

# **Supply Chain Sustainability Policy Telefónica Group**

## **Corporate Policy**

Approved by: the Telefónica S.A. Administrative Board during its meeting of July 27, 2016.

Telefónica, S.A.  
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## **1 INTRODUCTION**

Telefónica is aware of its responsibility in the supply chain arising from both its international presence and the influence enabled by its business volumes. To address this responsibility the company promotes, establishes and maintains elevated standards and requirements to be respected by its partners and suppliers both with respect to product and service quality and with respect to the management of ethical considerations like labour, environmental impact and social contribution throughout its supply chains.

This Policy has its origins in the Telefónica Business Principles which constitute the reference framework in the relationship of the Company with its different stakeholders, and more specifically in the commitment taken on by Telefónica with Sustainable Management in the Supply Chain.

It has been drafted in accordance to international norms such as the Governing Principles for Companies and the UN Universal Declaration of Human Rights, the International Labour Organization conventions, OECD (The Organisation for Economic Co-operation and Development) guidelines, and ISO (International Standards Organization) criteria.

This Policy is not only in line with the vision Telefónica has in terms of sustainability and risk management but also with a strategic business position in which we consider as extremely important:

- The establishment of stable and mutually beneficial relationships with our suppliers.
- Compliance with ethical, social, and environmental behaviour standards by both our own company its employees and our partners and collaborators.

It also reinforces our commitment with United Nations initiatives of Global Compact, the Sustainable Development Goals, and the defence of Human Rights.

## **2 SCOPE OF APPLICATION**

This is a corporate Policy and is therefore applicable to all companies belonging to the Telefónica Group.

Telefónica, S.A. in its role as parent company in the Group, is responsible for establishing the fundamentals, instruments and mechanisms needed for an appropriate and efficient coordination between this Company and the other group companies; this remains without prejudice to and not undermine the autonomous decision making capability that corresponds to each of these companies, in accordance with their own corporate purpose of each of and the fiduciary duties that the members of their Boards of Directors have with regard to their shareholders.

This Policy applies to all Purchases of Products and Services for the Telefónica Group, regardless of its operations and geography.

Similarly, it refers to the entirety of the Telefónica supply chain, applying to both direct and indirect suppliers. This implies the supplier will respond jointly and severally, and without limits, for any breaches of the minimum standards included in this Policy.

### **3 GENERAL PRINCIPLES OF ACTION**

Telefónica is committed to acting with rigor, objectivity, transparency, and professionalism in its relationships with supplies, and specifically with:

- Ensuring compliance with our commitments towards suppliers.
- Using mechanisms that promotes reasonable transparency in the management of purchases, especially in negotiations with suppliers and in the decision making process for the awarding of the purchases.
- Ensuring equal opportunity to all suppliers involved in a specific procurement process, basing the selection of suppliers, the awarding of purchases and other decisions on objective criteria.
- Encouraging a culture of Sustainable Business among our suppliers.
- Working with our suppliers in order to ensure compliance of our Minimum Standards for Sustainable Business (contained in this document) and supporting continuous improvement.
- Evaluating compliance to the Minimum Standards for Sustainable Business demanded through independent supervision and/or verification. This verification may be carried out through information provided by the supplier itself and/or through on-site audits. Telefónica expects its suppliers to provide adequate timely responses to its requests for information, be it directly or through its verification platforms (depending on Telefonica's preference), and to provide Telefónica or its representatives reasonable access to all pertinent information, facilities, and workers in order for verification to be carried out.

Any company or organization that wishes to be considered as a Telefónica supplier must comply with the Minimum Standards for Sustainable Business, and transfer at all times the demand for compliance with the Minimum Standards for Sustainable Business to its subcontractors. Any breach of the aforementioned standards by a Supplier will be considered a breach of contract, allowing for Telefonica to end its commercial relationship with the Supplier and giving Telefonica the right to demand any and all damage and liability which Telefónica may incur as a result of the breach and/or contract termination.

Notwithstanding the above, Telefónica may opt not to terminate the contractual relationship, but to demand corrective measures which result in compliance on the part of the Supplier of the Minimum Standards for Sustainable Business. In this case, the evaluation of the corrective measures and whether they are adequate, both in impact, form and timeframe, will be carried out exclusively by Telefonica.

## 4 MINIMUM STANDARDS FOR SUSTAINABLE BUSINESS

### 4.1 Ethical Criteria

- **Compliance with the Law:** the supplier must at all times comply with any and all applicable norms, be they international, national, or local, in the context of its relationship with Telefonica.
- **Anti-corruption:** Telefonica respects legislation in force, professional ethics and internal regulations, and never allows for any form of corruption, extortion or bribery. Suppliers must actively and consistently fight against any form of punishable or unethical influence with respect to decisions related to Telefonica or other companies or entities. Suppliers will act against corruption within their own company. This implies refraining from making or offering, directly or indirectly, any payment in cash or in kind or in any other form, to any person or legal entity acting for the benefit of any authority or public or private entity, with the aim of obtaining or maintaining any sort of benefit.
- **Conflicts of interest:** The relationship between companies of the Telefonica Group and its commercial partners are governed by objective criteria. Under no circumstance may the awarding of purchases or the signing of a procurement contract be influenced by personal relationships or interests of employees. No employee may directly or indirectly obtain profit as a result of the awarding of a contract. Consequently, any benefit or gift offered or received which is meant to influence an independent decision or the behaviour of the parties involved will be prohibited.

### 4.2 Social Criteria

- **Labour relationship:** The work done by the employees of the supplier must be based on a recognized labour relationship established in accordance to all applicable legislation. The obligations of the company with respect to its employees regarding labour or social security norms will not be avoided. Abuse of service provision contracts or the recurring use of subcontracts, to avoid legal obligations will not be allowed. Workers must be provided with a written employment agreement in their native language. Workers shall not be required to pay employers' or agents' recruitment fees or other related fees for their employment. If any such fees are found to have been paid by workers, such fees shall be repaid to the worker.
- **Work schedule:** The standard supplier work schedule will respect the national legislation and the industry norms of reference, the criteria that offer the highest levels of protection for the employee will prevail. Workers will not be demanded on a regular basis to work more than 48 hours per week, and they will be provided with a minimum of one day off for every average period of 7 days. Overtime required by the employer shall be voluntary and must not be requested on a regular basis, and will always be compensated with a special rate. In accordance to what is established in Convention 1 of the ILO, these dispositions are aimed at functions other than those of supervision and/or management.

- **Salaries:** The remuneration of the employee must reach or exceed the minimum legal national, or local, limits as the case may be. In any case, salaries must not be paid in kind and must be sufficient to satisfy all basic needs. Employees must receive understandable information, in writing, regarding their labour conditions with respect to their salary before beginning the labour relationship, as well as periodic detailed information regarding their salary for the period of time corresponding to each salary they receive. Salary deductions as a disciplinary measure will never be allowed. All disciplinary measures must be recorded.
- **Forced Labour and Trafficking:** Work will not be done under conditions of slavery, or involuntary or forced conditions. Workers must not be required to provide deposits or identification documents and shall be free to leave their employment after reasonable notice. Physical abuse or discipline are prohibited, as well as the threat of physical abuse, sexual harassment of any other kind, verbal abuse, or other forms of intimidation. Supplier will operate defined policy and process to ensure that slavery and human trafficking is not taking place in any of its supply chains, and in any part of its own business.
- **Child and Young Person labour:** The supplier shall guarantee that there will be no child labour in its activity or its own supply chain. In cases where the supplier is forced to eliminate a situation of child labour it will take place in a manner consistent with the best interests of the children concerned. Children and young people under the age of 18 that, according to local legislation may have access to the job market shall not work during the night or under dangerous conditions. Any action taken shall be in consideration of the best interests of the child in accordance to the dispositions of Convention 138 of the ILO, and will be coherent with the UN Convention for Children's Rights.
- **Freedom of association and the right to collective bargaining:** The workers of the supplier and its subcontractors shall have the right to create unions and to become unionized and if a sufficient portion of the workers should so agree, to collectively bargain. The employing company will adopt an open attitude with respect to the activities of the unions and their organizational activities. The representatives of the workers shall not be discriminated against and may carry out their representation functions in the work place. If the legislation should limit freedom of association and collective bargaining, the employer must facilitate and not obstruct the development of parallel legal means for free and independent association, as well as negotiation.
- **Non-discrimination:** A policy of equality shall be carried out and there will be no discrimination in hiring, compensation, access to information, promotion, termination, or retirement for reasons of race, caste, colour, gender identity, pregnancy, parental status, national origin, religion, age, disabled, sex, marital status, sexual orientation, union affiliation, or political affiliation.

- **Health and Safety:**
  - The supplier shall provide its employees with a safe and healthy work environment considering local, national, and international norms according to the dangers/risks inherent to each activity.
  - Adequate measures must be taken to prevent injury and the occurrence of accidents, related to or occurring during work, minimizing the causes of the dangers inherent to the activities and work environment.
  - The supplier shall provide its employees with appropriate tools for their activity, as well as any Individual or Collective Protection Equipment necessary to ensure safe working conditions considering the risk level to which they are exposed.
  - Workers shall receive training regarding Health and Safety that enables them to identify any dangers associated with the activity and the work environment, and the practices necessary for minimizing the risks.
  - Access to clean toilets, fresh water and sanitary facilities for the storage and consumption of food will be provided to workers.
  - When board is provided, said board will be clean, safe, and will satisfy the basic needs of the workers.
  - The company will assign a senior Manager responsible for Health and Safety.
  - If an accident occurs, or any public health issues which affects the supplier, they will immediately inform Telefonica.
  - Suppliers will enforce or be in the process of enforcing Health and Safety policy and procedures that satisfy the requirements of OHSAS18001, or other internationally recognized standards.
  - Suppliers, contractors, or other personnel that work in Telefónica facilities, must comply with all of the aforementioned, and their employees and autonomous contractors must comply with the Telefónica Health and Safety criteria, as well as with any instructions indicated by Telefónica.
  - Policies and procedures shall be in place to manage, minimise, track and report occupational safety risks, Industrial hygiene risks and occupational Injuries and illnesses.
  - Emergency preparedness plans will be established and maintained aimed at minimizing harm to life, the environment and property.
- **Minerals originating from areas affected by conflict and high risk (conflict minerals):** The supplier shall operate clear policy and process to ensure that they are compliant with the section 1502 of the Dodd-Frank Wall Street Reform and Protection of Consumers Law. Additionally the supplier policy and procedures shall align with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

### 4.3 Environmental Criteria

- **Compliance with the law:** the supplier shall at all times act in compliance of international, national, and local environmental legislation, especially in terms of waste, emissions, noise, resource consumption and dangerous substances.
- **Life cycle and preventive action:** The supplier shall operate preventive measures that minimize the environmental impact derived from its activity. To do so, it will consider the entire life cycle, from the extraction of the raw materials, production, transportation, through to the management of waste, avoiding pollution of the environment. The supplier will also ensure, as much as possible within the context of their commercial relationship, that Telefónica is enabled to minimize its environmental impacts by providing energy efficient products and services.
- **Environmental policy:** the supplier shall operate under a documented and maintained environmental policy that includes commitments to protect the environment, comply with all corresponding laws, and to continuous improvement.
- **Environmental management:** the supplier shall operate or have a plan to operate, a documented environmental management system that guarantees the effective planning, management and control of its environmental impacts. The system must satisfy the requirements of ISO 14001 or other internationally recognized standards.
- **Climate change:** the supplier will take action to minimize the impact of its activities on climate change considering in its planning for such action the entire supply chain (scopes I, II, and III). It will seek to minimise greenhouse gas emissions from all its activities but as a minimum must address activity it carries out for Telefónica. The supplier will support any Telefonica requests for data on greenhouse gas emissions or energy consumption relevant to the products and services it provides to Telefonica.
- **Waste:** the supplier shall operate systematic processes for the management of waste, especially for waste relating to its activities for Telefonica. Material reuse and recycling should be addressed where possible as a priority.
- **Dangerous substances:** the supplier will comply with all laws, regulations and requirements with respect to the prohibition or restriction of dangerous substances. Dangerous chemicals and other materials included in products, especially those included in the list of Substances of Very High Concern included in the Reach Regulation, must be identified and handled so as to ensure their safe use and recycling, reuse or elimination. Their use must be avoided or, if not possible reduced to a minimum. The suppliers shall provide electric or electronic equipment that complies with all relevant European Union legislation, including but not limited to, RoHS and REACH, regardless of the country where the product will be used, including non-European countries.
- **Consumption of materials, resources, and atmospheric emissions:** The supplier shall use eco-efficient criteria in the development of its activity with Telefónica,



especially with respect to scarce resources such as water, or non-renewable resources. It will also avoid the emission of contaminating gasses into the atmosphere. In the case of services or products that require the use of substances that exhaust the ozone layer, the supplier is informed that the use of such substances as regulated by international norms, such as the Montreal Protocol is prohibited in any products or services supplied to Telefonica,

#### **4.4 Criteria for privacy and confidentiality of information**

The supplier will operate a policy regarding privacy that includes a commitment to protect the confidentiality of the personal information that has been entrusted to it, be it from clients, stockholders, employees, or suppliers, in accordance with the applicable data protection legislation and the Telefonica instructions. Specifically, suppliers commit to:

- Not use, under any circumstance the information it is entrusted to provide services other than the ones it is providing to Telefonica.
- Not transfer personal data to third parties
- Not reveal to third parties (and to ensure its employees and subcontractors do not reveal) any information or confidential material to which it may have access to via its relationship with Telefónica.
- Destroy or return all personal data once the service is terminated, by means of a process that offers maximum guarantees in terms of data protection. Supplier will not keep copies of the data and will ensure no third parties have knowledge of the data.
- The supplier will apply maximum caution when safeguarding personal information with the aim of ensuring its confidentiality and integrity, implementing the technical and organizational measures required with respect to the custody, storage and conservation of the data and with the aim of avoiding its alteration, loss, unauthorized treatment or access, in accordance with legislation in force regarding intellectual property and the protection of personal information, as well as the security standards of Telefónica. If at any time this security is compromised, supplier will act quickly and responsibly and inform Telefonica immediately

## **5 CHANNEL FOR QUERIES AND COMPLAINTS**

Suppliers and their employees may raise queries or complaints regarding the compliance of these minimum standards for sustainable business through our confidential channel available at the Supplier's Website ([https://www.telefonica.com/en/web/about\\_telefonica/suppliers](https://www.telefonica.com/en/web/about_telefonica/suppliers)).

Questions may be communicated anonymously or not. All queries will be treated confidentially and thoroughly investigated. Supplier shall inform Telefonica as soon as

possible if they discover any breach of this policy in their own operations or supply chain.

## 6 CHANGES AND UPDATES TO THE POLICY

This Policy updates and repeals the Policy of Responsibility in the Supply Chain published and ratified in June of 2010, and will become effective on the day of its approval by the Administrative Board.

## 7 DEFINITIONS

- **Child:** Any person under the age of 15, unless local legislation establishes a higher age for mandatory work or schooling, in which case the highest age will be apply. In cases where local legislation sets the minimum age at 14 years old, this younger age will be applied in accordance to what is described in Convention 138 of the ILO for third world countries.
- **Young person:** Any person older than a child, according to the previous definition, and who is younger than 18 years of age.
- **Child labour:** All work performed by a child or young person, that does not comply with the dispositions of the pertinent ILO norms, and all work that may imply a risk or interfere with the education of a child or young person, or could be damaging to the health or physical, mental, spiritual, moral, or social development of a child or young person.
- **Conflict Minerals:** Those minerals that meet the following two conditions:
  1. Any of the following minerals:
    - a. Cassiterite, the metal ore from which tin is extracted;
    - b. Columbite-Tantalite, known as coltan, the metal ore from which tantalum is extracted;
    - c. Gold;
    - d. Wolframite, metal ore from which Tungsten is extracted.
  2. Minerals that were extracted from the Democratic Republic of the Congo, Angola, Burundi, Central African Republic, Republic of the Congo, Southern Sudan, Tanzania, Uganda, Zambia, or any other Country considered as conflict area in the future.

Excluded from this definition or category are those minerals that, having been extracted from countries considered to be areas of conflict, have the corresponding certification (*by an independent body*) that accredits that their extraction has not encouraged armed conflicts and/or abused Human Rights in said areas.