Telefónica | vivo

2014
Annual Sustainability
Report

Index

Presentation

About the report

Telefônica Vivo is releasing its Annual Sustainability Report, prepared based on Global Reporting Initiative (GRI) G4 methodology, to account for its activities in Brazil in 2014, to present the main highlights of the year to company stakeholders and to serve as a tool for managing sustainability.

The publication is the result of a partnership involving diverse company areas. In great part the information and data presented here refer to Telefônica Vivo, due to its importance within the group. The data were supplied by internal areas and reviewed by Ernst & Young.

To clarify any doubts and comment on the content of the report, the reader may send an email to sustentabilidade.br@telefonica.com.

In accordance with the parameters established for the G4 core option regarding the prioritization of the contents, the company used its materiality matrix, which sets forth the main strategic and priority aspects for the company and for its stakeholders and the indicators selected. Interviews were also conducted with professionals from key company areas.

This report contains 34 general content items (information about strategy and analysis, organizational profile, material topics and boundaries identified, stakeholder engagement, report profile, governance, ethics and integrity). 34 economic, social and environmental indicators were also reported, as was the management approach to the material aspects. The publication covers the period from January 31st to December 31st, 2014.

Materiality
matrix

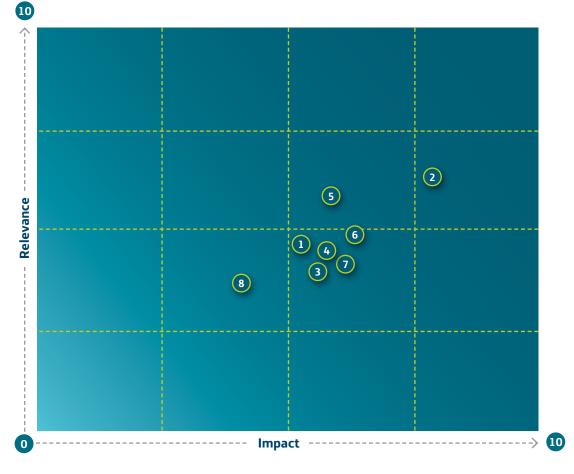*[GRI G4-17; G4-18; G4-19; G4-20; G4-21; G4-24; G4-25; G4-26; G4-27]*

Telefônica Vivo conducts its materiality process on an annual basis. This permits the company to identify the most relevant questions for the business and for its stakeholders, which directly or indirectly impact business strategy. The process permits the more effective establishment of priorities, targets and lines of action.

The material topics were identified in alignment with the company headquarters in Spain and all the countries in which Telefónica operates. As such, the assessment from the company's standpoint is the same worldwide – as are the business strategy and philosophy. Even so, the materiality process took into account the specific characteristics of each region, identified by means of a survey conducted by the GSM Association, aimed at understanding society's main needs.

The initiative permitted each country to design its own matrix, taking into account the regional demands of customers, shareholders, suppliers, employees, government, opinion formers, communication media, non-governmental organizations and industry associations.

For 2014, the most relevant topics identified for Brazil are shown in the following matrix. Consequently, our report presents information related to the more relevant topics in greater detail, as shown in the list and in the chart below.

Material topics

1. Digital inclusion
2. Privacy
3. Employees
4. Environment
5. Sustainability in the supplier chain
6. Customers
7. Governance
8. Impact on communities

Indicators
Telefônica Vivo

Economic impact (R$ millions)	2014	2013	2012
Net revenue	35,000	34,722	33,920
Investment in infrastructure (Capex)	9,140	6,033	6,117
Investment in technological innovation	6,215	4,150	3,653
Taxes*	14.1	15.2	16.5
Purchase volume	21,691	19,645	18,205

*The numbers were restated based only on the Telefônica Brasil operation.

Customers	2014	2013	2012
Total number of customer accesses (thousands)*	95,375	92,547	91,116
Customer satisfaction (fixed)	6.65	6.98	7.40
Customer satisfaction (mobile – prepaid)	7.31	7.63	7.97
Customer satisfaction (mobile – contract)	7.07	7.16	7.65
Number of complaints per million customers (fixed)	1.36	1.44	1.13
Number of complaints per million customers (mobile)	0.31	0.33	0.25
Rate of complaints resolved in up to 5 days (fixed) (%) **	81.852	88.958	90.046
Rate of complaints resolved in up to 5 days (mobile) (%)	87.367	86.924	89.382

*Official Anatel data. **The rate of complaints resolved in up to 5 days (fixed) takes into account data on local fixed calls, long distance fixed calls and pay TV. From August 2013, Anatel no longer required data on long distance fixed calls, therefore, they were not included in the indicator.

Employees	2014	2013	2012
Total number of employees	18,419	18,532	19,481
Hours training per employee	10	8	20
Number of women in director-level positions	33	36	39
Employee satisfaction (%)	86	82	86

Suppliers	2014	2013	2012
Number of suppliers contracted	2,067	2,877	3,363

Society	2014	2013	2012
Social investment by Fundação Telefônica Vivo (R$ millions)*	40,873	42,597	41,418
Direct beneficiaries of the Fundação Telefônica Vivo	358,425	470,558	1,390,626

2014 accomplishments
and 2015 directives

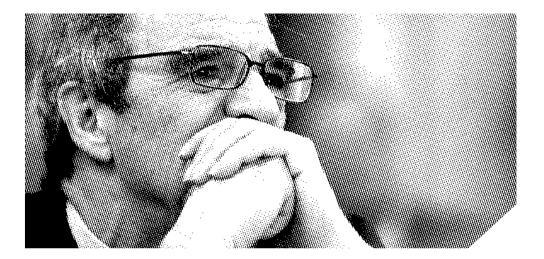| Strategic priorities	Directives	2014 accomplishments
Leverage mobile leadership	Maintain Vivo's outright leadership of the mobile market through a differentiated network that sustains increased demand and the quality differential	In the mobile sector, Vivo is the outright leader in number of customers (with 28.6% market share), among higher value customers (with 41.8% in postpaid market share) and in average revenue per user (Arpu) growth, around 47% above market average. During the year, the company consolidated its leadership in 4G, with coverage in 140 municipalities.
Transform the fixed operation	Transform Vivo into a "Fibre Co", delivering the best fixed services with efficiency	In 2014, the company reached 61% in share in net broadband additions at speeds above 34 Mbps in the state of São Paulo. The number of residences apt for fibre optic connection exceeded 4 million in the year and the base of accesses reached 375 thousand in the fourth quarter.
Transform the customer experience	Provide a positive experience at all stages of the customer life cycle, adjusting service levels to their needs.	Vivo continued to deliver quality that is differentiated and perceived by its customers, with the highest satisfaction rate in the industry (0.08 point above the second operator). There was a 14% reduction in the rate of customer contacts with complaints, with resolution of 81% of the problems on first contact.
Capture digital opportunity	Reinforce leadership in the digital world, increasing relevance in the "digital life" of the customers	In mobile internet, Vivo maintained a high growth rate in the year, advancing 32.2% in the annual comparison. Revenues from Value Added Services grew 42.6% in 2014 compared with the previous year, driven by services such as the Education Platform, Vivo Segurança, Vivo Sync and Vivo Som de Chamada. In the M2M (Machine to Machine) market, the access base maintained strong growth, reaching the mark of 3.5 million customers in December, a 48.7% increase over the previous year.
Seek simplicity, agility and efficiency	Ensure greater efficiency by means of simplification and cost reduction, as well as maintaining the company's financial discipline and prioritizing investments in growth projects that generate greater value	Yet again, Vivo was the leader in profitability, with the best margin in the market, (31.5%) and costs controlled below inflation (2.1% versus 6.4% for the IPCA index); The company invested R$ 9.1 billion in 2014 focused on expanding fibre optic and fourth generation technology coverage, in addition to transmission infrastructure and 3G capacity. This amount included the purchase of licenses and cleaning the 700MHz spectrum.
Leverage the power of a single culture and a leading brand	Promote the development of a single, integrated culture, establishing a common way of thinking, shaping the different groups' mindsets and behaviours, driving alignment and satisfaction	In an unprecedented movement, Telefônica Vivo launched a campaign which shared its strategy with all employees on a mass basis, striving to transform our company with the motto "I believe, what about you?" Vivo reached an 86% employee satisfaction rate, four percentage points up on the 2013 survey.

2015 Directives

Strategic Priorities	Directives
To maintain unassailable leadership in the mobile business and in convergence	We will continue to differentiate our mobile offering through data network quality and innovative digital services; we will invest in cross-selling - selling the company's mobile services to GVT customers, and vice-versa – to develop convergent offerings (4-Play) that benefit customers; we will expand the Vivo brand to consolidate GVT attributes; and we will strengthen our channel network to offer the best customer experience, both online and in our stores
Achieve a leadership position in the Brazilian 3P market	We will offer a competitive 3P portfolio nationwide, which will be leveraged by a better Pay TV offering (100% HD and with interactive services); we will strengthen our operational model, guaranteeing the best practices, segmented models and technological solutions to simplify processes and improve the customer experience; and we will optimize the expansion of our ultra broadband network, using the most appropriate technology for each market segment, both in and outside São Paulo
Consolidate the company's position in the business market nationwide	We will leverage the GVT network outside São Paulo to grow in the corporate segment; we will take advantage of the expansion of the ultra broadband network in São Paulo to become more competitive in the Small and Midsize enterprise market; and we will maximize revenues by cross selling mobile and digital services
Customer focus as a fundamental element of the value proposition	To sustain our premium positioning, we will implant a segmented customer service model, an end-to-end quality programme and an optimized field operations model. We will also tactically leverage the GVT IT systems to improve the customer experience in concession areas
Constantly seek excellence in costs and optimization of Capex	We will leverage the complementary elements of the Telefônica Vivo and GVT networks to optimize infrastructure, and we will capture value through efficiency initiatives and scale in procurement, logistics, administration and other areas
Establish a high performance culture	With a single culture, customer focus, financial discipline and focus on performance, effectively taking advantage of the Telefônica Group's global scale and know how

Declarations
from the CEOs
[GRI G4-1; G4-12; G4-15; G4-DMA; G4-EC9]

**DECLARATION FROM THE CHAIRMAN
AND CEO OF TELEFÓNICA S.A.**

Dear friends,

It is a pleasure for me to address you once again to introduce Telefónica's Annual Sustainability Report. This Report, which we have been publishing for over ten years, responds to our commitment to information and transparency for the various stakeholders that the Company deals with.

By publishing this document, Telefónica is anticipating compliance with Directive 2014/95 of the European Union with regard to "disclosure of non-financial and diversity information by certain large undertakings and groups", which should be implemented by member States shortly.

Our sustainability strategy allows us to take advantage of the opportunities offered to us by new technologies in order to reduce the digital divides and efficiently manage the inherent impact of the economic, environmental and social development of our Company. At Telefónica we are convinced that technology should be open to everyone, so that we can all BE MORE. Therefore, we want to contribute to the development of society, accessibility and protection of the environment through our technological innovation impact, while at the same time we generate more sustainable products and services for our customers.

This report addresses the advances and challenges that Telefónica faces in the three basic dimensions of sustainability: economic, social and environmental. In terms of economic impact, I would like to highlight the technological innovation of our sustainable products and services, from Green products to Smart Cities. With respect to our supply chain, at Telefónica we continue to support local providers. Thus, in 2014 we allocated 85% of our purchase volume to local suppliers.

Telefónica establishes in its Privacy Policy, approved by the Board of Directors, the guidelines that Group companies must follow to protect the privacy of all those people who trust us with their personal information. Regarding social impact, our commitment to health and safety at work is outstanding. All Telefónica Group companies have obtained health and safety certification according to the OHSAS 18001 standard. Furthermore, let me stress our firm commitment to digital education, a key lever for the development of individuals and society as a whole.

In addition, we have various initiatives in place such as Talentum, Telefónica Open Future that drive youth employment and have enabled 9,047 young people under the age of 30 to join our Company.

In relation to the responsible use of the Internet, in Movistar we launched the interactive Familia Digital portal, which establishes best practices and allows parents and teachers to exchange experiences. In parallel, we have launched sustainable innovation projects such as Reto Ability, developed by Telefónica Open Future, to promote innovation in accessibility. Finally, in relation to the environment, Telefónica has been working for years to reduce the impact of our activity while simultaneously working towards solutions to environmental challenges using digital technology. Hence, thanks to our energy and emissions targets, we have reduced CO_2 emissions by more than 100,000 tonnes by means of efficiency projects over the last four years. M2M services and Smart Cities, which have grown 40% in the last year, are already offering tangible results in environmental enhancements for other sectors.

At Telefónica we believe it is very important to offer comprehensive information on the progress of the most important topics to our company stakeholders, through our sustainability policies and in line with the criteria of reporting guidelines, such as the GRI and the United Nations Global Compact.

In 2014, all of this has allowed our Company to be the most admired Telecommunications Company in Europe and third in the world, according to Fortune magazine. We are among the five leading telecommunications companies in the Carbon Disclosure Project and continue to be one of the most valued companies by specialised analysts, being part of the Dow Jones Sustainability Index Europe, FTSE4Good, Sustainalytics and MSCI, among others.

Allow me to remind you that Telefónica is today a fundamental player within the digital ecosystem and is strengthening its firm commitment to sustainability as a vital part of business.

I would like to conclude by expressing my gratitude to our stakeholders for their constant support, collaboration, and dialogue. Their thoughts and proposals have helped us, year after year, to shape a more sustainable company.

Thank you,

Cesar Alierta
Executive Chairman

DECLARATION FROM THE CEO OF TELEFÔNICA BRASIL

2014 saw very significant results for Telefônica Brasil and may be defined as the year in which we laid the cornerstone for the construction of a new company. In the second half of the year we initiated the acquisition of GVT, concluded in May 2015, uniting the leader in mobile telephony with the leader in ultra broadband.

Joining these two powerhouses has created the largest and most profitable telecommunications and pay TV company in Brazil, with the largest volume of customers (more than 103 million accesses at the end of 2014) and the highest revenues in the sector.

We have operated as a single company from the moment of the integration thanks to an agile process which allowed us to combine the best of the two companies, taking the organization to even higher levels of excellence, performance and employee engagement.

The distinguishing characteristic of this merger is the way the operations complement each other. We are going to prioritize best practices, focused on constantly improving quality, offering the customer the best experience, seeking synergies, expanding services and making the company even more digital.

In 2014 we also concluded an investment cycle that totalled R$ 27 billion. These funds have enabled us to create the biggest and most robust mobile infrastructure in the country. Using this as a base, we are working to consolidate Telefônica Vivo as the first digital telco in Brazil.

Our products include pay TV, voice, fixed and mobile broadband and we are ready to enhance our commercial offerings with triple and quadruple play. Now we need to place further emphasis on the applications that make people's lives easier, both at work and at play. The world is undergoing a technological revolution. Therefore, we reaffirm our focus on innovation, with an incomparable portfolio of digital solutions in areas such as health, education, security, machine to machine (M2M) and video.

We also want to improve urban life with solutions that drive mobility and security. With partnering companies, in 2014 we concluded the transformation of Águas de São Pedro, a municipality in the state of São Paulo, into the first Digital Smart City in the country.

Regarding the environment, we work responsibly in the use of natural resources and the reduction of the negative impacts caused by our operations. Examples are services such as Online Billing and the Sustainable Sales System, which are completely paperless.

In the social area, the work done by the Fundação Telefônica Vivo continues to make a difference for children and young people, contributing to community development. Under the Connected Rural Schools project, 6,773 schools in rural areas now have third generation (3G) connection, and the project will continue to advance throughout 2015.

Telefônica Vivo's positive performance on diverse fronts ensured its inclusion in the BM&FBovespa Corporate Sustainability Index (ISE in the Portuguese acronym) for the third year running, reflecting the company's ongoing commitment to sustainability. Another commitment is to the principles of the UN Global Compact, to which we have been signatories since 2010.

The company has myriad challenges and targets, for which reason I would like to thank the support and trust deposited in Telefônica Vivo by our employees, customers, shareholders, suppliers, financial institutions and other organizations. We are on the threshold of a new era for the business, with a company that is well-positioned, dynamic and agile.

Enjoy this report!

Amos Genish
CEO, Telefônica Brasil

Telefônica Vivo

[GRI G4-4; G4-5; G4-6; G4-7; G4-8; G4-9; G4-13; G4-23; G4-DMA; G4-EC1]
Telefônica is the largest operation belonging to the Telefônica Group, one of the most important telecommunications, information and entertainment conglomerates in the world, employing more than 120 thousand people in over 20 countries.

We initiated our activities in Brazil in 1998, establishing our headquarters in São Paulo. Since then we have built up a solid history of major achievements. The company has almost 20 thousand employees; it is present in more than 3,700 cities, serving over 95 million customers.

To meet the growing demand for technology we have been working towards making Telefônica Vivo a digital telco. We have a broad portfolio comprising fixed and mobile broadband, voice, ultra broadband, TV and IT services. Furthermore we seek to offer our customers practical, cutting edge solutions in the form of products and services in the areas of e-health, video, M2M, mobile advertising, payment via mobile, among others.

With a view to continuing to expand our operations and our geographical presence, in 2014 we initiated the acquisition of Global Village Telecom (GVT), a fast growing telecommunications operation in Brazil which high speed broadband, fixed telephony and TV services. We believe that this transaction will reinforce our leadership in the segment in Brazil.

Market leader
We are a leader in mobile telecommunication in Brazil. with a market share of 28.5% and a strong presence in the postpaid mobile services segment. Furthermore, we have an outstanding position in the fixed telephony sector in terms of market share in the state of São Paulo, where we initiated operations as a fixed telephony provider. In 2014, we reached a share of almost 60% in the ultra broadband market, with speeds in excess of 34 Mbps in São Paulo.
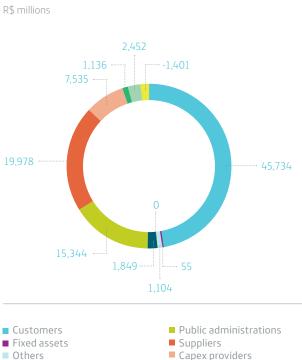
During the year, net operating revenue totalled R$ 35 billion, an increase of 0.8% over 2013. Revenues from mobile services were over R$ 22 billion, growing 3.8%, while fixed telephony services showed revenues of over R$ 11 billion, down 3.9% on the previous year.

Direct economic value generated and distributed

Cash flow in 2014

R$ millions

- ■ Customers
- ■ Fixed assets
- ■ Others
- ■ Financial creditors
- ■ Employees
- ■ Public administrations
- ■ Suppliers
- ■ Capex providers
- ■ Financial creditors
- ■ Shareholders
- ■ Financial investment

EXAME SUSTAINABILITY GUIDE

once again we were recognized by the Exame Sustainability Guide, produced by Editora Abril in partnership with the Fundação Getulio Vargas, as one of the companies with the best sustainable practices in Brazil

VISION

To blaze new trails that enable us to carry on transforming possibilities into reality so that we can generate value for customers, employees, society, shareholders and partners.

VALUES

Our values are represented in all our actions and are divided into:

3G

3,200
municipalities
already have access
to the 3G network

Commitment
RESPONSIBILITY, INTEGRITY, HONOUR, TRANSPARENCY AND TRUST

To drive the development of the communities in which we operate with ethical business behaviour. To drive the value of our shareholders' investment with a commitment to growth and profit. To offer a global commitment to the quality of our products and services for multinational corporations.

Vision
TO SEE AHEAD, TO ANTICIPATE, TO GET THERE FIRST, CLARITY AND BOLDNESS

To be a reference in the telecommunications industry and to understand the reality and diversity of the regions in which we operate. To be fully capable of foreseeing the future of the industry and, through innovation and technology, anticipate the transformations in the competitive environment.

Strength
SOLIDITY, POWER, LEADERSHIP, STABILITY AND SOLVENCY

Our history of success and constant growth is reflected in experience, professionalism , as well as local and global industry knowledge. The corporation's size and international reach qualify it as a robust company with expansion guaranteed.

Talent
KNOWLEDGE, DIVERSITY, CREATIVITY, INNOVATION AND EXPERIENCE

To have the best technical and intellectual competencies and an excellent team that reflects the diversity and the range of its knowledge. This enables us to transform the company's vision into useful solutions and innovations for the markets we operate in.

Corporate
governance

[GRI G4-34]

Our strategy is focused on the robust performance of our businesses, on driving the value of the company and on providing a return for our shareholders, investors and stakeholders in general. To do this, our actions and our relations are anchored in sustainability and in values such as transparency, responsibility, efficiency, innovation and trust.

We are a publicly traded company, featured for the third year running in the BM&FBovespa Corporate Sustainability Index (ISE in the Portuguese acronym), an achievement which reflects our commitment to sustainability. In 2014, our ordinary shares (ON) and preferred shares (PN) ended the year at R$ 39.89 and R$ 46.85, presenting respectively a devaluation of 0.3% and an appreciation of 4.5%, against a 2.9% depreciation of the Bovespa index during the year. The daily trading volume for the ordinary shares was R$ 934,100, against R$ 48,833,400 for the preferred shares. We also negotiate ADRs on the New York Stock Exchange (NYSE). These ended the year quoted at US$ 17.68, depreciating 8% during the period, against overall growth of 7.5% in the Dow Jones Index for the year. The daily average trading volume for ADRs was US$ 36,216,900.

STRUCTURE

The company has a solid governance structure consisting of the General Shareholder Meeting, Board of Directors, Executive Board and Fiscal Council. The Board of Directors has three support committees: the Audit and Control Committee, the Nominations, Compensation and Corporate Governance Committee and the Quality Control and Customer Service Committee. The functions of each of these bodies are defined in the Telefônica bylaws or in their respective internal regulations.
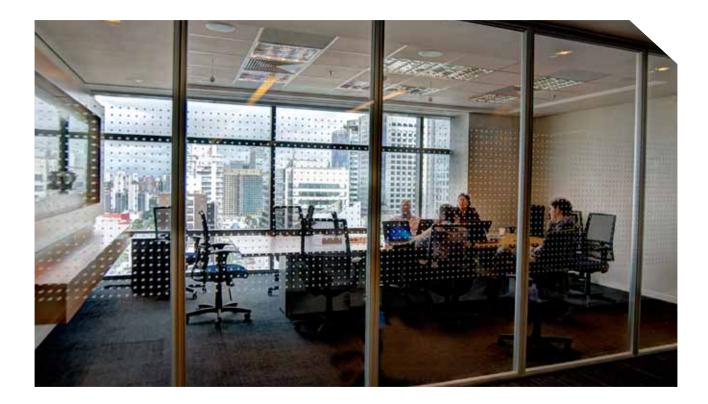
The remuneration of board members is fixed and is aligned with company strategy and market practices. In addition to their fixed remuneration, directors receive benefits and variable remuneration – which is divided into two parts: short-term incentives, related to the annual bonus programme tied to business results (financial, operational and quality) and individual targets; and long-term incentives, which involve share purchase options in accordance with pre-established conditions.

FURTHER INFORMATION

may be found in our Reference Form, available at www.telefonica.com.br/ri.

☞ GOVERNANCE BODIES

⇨ **Board of Directors:** this comprises at least 5 and at most 17 members, who serve three-year terms, with re-election permitted. The board meets once every three months and whenever deemed necessary, upon convocation by the CEO. It oversees the company's performance and decides on questions of importance for the business with the assistance of the supporting committees. Currently, the board consists of 12 members, all of whom are shareholders, one being elected by the separate vote of the preferred shares and the others by the general vote of the ordinary shares. In addition to meeting the legal requirements for eligibility to the board, the members have the competencies required by the mother company's human resources model, as well as broad experience in the market or in the company. Until 2014, the Telefônica CEO also acted as chairman of the Board of Directors.

⇨ **Executive Board**: comprising at least 4 and at most 15 members, charged with running the business in accordance with the guidelines defined by the Board of Directors. Currently, the company's executive board has 4 members;

⇨ **Fiscal Council:** this is a permanent body consisting of three effective members and three alternate members.

Composition of Board of Directors on December 31st, 2014

Name	Position occupied
Antonio Carlos Valente da Silva	Chairman of the board
Santiago Fernández Valbuena	Vice chairman of the board
Antonio Gonçalves de Oliveira	Board member*
Eduardo Navarro de Carvalho	Board member
Francisco Javier de Paz Mancho	Board member*
Jose Fernando de Almansa Moreno-Barreda	Board member*
Luis Javier Bastida Ibarguen	Board member*
Luiz Fernando Furlan	Board member*
Narcis Serra	Board member*
Paulo Cesar Pereira Teixeira	Board member
Roberto Oliveira de Lima	Board member*
Luciano Carvalho Ventura	Board member*

*Independent member.

RISK MANAGEMENT [GRI G4-14]

The company maintains a preventive approach to risk management, taking into account the economic, strategic, operational, social and environmental impacts associated with its operations. This involves promoting continuous improvement in business performance and in the control environment by means of policies and procedures aimed at identifying, monitoring and mitigating the risks to which we are exposed.

In line with the head office's integral risk management model, four main categories of risk have been defined: business, financial, operational and global, which encompass, among others, reputational risks related to compliance with standards and laws, human resources, fraud, communication and others. This framework supports our teams in identifying, dealing with and mitigating any breaches of the Business Principles, Code of Ethics and other aspects which could impact the brand and the institutional image (more in Business Principles).

This risk management is consolidated and applied consistently across all the Telefônica Vivo operators and is replicated to all specialized service providers who have direct contact with our customers. For this reason, we train all our strategic partners to ensure compliance with the Business Principles and to establish risk-related approval and information flows in an open manner.

SOCIAL INVESTMENT

Fonditel is the organization responsible for managing the Telefónica pension funds in Spain and is committed to incorporating social, environmental and corporate governance criteria into its investment decisions. In 2014, socially responsible investment reached the total of R$ 27.6 million, accounting for 2.52% of assets. Of this amount, 44.6% is invested in environmentally oriented companies and funds engaged in areas such as renewable energy and water.

The body assesses the performance of investments in terms of principles and guidelines such as the Principles of Responsible Investment (PRI), the Global Compact, Guidelines for Multinational Companies, the principles of good governance of the Organization for Economic Cooperation and Development (OECD) and the International Labour Organization's (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

In Brazil, the company is aligned with the regulations of the Fistel fund regulations for financing federal government expenses in the inspection of telecommunications activities and the development of new means and improved techniques in this field. In this case, the contribution is divided into two charges: the installation charge (TFI), paid when we receive licenses for the operation of radio base stations; and an inspection charge (TFF), which is paid annually.

STAKEHOLDER ENGAGEMENT [GRI G4-16]

We establish transparent relationships based on trust with our stakeholders ensuring constant dialogue in order to exchange experiences, receive feedback and continuously improve relations. This involves the provision of information and contact channels through our institutional website, as well as specific vehicles and methodologies for dialogue with each stakeholder group with a view to promoting more effective communication.

⇨ **Customers:** we operate through sales and customer service channels, satisfaction surveys, marketing mechanisms and market studies, debate forums and meetings.

⇨ **Employees:** we carry out climate and satisfaction surveys and provide internal communication channels that enable interaction with our employees. Furthermore, the company conducts dialogues on themes of importance for the company, including sustainability and ethics, in addition to breakfast meetings and other events involving executives and employees.

⇨ **Shareholders:** by means of frequent individual and collective meetings with institutional investors and industry analysts, as well as via online channels, we are able to identify the most relevant questions for these stakeholders and provide answers for them, establishing direct communication channels. Our main goal is to continuously improve the quality of the information disclosed to the market and reduce investor uncertainty through the adoption of appropriate internal policies and best corporate governance practices.

⇨ **Suppliers:** we carry out a supplier satisfaction survey every two years, as well as systems quality assessments of different telecommunications companies.

⇨ **Industry and sector associations:** to improve measurements, standardize indicators and share best practices, we take part in forums and associations that debate sustainability issues affecting our sector, including Sinditelebrasil and the specific groups organized by the Fundação Getulio Vargas Sustainability Studies Centre – GVces (Empresas pelo Clima, GHG Protocol Brasil, Inovação na Cadeia de Valor).

⇨ **Government organizations:** in this case, dialogue is organized mainly on a regional basis, grouping the participants in accordance with their area of activity – local, regional, national and global. Within each field of activity, we maintain ongoing dialogues with those responsible for the diverse areas, such as telecommunications services, innovation, consumption, education, social, economics, regulation, etc.

⇨ **Non-governmental organizations and foundations:** we work through partnerships and associations with organizations that promote sustainable development. We also participate in discussion groups in order to promote the exchange of best practices between companies and organizations. Safernet, WWF, Unesco, Unicef and the ILO are some examples of partnerships.

Contribution
to society [G4-DMA; G4-EC8]

We believe that more than just connecting people, our services and products should guarantee quality of life through education, security, mobility, health and well being. For this reason, we engage in projects that reduce the social, environmental and economic impacts of our operations, ensuring an ethical posture in relation to our stakeholders. In this context, by means of the Fundação Telefônica Vivo we support social projects and actions that promote digital inclusion and encourage volunteer work.

FUNDAÇÃO TELEFÔNICA VIVO: WAY BEYOND COMMUNICATION

The Fundação Telefônica Vivo was created to enhance quality of life for children and young people through that which the Telefônica Group does best: technology. With initiatives on a national level, the organization is part of a global network formed by the Telefônica foundations in 15 countries.

In 2014, the foundation commemorated 15 years of activities in Brazil, based on the belief that technology has helped broaden access to knowledge. During the year, investment in social projects totalled more than R$ 41 million, directly benefiting 358 thousand people.

The actions were based on three work fronts: acting, mobilizing and inspiring. In 2015, however, the foundation reviewed its strategy for the coming years and will now focus on the three most important competencies for young people in the 21st century, which will orientate the more than 20 actions currently underway:

⇨ **Entrepreneurism** – promote an entrepreneurial and proactive mindset.

⇨ **Digital literacy** – work on programming, collaboration, creativity and the use of technology.

⇨ **Citizenship** – incentivize community thinking.

Connected Rural Schools

The Connected Rural Schools programme (ERC in the Portuguese acronym) stems from a commitment assumed with Anatel to bring connectivity to 22 thousand teaching institutions by December 2017, and operates on two major fronts. One is connection, whereby we ensure the technical specifications necessary to promote connectivity and install the modems. The other is content, through which the foundation provides online training for the teachers so that they can make the most of this technology. We are committed to making this training tool available to more than 10 thousand teachers, with more than 60 courses on offer simultaneously. In 2014, 800 teachers from 571 schools received training in the use of technology.

In rural areas, only 19% of the schools have information technology laboratories and 6% have internet access, according to the educational research institute Inep (Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira). To remediate this situation and expand the Connected Rural School project, the Fundação Telefônica Vivo created the first technology laboratory linked with the programme in the municipality of Viamão, in Rio Grande do Sul. The idea is that the students have access to the internet to carry out research, to store documents or to use the social networks for learning purposes. The success of the project led the city's municipal government to extend it to the entire school network.

Connected Rural Schools – In numbers

	2013	2014
Connected schools	100	6,773
Teachers benefiting	513	800
Students benefiting	11,799	18,400
Municipalities served	88	1,111
Hours of online training for teachers	20 hours (ATN)	10 hours (ATN – online training) and 40 hours* (VTC – special) + 30 hours (ATN – special)

* Minas Gerais and Pernambuco Special: Mental Calculation and Read, Tell and Rewrite courses. The duration of each course is 40 hours. (Victor Civita/VTC).

* Minas Gerais and Pernambuco Special: Digital Inclusion course, with duration of 30 hours. (ATN).

Programaê
The outcome of a partnership between the Fundação Lemann and the Fundação Telefônica Vivo, Programaê is a movement that aims to bring programming close to the day to day lives of Brazilian children and young people through free online tools. In the portal, teachers and students may access courses for different age groups and ability levels.

MORE INFORMATION AT
http://www.programae.org.br

Entrepreneur and Enterprise Development Platform
The platform is aimed at empowering young people from rural areas and the outskirts of large cities to generate and implement new solutions to resolve the problems of their communities. The project is underway in the cities of São Paulo (São Paulo), Santarém (Pará) and Santa Cruz Cabrália (Bahia).

The programme uses technology as its main tool and is divided into three fronts: Training for Young People, Support for Enterprises and Strengthening Ecosystems. 79 solutions were presented in 2014. 15 of these were selected for incubation in 2015.

Volunteer work
Organized globally, Volunteers' Day engages employees from all the Telefônica Group companies in different projects in diverse communities around the country. In 2014, 4,872 employees enrolled in the project, assisting 43 NGOs in 39 cities.

Moreover, since 2012 the company has had its Digital Volunteer programme which consists of technology-based initiatives that may be operated remotely. To facilitate this, a platform which enables employees to access the requirements of the registered social organizations and contribute to them was launched in 2014.

1,240 young entrepreneurs took part in the project

More than **25,000** people nationwide benefited from the volunteer programme

A total of **1,240 social actions** undertaken in the Digital Volunteer programme

SPONSORSHIP AND SUPPORT

By means of commercial sponsorship, we seek to build the brand and reinforce attributes that position the company as a driver of projects fully aligned with its business strategy.

⇨ **Vivo Encena:** once again the company engaged in this initiative which encourages exchanges between scenic arts projects, in which drama is projected beyond the actual performance through the establishment of a network of training actions for the audience, driving cultural inclusion and professional development. There were ten performances during the year.

⇨ **Eu Vivo Música:** open shows free of charge for more than 135 thousand people in the key markets of Belém, Brasília, São Luís and Florianópolis.

⇨ **Salvador Dali Exhibition:** aimed at broadening access to culture, we sponsored the exhibition, whose curator was Montse Aguer, director of the Gala-Dali Foundation's Centre of Dalinian Studies. The exhibition comprised 24 paintings, 135 drawings and engravings, 40 documents, 15 photographs and four films inviting the public to immerse itself in an oneiric, symbolic and fantastic universe

⇨ **Museums:** during the year, we supported the Fundação Clóvis Salgado, located in Belo Horizonte, and São Paulo's Museu de Arte Moderna (MAM).

⇨ **Campus Party:** in addition to the event in São Paulo, considered the largest technology encounter in the world, we sponsored the Recife edition of the event in the second half of the year.

☞ **SPORTS SPONSORSHIP**

Through the Vivo brand, Telefônica Brasil stepped up its sponsorship of the Brazilian national soccer team, receiving the third highest recall among the team's sponsors. There were more than 23 million views of the films Felipão na Loja and Me Liga #tamoconectado. Additionally, to leverage the link between the company and soccer, Telefônica used incentive laws to sponsor amateur football tournaments around the country.

Telefônica Vivo at the Campus Party Brasil and the Recife Campus Party

The main sponsor of the event since its first edition and responsible for all the telecommunications infrastructure, which included a 10 GB connection for the Recife Campus Party and 40 GB for the Campus Party Brasil in the city of São Paulo, the company planned its participation in the two annual editions of the event based on three pillars: entrepreneurship and innovation, sustainability and commercial experience.

With a focus on entrepreneurship and innovation, the company created contests to award the best technology projects. Using the "Internet of Things" concept, the projects were created during the course of the two events based on the distribution of a development kit. A total of 165 developers submitted entries, of which 60 were selected.

Nine applications created to promote the Internet of Things concept gained distinction – six in the main category and three in the Firefox OS category. Two more awards were presented in the Information Security category, and there was also the winner in the Wayra challenge, the Telefônica Group's startup accelerator. The criteria used for selecting the winners were sustainability, creativity and usability.
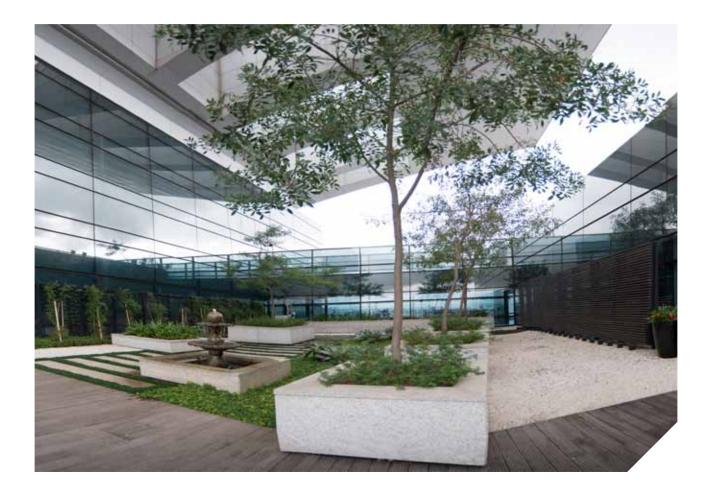
In terms of sustainability, the company made an impact by installing its Sustainable Site (an antenna with an extremely low visual impact that transmits 3G and 4G signals using cleaner energy) in the arena and implanting bins for its Reciclar Conecta mobile phone recycling program, presenting participants who recycled their old mobiles with diverse gifts. More than 1,400 mobile handsets were collected at the events in São Paulo and Recife, and all were duly sent for recycling. The Telefônica Vivo Sustainability area was responsible for the curatorship of the Green Tech lectures at both events in which subjects such as: Smart Cities, Civic Apps, digital accessibility, waste management and paperless environments were addressed.

The commercial experience involved the interactive demonstration of diverse innovative Telefônica Vivo services, such as Vivo Música, Zuum, Nuvem do Jornaleiro, Vivo Sync and others.

Sustainability model

It is our understanding that in addition to providing products and services that make life easier for society in general, we should contribute to the social and economic development of the country, as well as promoting public well being, communication, accessibility and environmental protection.

To achieve these goals, we manage our activities responsibly, based on values such as balance, transparency, responsibility, efficiency and innovation. Furthermore, we have incorporated sustainability into company corporate governance processes to the extent that planning for the coming years takes into account analyses of surrounding communities and materiality, among others.

Thus our directives are aligned with the business's goals, processes and strategy. Our business model is based on three levels of commitment, encompassing the company's entire value chain:

⇨ **Compliance and risk management** – we strive to anticipate trends and legislative changes which may directly impact our business.

⇨ **Productivity and responsibility** – we seek to improve productivity by incorporating sustainability criteria into all our processes, encompassing operations, human resources, procurement, commercialization and innovation. In this context, we strive to meet the expectations of our customers and drive improved quality in our products and services. Moreover, to add greater value to our products, services and business, we focus on managing talents, promoting energy efficiency, reducing the environmental impacts of our processes and facilities and ensuring responsible management of our supply chain. Our goal is to guarantee ethical, integral and transparent conduct in all our activities.

⇨ **Sustainability to leverage growth** – our products, services and actions have a social and environmental focus. After all, our stakeholders (government, multinationals, customers and employees) expect us to act responsibly.

Interactions *with interest groups*

RELATIONS WITH REGULATORY AUTHORITIES AND INSTITUTIONS

The increased demand for telecommunications services has caused regulatory authorities and consumer defence organizations to increase their scrutiny of service providers to ensure the protection of customer interests. We understand the importance of maintaining continuous and close relations with these groups and with government bodies and have established communication channels with both. *[G4-SO5]*

In 2014, in compliance with Anatel Resolution n.° 623/2013 and to ensure constant dialogue with users of our services, we implemented User Councils. These are regional groups, comprising users and consumer defence associations, whose purpose is to orientate, analyse and assess the quality of the services rendered by the company. This establishes a communication channel between the company and civil society, enabling the identification of opportunities to drive ongoing service enhancement.

During the year, regulatory and institutional activities were focused on market movements and questions provoking structural impacts on the sector and its actors. The main questions during the year included the agreement on the provision of mobile services in the 2G and 3G networks made with Nextel; the approval and publication of the Internet Civil Regulatory Framework Law; the beginning of negotiations for the review of the STFC (Switched Fixed Telephone Service) concession contract; and the auction and signature of the terms for the 700 MHz frequency band, which will complement the provision of fourth generation mobile broadband or Long Term Evolution (LTE) services, as well as the approval of the transfer of GVT share control.

In the area of norms and standards a number of rules approved in previous years either came into force or continued to be applied in 2014. Additionally, the General Consumer Rights Regulations (RGC), the Public Telephone Regulations (TUPs) and the joint Anatel and Aneel regulations for sharing fixing points on posts were approved. Other subjects such as the negotiations on the Conduct Adjustment Term (TAC) and the review of the fixed telephony concession contracts should be addressed during the course of 2015.

SUSTAINABLE RELATIONS WITH SHAREHOLDERS AND INVESTORS

To improve the quality of the information disclosed to the market and to reduce uncertainties by means of corporate governance policies and best practices, we maintain con-

☞ USERS' COUNCILS

The company has five councils, one in each region of Brazil. These have up to 12 members – six service users and six representatives of consumer defence organizations. Telefônica Vivo is responsible for the provision of all the infrastructure for the meetings. In 2014, 23 meetings were held, addressing questions such as signal quality (mobile), the number and causes of complaints, blockage of internet access when credits have run out and the General Telecommunication Services Consumer Rights Regulations (RGC).

Recognition

In 2014, we achieved distinction in the Institutional Investor Latam ranking, published by *Institutional Investor* magazine, one of the most widely acclaimed financial publications in the market. We came in second place in the categories Best Investor Relations Programme and Best Investor Relations Professional by sell-side analysts in the Technology, Media and Telecommunications sector. *[G4-2.10]*

stant dialogue with shareholders and investors, characterized by transparency, ethics and maximizing value.

This process is in the hands of our Investor Relations team, responsible for contacts with shareholders and investors by means of meetings and conference calls during which the strategies, performance and results of the different businesses are presented. In 2014, more than 290 contacts were undertaken, including conferences, road shows, personal and telephone contacts.

We also disclose relevant information and documents on the investor relations website.

MORE INFORMATION AT
em www.telefonica.com.br/ri.

Responsible management

[G4-DMA; GRI G4-56; G4-HR12; G4-LA16; G4-SO4; G4-SO5]

In an increasingly competitive market, we need to take incisive decisions, maintaining the highest standards of integrity, ethics and professionalism. For this reason, our relationships and our activities are based on our Business Principles, which set forth guidelines that enable the company to build bonds of trust. The questions addressed by the Business Principles include respect for human rights, combating corruption and the prohibition of donations to political parties or people and bodies associated with them.

Much more than a code of ethics, these principles, which apply to all our employees, help us to act with integrity and professionalism, in addition to orientating processes related to decision making, procurement and contracts. This is why every effort is made to ensure they are enacted within the company and shared with our external stakeholders.

In 2014, we continued a communication campaign whose main objective is to drive employee awareness of the importance of applying ethical principles in their day to day routine and to publicize the online Business Principles course, which is available in the Portal a+, a training and development platform for the entire company. A total of 47% of employees completed the course.

The company does not tolerate fraud by employees or suppliers, neither does it accept any type of discrimination in the workplace. To ensure compliance with these standards, there is an intranet channel via which breaches may be reported anonymously. In the event a violation is confirmed, the employee involved is dismissed and any suppliers associated with the issue are disqualified. Moreover, the company demands the return of any amounts involved and communicates the incident to the executive director responsible for the area concerned, to the Telefônica Vivo CEO, the Audit Committee and Human Resources. If deemed necessary, the legal area is involved.

FOR MORE INFORMATION
about the Business Principles, access the Telefônica Vivo institutional website.

In the course of the year, the company received 195 reports. With another 18 reports pending from 2013, a total of 213 internal cases were analyzed. The investigation of 199 of these was concluded. Of these 71 were deemed to be justified (36%), while 47 were considered unfounded (24%). Another 81 reports were not investigated due to a dearth of relevant information.

Business Principles

Our actions, behaviours and practices reflect integrity, honesty, as well as respect for the law and for human rights

👉 MANAGING HUMAN RIGHTS

The company manages human rights in line with the guidelines laid down by its headquarters in Spain. Signatory to the Global Compact since 2002, the company is committed to respecting human rights, a theme which is incorporated into our Business Principles.

Our strategy is underpinned by five pillars:

- **Our People:** we develop and implant elevated standards and procedures to create a healthy and safe organizational climate for our employees.
- **Our Technology:** as part of a group which is a global leader in technology, we believe in the importance of our actions in promoting human rights.
- **Our Commercial Partners:** it is our understanding that the respect we have for human rights should be extended to our commercial partners. For this reason, we monitor the performance of our allies and commercial partners based on rigorous social and environmental criteria. This is aimed at mitigating risks related to labour practices and enables us to develop alongside the companies that work with us.
- **Our Role in Society:** our knowledge of information and communication technologies may contribute to solving social problems and meeting the specific needs of each region.
- **Our Role in Promoting Change:** we are committed to promoting the social transformations necessary to build a fair and egalitarian society. For this reason, we explore opportunities to create alliances with interest groups to promote changes in the communities in which we operate.

BUSINESS PRINCIPLES COMMITTEE

The risks related to these standards are monitored by the Business Principles Committee, which meets on a quarterly basis to ensure that the directives are aligned with legal requirements and best business practices.

Comprising representatives from Corporate Communication, Institutional Relations, Human Resources, Audit, Investor Relations, Legal and the office of the CEO, the committee is considered to be an important corporate governance body for the company.

The committee was instituted in March 2014 as the official decision making and internal management forum for the BM&FBovespa Corporate Sustainability Index (Índice de Sustentabilidade Empresarial), with responsibility for monitoring sustainability indicators and ensuring the incorporation of sustainability into strategic company processes.

Children and adolescents

Enthusiastic about new technologies, around 81% of children and teenagers aged from 8 to 18 years use mobile phones on a daily basis. Of these, 55% use their mobiles to access the internet (93% for smartphone users) and 21% access it more than six times a day.

It is our understanding that, as with any other tools, the services and products we offer imply certain risks associated with inadequate use, lack of knowledge or abuse by persons with bad intentions.

Consequently, the industry has become the main proponent of the creation of a secure environment in which people in this age group may make the most of technology. For this reason, self-regulatory initiatives involving the collaboration of all market agents – fixed and mobile telephony operators, content and internet access providers, terminal and videogame manufacturers. –, as well as government, regulatory bodies, educational institutions and other involved parties, have become indispensable.

To guarantee that children and adolescents may access a secure environment, at Telefônica Vivo we have assumed the following commitments:

⇒ to innovate in products and services that may provide a more secure environment

⇒ to facilitate simple mechanisms for communicating inappropriate contents on the internet

⇒ to offer parental control tools

⇒ to improve procedures for eliminating contents related to the abuse of minors on the internet

⇒ to collaborate with state security agencies and forces

⇒ to promote collaboration in the industry as a means of involving the different links in the value chain

⇒ to implement privacy settings in services in accordance with the age of the user

⇒ to foment education and awareness about the responsible use of the new technologies

Accessibility [G4-EC8]

In recent years, Telefônica Vivo has worked on promoting access to broadband at all levels of society and all over Brazil, including regions far from large urban centres. The company also develops solutions to ensure that its products and services meet the needs of disabled customers. Since 2010, all the company's public telephones have been equipped with an audio alert to inform the visually impaired about the number of credits on their telephone card, for example.

Also worthy of note is the Torpedo Recado service, which transforms voice messages received by the answering service into SMS format texts. We also have exclusive service plans, such as Vivo Mais Mensagens, a service for the hearing impaired enabling the customer to communicate via mobile phone text messages at promotional rates.

In addition to these specific plans, we offer others with internet packages and special tariffs for diverse data user profiles. This enables us to serve customers with special needs, regardless of the disability.

Moreover, the Customer Service Centre has an exclusive number for the visually and hearing impaired, providing free 24 hour a day service via SMS. Regarding internet access, the company adopts the WCAG 2.0 (Web Contents Accessibility Guidelines) standard for its websites. The institutional website www.telefonica.com.br also has WebLibras, an automatic system that translates the texts on the website to Libras, the Brazilian sign language. This was developed by Prodeaf, a Pernambuco-based startup that was accelerated by Wayra.

The Teatro Vivo, for example, was a pioneer in Latin America in the provision of audio description and translation into sign language for shows, as well as offering full accessibility for wheelchair users.

Employees [G4-DMA; GRI G4-10; G4-LA1; G4-LA2; LA-9]

We invest constantly in managing, attracting and retaining talent, caring for the quality of the work environment and the well being of our employees. Currently the different areas of the company employ more than 18 thousand people.

Part of our culture as it relates to employees involves placing value on plurality, offering opportunities for everyone to grow and to develop personal and professional skills, regardless of their beliefs, age, gender, sexual orientation or ethnic origin.

Total remuneration consists of base salary and a benefits package which includes health and private pension plans, profit share programmes, nursery allowance, life insurance and others. Additionally, all employees are given a smartphone and a mobile telephone line with unlimited internet navigation and free Vivo applications when they enter the company. Employees are also entitled to diverse promotional offerings during the course of the year and receive special conditions for the acquisition of broadband and pay TV.

Number of employees

Employees	2014
Total number of employees	18,419
Types of contract	**2014**
Part-time employees	2,544
Employees covered by union agreement	16,986

Turnover rate

Turnover	2014
Turnover rate (%)	58.8
Voluntary turnover rate (%)	6.3

*Monitoring of this indicator was initiated only in 2014.

Composition of groups responsible for governance and discrimination of employees by functional category [G4-LA12]

Men by age	2014
< 30	3,387
30 - 34 years	2,090
35 - 44 years	2,971
45 - 54 years	1,270
> 54 years	194
Women by age	**2014**
< 30	3,962
30 - 34 years	1,879
35 - 44 years	2,029
45 - 54 years	560
> 54 years	77
Employee structure	**2014**
Total number of managers	119
Number of women in management positions	33
Gender	**2014**
Number of women	8,507
% women	46.2

Training	2014
Total spending on training (€)	3,369
Number of hours training	176,563

MANAGING THE ATTRACTION AND RETENTION OF PROFESSIONALS

Since 2012, the company has had guidelines to ensure the strategic selection of candidates who share the values that shape company activities. The model adopted, which has a single management system, places value on results and the achievement of targets, offering all employees equality of opportunity in personal growth and professional development. In 2014, 3,135 employees received promotions and 925 received salary increases.

When new job posts arise at Telefônica Vivo, they are offered first to existing employees in a transparent, structured manner to ensure equality of opportunity within the company. This initiative is part of the internal recruitment programme Novos Caminhos (New Paths). Every new employee receives the information necessary to make them feel they are part of the team; the induction programme enables them to familiarize themselves with company objectives and commitments. The easy going methodology of the programme provides new employees with information about the company's history and its work in Brazil and in the rest of the world.

Talent development

In 2014, in addition to the training and retention programmes, we elaborated a new educational model aimed at developing competencies and skills through corporate programmes customized for each area, strengthening leadership skills and ensuring that business management is aligned with the organization's values and strategy.

Moreover, in 2014 we worked on the Multiplier Training programme, which prepares professionals to disseminate contents by means of courses such as: Innovation Trends, Market Intelligence, Personal Marketing and High Performance Teams. In 2014, we prepared 136 multipliers and offered more than 70 courses, which benefited over one thousand employees.

The success of the multiplier programme, together with the new educational model, resulted in a 21% increase in the number of hours training given compared with 2013. In 2014, we provided an average of 15 thousand hours training per month. [G4-LA9]

☞ TALENTUM PROGRAMME

Launched in 2013, the programme is aimed at identifying and nurturing young talents with the potential to grow and assume executive positions in the future, developing the thinking, reflection and questioning necessary to meet business challenges and drive transformation and innovation in the company. The programme is divided into two groups: intern and trainee. This format helps project our employer brand image as a company in constant evolution that believes in the transformational potential of the young.

The success of these programmes, in conjunction with the portfolio of measures for our young talents, ensures that every year we are considered to be one of the best companies in which young people may start their career.

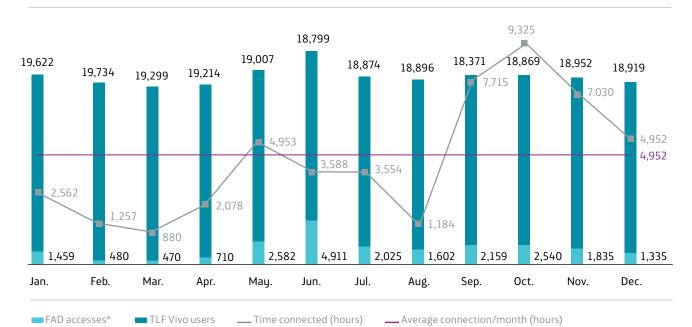The other talent development programmes worthy of note during the year were:

⇒ **Identity:** a programme to diagnose, develop and reinforce the organizational culture resulting from the merger of the two operations (fixed and mobile). After the organizational analysis phase, in 2014 we initiated our development agenda, mobilizing 1,085 executives in on-site workshops and extending the theme to more than 17,000 employees (including stores and call centres). During the period we also worked on managing execution, with the creation of the Change Management Committee and the Technical Team, to champion and monitor the change measures suggested.

⇒ **Challenging Leadership:** with the goal of raising the bar in leadership and organizational culture in order to consolidate superior results, in 2014 we focused this program on company directors, with a participation of 90%.

⇒ **Universidade Telefônica:** a training centre for Telefônica Group executives and employees, located in Barcelona (Spain), with a focus on the business and strategy. A total of 81 Brazilian employees participated in nine courses in 2014.

⇒ **Coaching:** aimed at helping executives to develop the skills and behaviours necessary to perform in line with domestic and global requirements. The initiative accelerates the transition towards new challenges and creates a connection between personal mission and organizational goals. Between 2013 and 2014, 31 executives benefited from coaching sessions.

⇒ **Becas Programme:** aimed at promoting intercultural relations and cooperation in the educational and scientific areas between Spain and the Ibero-American countries, the programme offers study scholarships for postgraduate work in partnership with the Carolina Foundation (located in Spain). In 2014, there were three Brazilian participants.

⇒ **Managing the Digital Telco:** a postgraduate programme in partnership with the Universidade Catalunha in Spain. In 2014, seven Brazilians took part in the programme.

⇒ **International Rotation Programme:** nine Brazilians took part in this programme in 2014. It provides employees with international experience working on projects in one of the Telefônica Group companies in Latin America or Europe, helping accelerate development and enabling them to apply their know-how in other areas and locations.

⇒ **Management Review:** with a view to establishing succession plans and development measures, 104 directors were appraised and 146 successors were identified in the programme in 2014.

⇒ **Recognize Programme:** the programme permits employees to acknowledge the value of their colleagues simply and informally in a virtual environment. In line with the global model, the programme allows each employee to bestow virtual medals on up to six colleagues whose work in some way represents one of the three mindsets in our strategic Be More programme. The programme involves all permanent employees and interns, including the store and call centre staff. In 2014, the programme was aligned with the global model in terms of the development of the concept and the creative line, the communication plan, the operation and the dissemination of results. A total of 7,919 employees were recognized with the distribution of 22,085 medals during the year.

⇒ **Vivo Programme for the Customer:** the programme aims to sensitize employees and facilitate a change in mindset by giving them a real experience with the customer service channels, the objective being to drive improvements in the company.

⇒ **The I Believe Campaign:** "We make the best choices, accelerated by a transformation agenda, driven by a single purpose, for a simpler life, for a digital world. Because we believe in this transformation". This was the key concept in the I Believe campaign to disseminate the company's strategy and positioning throughout the organization.

⇨ **Commercial offers:** development of a campaign and a website integrated with the online store to enable differentiated offers for employees, giving them access to more and more advanced technologies. The campaigns are aligned with commemorative dates (Mother's Day, Father's Day, Children's Day, Christmas etc.) and last on average 1 month. In 2014, approximately 4,600 devices were sold.

⇨ **I Transform the Customer Experience:** a campaign for employees to publicize and boost our Customer Satisfaction Rate, transforming the company by working on the employees' mindset to foment focus on the customer and improving the customer experience with our products and services.

⇨ **Portal a+:** a global distance learning platform that can be accessed by all employees even from outside the workplace. In addition to the Corporate Catalogue, which has more than 100 courses, the channel offers seven self-development environments in the following areas: Languages, Finances, Technical, Commercial, Leadership, Volunteer Work and Teachers' School.
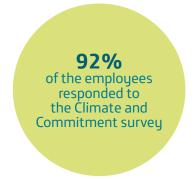
Evolution in use of Portal a+

Jan. 19,622 — 2,562 — 1,459
Feb. 19,734 — 1,257 — 480
Mar. 19,299 — 880 — 470
Apr. 19,214 — 2,078 — 710
May. 19,007 — 4,953 — 2,582
Jun. 18,799 — 3,588 — 4,911
Jul. 18,874 — 3,554 — 2,025
Aug. 18,896 — 1,184 — 1,602
Sep. 18,371 — 7.715 — 2,159
Oct. 18,869 — 9,325 — 2,540
Nov. 18,952 — 7.030 — 1,835
Dec. 18,919 — 4,952 — 1,335

Average connection/month (hours): 4,952

■ FAD accesses*   ■ TLF Vivo users   — Time connected (hours)   — Average connection/month (hours)

CLIMATE

The Climate and Commitment Survey is a fundamental tool for receiving feedback on the actions carried out during the year. We consider the results to be important drivers of improvements in personnel management and overall company performance.
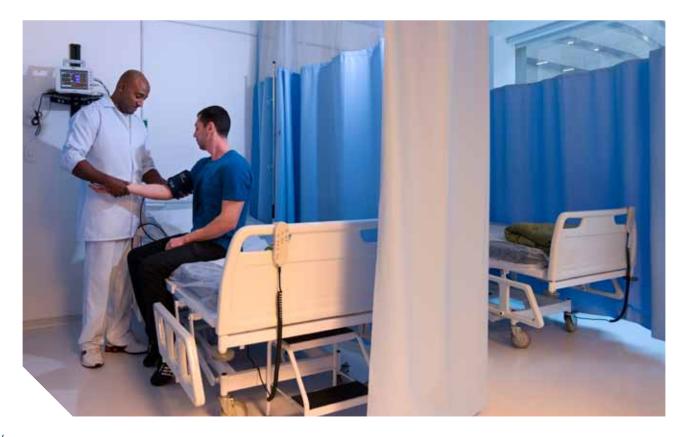
In 2014, the response rate to the survey reached a record 92% of the employees, with an 86% Climate and Commitment Rate, an improvement of 4% over the previous year.

92%
of the employees responded to the Climate and Commitment survey

Highlights of climate survey	Climate December 2013 (%)	Thermometer July 2014 (%)	Climate December 2014 (%)
I perceive that the company is aware of its social responsibility	95	96	96
I have the opportunity to participate in the company's volunteer work programme	95	94	96
I am proud to work for my company	92	94	95
I would recommend our company as a good place to work to someone close to me	90	93	94
I would recommend our company's products to someone close to me	92	93	94
I know the basic products and services my company offers customers	93	94	94
I consider my work interesting and challenging	91	92	93
I think this company works in an ethical and responsible manner	91	92	93
Overall, I am satisfied to be working in this company	89	91	92
I feel motivated to make an effort and help drive the success of this company	88	90	92

Telefônica Vivo Internal Reputation

	Climate December 2013 (%)	Climate December 2014 (%)
Telefônica has a good reputation	79	84
I have a good impression of Telefônica	87	92
Telefônica is a company I trust	87	91
Telefônica is a company I admire and respect	89	92

HEALTH AND SAFETY *[G4-DMA; GRI G4-LA5; G4-LA-6; G4-PR1]*
To ensure special care for the health of our employees, we have a Health Promotion area which operates nationwide, supporting all company programmes and initiatives aimed at promoting quality of life and well being. These are:

⇨ **Bem Perto Nutrição (Nutrition):** with support from nutritionists, the programme is designed to encourage employees to adopt a balanced diet. There were 2,065 consultations under the programme in 2014.

⇨ **Bem Perto Nascer Bem (Prenatal Care):** the programme provides mothers-to-be with information throughout their pregnancy, as well as guidance provided by nurses, doctors, psychologists and nutritionists, who monitor risk factors and provide a more personalized service. In 2014, 389 mothers-to-be were enrolled in the programme and 127 couples took part in courses.

⇨ **Bem Perto Amigo (Psychological and legal support, financial advice):** the provision of psychological assistance in the event of traumatic events or emotional and family conflicts, in addition to social services, as well as legal and financial advice. In 2014, there were 1,603 consultations.

⇨ **Flexible Work Schedule and Time Management Programme:** we make the clock an ally to further drive well being and quality of life for employees. In the areas that do not work on a shift basis, employees may start work between 7 a.m. and 11 a.m., and complete the 8-hour working day in accordance with their time of arrival. In spite of this flexibility we determine limits: from Monday to Thursday, the working day for administrative staff ends at the latest at 8.p.m. when the lights in the main administration buildings are turned off; on Fridays, the work day ends at 4 p.m. – any hours not worked are compensated at a future date. Some areas and regions already employ a home office system and give employees the day off on their birthday.

☞ RECOGNITION

The Bem Perto programme won the second Global Healthy Workplace Award. Telefônica Brasil was the only Brazilian company among the 33 participating in the award.

In addition to promoting the health and well being of our employees, we seek to ensure a safe work environment. We implement Internal Accident Prevention Commissions (Cipas in the Portuguese acronym) and carry out safety inspections and technical studies in company installations to measure noise levels, lighting, as well as ergonomics etc.

The company also provides specific training for work at heights, in confined spaces and the use of personal and collective protective equipment and tools.

In this respect, due to concern about customer and employee exposure to electromagnetic fields, all the radio base stations in operation have been installed in accordance with the criteria established by the *International Commission on Non-Ionizing Radiation Protection* (ICNIRP), a consulting body to the World Health Organization (WHO). In 2014, 4,686 inspections were carried out in this area.

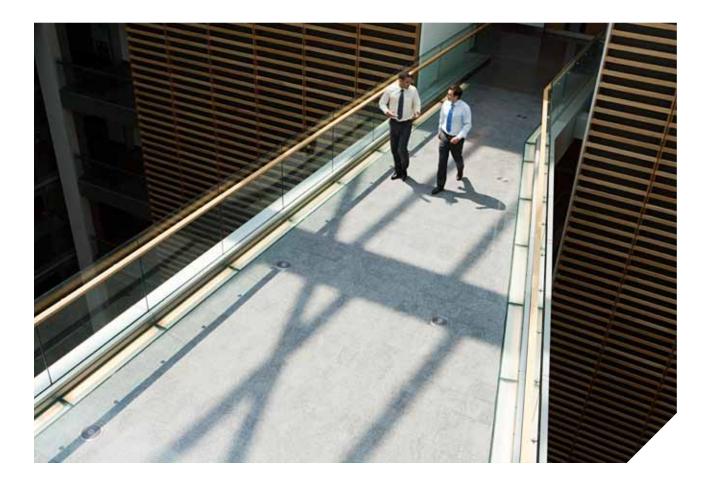## ☞ INTERNAL WORK ACCIDENT PREVENTION WEEK (SIPAT IN PORTUGUESE ACRONYM)

During a week, the company works with employees on questions related to safety, health and well being through talks, plays and other light-hearted but incisive activities.

Accidents, occupational illnesses and days lost

	2013	2014
Work accidents with sick leave	23	16
Days lost from work accidents with sick leave	202*	231
Total number of days lost through any kind of incapacity	70,410	52,457
Occupational illnesses	75	0
Fatalities	0	1**

*The number reported in 2013 was revised because it presented leave in hours rather than days.
** Employee in traffic accident on company business.

Supply
chain [G4-DMA; EC9; G4-HR5; G4-HR-6; G4-LA14]

To ensure the ongoing sustainable development of our supply chain, we have adopted a set of important initiatives to encourage suppliers to align with Telefônica strategy and commitments.

Our Responsibility in the Supply Chain Policy is aligned with the Business Principles and permeates company relations with suppliers. This enables the company to prioritize its actions and focus on the areas provoking the greatest impact on sustainability in the supply chain, a factor that makes a difference.

To ensure that all suppliers follow company guidelines, we provide online courses and monitoring tools that range from prior analysis for contracting special services to the preparation of action plans to troubleshoot problems.

In line with our human rights strategy, we do not admit the use of child, forced or slave labour in the supply chain and require that all suppliers comply with labour legislation. To ensure compliance in this area, we establish close and open relations with suppliers and conduct checks by means of regular inspections. In 2014, a company contracted on a global level carried out audits on nine suppliers, who were chosen either because they work globally or because of their relevance and the potential risk they present for the business.

Furthermore, to ensure the right suppliers are contracted, the organization has a global procurement management model underpinned by four pillars: risk management, efficient production, sustainability culture and sustainable products.

MINERALS FROM ZONES OF CONFLICT

In some cases mineral extraction and treatment processes represent a serious problem, provoking a negative environmental impact and violating human rights, in particular regarding minerals from zones of conflict in Africa and tin from Indonesia. This type of material is a key component in mobile terminals and is also used in other technology products.

Aware of our role in promoting a solution to this problem, we seek to foment responsibility and transparency in the supply chain in order to ensure the traceability of the minerals used.

We are engaged in some of the main industry initiatives to reduce the impact and mitigate the consequences of abuses related to minerals. Moreover, as a company listed on the New York Stock Exchange, we are compliant with Section 1502 of the Dodd-Frank Act and the Consumer Protection Law. We are also aligned with the guidelines set forth by the Organization for Economic Cooperation and Development (OECD) in its "*OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*" document, promoting its application among suppliers working with minerals.

We have a specific policy and an internal management structure to oversee supply chain-related problems. We also seek to introduce sustainability criteria regarding this in our procurement process, to ensure due diligence as part of the sustainable management of the supply chain.

Telefônica does not maintain direct commercial relations with foundries or refineries, but we actively promote the inclusion of sustainability criteria throughout the value chain.

Partnerships

To promote responsible mineral supplies, in partnership with our suppliers we have developed a series of programmes aimed at guaranteeing the traceability of the minerals used, from extraction through to the end product, as well as initiatives that promote transparency in the supply chain. These partnerships include the Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI) Extractives Working Group.

Allies Program [G4-DMA; G4-SO10]

For us, allies are all the employees of companies contracted by the organization who are directly involved in the provision of services to our customers. Due to the importance of these people, since 2008 the Telefônica Group has had a program aimed at driving supplier compliance with respect to social, environmental and labour standards, in addition to enhancing selection, training and remuneration processes and improving the satisfaction of our partners' employees.

The main pillars of the Allies Programme are:

- **Preparation:** sharing best practices with suppliers as a means of generating synergies among the companies' human resources areas.
- **Development:** develop network and help desk training measures.
- **Commitment:** disseminate Telefônica organizational culture by means of workshops for leaders at our suppliers and the Open Doors programme, developing measures to improve services for customers.

The programme is an important tool for guaranteeing compliance with legal requirements, taking into account questions such as: regularity of the documentation of contracted companies, the proper registration of employees and the payment of payroll taxes and charges.

Customer relations

In Brazil, the telecommunications sector is one of the most important drivers of the economy, accounting for 5% of the country's Gross Domestic Product (GDP). According to Anatel, Brazil has reached a record number of telecommunications services users, totalling 369.2 million accesses. Growth was leveraged by the increase in the number of users of fixed and mobile broadband, which accompanied network expansion and the spread of fibre and 4G technologies.

This increase in demand puts pressure on the company to develop new solutions and to guarantee service quality, as well as to maintain customer satisfaction. And for us, satisfying our customers goes beyond merely resolving complaints.

We believe it is necessary to establish communication channels to ensure that needs are understood, demands are met and relations with customers are consolidated. This is why we have a Quality team that works with every company area on the identification of problems, from the root cause to the solution. This enables the generation of insights for process improvement.

Focused on quality, in 2014 the company invested R$ 9.1 billion, mainly to improve the customer experience through
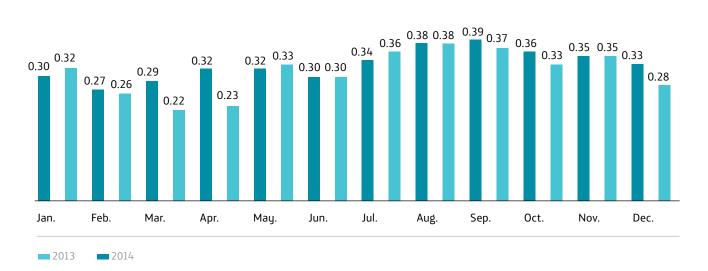
Telecommunications Parliamentary Inquiry Commission (CPI)

In 2014, there was a request for the opening of a Parliamentary Inquiry Commission (CPI in the Portuguese acronym) on mobile telephony. This, however, was transformed into a working group to discuss and address questions related to quality and coverage. In addition to quality and coverage issues at a federal level, a series of state and municipal inquiry commissions were created. A large part of these commissions concluded their deliberations in 2014, resulting in the signature of terms of commitment to improve services on the part of service providers.

the differentiation of our network and services. During the year, we consolidated our country leadership in mobile broadband service with the largest 4G network. Today, 27% of our total data traffic in the five largest state capitals in the country is via 4G network.

Customer service [G4-DMA; G4-PR5]

In 2014, the company progressed in integrating fixed and mobile services with a view to simplifying management and improving the customer experience. With a more customer-oriented service model, the intention is to improve customer satisfaction, accelerating responses to customer requests with a higher resolution rate.

Moreover, the company is working on improving and expanding contact channels, enhancing contents and the functionalities available in channels such as Meu Vivo (web and applications), SMS, chat and URA, with the objective of remaining at the forefront of digital access technologies.

Regarding quality, in 2014 efforts were concentrated on transforming the customer experience, resulting in a reduction in the contact rate and an increase in the rate of resolution of issues on first contact. During the year, the company was also the leader in the resolution of consumer problems in the telecommunications sector in the city of São Paulo according to the consumer protection service Procon, with a rate of 90.9% – (with respect to complaints about Telefônica Vivo fixed telephony, fixed broadband and mobile telephony).
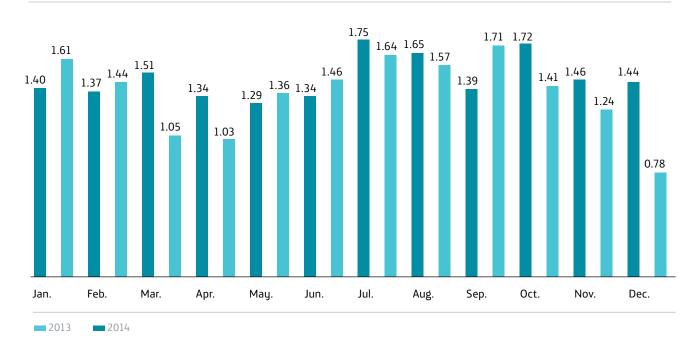
In accordance with the Anatel customer service performance index, we are the best mobile operator in Brazil and the leader in mobile customer satisfaction, with an average rate of 7.19, compared with 6.75 for our competitors.

In terms of average complaints, there was a reduction in both mobile and fixed telephony from 2013 to 2014.

Average complaints per million customers (mobile)

Jan. 0.30 0.32 | Feb. 0.27 0.26 | Mar. 0.29 0.22 | Apr. 0.23 0.32 | May. 0.32 0.33 | Jun. 0.30 0.30 | Jul. 0.34 0.36 | Aug. 0.38 0.38 | Sep. 0.39 0.37 | Oct. 0.36 0.33 | Nov. 0.35 0.35 | Dec. 0.33 0.28

■ 2013 ■ 2014

Average complaints per million customers (fixed)

Jan. 1.40 1.61 | Feb. 1.37 1.44 | Mar. 1.51 1.05 | Apr. 1.03 1.34 | May. 1.29 1.36 | Jun. 1.34 1.46 | Jul. 1.75 1.64 | Aug. 1.65 1.57 | Sep. 1.39 1.71 | Oct. 1.72 1.41 | Nov. 1.46 1.24 | Dec. 1.44 0.78

■ 2013 ■ 2014

Ombudsman

To drive improvements in the customer experience with our services and build lasting relationships, in addition to identifying the causes of complaints and opportunities for improvements in internal processes, the Ombudsman service is for customers who are not fully satisfied with the solutions provided by our Customer Service area. In 2014, the Ombudsman received 595,604 contacts, resolving 87% of the cases in conjunction with the areas involved in up to 5 working days.

Contacts received by the Ombudsman *	2013	2014
Overall contacts	564,067	595,604
Number of parts per million (ppm)	22.6	22.7
% solution in up to 5 working days	89%	87%

Digital *services*

Our aim is to provide customers with the best experience in using Telefônica Vivo services and products. We want to drive loyalty among customers and spark interest in our overall portfolio, for which reason we seek to generate facilities and launch technological novelties constantly.

VIVO PLAY
In 2017 the Vivo Fibra TV on demand video service received some new functionalities that expand the concept of TV everywhere. These include access to content via computer, smartphone and tablet, enabling subscribers to view live channel programming at any time, on any device, at no extra cost.

There were two other launches in this segment during the year: the Wi-Fi decoder and the Multiroom Recorder with remote recording. The former permits wireless HD television viewing in any room in the house within reach of the Wi-Fi signal, offering the consumer convenience and comfort.

In addition to already existing functionalities such as recording three different programmes simultaneously, the Multiroom Recorder with remote recording may now be controlled remotely by IOS and Android smartphones. Customers may watch the recorded content anywhere in the home as many times as they like, always resuming from the point where they stopped. The same application enables use of the smartphone as a remote control and reminder of programmes.

Top up app
A new option for prepaid and control customers, , The Recarga Vivo app enables customers to top up their credits rapidly and securely in just 40 seconds. In addition to speed, the app offers differentials such as a scanner that fills out the credit card data automatically and also provides a record of previous top ups.

Vivo Children Online
To guarantee the security of children who access mobile phones, tablets and computers, we created Vivo Children Online, a control service to protect navigation. Available for the three devices, the service enables parents to block inappropriate internet contents, monitor the videos the children access on YouTube, know who their children are talking to on Facebook and in instant messaging programmes and manage the time they spend on the internet. The new functionalities include the location service, which permits the location of a person in real time and also enables alerts to be programmed.

Zuum

Created in 2013, the Zuum service consists of a prepaid mobile phone current account via which the user may send and receive money, top up credits from any Vivo mobile, pay bills and shop in establishments that accept Mastercard (with the associated credit card). Currently, Zuum is available for any operators through the application. In use in São Paulo, Porto Alegre, Belo Horizonte, Salvador and Aracaju, the app has 400 thousand registered users.

PRIVACY *[G4-DMA; G4-PR8]*

The information security market is undergoing transformation, with preventive measures gaining increasing importance. We understand our responsibilities for managing and protecting our customers' information. For this reason, employees are submitted to annual internal campaigns to promote responsible behaviour in relation to information security. Administrative staff, store employees and suppliers also undergo classroom training in this question.

The Corporate Security website is another key instrument which facilitates employee access to security-related information, such as security coordination, property security, content of internal awareness campaigns and tips on security. The company also has information security guidelines and requirements setting forth our security standards for Telefônica Vivo suppliers, who are subjected to periodic checks for compliance.

Furthermore, we develop and complement solutions to ensure the security and privacy of data. In 2014, for example, we launched CyberSecurity, an intelligence service that prioritizes prevention through the study, detection and analysis of cybernetic threats.

CyberSecurity is effective in detecting and anticipating the need to address the actions of hackers, suspicious mobile applications, the violation of security controls and the theft of credentials, among other threats to information security in companies.

INNOVATION AND DEVELOPMENT
Partnership with universities

In 2014, Telefônica Vivo and the FEI University Centre inaugurated a research centre for the development of digital technologies on the São Bernardo do Campo campus. The space was equipped with computers, mobile phones, sensors, hardware components and Internet of Things kits that were developed by the company.

The goal is to encourage undergraduate, postgraduate and scientific initiation students to develop projects about the Internet of Things, the usability of applications, the Firefox OS platform, adaptive interfaces and studies on user profiles.

A global Telefônica Group initiative, Wayra has 12 academies in 11 countries. The accelerator received more than 20 thousand submissions in response to its requests for proposals, making it one of the largest talent identification platforms in the sector. In just over two years of existence, it has already invested in more than 300 young companies.

48 startups have already benefited from Wayra Brasil. 65% of these have already graduated and 35% are currently undergoing acceleration. Investments in these companies to date have totalled R$ 3.5 million. *[G4-EC8]*

Emergencies

Efficient network management is a fundamental condition to ensure customers, public authorities and civil defence bodies remain connected. For this reason, we are intent on providing the best possible services in emergency situations arising from accidents, natural disasters or even acts of vandalism committed against company infrastructure.

Our network management centres in São Paulo, Brasilia and Minas Gerais monitor the transmission operational parameters for the IP and broadband networks, service platforms, access networks and infrastructure. They are capable of identifying abnormalities by means of the failure and signalling monitoring system.

This enables us to ensure the network is always prepared to solve problems and permit service continuity for our customers even when there are interruptions in the network. Additionally, we develop contingency plans for natural catastrophes, breakdowns in energy supply and security failures.

Commitment to
the environment

We believe that the efficient management of scarce resources such as water and electricity is of extreme importance in reducing costs, ensuring sustainable development and also generating value for our stakeholders. Since 2009, we have had a global environmental policy in which we assume the following commitments:

⇨ to ensure compliance with the laws in force;

⇨ to reduce the negative impacts of our operations;

⇨ to use natural resources responsibly;

⇨ to help combat climate change;

⇨ to contribute towards the sustainable development of society;

⇨ to communicate our principles to all suppliers, allies, business partners and stakeholders.

ENVIRONMENTAL MANAGEMENT SYSTEM

To guarantee compliance with environmental policy and with the legislations in force, we initiated the implantation of the company Environmental Management system for the fixed and mobile networks in **50 priority municipalities**. This implementation will enhance management of our operations, reducing environmental impact and driving compliance with all federal, state and municipal legislation.

Visual impact

We work with technologies that provoke lower environmental, social and economic impacts. Faster to implant and visually more attractive, the Sustainable Site uses lampposts from public lighting infrastructure, eliminating the need for large antennas, given that the telecommunications equipment is installed in underground boxes. The technology is 100% Brazilian, and in addition to consuming less energy and emitting fewer pollutant gases, it is ready for the implantation of the 4G system.

Via a partnership with the antenna suppliers, we have incorporated camouflage that minimizes the visual impact of antennas installed on the top of large buildings in urban areas, matching the architectural style of each building.

Another initiative to ensure lower environmental and visual impact is network sharing, which involves sharing transmission infrastructure with other telephony operators. The goal is to collaboratively maximize energy transmission efficiency and minimize the installation of antennas in urban centres.

In 2014, worthy of note were the infrastructure initiatives for the World Cup, resulting in increased 2G, 3G and 4G network capacity to provide coverage in the 12 stadiums used for the event.

Our Tamboré data centre is the first in Latin America to receive international Leadership in Energy and Environmental Design (LEED) certification.

SUSTAINABLE CONSTRUCTIONS

We invest in infrastructure that minimizes environmental impacts both in the construction and operational stages. Examples of this are the company's main data centre in Tamboré and its head office, Eco Berrini.

At Tamboré, we have the first ever data centre in Latin America to receive international Leadership in Energy and Environmental Design (LEED) certification. This environmental certification was awarded in function of the criteria applied to the design and construction of the building, including the use of certified timber, a rainwater harvesting system, white tiles which reduce energy consumption, and a light surface in the parking lot, which reduces heat absorption. Moreover, the site has a parking lot for 25 bicycles, with men's and women's changing rooms, as a solution for the problem of urban mobility.

The investments undertaken ensure a 40% reduction in energy consumption compared with a conventional data centre. In 2014, the air conditioning equipment was programmed to operate in a network, which further heightened thermal efficiency and reduced energy consumption.

In 2014, the data centre obtained Gold level Tier Operational Sustainability certification, the highest degree of certification possible for this type of operation. This made the unit the first Tier 3 data centre in Latin America, and the sixth worldwide, with one of the highest scores ever achieved: 99.36. The certification was awarded by the Uptime Institute, a body which enjoys international recognition in the industry.

Such certification attests the degree of operational excellence for the critical installations of a data centre, ratifying their sustainability and reliability. It defines and verifies the behaviours and risks which impact the data centre's capacity to fulfil the levels of availability expected of the infrastructure in the long-term.

Eco Berrini permits 30% savings in energy and 40% in water compared with conventional buildings. The construction has a rainwater harvesting and treatment system used for irrigation, for the toilets and for the air conditioning system cooling towers. The head office also uses light bulbs that are regulated in accordance with the natural lighting available and the wood used in its construction has Forest Stewardship Council (FSC) certification. The building received a LEED Platinum seal, the most rigorous sustainable construction certification.

Smart Cities: Águas de São Pedro

In April 2014, Telefônica Vivo initiated an ambitious project to transform Águas de São Pedro, a tourist resort with 3,004 inhabitants located 180 km from the city of São Paulo, into the first 100% digital city in the country. The modernization of the municipality's telecom infrastructure involved the substitution of the old telephone exchanges and copper cables with fibre optics, driving a local revolution and making the city smart. In conjunction with private partners such as Huawei and Ericsson, and public authorities, the company enabled new services and possibilities of connection for the population in the areas of health, education, the environment, mobility, security and municipal management. An example is the public health area, where inspectors can be provided with tablets equipped with applications that enable the location of focuses of the dengue mosquito and other risks to public health. The administration also provides applications to members of the public who may use their devices to assist in avoiding possible risk situations. Another example in the education area was the donation of 410 netbooks and tablets to students in schools in the city, to permit digital access to books, interactive contents, videos, magazines, newspapers and news in general. It may be affirmed that in terms of mobility, everything is now connected in the city, which has 300 parking spaces with sensors in the centre, 15 surveillance cameras working 24 hours a day and a smart public lighting system comprising 24 lampposts.

Environmental
performance

To contribute to the environment, a theme identified in the company's materiality matrix, and to ensure compliance with laws and standards, Telefônica Vivo monitors indicators related to waste, emissions, energy and climate change. The objective is to enhance management in this area and improve the company's environmental performance. Additionally, the company constantly invests in initiatives and programmes aimed at driving sustainable development. *[G4-DMA]*

In 2014, the investment and spending on environmental protection was R$ 16,912,541. Of this, R$ 1,446,084 was for measuring electromagnetic fields; R$ 50,939 for environmental audits; R$ 716,654 for environmental impact studies, environmental licensing and authorizations; R$ 567,832, for environmental maintenance and management; and R$ 14,131,032, for visual impact measures. *[G4-EN31]*

WASTE *[G4-DMA]*

In 2014, a total of 109 metric tons of Forest Stewardship Council (FSC) certified white paper was used in Telefônica's own stores and administrative buildings. There follows a list of measures that have been adopted both by the company and by customers to further reduce paper consumption.

Online Billing

We encourage our customers to join the Online Billing programme, which provides virtual access to bills, billing history, agendas and other information. On a monthly basis, subscribers receive notification of their bill by SMS, email or via Meu Vivo, tablet, computer or smartphone.

Since the initiative was introduced in 2011, 3,641,102 customers have adopted online billing. In 2014, electronic bills were issued to 18.7 million mobile customers and to around 8 million fixed service customers. *[G4-EN2, EN23]*

Sustainable Sale

Since 2013, the company has had its Sustainable Sale system for in-store attendance, substituting paper with tablets. Upon making a purchase the customer signs the device directly and receives the contract via email. With the solution, no scanning, printing or physical storage is necessary. In addition to reducing waste, the new system simplifies the process and minimizes the cost of document management. This technology was in use in 313 of Vivo's own stores by the end of 2014. During the year, 459,000 thousand contracts were signed using this model, providing customers with a differentiated technology experience, resulting in faster, more practical and more secure service.

Reciclar Conecta Service

The company has had its Reciclar Conecta handset, battery and accessory recycling programme since 2006. In place in company owned stores and resellers all over the country, there are now 3,400 drop off points. The mobile handsets, which contain materials such as gold, silver and copper, are sorted and the different materials are disposed of in diverse manners. The plastic is shredded and returns to the market. Batteries undergo a specific recycling process and the other components are shipped to Belgium, where the materials are separated in a blast furnace. In 2014, we reached the mark of 1 million handsets and 3.4 million other items collected.

The electric and electronic equipment used in Telefônica offices and company-owned stores is either sold, donated or, when obsolete, disposed of.

In 2014, there was a Reciclar Conecta campaign in 11 administrative buildings. In three days, 1,662 handsets and 1,144 accessories were collected from employees.

Reutilization of materials

Through a partnership with a specialized company, diverse electronic materials from our operations, such as cables, antennas, computers from offices and other items are collected and sold as scrap. This resulted in the processing of 6,119.45 metric tons of material during the year. *[G4-EN2, EN23]*

Selective Collection programme

This programme is aimed at ensuring the proper disposal of waste generated in our administrative facilities and increasing employee awareness of the importance of selective collection in general. A total of around 15,000 employees working in 17 buildings nationwide have been engaged in the programme. *[G4-EN23]*

Vivo Renew

This pioneering measure in Brazil is aimed at part exchanging customers' old handsets, offering them a discount on the purchase of a new smartphone. In partnership with a North American company, the old handsets are resold. Around 8,000 handsets had been collected by December 2014.

WATER

Through campaigns and other measures, we seek to heighten customer and employee awareness of the need to reduce water consumption. In 2014, with the internal Cada Gota Conta (Every Drop Counts) programme, the company developed engagement initiatives with intranet campaigns and SMS messages for employees.

Telefônica also installed automatic taps with flow control valves and blow dryers in its buildings. In the Eco Berrini building, for example, we have a water reutilization system for bathrooms and irrigation. Water from taps is collected, treated and mixed with rainwater for reuse in toilets and in the gardens.

ENERGY AND EMISSIONS *[G4-DMA]*

Currently, the process which most consumes energy at Telefônica Vivo is the power for equipment and communication networks, which accounts for approximately 80% of our greenhouse gas (GHG) emissions. The company has assumed a global commitment to achieve a 20% reduction in its direct and indirect GHG emissions by 2020.

To do this, we have developed specific measures to improve network energy efficiency, such as decreasing the consumption of fossil fuels in generators, substituting them with more efficient and cleaner energy sources; using vehicles with a lower environmental impact in the company fleet; and leveraging the use of renewable energy.

According to Brazil's CCEE or Câmara de Comercialização de Energia Elétrica (Electricity Commercialization Chamber), we are the company with the highest number of clean energy consumer units. Total energy consumption in 2014 was 1,559,018.21 MWh, up 7.87% on the previous year as a result of the installation of new network infrastructure. 26% of this energy is from clean sources. *[G4-EN3]*

In 2012, when we increased electricity purchases on the open market for 130 technical buildings, we also negotiated a new long-term contract for energy purchases between 2016 and 2020, with an estimated supply of 52 MW per month. We improved the traceability of our mobile consumption and concluded that open market energy corresponds to 30% of total consumption (fixed + mobile).

To ensure greater efficiency in managing emissions, we prepared a GHG inventory in accordance with the Greenhouse Gas Protocol (GHG Protocol) model. The figures were verified by the company Aenor and conform to ABNT standards, attesting the accuracy of the data and compliance with the GHG Protocol. As a result, we received the Gold Seal granted by the Brazilian GHG Protocol programme for the second year in a row.
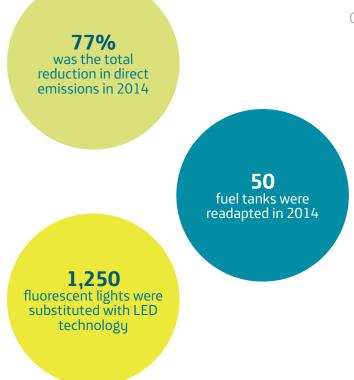
In 2014, there was a 77% reduction in direct emissions; however, indirect emissions increased by 52%, mainly due to the increase in Brazil's national grid energy emission factor. *[GRI G4-EN15, G4-EN16, G4-EN17, G4-EN19*

Energy

	MWh
Energy consumption in operations	1,470,330
Energy consumption in offices	88,688
Purchase of renewable energy	399,439
Generation of renewable energy for own consumption	11

Inventory

		2013	2014
Scope 1	tCO_2e	24,146.70	9,885.98
Scope 2	tCO_2e	138,795.18	211,220.98
Scope 3	tCO_2e	4,733.66	7,507.20

In 2014, we deactivated CDMA technology in some buildings, leading to savings of 370,022 kWh/year.

77%
was the total reduction in direct emissions in 2014

50
fuel tanks were readapted in 2014

1,250
fluorescent lights were substituted with LED technology

Efficient LED lighting

In 2014, a total of 1,250 fluorescent lamps were substituted with LED technology. This led to a 12,083.46 kWh reduction in electricity consumption in November and December.

Domestic containers

The company migrated indoor cabinet equipment, such as radios, to outdoor cabinets, thus disconnecting it from the container infrastructure. This enabled more precise control of air conditioning. Similarly it permitted the removal and sale of the containers, reducing the area occupied on the site. The result was an economy in energy and a reduction in greenhouse gas emissions.

Smart mobile stations

In August 2014, the implantation of the energy efficiency and sustainability project involving the GSM network mobile stations was concluded. This involves a software feature implanted in these stations, making them smart with respect to the energy needed to irradiate the signal from the antennas. The system recognizes when voice and data traffic is low (during the night, for example) and automati-

cally decreases the energy required. As traffic increases, more energy is released in accordance with demand. This resource, known as Feature Power Saving, results in an 8% reduction in consumption in the radio equipment in the station, driving savings of R$ 7 million reais or 16 GWh per year, the equivalent of the energy consumed by 5,300 units of low-cost housing.

Fuel tanks

In 2014, the company developed a project to replace and adapt the fuel storage tanks for generators (main or auxiliary energy sources. R$ 7 million was invested in adapting more than 50 tanks during the year.

CLIMATE CHANGE

In 2013, Cemaden, Brazil's Natural Disaster Monitoring and Warning Centre (Centro Nacional de Monitoramento e Alertas de Desastres Naturais) and Telefônica established a partnership to help prevent problems caused by climate change and ensure the monitoring and emission of landslide and flood alerts. By the end of 2014, 2,208 rain gauges with 3G chips, (1,500 of which use the company's data network) had been installed in schools, federal government buildings and Telefônica radio base stations located in high risk areas in 856 municipal districts around the country.

Using Vivo Clima Machine to Machine (M2M) and 3G/GPRS technologies, data on rainfall in high risk areas are reported to Cemaden in real time.

In 2014, 1,030 mass movement alerts, 588 flood alerts and 168 flash flood alerts were issued in degrees of seriousness varying from moderate, high to very high.

⇨ The company also has institutional environmental guidelines related to climate change:

⇨ to promote a low carbon economy;

⇨ to provide services that drive energy efficiency;

⇨ to offer customers information and communication technology solutions (products and services);

⇨ to include energy and carbon variables in the total cost of ownership (TCO);

⇨ to monitor operations with a view to reducing social and environmental impacts and encouraging partners and suppliers to do likewise;

⇨ to develop energy efficiency projects, prioritizing clean energy.

Attachments

Awards and *recognition*

Award	Category	Institution
Marca de Quem Decide (Decision Maker's Brand)	Preferred band in Mobile Telephony category	*Jornal do Comércio* newspaper and Qualidata
Top of Mind Ribeirão Preto	For the fourth time running in the Fixed Telephony category	*Tribuna Ribeirão* newspaper and *Recall* magazine
Global Occupational Safety Award	The Bem Perto programme was the winner in the second Global Occupational Safety Award, in Shanghai, China	
Executivo de Valor	The CEO was the winner in the Telecommunications category	
Best company to start one's career	4th position	*Você S/A* magazine
Tela Viva Móvel	Winner with the projects Healthy Vivo with Drauzio Varella (Well being), Vivo Children Online (Community/Social Network), Vivo Music by Napster (Music) and Vivo Health Alert (Well being).	*Converge* Comunicações
Top of Mind Rio Grande do Sul	Cellular Telephony Operator category	*Amanhã* magazine
Melhores e Maiores (Biggest and Best)	Telecommunications category	*Exame* magazine
100 Best Companies to Work for	Information Technology category	Great Place to Work (GPTW), in partnership with IT Mídia
130 Best Companies to Work for	11th place in list	Great Place to Work (GPTW) and *Época* magazine
Anuário Telecom (Telecom Yearbook)	Two categories: Mobile, Internet and Access Service Operators	Fórum Editorial
Brand Recall	Telephony category	
Top Brands	Mobile Telephony category	*Espírito Santo Brasil* magazine
As Melhores da Dinheiro (Dinheiro magazine The Best)	Telecom category	Editora Três
Marca de Confiança (Trusted Brand)	Telephony Operator category	*Seleções* magazine and Ibope Inteligência
Top de Sustentabilidade (Top in Sustainability)	Recognition of following projects: Sustainable website; Reciclar Conecta; Pescando com Redes 3G (Fishing with 3G nets); and Digital Volunteer	Associação dos Dirigentes de Vendas e Marketing do Brasil
Best Company to Work for	Telecommunications sector	*Você S/A – Exame* magazine
35 Best in Personnel Management	2nd place out of 35, in the category Companies with more than 16,000 employees	Valor Carreira
Top of Mind	Mobile and Broadband Internet categories	*RDM* magazine
Anuário de Inovação em Comunicação (Innovation in Communication Yearbook)	Telecom Services Operator category, with Águas de São Pedro project	
Guia Exame de Sustentabilidade (Exame Sustainability Guide)		Editora Abril
Most Admired Companies in Brazil	Fixed Telephony Operator and Mobile Telephony Operator categories	*Carta Capital* magazine
Marcas de Valor (Valued Brands)	Telephony category	Rede Gazeta
Prêmio Profissional RH (HR Professional Award)	Recognition of Sandra Lima, Telefônica Vivo Human Resources Executive Director, as 2014 Professional of the Year in the Telecommunications category	*Você RH* magazine, Editora Abril
Prêmio Líderes & Vencedores (Leaders & Winners Award)	Fundação Telefônica Vivo received the award for the 100% Connected Rural School project	Rio Grande do Sul Legislative Assembly and Federasul
Empresário Amigo do Esporte (Sport Friendly Entrepreneur)	Telefônica Vivo received three awards: 1st place – Friend of Sport in the State award – Alagoas/3rd place – Friend of Sport in the State award – Minas Gerais/ 3rd place – Friend of Educational Sport – Nationwide	Ministry of Sport

GRI *Summary* *[GRI G4-32]*

OVERALL STANDARD CONTENTS

Overall standard contents	Section/Page/Response	External verification
Strategy and analysis		
G4-1	9, 10, 11 and 12	Yes - 62
Organizational profile		
G4-3	Telefonica Brasil S.A.	Yes - 62
G4-4	14	Yes - 62
G4-5	14	Yes - 62
G4-6	14	Yes - 62
G4-7	14	Yes - 62
G4-8	14	Yes - 62
G4-9	14	Yes - 62
G4-10 UNGC[1]	30	Yes - 62
G4-11 UNGC[1]	100% of Telefônica's employees in Brazil are covered by collective bargaining agreements	Yes - 62
G4-12	9	Yes - 62
G4-13	14	Yes - 62
G4-14	17	Yes - 62
G4-15	9	Yes - 62
G4-16	18	Yes - 62
Material aspects identified and boundaries		
G4-17	5	Yes - 62
G4-18	5	Yes - 62
G4-19	5	Yes - 62
G4-20	5	Yes - 62
G4-21	5	Yes - 62
G4-22	Any significant changes in relation to the data reported in previous years and alterations in the bases of calculations or indicator measurement techniques are indicated throughout the text and the tables in the report.	Yes - 62
G4-23	14	Yes - 62
Stakeholder engagement		
G4-24	5	Yes - 62
G4-25	5	Yes - 62
G4-26	5	Yes - 62
G4-27	5	Yes - 62

OVERALL STANDARD CONTENTS

Overall standard contents	Section/Page/Response	External verification
Report profile		
G4-28	4	Yes – 62
G4-29	2014	Yes – 62
G4-30	Annual	Yes – 62
G4-31	4	Yes – 62
G4-32	4 and 55	Yes – 62
G4-33	4 and 62	Yes – 62
Governance		
G4-34	16 and 17	Yes – 62
Ethics and integrity		
G4-56 UNGC[1]	28	Yes – 62

SPECIFIC STANDARD CONTENTS

Aspect	Information about Management Approach and Indicators	Section/Page/Response	Omission	External verification
Economic category				
Economic performance UNGC [1]	*G4-DMA* Management approach	14		Yes – 62
	G4-EC1	14		Yes – 62
Indirect economic impacts	*G4-DMA* Management approach	19		Yes – 62
	G4-EC8	19, 29 and 43		Yes – 62
Purchasing practices	*G4-DMA* Management approach	36		Yes – 62
	G4-EC9	In 2014, 85% of our purchases were from them.		Yes – 62
Environmental category UNGC[1]				
Materials UNGC [1]	*G4-DMA* Management approach	48		Yes – 62
	G4-EN2	48		Yes – 62
Energy UNGC[1]	*G4-DMA* Management approach	49		Yes – 62
	G4-EN3	49 and 50		Yes – 62
Biodiversity UNGC[1]	*G4-DMA* Management approach	-		Yes – 62
	G4-EN12	Not applicable to all of the company's operations		Yes – 62
Emissions UNGC[1]	*G4-DMA* Management approach	50		Yes – 62
	G4-EN15	50		Yes – 62
	G4-EN16	50		Yes – 62
	G4-EN17	50		Yes – 62
	G4-EN19	50		Yes – 62
Effluents and waste UNGC[1]	*G4-DMA* Management approach	48		Yes – 62
	G4-EN23	48 and 49		Yes – 62
General UNGC[1]	*G4-DMA* Management approach	48		Yes – 62
	G4-EN31	48		Yes – 62

SPECIFIC STANDARD CONTENTS

Aspect	Information about Management Approach and Indicators	Section/Page/Response	Omission	External verification
Social category – labour practices and decent work UNGC[1]				
Employment UNGC[1]	*G4-DMA* Management approach	30		Yes – 62
	G4-LA1	30		Yes – 62
	G4-LA2	30		Yes – 62
Occupational health and safety UNGC[1]	*G4-DMA* Management approach	35		Yes – 62
	G4-LA5	35		Yes – 62
	G4-LA6	35		Yes – 62
Training and education	*G4-DMA* Management approach	30		Yes – 62
Training and education	G4-LA11	We carry out the Management Review once a year, only with directors and executive directors, to map successors and measure performance for executive bonus payments, but this is not considered a performance appraisal. The performance appraisal of the entire employee body is being reviewed.		Yes – 62
Diversity and equality of opportunity	*G4-DMA* Management approach	31		Yes – 62
	G4-LA12	31		Yes – 62
Equal remuneration for women and men	*G4-DMA* Management approach	-		Yes – 62
	G4-LA13	Confidential information		Confidential information
Screening of suppliers' labour practices	*G4-DMA* Management approach	36		Yes – 62
	G4-LA14	36		Yes – 62
Grievance and complaint mechanisms related to labour practices	*G4-DMA* Management approach	28		Yes – 62
	G4-LA16	28		Yes – 62
Social category – human rights UNGC[1]				
Child labour UNGC[1]	*G4-DMA* Management approach	36		Yes – 62
	G4-HR5	36		Yes – 62
Forced or slave labour UNGC[1]	*G4-DMA* Management approach	36		Yes – 62
	G4-HR6	36		Yes – 62
Grievance and complaint mechanisms related to human rights	*G4-DMA* Management approach	28		Yes - 62
	G4-HR12	28		Yes - 62

SPECIFIC STANDARD CONTENTS

Aspect	Information about Management Approach and Indicators	Section/Page/ Response	Omission	External verification
Social category - society UNGC[1]				
Combating corruption UNGC[1]	G4-DMA Management approach	28		Yes – 62
	G4-SO4	28		Yes – 62
	G4-SO5	28		Yes – 62
Public policies UNGC[1]	G4-DMA Management approach	-		Yes – 62
	G4-SO6	We do not make contributions to political parties (Business Principles)		Yes – 62
Compliance	G4-DMA Management approach			Yes – 62
	G4-SO8	Cases in excess of 100 MM are considered significant. In 2014, there were fines from 44 cases, totalling R$ 1,134,067,757.02		Yes – 62
Screening suppliers for impacts on society	G4-DMA Management approach	37		Yes – 62
	G4-SO10	37		Yes – 62
Social category – product responsibility				
Customer health and safety	G4-DMA Management approach	35		Yes – 62
	G4-PR1	35		Yes – 62
Product and service labelling	G4-DMA Management approach	41		Yes – 62
	G4-PR5	41		Yes – 62
Customer privacy	G4-DMA Management approach	43		Yes – 62
	G4-PR8	43		Yes – 62
Customer privacy	G4-DMA Management approach	-		Yes – 62
	G4-PR9	Cases in excess of 100 MM are considered significant. In 2014, two fines were applied in two cases, amounting to R$ 447,981,656.29		Yes – 62

1 - United Nations Global Compact

Assurance *Statement* [GRI G4-33]

Independent auditor's limited assurance report*

To the Board of Directors, Shareholders and Officers of
Telefônica Brasil S.A.
São Paulo - SP

Introduction

We have been engaged by **Telefônica Brasil S.A.** management to provide our limited assurance report on the indicators contained in the **Telefônica Brasil S.A.** 2014 Annual Sustainability Report for the year ended December 31, 2014.

Company management responsibility

The Telefônica Brasil S.A. management is responsible for the preparation and fair disclosure of the 2014 Annual Sustainability Report information in accordance with the guidelines, principles and indicators set out in the G-4 reference guide *Global Reporting Initiative (GRI)* and the principles established by *AA1000 AccountAbility Principles Standards 2008*, issued by AccountAbility *(Institute of Social and Ethical Accountability)* and for such internal control management determined as necessary in order to prepare this information free of material misstatement, whether due to fraud or by error.

Auditor's responsibility

Our responsibility is to express a conclusion on the information contained in the 2014 Annual Sustainability Report based on our limited assurance procedures. We conducted our procedures in accordance with Technical Communication CTO 01/12, approved by the Brazil's National Association of State Boards of Accountancy (CFC) and prepared based on NBC TO 3000 - Assurance Engagement Other Than Audit and Review, issued by the CFC, which is equivalent to the international standard ISAE 3000, issued by the International Federation of Accountants and applicable to non-historical information. Those standards require that we comply with ethical requirements, including independence requirements, and that the engagement is performed in order obtain limited assurance that the overall information contained in the 2014 Annual Sustainability Report is free of material misstatement.

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A limited assurance engagement conducted in accordance with NBC TO 3000 (ISAE 3000) primarily consists of inquiries of management and other Company professionals who are involved in preparing the information contained in the 2014 Annual Sustainability Report, as well as the application of analytical procedures to obtain evidence which allows us to conclude in the form of limited assurance on the overall information provided. A limited assurance engagement also requires the implemention of additional procedures when the independent auditor becomes aware of matters that lead them to believe that the overall information contained in the 2014 Annual Sustainability Report may have material misstatements.

The procedures selected were based on our understanding of the aspects relating to compilation and presentation of the information contained in the 2014 Annual Sustainability Report and of other circumstances of the work and our consideration regarding areas in which material misstatements might exist. The procedures comprised:

(a) the planning of our procedures, considering the significance, the volume of quantitative and qualitative information and the operating and internal controls which supported the preparation of the information contained in the Telefônica Brasil S.A. 2014 Annual Sustainability Report;

(b) the understanding the calculation methodology and procedures for compilation of the indicators through interviews with the managers responsible for preparing the information;

(c) the application of analytical procedures on the quantitative information and inquiries about the qualitative information and its correlation with the indicators disclosed in the information contained in the 2014 Annual Sustainability Report;

(d) a crosschecking of the financial indicators with the financial statements and/or accounting records.

The limited assurance procedures comprised also adherence to the guidelines and criteria relating to AA1000 reporting framework issued by *AccountAbility (Institute of Social and Ethical Accountability)* applicable in the preparation of the information contained in the Telefônica Brasil S.A. 2014 Annual Sustainability Report.

We believe that the evidence we have obtained from our procedures is sufficient and appropriate to provide a basis for our conclusion in a limited form.

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Scope and Limitations

The procedures performed in a limited assurance engagement are substantially less in scope than those applied in an assurance work intended to express an opinion on the information contained in the 2014 Annual Sustainability Report. As a consequence, they do not enable us to obtain assurance that we are aware of all the matters that would be identified in an assurance engagement intended to express an opinion. Had we performed an engagement in order to issue an opinion, we might have identified other matters and possible misstatements that may exist in the information contained in the 2014 Annual Sustainability Report. Consequently, we do not express an opinion on this information.

Non-financial data is subject to more inherent limitations than financial data, given the nature and diversity of the methods used to determine, calculate or estimate such data. Qualitative interpretations of datamateriality, significance and accuracy are subject to individual assumptions and judgments. Furthermore, we did not perform any work in rela- tion to future projections and goals.

Conclusion

Based on the procedures performed, as described in this report, nothing has come to our attention that causes us to believe that the information contained in the 2014 Annual Sustainability Report was not compiled, in all material aspects, in accordance with the G4 reference guide *of the Global Reporting Initiative (GRI)* and the principles established by *AA1000 AccountAbility Principles Standards 2008*, issued by AccountAbility (*Institute of Social and Ethical Accountability*).

São Paulo, August 24, 2015

Ernst & Young
Auditores Independentes S.S.
CRC-2SP015199/O-6

*A free-translation from Portuguese into English of Auditors' Report on non-financial statements (Annual Sustainability Report) originally prepared in Portuguese and in Brazilian currency (R$)

Credits