

Telefónica

FISCAL STRATEGY

1. Purpose

This document sets out the objectives of the Telefónica Group fiscal strategy.

With over eight decades of experience and constant growth, Telefónica is nowadays the leading integrated telecommunications operator in Spain¹.

Our Responsible Business Principles² are the basis of the strength and prestige of our company. As a result, we enjoy the trust of our stakeholders and maximize long-term value for our shareholders and for society in general.

2. Approval

The Group's Tax Department produced this document, which was approved by Telefónica's Board of Directors on 14 December 2016, within the framework established by section 529 ter. 1 (i) of the Capital Companies Act (hereinafter, LSC), approved by Royal Legislative Decree 1/2010 of 2 July (in accordance with the wording of that section in Law 31/2014, of 3 December, which amends the Capital Companies Act for the improvement of corporate governance).

3. Scope of Application

The scope of our Fiscal Strategy refers to all entities of the Telefónica Group, and governs the activity of the Group in tax matters, on the basis of the principles and guidelines that are defined within it.

4. Fiscal Strategy

4.1. Overview

Our Responsible Business Principles³ bring together a set of guidelines that guide us in our daily activity and define how we should conduct our business.

They were approved in December 2006, and apply to all employees and in all the countries in which we operate. They consist of a few General Principles aimed at ensuring the trust of our customers, our professionals, our shareholders, our suppliers and society in general:

Honesty and Trust

¹ https://www.telefonica.es/es/acerca_de_telefonica/mision_y_vision

² https://www.telefonica.com/es/web/about_telefonica/estrategia/principios-de-negocio-responsable

³ <https://www.telefonica.com/documents/153952/388559/NuestrosPrincipiosdeNegocioResponsable/32a5a501-a460-4a1b-9657-887e0404330a>

We honour our commitments, which is a sign of our integrity and that we can be trusted.

Respect for the Law

We ensure compliance with every law, regulation and regulatory obligation, both national and international, including internal policies and regulations.

We provide truthful, complete, timely and clear information in the reports that we submit to the relevant Securities Market Regulators, as well as in other public communications from the company.

Integrity

We behave with integrity and do not seek our own benefit or for that of third parties through the abuse of our position or contacts at Telefónica.

Respect for Human Rights

We respect the principles of the United Nations Universal Declaration of Human Rights, as well as the declarations of the International Labour Organization.

In this regard, this Fiscal Strategy develops the principles that govern our activity in respect of taxation, in line with this strategy and with the business principles, thus guiding the decisions we make in the management of our tax affairs.

At Telefónica, we are committed to acting with honesty and respect for the law in the handling of our tax affairs, thus showing consideration for all our stakeholders.

4.2. Guidelines for Handling Tax Affairs

Our Fiscal Strategy, in line with the Group's responsible business principles, comprises the following guidelines:

- Compliance with all the tax obligations in all the countries in which we operate, thus contributing to their economic and social progress, and reconciling our commitment to creating value for our shareholders by the efficient management of the costs associated with the Tax Department. These obligations include:
 - The payment of both the company's own taxes and those collected on behalf of third parties (for instance, applicable indirect taxes or retentions on yields destined for third parties).
 - The provision of tax information corresponding to Group companies.
 - The provision of tax information corresponding to third parties, either by means of periodic obligations or as a result of information requests made by the tax authorities.

- The commitment for every fiscal decision to be motivated by business and commercial interests. Therefore, the tax implication of any transaction may not be justified independently of the commercial and business reasons which justify the operation in question.
- Appropriate documentation with a clear explanation of the fiscal posture adopted⁴.
- Efficient tax management procedures to ensure accurate tax returns.
- Fiscal risks are managed with the aim of preventing and reducing tax disputes to those which are strictly necessary for the implementation of the company's Fiscal Strategy.
- Management of fiscal risks arising from interaction with business. When it comes to business decision-making, an exhaustive analysis of the tax implications will always be carried out. If there are several tax alternatives which achieve the same objective, the most efficient alternative, from a tax point of view, shall be opted for.
- Transfer pricing policy for all transactions between related parties and entities, to ensure the creation of value, by means of activities, assets and the assuming of business-related risks.
- Effort and commitment to adapting the tax obligations that affect the reality of Telefónica to the new digital economy environment that exists in the current market.
- A close relationship with the tax authorities. In this regard, since 2010, Telefónica, S.A., as directed by the Board of Directors, has adhered to the Code of Good Practice in Tax Affairs, produced by the Forum for Large Companies, in conjunction with the Spanish tax authorities, in order to prevent the use of structures of an opaque nature for tax purposes. Telefónica also participates in various international forums aimed at the promotion and development of the good practice recommendations of the OECD.
- Non-use of company structures in order to cover or reduce the transparency of its activities in the eyes of the tax authorities, or any other interested party. Furthermore, in accordance with the Capital Companies Act, the creation or procurement of shares in entities with special purposes or those domiciled in countries or territories which are considered tax havens, as well as any other transactions or operations of a similar nature which, owing to their complexity, could undermine the transparency of Telefónica, is reviewed and, where appropriate, subject to approval by the Board of Directors. In the same way, the approval of investments or transactions of all kinds which, owing to their high amount or special characteristics, have a special tax risk, will also be subject to approval by the Board of Directors.

⁴ The situation of Telefónica Group inspections and litigation of a fiscal nature can be found in the Group's Consolidated Annual Accounts (Note 17, Fiscal Situation), published on the Company's institutional website.

- A commitment not to be present in any of the jurisdictions included in the list of tax havens established in Spanish regulations⁵. If, for business reasons, the presence of an operator in a territory classified as a tax haven were to be necessary, authorisation would be sought from the Board of Directors. Telefónica Group's operations in territories regarded by other bodies as having little or no taxation exist solely and exclusively for economic and commercial reasons (Business Purpose), and have the material and human resources needed to conduct the activities, and under no circumstances shall the purpose of these operations be to transfer profits to those jurisdictions in order to obtain a reduction in the tax burden.
- We strive for transparency in our financial reporting to investors and the Company and we seek to ensure our fiscal affairs are comprehensible.

5. Governance and Structure of the Tax Department

The Board of Directors is responsible for establishing the structure and organisation of the Group's corporate activities, which includes the Tax Department.

In this regard, the Board of Directors of Telefónica will equip the Tax Department with sufficient resources to enable compliance with this strategy and the business principles that apply to tax matters contained herein. In addition, any control measures and procedures that guarantee and take tax risk into account will be implemented in the decision-making process.

The rest of the organisation is familiar with the Group's Fiscal Strategy and undertakes to comply with it by applying the guidelines and principles contained herein in their business activity.

⁵ In accordance with the 1st additional provision to Law 36/2006 on Measures for the Prevention of Fiscal Fraud in its version amended by Final Provision 2 of Law 26/2014, of 27 November.