumes constant average exchange rates as of January-December 2010, and excludes changes in the consolidation perimeter and hyperinflation. |
| Underlying growth | Reported figures, excluding exceptional impacts and spectrum acquisition. |
| D | |
| DJSI | Acronym for Dow Jones Sustainability Index. Launched in 1999, the DJSI is a family of indexes evaluating the sustainability performance of the largest 2,500 companies listed on the Dow Jones. They are the longest-running global sustainability benchmarks worldwide and have become the key reference point in sustainability investing for investors and companies alike. |
| E | |
| E-Health | Healthcare practice supported by electronic processes and communication. |
| ETNO | Acronym for European Telecommunications Network Operators' association, principal policy group for European electronic communications network operators. |
| G | |
| GRI | Acronym for Global Reporting Initiative. Organization and set of guidelines for corporate sustainability reporting. |
| GSMA | Association of mobile operators and related companies devoted to supporting the standardization, deployment and promotion of the GSM mobile telephone system. |
| GeSI | Acronym for Global e-Sustainability Initiative. Initiative by information and communications technology industry that aims to influence the sustainability debate, raise awareness of its members' sustainability activities, and promote technologies. |

| Term | Definition |
|--|---|
| I | |
| Digital Inclusion | Aims to achieve that "no one is left behind" in enjoying the benefits of ICT. Digital Inclusion means both inclusive ICT and the use of ICT to achieve wider inclusion objectives. |
| SRI | Acronym for Socially Responsible Investing, relates to those investors that take into account ethic, social and environmental criteria in the decision processes as a complement to the traditional financial criteria of liquidity, profitability and risk. |
| ITU | Acronym for the International Telecommunication Union, the specialized agency of the United Nations which is responsible for information and communication technologies. ITU coordinates the shared global use of the radio spectrum, promotes international cooperation in assigning satellite orbits, works to improve telecommunication infrastructure in the developing world and establishes worldwide standards. |
| ICT | Acronym for Information and Communication Technologies. |
| L | |
| LBG | Standard for the measurement and management of community involvement. |
| M | |
| M2M | Acronym for Machine to Machine, refers to technologies that allow both wireless and wired systems to communicate with other devices of the same ability. |
| Materiality | Identifying processes of the issues that are most significant to the business, giving some weight to the interests of wider stakeholders. |
| N | |
| NGA | Acronym for Next-Generation Access, describes a significant upgrade to the telecommunication access network by replacing some or all copper cable with optical fiber. |
| O | |
| Millennium Development Goals | The eight international development goals that all 193 United Nations member states and at least 23 international organizations have agreed to achieve by the year 2015. |
| P | |
| Global Compact | United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labor, the environment and anti-corruption. Under the Global Compact, companies join forces with UN agencies, labor groups and civil society. |
| S | |
| SDC | Acronym for Servicio de Defensa del Cliente en España, the Spanish customer ombudsman service. |
| T | |
| Absenteeism Rate (AR) | The real number of days lost due to absenteeism, expressed as a percentage with respect to the total number of working days foreseen for the collective of employees during a reporting period. AR = (total no. of days lost due to absenteeism during the period/total no. of days worked by the collective during the same period) x 200,000* |
| Accident Incident Rate (IR) | The number of accidents related to the total time worked by the collective of employees during the object period of a report. IR = (total no. of accidents/total hours worked) x 200,000* |
| Lost Work Day (LWD) Rate | Impact of accidents and professional illnesses, as reflected in the number of days unworked by the employees affected, expressed by comparing the total lost days with the total hours foreseen for work for the total workforce during the object period of a report. LWD = (total no. of lost days/total hours worked) x 200,000* |
| Tasa de enfermedades profesionales (ODR) | Cantidad de casos de enfermedades profesionales en relación al tiempo total trabajado por la totalidad del colectivo de trabajadores durante todo el periodo. ODR = (número total de casos de enfermedades ocupacionales / total horas trabajadas) x 200.000 ^(*) |
| TIC | Acrónimo de Tecnologías de la Información y la Comunicación. |

* Note: the 200,000 factor is the result of 50 working weeks of 40 hours for every 100 employees. Using this factor, the calculated rate remains linked to the number of employees and not the number of hours.

Telefónica, S.A.
2012 Corporate Sustainability Report

This report is available on the Telefónica website at:
<http://annualreport2012.telefonica.com>

Shareholders may also request copies of this report from the Shareholders' Office by using the free phone number 900 111 004 (in Spain) or by sending an e-mail to: accion.telefonica@telefonica.es

Since June 2013, this report is also multi-platform/cross-platform available

Likewise, the mandatory information that must be provided under prevailing legislation is also available to shareholders and the general public.

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<http://annualreport2012.telefonica.com/informe-sostenibilidad/carta-del-presidente.html>