

An aerial photograph of a town with red-tiled roofs and a river flowing through it. The town is surrounded by green fields and forests. A bridge is visible on the left side of the river.

## Corporate social responsibility (CSR)

03

We work more effective  
to save our customers time.

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## Introduction

Telefónica CR understands corporate responsibility as a way of managing its business in relation to its interest groups. To the extent that the company is capable of making a positive impact on economic, technological and social progress through its activities, it will be capable of guaranteeing its own sustainability as a company.

In short, the way in which the economic-financial results are met and the objectives are achieved is just as important as the results themselves. Thus, Telefónica CR sustainability strategy it's implemented across the business through the management of risks in our business, searching for opportunities linked to the impact of our services in society, and the proactive stakeholder engagement.

In 2011, Telefónica CR was placed in the top five most responsible telco companies all over the world according to the Dow Jones Sustainability Index (DJSI) – the most important socially responsible investment index in the telecommunications super-sector, including landline and mobile operations.

Telefónica CR sustainability performance is verified independently by Ernst & Young through the annual audit and monitored internally by the Governance Committee.

In addition to the global recognition, Telefónica CR can boast many socially responsible achievements in 2011. The launch of Thing Big – a social programme which supports young people in their efforts to improve their local communities; the success of the employee engagement strategy; improved energy efficiency; dealing with challenges faced by the society in connection with the new digital opportunities; improved ethical commitment of all employees; and the improved sustainability across the supply chain, are presented in detail in the following sections:



## Business principles

Corporate culture and reputation are among the priorities of the Telefónica Group. In July 2011, Telefónica CR published updated Business Principles that reflect the current priorities of the Telefónica Group. The Business Principles are a set of 42 principles that Telefónica CR sees as a vehicle for gaining and keeping the trust of customers, shareholders, employees, contractual partners and the public at large. Key principles include: 'no' to corruption regardless of its form; conformity with the law; and protecting information and privacy.

In 2011, Telefónica CR continued to promote the Business Principles among the employees by means of an online course. The course is now fully integrated in the standard training portal, with the benefit of improved user comfort. Employees train in the Business Principles every three years; as at 31 December 2011, 85% of all employees had a valid certificate of completion of the Business Principles course.

Employees have the duty to report unethical conduct which they may come across; the Company guarantees anonymity for the whistleblower. In 2011, Telefónica CR continued to raise awareness of the available whistle-blowing tools. Employees can report unethical conduct in several ways: they can choose between an online application, e-mail, letter addressed to the responsible officer (Compliance Officer) or visiting in person. Employees have also the option to approach trained consultants from Human Resources, Security and Legal Affairs. The reports are investigated by Security or Internal Audit in collaboration with the Compliance Officer. There are also instruments of higher instance available: escalation of the report to the Business Principles Office of the parent Telefónica, or the instruments available at the European division of the group, Telefónica Europe. Reporting suspected irregularities in accounting, internal control systems and accounting audit of the Company or the Group is made through a dedicated whistle-blowing channel leading directly to the parent Telefónica. Activities in the area of ethical conduct and business principles enjoy a full support from the governing bodies and the executive management; they are supervised by the Ethics and Corporate Social Responsibility Committee and, through this body, by the Supervisory Board. The effectiveness of the whistle-blowing instruments (and of the subsequent investigations) is regularly monitored by the Ethics and Corporate Social Responsibility Committee. The Internal Audit unit of Telefónica CR regularly audits the compliance with the Business Principles.

The Business Principles are a fundamental policy of the Company, which is a part of the Work Regulation and employees are required to comply. The brochure Business Principles is given to every new employee upon their commencement of employment as part of their orientation training, in which a special section is dedicated to the Business Principles and to the values of the O2 brand; the publication can also be downloaded from the Company's intranet and website.

The Business Principles assert that Telefónica CR is a company that is equally open, trustworthy and transparent towards its people and the customers.

## Market conduct and customer orientation

### Customer experience

Also in 2011, customer experience continued to be a priority for Telefónica CR and a pillar of the Bravo! Strategy.

The Company also continued to emphasise the delivery on four promises to customers:

1. People make the difference – we want our customers to know that we try our best to address their needs.
2. The best online experience – we give our customers a comprehensive, affordable and serious offer of internet at home, on the road, at work and in the mobile phone.
3. Being an O2 customer always pays off – all our offers deliver real value.
4. We build on trust – we offer a reliable service and the experience that O2 delivers on its promises and gives the customer the care he truly deserves.

These commitments are the guiding criteria for our new and redesigned products and services. Telefónica CR monitors the delivery on the promises and the overall customer experience.

VDSL, a new technology for the customers of our fixed-line services, was launched, offering faster home internet. The communication campaign generated a lot of interest from existing ADSL customers. A large part of the Company's activities focused on demonstrating the benefits of mobile internet, safety in using telecommunications technologies and direct and easy communication.

O2 Guru, Telefónica CR's project to offer assistance and customer service on social networks, was launched in 2011. A series of videos was produced, in which O2 Guru advises, for instance, how to operate a service or configure a smartphone.

The SME division was subjected to customer re-segmentation, with a view of offering a better service to business customers. The IVR system in call centres was abandoned in favour of a direct call with a live operator, which subsequently reflected in improved rating of the customer experience.

POTR, one of the BRAVO projects in Telefónica CR, netted several notable accomplishments in 2011.

The Business Division completed the configuration of a process for keeping customers informed of the status of their requests, including mobile, and any delays which may occur. This helped to reduce the number of customer status-related enquiries. A new process, which implemented a one-day framework contract including tariff optimisation vis-à-vis the customer; this helped to reduce the rate of erroneous data input in the system in the process of entering individual terms and conditions for the customer. A function with automatically enters new numbers into a customer's VPN group was also implemented. The customer is informed of the amount charged for the data service, unless, of course, the customer has a data price plan activated.

Some POTR activities were restarted in the SME division in 2011, which will be given a priority also in 2012. One of them is a system for correcting orders that had been erroneously input due to a failure of the human factor, which is designed to reduce the number of complaints.

In the Consumer Division, Telefónica CR focused on improving the quality of sales through the call centre. Mandatory standards for a sales call were implemented, together with the so-called sales summary before sending the order to the customer via email. The objective is to achieve a 35% reduction in the number of complaints in this category.

In 2011, changes were introduced to the system of service cancellation; the calculation of the notice period is now greatly simplified, and the customer is informed of the cancellation date upon the first contact.

A new system called 'smart promo management', which informs the customer of the end of a promotion by SMS and on an invoice, was applied to 80% of all promotions. The number of complaints in this category was down 75%.

The system for handling complaints in the same division was changed – the process of awarding or refusing a claim by call centre or store employees is now faster, with clear rules for the handling of complaints relating to reminders of late payment.

In our brand stores, individual customers could use the so-called 'order summary', which gives an easy overview of all products for the benefit of the customer and the sales assistant. This improvement helped to reduce the number of complaints and repeat calls to the call centre. An information flyer was produced for the brand stores, with the purpose to set the customer's expectation. Telefónica CR also scrupulously adhered to the Code of Conduct for Retailers.

## Products and services for people with specific needs

As in the previous years, also in 2011 the Company focused on helping and supporting people with special needs, especially senior citizens and people with disabilities, by making their communication easier.

Telefónica CR carried several models of telephones designed for senior citizens or people who find it difficult to operate regular control keys. Offering devices for people with disabilities, such as loss of hearing, was a matter of course. There was a choice of devices capable of converting text to speech for people with loss of sight.

In 2011, Telefónica CR offered Aligator A400 and a SIM pre-charged to the value of CZK 100. With each set, the customer was given a present: the brochure 'The Internet School for Senior Citizens'. For contract customers, the tariff O2 Neon Senior offered a purchase of a mobile telephone for the symbolic price of CZK 1.

## Deaf Call

Also in 2011, Telefónica CR continued to operate Deaf Call. During the course of the year, the operators handled 15,000 requests.

In the first half of 2011, a campaign was run through the media, with the aim to promote the service to the target group.

In October 2011, Telefónica CR partnered with the Deaf Union Brno and organised a 'Double-decker Tour'. A double-decker bus, originally from London, toured 14 Czech towns and Deaf Call operators campaigned at 20 schools and institutions for the fully or partially deaf.

The customer base of the Deaf Call line increased 40% in the last quarter of the year alone.

## Discounts

Also in 2011, Telefónica CR offered a discount equalling the amount of the state contribution to people with a dependency of the 1st degree, and a discount on the O2 fixed-line service. The discount was claimed by a total of 48,836 customers.

## Conference INSPO 2011 and the competition 'Mobile Phone and My Handicap'

The Company was again in 2011 the General Partner INSPO: a conference on the 'Internet and Information Systems for Persons with Special Needs', the only event of its kind in the Czech Republic. The Company's representatives presented Deaf Call and Emergency Care services for people with disabilities and senior citizens, which they followed up with a demonstration. In addition to financial support to the conference, the Company also donated gifts for the speakers and the winners of the writing competition 'Mobile Phone and My Handicap', whose results were announced at the INSPO conference. The winners walked away with smartphones and two year's worth of free internet.

## Online safety

### **We help to guide children safely through the world of communication technology**

As a provider of communications services, Telefónica CR is committed to using all available means to help eliminate potential risks that come with modern technology. Protecting children and creating a safe environment for them in the world of information and communication technology has always been a key priority with regard to the Company's customers. Several specific actions were taken in the area of child protection.

Also in 2011, Telefónica CR continued to observe its policy on the marketing to children, which summarises the principles respected in all the Company's marketing activities and which had been adopted previously. The Company also continued with blocking websites with child pornographic content. All websites that were made illegal in all EU countries were blocked in the O2 network.

### **Supporting projects in the area of protection of children**

As is already a tradition, in February 2011, the Company joined the celebrations of the International Safer Internet Day, together with the National Centre for Safer Internet, gave its support to the pan-European campaign, which focused on our virtual lives. As part of the campaign, which was led by the motto 'It's not a game, it's your life', Telefónica CR organised a series of workshops dedicated to the topic of safer internet.

Also in 2011, Telefónica CR gave its support to a conference of experts, which was held in the Senate of the Czech Parliament and was organised by the National Centre for Safer Internet; the conference was dedicated to the issues of cybercrime prevention, especially among children. The conference was titled 'Cybercrime prevention and children, technology, education and legislation'.

After the conference, the Company organised a working lunch, which brought to one table the representatives from business, policy and media, to discuss together their commitments in the area of digital technology. Luis Antonio Malvido, Chief Executive Officer Telefónica CR, was the host. The conclusions of the expert roundtable were incorporated in the Company's strategy for the area of 'Digital Confidence' for the upcoming years.

The end of 2011 saw already the 9th Cyberspace International Conference, which explored the effects of the internet on the society and which was organised by the Faculty of Law, Masaryk University, in collaboration with the Faculty of Social Studies of the same institution. Telefónica CR was the general partner of the event.

The Company received the prestigious Via Bona Award for its 17 years of partnership with the Safety Line.

## Caring for employees and the workplace environment

It is the Company's long-term strategy in the area of human resources to be 'a place which is a pleasure to work at'. A new 'charter' between the Company and its employees was agreed last year, which describes in detail what the Company plans to achieve in various areas and what should be the contribution of employees towards the goal. Some areas are already well underway, whereas others are scheduled for the next few years, as per the work plans.

	<b>number of employees as at 31 December 2011</b>
Employees – total	6,494
of which women	36.98%
of which men	63.02%
Employees with reduced work capacity or disability	0.86%

Organisation unit	Employees (actual) as at 31 December 2011
Wholesale Division	179
Corporate Division	988
Consumer Division	1,849
Operations Division	2,270
Corporate Affairs	20
Human Resources	76
Support Services	295
Finance Division	324
Legal Affairs and Regulation	40
Internal Audit and Risk Management	14
Marketing Division	197
Office of the Chief Executive Officer	33
DHL	55
Telefónica Business Solutions	154
<b>Total</b>	<b>6,494</b>

## Employee engagement

### Reflect

The interest in and the motivation of employees to participate in the internal satisfaction survey remained at the very high level of 83%. The overall Reflect Index was up 3 percentage points – the first upwards trend since 2008. The outcome was regarded by the management as a success, especially as the year ushered in many changes. Also individual areas of the survey saw improvements in the rating. The 'top management' index jumped up 6 percentage points year on year. Indices for areas 'my manager', 'my job and my development' and 'atmosphere' were rated as the Company's greatest strengths. Effectiveness of the executive team, credibility and availability are areas where there is still a room for improvement.

### Getting closer to our customers

Also in 2011, the Company continued with its programme called 'One Day with the Customer', to give managers a direct experience of the customer, which should lead to a higher awareness of the needs of our customers. A total of 318 managers took part in the programme; each manager spent one day in a brand store, at a call centre or went on call together with a sales representative or engineer.

### Improving internal cooperation

It is important to Telefónica CR for individual internal teams to engage in effective cooperation. Telefónica Team is a new tool for bolstering cooperation – a short structured questionnaire gives an opportunity to team leaders to improve their service to internal customers. After a successful pilot project completed in several divisions last year, the programme was rolled out within the Company in 2011.



### **Global Bravo Awards**

As part of its global Bravo strategy, Telefónica introduced Bravo Awards, in which all employees can nominate themselves or their colleagues for activities that are helping Telefónica CR stay abreast of the telecommunications field.

### **Work-life balance programmes**

Telefónica CR realises that giving the employees an option to work from home is a win-win situation for all involved – the employees, the Company and its customers. Any employee, whose job character allowed for this option, could talk to their manager about working from home. Employees working from home have a company mobile and internet connection to facilitate this style of working. The Company also allowed employees, conditional on the relevant manager's consent, to work part-time. Parents of children of pre-school age could also use employee bonuses from the so-called cafeteria, which were redeemable against pre-school care.

A new online portal called Momma and Poppa went live early in 2011. It is intended for employees who are also parents, especially those who would be returning to the workplace in 6–8 months. The project also organised two two-day workshops designed to bring the participants up-to-date with the recent developments in the Company and to their work; work-life balance was also covered. The new portal and workshops were received with much enthusiasm by parent-employees.

In the second half of the year, Telefónica CR made a grant application to EU funds, for a new day care facility. The grant was approved, so in 2012 we will focus also on the planning and opening of the day care centre.

## **Education and personal development**

### **Orientation training for new employees**

As in the previous years, also in 2011 all new employees attended Welcome Day, a one-day seminar at which they learned a lot of useful information for getting to know and finding their way within the Company.

### **Basic management skills**

The course Management of People helped newly appointed managers to orientate in their role of supervisor or line manager. It gave an insight into the work of a manager and an opportunity to improve existing management skills. The five-day course, spread over two months, was attended by 72 participants in 2011.

### **Leadership**

Also in 2011, the long-term programme Leading to Excellence continued to build leadership skills of middle and higher managers. In 2011, a total of 84 managers attended the course, and 34 of them opted to continue with an additional module, Feedback – the Pathway to Success. Top executives had a choice of courses at Universitas Telefónica.

## Motivation and remuneration

### Employee shares plan

Also in 2011, employees could invest in the shares of Telefónica S.A. This option was chosen by more than 2,000 employees who could invest up to EUR 1,200 over a period of 12 consecutive months.

If the shares are held for a minimum of 12 more months starting from the end of the twelve-month acquisition period, the Company will match every share purchased with one share, subject to the rules of the scheme.

### Employee benefits and incentive programmes

Telefónica CR offers a wide range of employee benefits. Employees can choose from financial products, products and services of the Company or various other benefits in the area of health, education and work-life balance. Employees with reduced work capacity also received a voucher for restorative physiotherapy holiday in the value of CZK 10,000 per year. In addition, various competitions were held throughout the year, for the employees to enter – e.g. to mark the launch of campaigns, with the aim to engage employees in the happenings within the Company.

### Health Promoting Enterprise

The year 2011 saw already the 7th edition of Health Promoting Enterprise, a competition organised by the State Health Institute in Prague, under the auspices of the Ministry of Health of the Czech Republic. The 'badge' is given for a period of three years – Telefónica CR has been awarded three times already, now reaching Class III, which means 1st place among other entrants. All shortlisted companies have a documented track record of caring for their employees' health, focussing on prevention and activities associated with healthy living.

## Caring for the environment

### Environmental protection policy

The commitment of Telefónica CR to keep the footprint of its operations on the environment minimal in 2011 was anchored in the Company's long-term strategy and Environmental Policy. The Environmental Policy focuses on the elimination, or at least the mitigation, of damage to or degradation of the environment – in its whole or in part and with regard to the Company's sphere of activity; in doing so, the company uses the latest research. Telefónica CR's fundamental principles of environmental protection were coordinated across the Telefónica Group and helped to deliver on both the group and local objectives and to meet the statutory and other conditions.

### Green Company

Telefónica CR continually worked with its suppliers, gradually raising the bar they have to meet, in order to promote the ideas of environmental protection in its external environment. The Company continued to lead by example in 2011 – its Green Company programme involved employees in protecting the environment; this time employees helped to collect 269 tons of waste electrical and electronic equipment and came first among all teams participating in the project.

## Reducing environmental footprint

The Company continued in its successful campaign to reduce its negative footprint on the environment. Compared to 2010, a saving of 18.1% of fuel was achieved by more economical business travel; the consumption of natural gas and electricity also went down 23.84% and 2%, respectively, in year-on-year comparison. The volume of communal-type waste produced by Telefónica in 2011 was 3.5% lower than in 2010. We also succeeded with increasing the volume of waste that was recycled, especially industrial packaging in warehouses. In 2011, we also saw a major progress in the removal of the regulated coolant R22 from the air-conditioning units; 56 units over 10 kW and 228 units under 10 kW were treated.

The way the Company cares for the environment showed also in other areas – for instance, recycled materials and environmentally friendly materials continued being used for packaging.

## Certification

The Company's activities in the environmental area were regularly audited, both internally and with respect to suppliers. The standard of environmental protection is certified according to ISO 14001 international standards. Telefónica CR was the first telecommunications operator in the Czech Republic to have this certificate.

## Supporting sustainability

### **Green Open Air Festival**

Already for the second year running, Telefónica CR, General Partner to Open Air Festival in Panenský Týnec, was in charge of its sustainable format. The Eko Think Big festival zone provided for the recycling and coordination of clean-up teams, but there was also educational programme. Festival goers were invited to visit recycling boxes and learn more about recycling and about protecting the environment in general. One Think Big tent offered the opportunity to try how hard it is to make enough electricity to charge up a mobile phone by pedalling on a bicycle.

As in 2010, caterers used biologically degradable plastic cups. 'Green patrols' were monitoring the compound for any waste, helping to keep the grounds neat and clean for the duration of the festival. The care and diligence helped in Telefónica CR and the organiser reclaiming the 'Commended' mark in the Greener Festival Awards also in 2011.

## Supporting communities

Community-oriented and philanthropic projects were deeply rooted in the Company's CSR. Telefónica CR strived to put its technology to use in helping to improve the quality of life. Already for the tenth year running, O2 Foundation was the key instrument in transparent and systemic corporate donorship.

In 2011, the Company took part in the 8th edition of TOP Corporate Philanthropist, awards given by the Donors' Forum to businesses excelling in the field of CSR. Telefónica CR ranked in the TOP 10 companies in the Czech Republic; in the quantitative category TOP 10 Corporate Philanthropist measured by the volume of philanthropic investment it stood in the fourth position. 'Responsible Leader 2011', an award sponsored by Telefónica Czech Republic, was presented on the same occasion.

The total value of donations, gifts and telecommunications services provided by Telefónica CR to or for the benefit of charitable projects in 2011 exceeded the mark of CZK 52 million.

### Think Big

In 2011, the O2 Foundation started Think Big, a new social programme which succeeded the scheme of Regional Grants.

The goal of the long-term programme is to support informal groups of young people in making their ideas and projects, through which they want to change, improve or create something of value in their own community, into reality.

The first call for Think Big projects garnered 276 project proposals, of which 100 were chosen for some of the total pie of more than CZK 5.3 million. Teams of young people qualified for grants ranging from CZK 10,000 to CZK 90,000, weekend courses, telecommunications packages from the Company and mentoring from employees of Telefónica CR.

Grant applications were reviewed by nine regional committees, each comprising two employees of the Company, one expert in non-profit and youth leisure activities, one media representative and one young person already with some experience with implementation of such projects.

Projects that received financial support were announced at the programme website [www.o2thinkbig.cz](http://www.o2thinkbig.cz)

### Safety Line 116 111

Already for seventeen years running, the O2 Foundation was the General Partner to the only free and anonymous helpline for children who are faced with a difficult life situation. In 2011, the O2 Foundation co-hosted the Safety Line benefit concert for the third time. Television viewers sent donor SMS, raising more than CZK 450,656. The benefit yielded over CZK 7.5 million with Telefónica CR becoming the largest donor with CZK 3.5 million donated through the O2 Foundation.

## Senior Line

The O2 Foundation continued in its support to Senior Line operated by Elpida Plus. Senior citizens could dial the number 800 200 007 and share their concerns and joys, consult on various issues – health, legislation, psychology and welfare. In 2011, the helpline answered more than 28,000 calls, of which more than 4,300 were of serious nature. The funding from the O2 Foundation helped to keep the service free of charge.

## Stop bullying!

Also in 2011, the O2 Foundation partnered with the programme to stop bullying in schools. A national competition 'Children Say NO to Bullying' was held in collaboration with Aisis, the programme's main organiser. Fourteen schools entered the competition with their ideas, which were evaluated as to their inventiveness and communication potential. The winners in 2011 were the children from the 28th Elementary Pilsen.

## Volunteer programmes for employees

Creating opportunities for employees to actively engage in activities for public good, including helping out with O2 Foundation's projects, is an integral part of the Company's own CSR, through which it aims to develop corporate volunteering.

In 2011, a record 2 374 employees volunteered in various community-oriented activities. As for employee volunteering, Telefónica CR achieved the highest level of engagement among Telefónica Europe companies.

In 2010, employees also participated in successful fundraising campaign; a total of CZK 1,367,288 was raised from 1,530 employees. The most successful fundraiser was the one to benefit of the victims natural disasters: a total of CZK 394,265 was raised for the victims of tsunami in Japan, and CZK 352,898 went to help the victims of Somalian famine. Telefónica CR matched both of these amounts by 100% and donated the funds to the humanitarian relief organisations Adra and People in Need.

In 2011, employee donations also helped to turn around the lives of sixteen people who were able to buy necessary health aids with the fundraiser proceeds of CZK 494,000. Employees also gave support to the Safety Line, Senior Line and helped children in Latin America.

Employees regularly participated in volunteer events and helped with their time, knowledge and skills.

Corporate teambuilding events turned into volunteer events – managers and their teams worked in non-profit organisations. In 2010, 933 employees (16 teams) donated almost 7,500 hours of work to non-profit organisations; 132 employees donated their free time. The largest part of the total 4,755 hours was spent by employees mentoring young people in the Think Big programme.



The O2 Foundation also recognised those employees of the Company who were active volunteers in their personal free time. Their service to the community earned CZK 400,000 to 18 employees in 2011, which was in turn donated to the non-profit organisations they worked with on a long-term basis.

On Easter and Christmas markets, which were organised by the O2 Foundation in twelve of the Company's buildings in the Czech Republic, products hand-made by people with disabilities in sheltered workshops were sold to employees. In 2011, employees spent close to CZK 450,000 on products from sixty sheltered workshops.

## Proniño International Volunteer Programme

Volunteer activities of employees in 2010 again transcended the limits of the Czech Republic as six employees of the Company participated in the international volunteer programme Proniño implemented by Telefónica CR in Latin America.

Altogether thirty volunteers hailing from all countries where Telefónica operates were sent to Ecuador, Brazil, Guatemala, Argentina and Colombia. After arriving to their destination their role was to add meaningful content to the free time of children who, once their school finishes, either roam the streets or have to work. Employees volunteered their personal vacation time, each donating more than 252 hours of their free time.

## Give blood with O2 Foundation

Also the project Give Blood with O2 Foundation continued in 2011, seeking to promote voluntary blood donorship in the Czech Republic. During the year, 156 employees participated and collectively donated more than 70 litres of blood. Blood collection took place in Company premises.