Telefónica

# We connect people's lives

SUMMARY CONSOLIDATED MANAGEMENT REPORT

# 2019

# INDEX

*GROWTH*

*EFFICIENCY AND TRANSFORMATION*

*TRUST*







We work to achieve sustainable and long-term growth and to reduce the digital gap.

Our efficiency model is based on the digitalisation of processes and inclusive management of diverse talent.

We build trust by prioritising the interests of our customers, employees, suppliers and shareholders.

# CHAIRMAN'S LETTER

JOSÉ MARÍA ÁLVAREZ-PALLETE
Chairman of Telefónica

**THE DIGITAL REVOLUTION THE WORLD IS EXPERIENCING** is without any doubt a technological revolution, but it is also a social revolution. A revolution which will generate great economic value and which can help to address challenges which human beings have been unable to address to date.

Only companies that understand and assume their responsibilities in view of this economic, social and technological change will count in the future.

Telefónica, with its first centenary on the horizon, is set to play a leading role in this future. We have all we need for this: the firm commitment of a team deeply involved in creating sustainable value for all our stakeholders; the action plan approved by the Board of Directors in November 2019 to build the New Telefónica; and four platforms that enable us to lead. I would like to highlight, for example, the more than 800,000 daily transactions with *Blockchain* in Telefónica's supply chain in Brazil and the prediction of our Artificial Intelligence about future pollution levels.

All of this is oriented towards providing greater and greater value to our customers. Three hundred and forty-four million customers, which is equivalent to the population of the United States, who evince an increasing solid emotional link to the Company. Measured by the *Net Promoter Score* (NPS), it beats that of our direct competitors and improves by one point the score achieved the previous year.

The shareholders keep a sustainable and attractive dividend of 0.40 euros per share which reimburses their trust and the support they give the Company. With regard to the professionals at the Company, we can say with satisfaction that the indicator of Telefónica as a good place to work achieves a score of 58.4%, much higher than the 40% which is considered to be synonymous with excellence.

# We are committed to creating sustainable, responsible and shared value

But although Telefónica's commitment focuses first of all on the stakeholders closest to it, it is not confined to them. In 2019, we were once again a key driver of social progress: we contributed more than 52,000 million euros to the GDP of the countries in which we are present, with a tax contribution of nearly 9,000 million euro. This, translates into dozens of schools and hospitals, and we generated more than 1.1 million direct and indirect jobs. In addition, we have strengthened our commitment to the principles of the Global Compact and to the Sustainable Development Goals of the United Nations.

We are fully aware of the urgent need to stem climate change and the role that digitalisation plays in achieving them. Our digital solutions can contribute efficiently to decarbonising the economy, starting with ourselves as we have committed to becoming fully carbon neutral in 2050. Telefónica's engagement as regards action to fight climate change has been recognised again this year by its inclusion in the "A List" drawn up by CDP.

Our long-term commitment is not a mere declaration of intent and nor is it limited to the management of the Company: 20% of the variable remuneration of each and every one of our professionals is linked to long-term non-financial targets: improving customer satisfaction, progressing in gender equality, increasing social trust and reducing $CO_2$ emissions.

Our strategy reaffirms at the same time the three pillars which underpin the sustainability of Telefónica's business model:

● Sustainable **growth**, in which we take into account all the social strata to make it inclusive and which in financial terms is reflected in the increase for the seventh consecutive year in income and OIBDA, in strong free cash generation and a significant reduction in debt;

● **Efficiency,** supported by the digitalisation of our processes and an excellent network in terms of quality and energy efficiency, to offer customers a better experience every day. From a financial perspective, this is reflected in solid profitability and better returns.

● And **trust,** which takes the form of constant improvement in reputation indices and is built upon our Responsible Business Principles, which seek to ensure the ethics, privacy, sustainability and respect for human rights throughout our entire value chain.

In short, the pages that follow show the reality of **a Company that is open, trustworthy and a challenger**, engaged in building its long-term future and committed in this respect to fostering more human societies on a habitable planet.

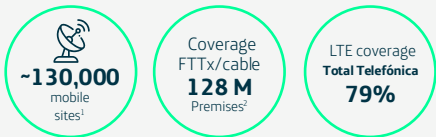José María Álvarez-Pallete
Chairman of Telefónica

# Telefónica at a glance

Telefónica's mission is to make our world more human, by connecting people's lives.
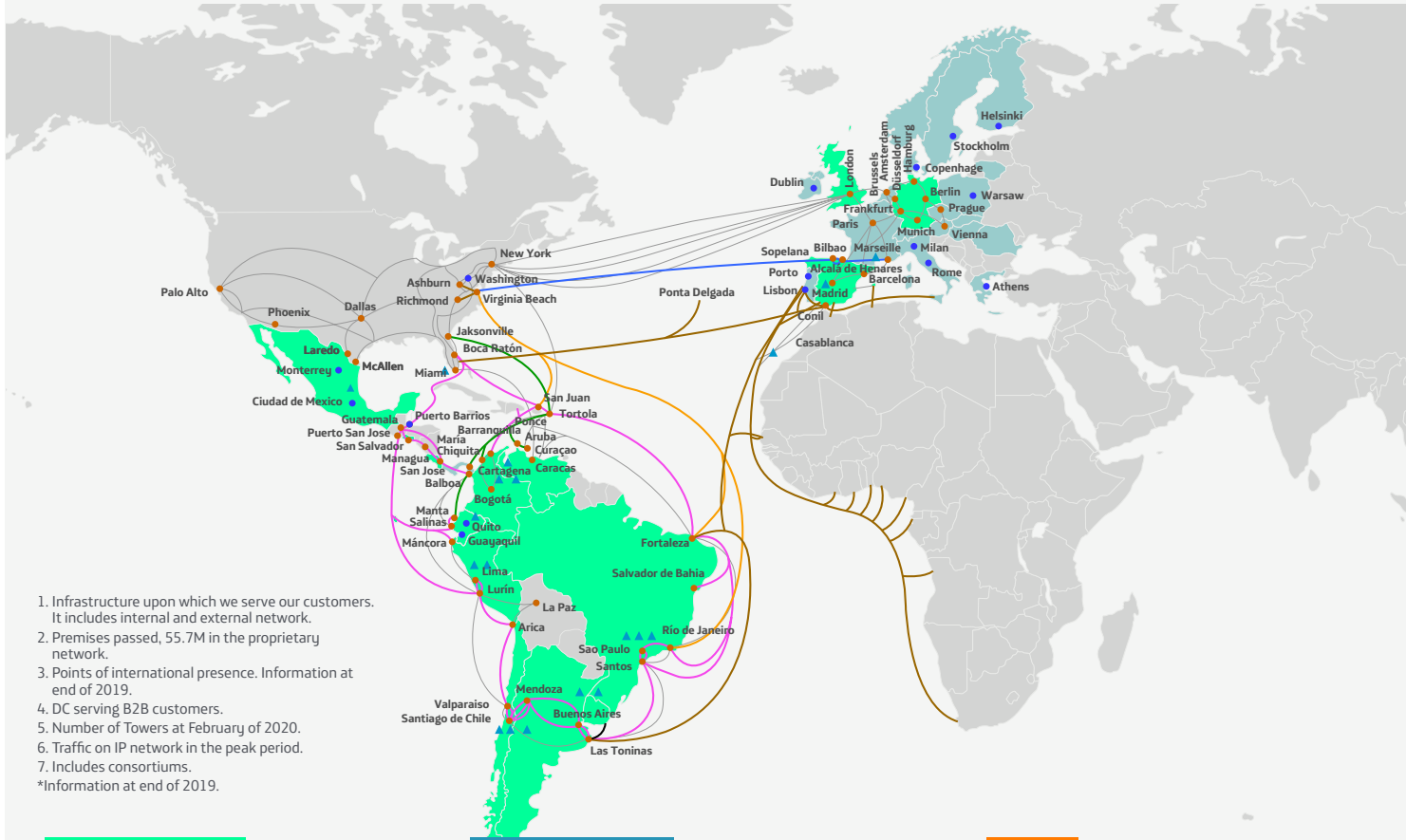


1. Infrastructure upon which we serve our customers. It includes internal and external network.
2. Premises passed, 55.7M in the proprietary network.
3. Points of international presence. Information at end of 2019.
4. DC serving B2B customers.
5. Number of Towers at February of 2020.
6. Traffic on IP network in the peak period.
7. Includes consortiums.
*Information at end of 2019.

## Network operations

- ~130,000 mobile sites[1]
- Coverage FTTx/cable **128 M** Premises[2]
- LTE coverage **Total Telefónica 79%**

## Expanded B2B presence

- **112** PoPs[3]
- **34** Countries
- **71** Cities
- **27** Data Centers[4]

## Telxius

- **20,257** mobile sites[5]
- **13 Tbps**[6] of capacity IP
- **87,000** Km Cable fibre optics[7]

## Solid financial results in 2019

**INCOME**

**48,422** M€

**55%** income from Broadband and Digital Services

**OIBDA**

**15,119** M€

**+1.9%** organic annual growth

**Total remuneration to shareholders**

**0.4 euros per share in cash**

**CapEx**

**8,784** M€

**+4.0%** organic annual growth

Hong Kong

Singapore

- ☑ ◻ **Expanded presence of Telefónica B2B**
- ☑ ▲ **Data centres**
- ☑ ● **International PoPs**
- ☑ ◼ **Countries where Telefónica has network operations**
- ☑ ● **Telxius International PoP**
- ☑ ━ **MAREA Cable**
- ☑ ━ **BRUSA Cable**
- ☑ ━ **SAm-1 cable**
- ☑ ━ **PCCS Cable**
- ☑ ━ **UNISUR Cable**
- ☑ ━ **Other Telxius cables**
- ☑ ━ **Other fibre routes**

## We are leaders

### #1
**WORLDWIDE**

Leader in managed services
IoT (*Gartner* MQ'19)

### #1
**EUROPE**

in deployment of FTTH
(fibre to the home)

### #1
**WORLDWIDE**

Leader ESG,
*Sustainalytics*

## Our data back us up

### 128 M
premises passed with fibre

### +344 M
customers around the world

### 34
countries in which
we are present

### 79%
LTE coverage

### 113,819
employees

## Advancing towards a more sustainable world

### 21%
**NPS**
+ 1 pp vs 2018

### 26%
**female executives**
+ 3 pp vs 2018

### -50%
**GHG emissions**
Scope 1 + 2 (market method),
base year 2015, -18% vs 2018

# Our impact on the community

We contribute to the United Nations Sustainable Development Goals (UNSD).

**9 INDUSTRIA INNOVACIÓN E INFRAESTRUCTURA**

## Telefónica invests more than 8 billion euros in network deployment every year

**We are the leaders in fibre deployment in Europe,** with 128 million premises passed. We have more fibre than the United Kingdom, Germany, France, Italy and Portugal combined

**79%** of the coverage in all our markets is **4G**

**8 TRABAJO DECENTE Y CRECIMIENTO ECONÓMICO**

### We contribute
**52.408** billion euros, which is equivalent to **3.4 euros** for each euro in our gross operating margin to the GDP of the main countries where we operate

### We award
**83%** of purchases to **local suppliers**

### We contribute
**8.705** billion euros to local tax authorities

### We generate
**9.57** jobs per person we hire in the countries where we operate

Impact on employment of the Telefónica Group:
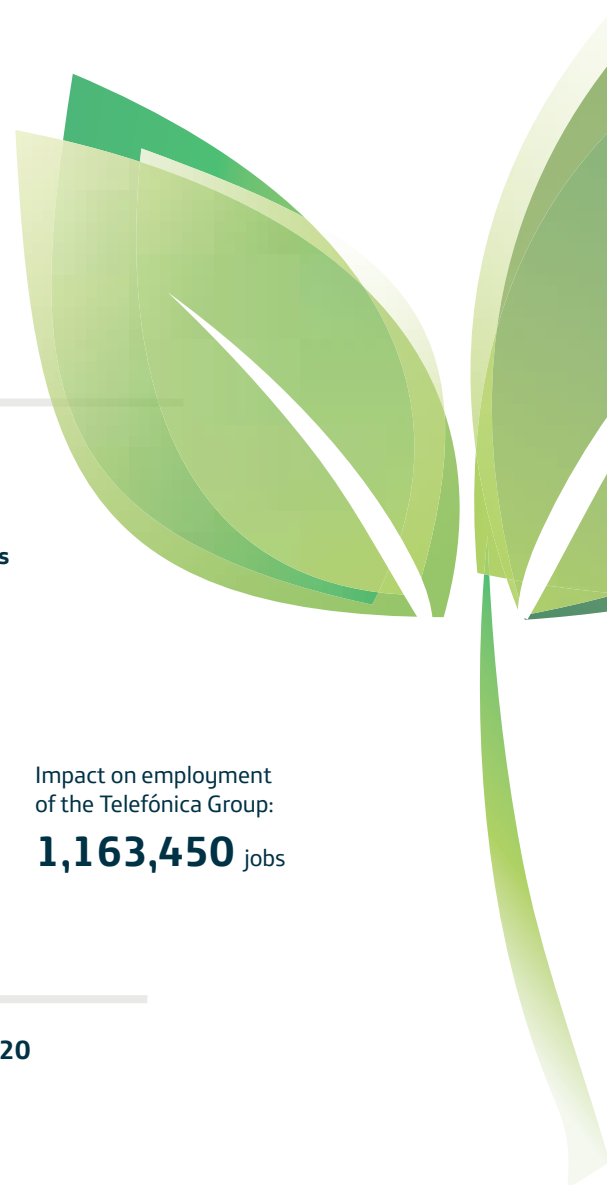**1,163,450** jobs

**5 IGUALDAD DE GÉNERO**

Telefónica is included for the third consecutive year in the **2020 Bloomberg Gender-Equality Index**

**38%** women in the workforce

**25.6%** of executives were women in 2019

### 2020 Target:
**30%** of women in executive posts

**7** ENERGÍA ASEQUIBLE Y NO CONTAMINANTE

**11** CIUDADES Y COMUNIDADES SOSTENIBLES

**12** PRODUCCIÓN Y CONSUMO RESPONSABLES

**13** ACCIÓN POR EL CLIMA

**100%**
renewable-source
energy in Europe and
Brazil in 2019

**72%**
reduction in our energy
consumption per traffic
unit in 2019 with regard
to 2015

**98%**
waste recycled
in 2019

We avoid the emission of 3.3 times our carbon
footprint thanks to the digital services

**4** EDUCACIÓN DE CALIDAD

*ProFuturo*

Transforming education*

**10.2** million
beneficiaries
in 34 countries

CONECTA EMPLEO

Classroom-based and online
training Job Launchers*

More than **1 million**
people trained

*MIRÍADAX_*

Online training*

Over **6.6 million**
students enrolled in MOOCS

* Projects of the Fundación Telefónica

**17** PARTNERSHIPS FOR THE GOALS

**Telefónica collaborates**
with public and private
bodies to promote the
achievement of
**Agenda 2030**

More than **2.7
millions** of fixed
broadbent subscribers

**58,1%**
**penetration** of the LTE service
in the customer base

# We create long-term value

## CUSTOMERS

At Telefónica, we know that our customers are our raison d'être. That's why we work every day in every area of the company to gain their trust through integrity, transparency and a straightforward approach in terms of our products and services and our interactions with them.

We work towards a **Responsibility by design** approach to our products and services.

## EMPLOYEES

We have designed initiatives aimed at fostering the inclusion of diverse talent, to attract and retain high potential professionals, get the best out of our employees, ensure their well-being, boost innovation and become more productive.

**58.4%** of the employees recommend the Company as a good place to work.

## STRATEGIC PARTNERS AND SUPPLIERS:

Telefónica works with its suppliers and partners, co-creating and creating ecosystems around the business and jointly applying high standards of social and environmental management.

**83%** of the total volume of purchases was awarded to local suppliers.

We are transforming in order to meet

## SHAREHOLDERS AND INSTITUTIONAL INVESTORS

Telefónica offers our shareholders growth and profitability in a way that is sustainable in the long term. We have the objective of maintaining a continuous, transparent and equal relationship with all the minority and institutional shareholders.

**52** *engagement* activities and **1,150 investors contracted**.

## GOVERNMENTAL AND REGULATORY BODIES

Telefónica has an open, transparent relationship with governments, regulators and international bodies. This is reflected in our **Digital Manifesto,** where we issue an appeal for the definition of a New Digital Compact centring on people which modernises the current policies, to achieve a fair, inclusive and sustainable digital transition.

We have presented it at more than **50 events in around twenty countries** to institutions and regulators.

the economic, social and environmental challenges in collaboration with our stakeholders

## OPINION LEADERS AND MEDIA

We create close, trust-based relationships, founded on generating and transmitting truthful information, in a transparent, clear and responsible way.

**7,000 interactions** (10% more) through press releases, meetings and interviews.

## SOCIETY

Telefónica is aware that it must leverage the new opportunities offered by digitalisation in favour of societies and economies. We are a driver of the communities where we operate and we have a considerable economic and social impact on them.

For every euro of gross operating margin obtained, we generated **3.42 euros that contributed to the GDP of the main countries where we operate.**

# The three pillars of our strategy

## GROWTH



We work to achieve sustainable and long-term growth and to reduce the digital gap.

## EFFICIENCY AND TRANSFORMATION



Our efficiency model is based on digitalisation of processes and inclusive management of diverse talent.

# *TRUST*

We build trust by prioritising the interests of our customers, employees, suppliers and shareholders.

With growth, efficiency and trust, we will manage to meet the needs of our stakeholders:

▶▶ We adapt our offers to our customers' needs.

▶▶ We share our purpose with our employees.

▶▶ We are key facilitators for the progress of societies.

▶▶ We create value in a shared and responsible way with regard to our partners.

▶▶ We give our shareholders growth and long-term efficiency.

Inclusive customer base

Sustainable products and services

# *GROWTH*

# Telefónica

takes people into account and respects the environment. Aware of the importance of new technologies to ensure ethical and fair economic development, we are concerned about reducing the digital gap. In parallel, we develop specific services with a positive impact on the environment that enable us to increase our income, while we help to progress towards a low-carbon economy.

Sustained annual growth in income from digital services: Cybersecurity, Cloud, IoT and Big Data

**+28**%

**+2.000** M€ Additional income forecast until 2022

Emissions avoided for our customers thanks to the digital services

**3.2** M tCO$_2$

# We gain relevance for the customer through our connectivity

**We are aware that nowadays connectivity is a lever for inclusion**

At Telefónica, we leave nobody behind:

We have the best fibre network of the OECD: **128 million** premises passed

**Internet for All:** this is an innovative project in Latin America to connect to the people who still do not have Internet in the region

**79%** of LTE coverage in our footprint

## Green finances

▶▶ **2019:** Telefónica issues the first green bond in the telecommunications sector for a value of **1 billion euros**

▶▶ **2020:** it issues the first hybrid in the world for a value of **500 million euros**

These funds are earmarked for financing the mass deployment of fibre in Spain with two basic objectives:

▶▶ Reduce energy consumption through the shutting down of **990 copper stations** in 2020 and of the systems supporting them, as fibre optics is 85% more efficient than the copper network

▶▶ **100%** of customers on fibre before 2025

## Society

The communities with high-speed broadband increased their GDP by around 1.1% with respect to others who do not have this type of connection, according to different studies.

Source: (2011) Broadband Consumer Research. Sosa, D.
(2015) Early Evidence Suggests Gigabit Broadband Drives GDP.

## We are committed to ethical and sustainable products and services

### Digital services:

Cybersecurity, Cloud, IoT and Big Data (growth **+28%** vs 2018)

**3.2 M** tCO$_2$ saved for our customers

=

**3** times our own carbon footprint

CO$_2$

## Our goal is to transform our relationship with our customers

**Aura** is the cognitive intelligence at Telefónica for building a new model of relationships with our customers based on trust, through a simple voice interface in real time.
It offers more than 1,500 use cases about Telefónica's services and products in each country.

SMART

The mission of **Smart Wifi** is to create an ecosystem (HW, apps, APIs) with which our customers can enjoy all the possibilities of the network, in a safer way.
This app makes it possible to optimise and manage WiFi inside and outside the home.
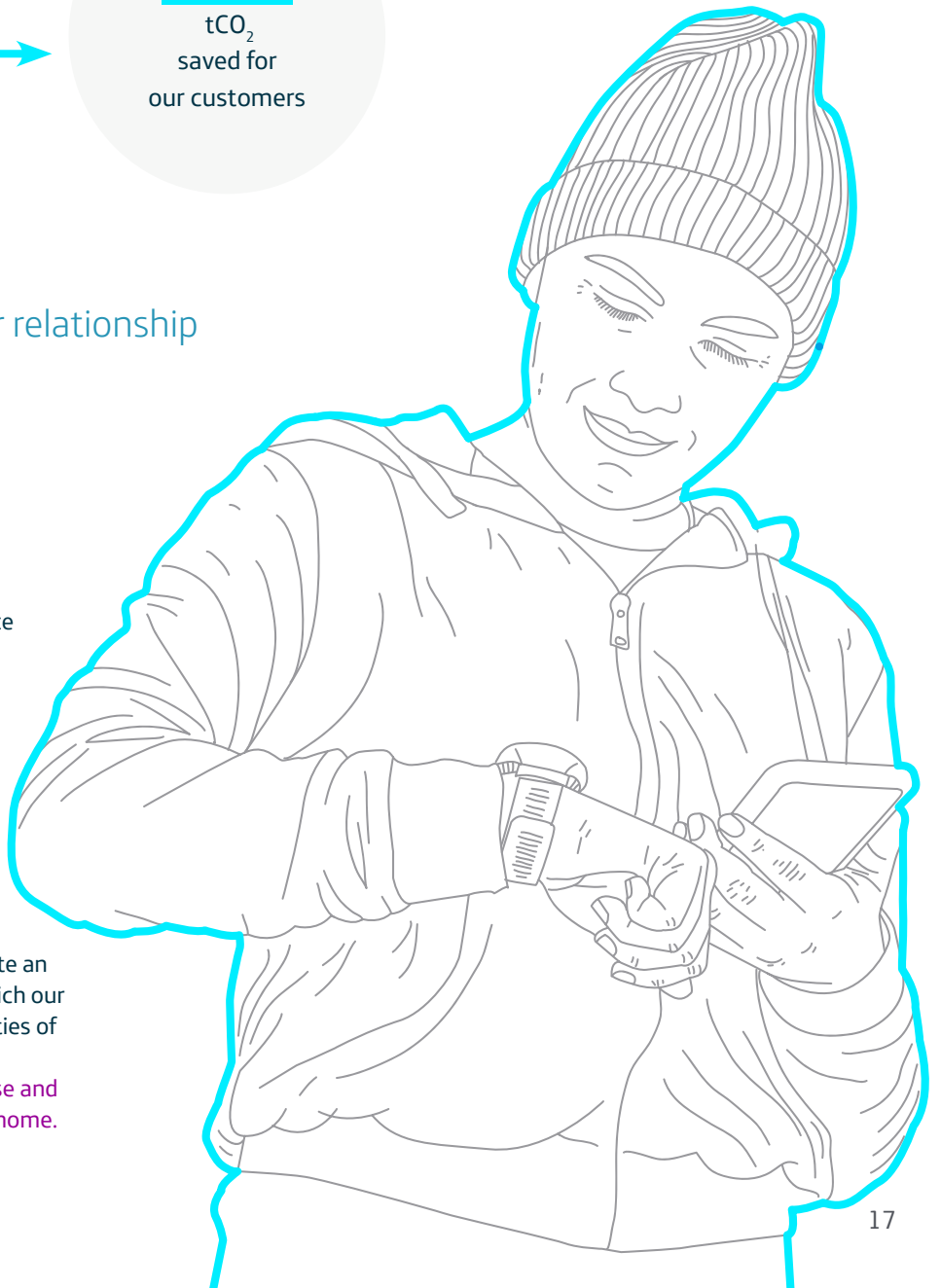
# We are anticipating the future

**We are committed to innovation from the inside**

Industrial Property Rights portfolio (includes patents)
**477**

Investment in R&D
**866**
million euros

Investment in R&D and innovation / revenue
**11.6%**

Investment in R&D&I
**5.602**
billion euros

## We build an innovation ecosystem around us

More than **500**
Startups in portfolio/
active

More than **100**
Startups working
with Telefónica

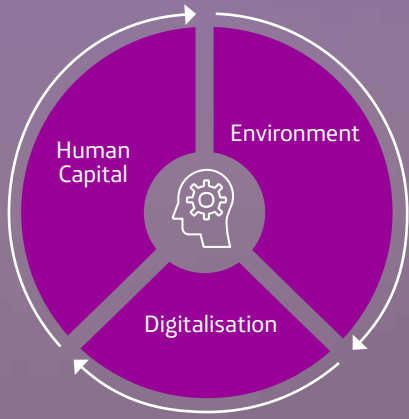**46**
*Open Future*
spaces

**2** scouting centres
belonging to Telefónica
Innovation Ventures
(Silicon Valley and
Spain)

**12**
Startups invested
in by Telefónica
Innovation Ventures

**wayra**

**7**
Wayra hubs

Human Capital

Environment

Digitalisation

# *EFFICIENCY AND TRANSFORMATION*

# The priority

at Telefónica is customers and to these
we want to offer them a simpler,
totally digital experience.
The digitalisation of our processes allows us, at
the same time to generate savings.
All this is backed by the best networks in the
market, as regards quality and energy efficiency
(fibre is 85% more efficient than copper), free of
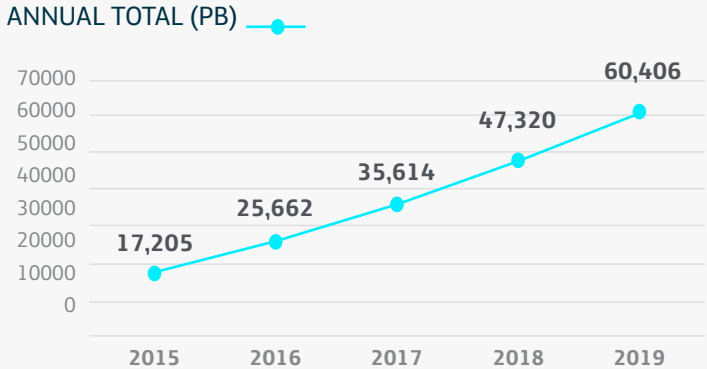legacy networks and ready for 5G.

**69%**

of processes
digitalised

**>420 M€**

in savings from
digitalisation

# Digitalisation and the Environment

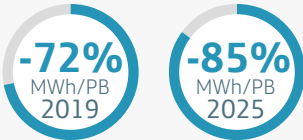**The decarbonisation of Telefónica, on the way to becoming carbon neutral**

### Growth in data traffic on Telefónica's networks

ANNUAL TOTAL (PB)

| Year | Value |
|------|-------|
| 2015 | 17,205 |
| 2016 | 25,662 |
| 2017 | 35,614 |
| 2018 | 47,320 |
| 2019 | 60,406 |

### Energy efficiency

Reduce our energy consumption per traffic unit

**-72%** MWh/PB 2019

**-85%** MWh/PB 2025

Energy Efficiency Plan:
- **Transformation of the network** and shutting down *legacy*
- Power saving features (PSF)
- **Modernisation HVAC and power equipment**
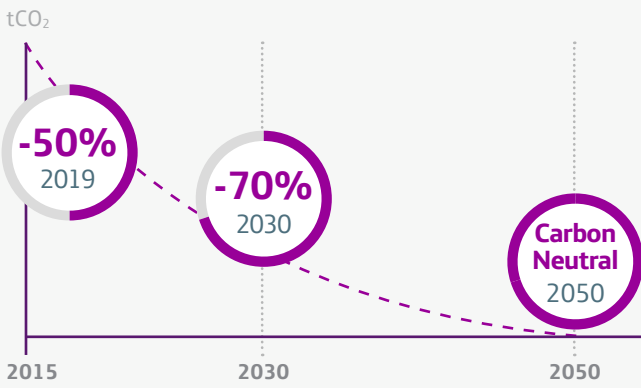- **Lighting**

### Renewable energy

**100%** 2019    Europe and Brazil

**82%** 2019

**85%** 2025

**100%** 2030
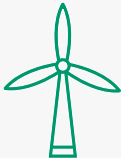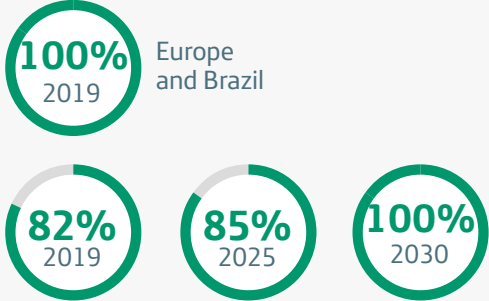
Renewable Energy Plan:
- **Certificates** of guarantee of origin.
- Long-term purchase agreements **(PPAs)**
- **Self-generation**

Reduction of our GHG
emissions (1+2)

$tCO_2$

**-50%**
2019

**-70%**
2030

**Carbon
Neutral**
2050

2015    2030    2050

**1.5°C Scenario**
Paris Agreement

Validated
objectives
SBTi

Emissions
from suppliers

**-24%**
2019

compared
to 2016

**-30%**
2025

compared
to 2016
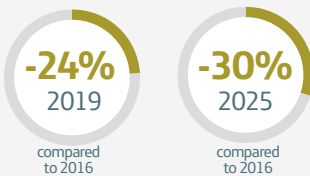
**Reduce by 30%** the
emissions from our
supply chain per euro
purchased.
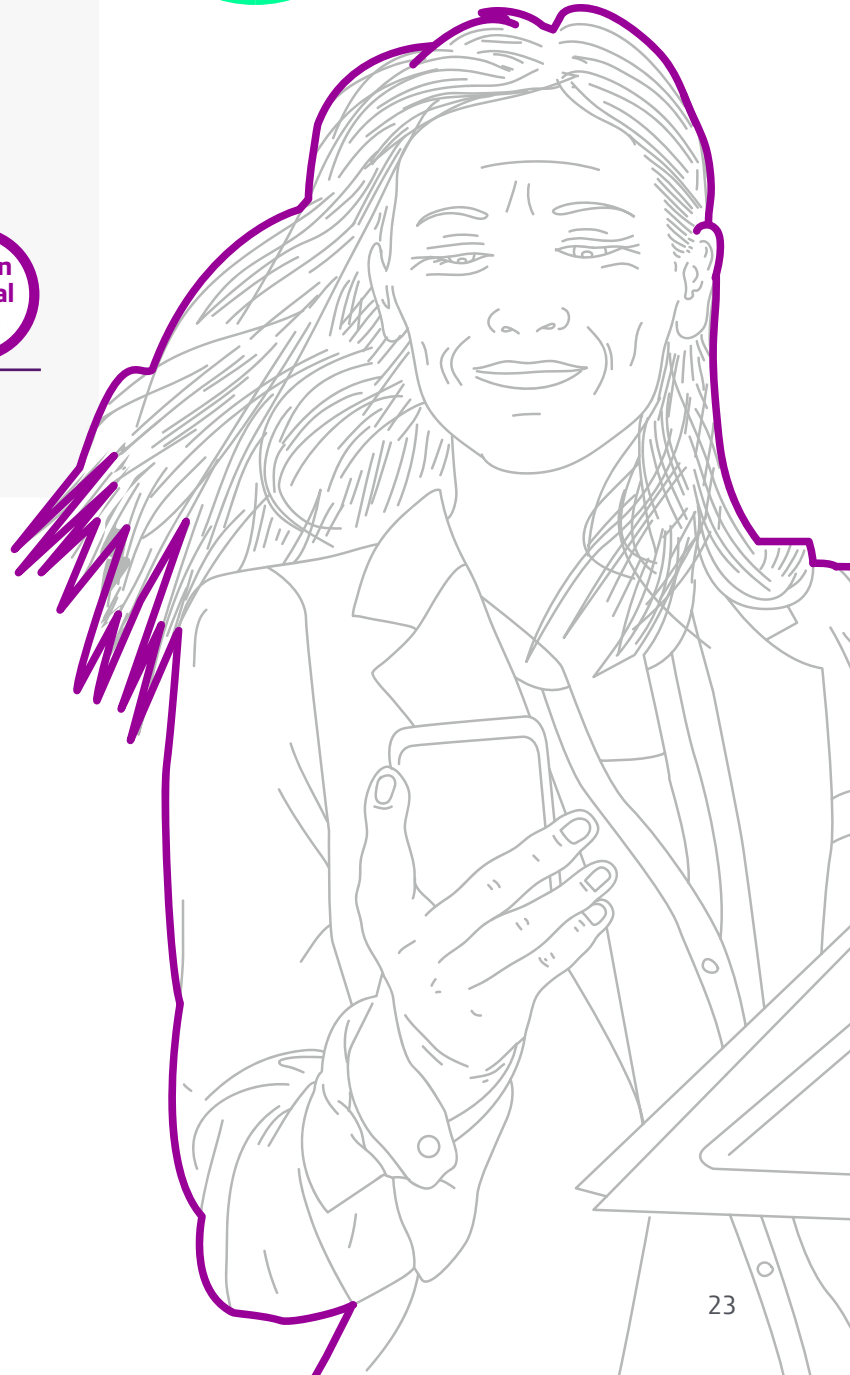
## We contribute to decarbonising the economy

### Customers

Our services avoid **3.2** million t$CO_2$, which represents **3.3** times our own carbon footprint.

**10 to 1**
2025

**Goal Net Positive**
For each tonne of $CO_2$ issued by Telefónica, avoiding 10 among our customers through connectivity and digital services.

### Circular Economy

**98.4%**
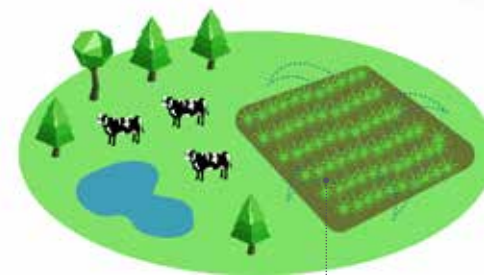
Waste recycled

**4 M**
Devices reused

Fire protection



Smart Agro

**Digital solutions for environmental challenges**

BIG DATA

Smart Connectivity

Smart Mobility

Industry 4.0

Smart Retail

Smart Cities

Smart Energy

Energy  CO$_2$ emissions  Water  Circular economy  Emissions into the atmosphere  Biodiversity

CLOUD  IoT  CONNECTIVITY  IA  BLOCKCHAIN
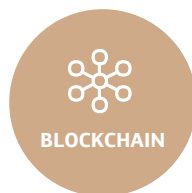
# Digitalisation at the service of customers

## Digitalisation of our networks

### The best fibre network in Europe

Fibre is **85%** more energy efficient than copper

Objective: replacing **100% of the copper network** with fibre in Spain by 2024

Nearly **500 copper switch stations** have already been closed

Our fixed ultra-wideband network achieved **103 million** premises passed

### Leaders in network virtualisation

Telefónica has transformed from being a supplier of communications services which is an innovator in technology to becoming a supplier of digital services which is a leader in digital services, according to *Analysys Mason* in its *Telco Cloud Index*.

Deployment of UNICA in **10 countries**

Transformation of the IP network core by **58%**

## Digitalisation and our customers

Improvement of the digital experience in the sales process with an increase of **28%.**

Blockchain applied to supply chain management: it is in excess of **800,000** transactions per day.

Digitalisation of customer services:

▶▶ with a reduction of **12%** in calls handled at the call centres compared to 2018.

▶▶ **>14%** of calls to cognitive call centres were dealt with in a fully automated manner.

## Prepared for 5G

Progress in the validation
of new technologies
such as 'Massive MIMO',
'OpenRAN' and 'Open
Source MANO' for the
orchestration of 'Network
Slices' on the same
infrastructure

**79%** LTE coverage
in 2019

CDP A LIST 2019 CLIMATE

The **Green Bond Principles**

**First Green Bond**
**First Hybrid Bond**

**103 million** customers
migrated to Full Stack.

Automation of processes: in
2019 **>1,500** robots were
deployed.

**40** AI and Big Data
products on the
fourth platform.

# The People in the Digital Transformation

## We believe in diversity as a driver for the future

Our diversity and inclusion strategy is based on four pillars:

**1** ▶▶ The Global Diversity Council

**2** ▶▶ Meritocracy in recruitment and promotion

**3** ▶▶ Diversity on the Board of Directors

**4** ▶▶ Supply chain sustainability policies

**113,819**
Employees

**26%**
Women executives vs. 23% in 2018. Objective: 30% in 2020

**36**
hours of training per employee

**9,394**
people aged under 30 joining the workforce

**38%**
Women employees

Bloomberg Gender-Equality Index 2018 =

## Talent management, key for the transformation

The evolution of our business, the explosion of the data and the technological progress of our networks, the explosion of the data and the technological progress of our networks require new capacities from our teams.

| New talent management | Reskilling and Upskilling | New capacities |
|---|---|---|
| ▶▶ Talentum grants | ▶▶ **35%** of the training activities in Spain | ▶▶ **+ 4M** training hours |
| ▶▶ Global Young Leaders Programme | | ▶▶ **+ 57,000** employees trained at *DataAcademy* |
| | | ▶▶ **+ 14,000** people trained at Universitas |

**LIFELONG LEARNING**

## Our employees' well-being

New ways of working:



**+7,000**
people in Agile
(*Global Agility Academy*)

**32,000**
people working remotely

### Employee Net Promoter Score

Last year we decided to adopt the *Employee Net Promoter Score (Bain & Company)*; this measures the degree to which Company employees recommend the organisation as a good place to work, on a scale of 1 to 10.
This is obtained by taking the percentage of Promoters (those who give scores of between 9 and 10) and subtracting from it the percentage of Detractors
(those who gives scores of between 1 and 6).

**58.4**
eNPS

### Pay gap

Adjusted gap of **3.1%** in 2019 compared to **3.4%** in 2018.

### Health and Safety

Over **90% of operators** with a **Health, Safety and Well-being management system** (calculated based on the income of the operators).

A Health, Safety and Well-being management system at **60% of operators**, **certified in accordance with the ISO 45001 or OHSAS 18001 standard**.

Shareholders | Customers

Society | Suppliers
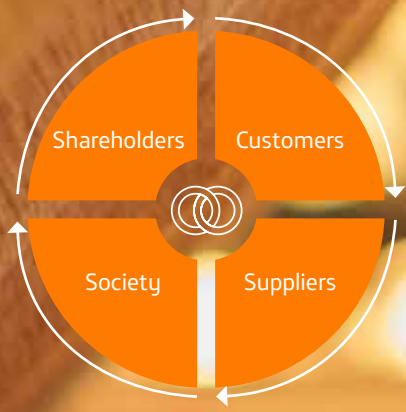
# *TRUST*

# Generating

trust is the key point of any future business. And in our sector it is built by prioritising customer satisfaction and extends to the other stakeholders. We have to demonstrate that we are important for all of them, taking into account aspects such as ethical behaviour, cybersecurity, responsible use of technology and Corporate Governance.

## 21%

NPS 2019

## 56.4

RepTrak 2019

# Corporate Governance

Telefónica has a firm commitment to continually improve its Corporate Governance framework. To this end, we increase, strengthen and consolidate the best practices in this area.

## An increasingly diverse Board of Directors



From left to right, seated on the bench, Mr José Javier Echenique Landiríbar, Vice Chairman and Independent Director; Mr José María Abril Pérez, Vice Chairman and Proprietary Director; Mr José María Álvarez-Pallete López, Chairman and Executive Director; Mr Isidro Fainé Casas, Vice-Chairman and Proprietary Director; and Mr Ángel Vilá Boix, Chief Operating Officer and Executive Director.
From left to right, standing, Mr Antonio García-Mon Marañés, General Vice-secretary and Vice-secretary of the Board;; Ms Verónica Pascual Boé, Independent Director; Mr Juan Ignacio Cirac Sasturain,

Independent Director; Ms Claudia Sender Ramírez, Independent Director; Mr Peter Löscher, Independent Director; Ms Sabina Fluxà Thienemann, Independent Director; Mr Peter Erskine, Other External Director; Mr Jordi Gual Solé, Proprietary Director; Ms María Luisa García Blanco, Independent Director; Mr Francisco José Riberas Mera, Independent Director; Ms Carmen García de Andrés, Independent Director; Mr Ignacio Moreno Martínez, Proprietary Director; Mr Francisco Javier de Paz Mancho, Other External Director; and Mr Pablo de Carvajal González, General Secretary and Secretary of the Board.

| **29.4%** Women | **52.9%** Independent | **17** Members | **6.6** years average duration Director position |
|---|---|---|---|

| International Diversity | Spain | UK | Brazil | Austria |
|---|---|---|---|---|
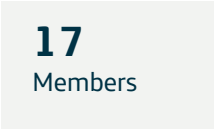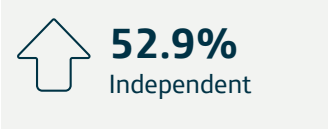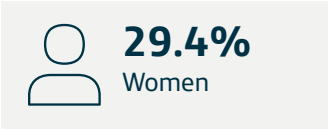
% of Directors with the following knowledge and skills:

- Humanities **12%**
- Legal **12%**
- Engineering/Physics **24%**
- Innovation/Technology **29%**
- Risks **41%**
- Economic financial **59%**
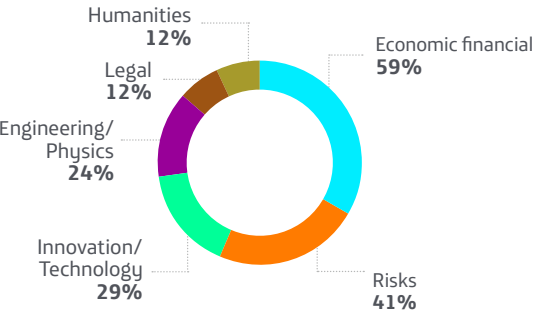
Number of Directors with international experience:

- USA **4**
- Asia **3**
- Europe **17**
- Latin America **17**
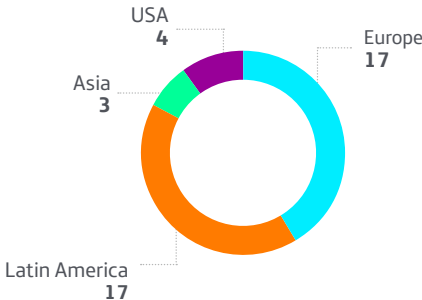
# In 2019 we introduced variable remuneration linked to sustainability targets

**Operating and financial targets**
**80%**

**Non-financial targets linked to customer trust and ESG targets**
**20%**

**OIBDA**
**30%**

**Operating income**
**30%**

**Free Cash Flow**
**20%**

**Customer trust**
**15%**
• NPS - 10%
• NPS – GAP - 5%

**ESG targets**
**5%**
• Trust from society (RepTrak - 3%)
• Climate change (reduction in GHG emissions - 1%)
• Gender Equality (women executives - 1% )
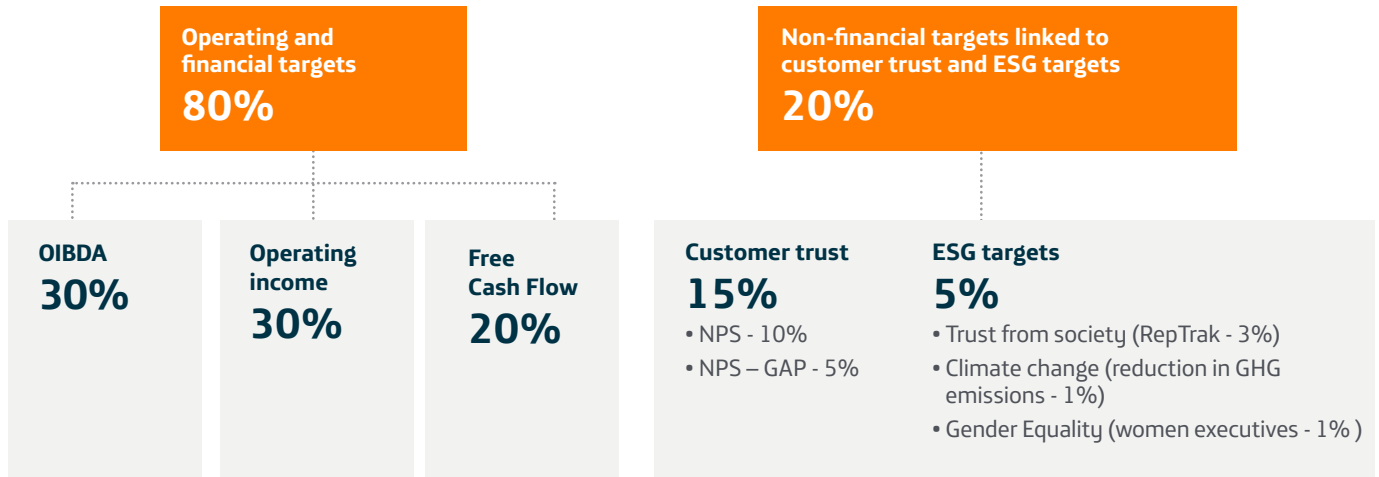
## The Best Programme of Commitment to Shareholders

**Commitment focusing on governance:**

▶▶ Dissemination and discussions of the business strategy, performance, corporate governance, remuneration and sustainability with our **200 main investors.**

▶▶ Thus far[1], direct contact with **38 investors** as well as calls and in-person meetings in London and Paris.

**Commitment to minority shareholders:**

▶▶ **21 corporate events** were held in **17 Spanish cities** with a total of **600 attendees.**
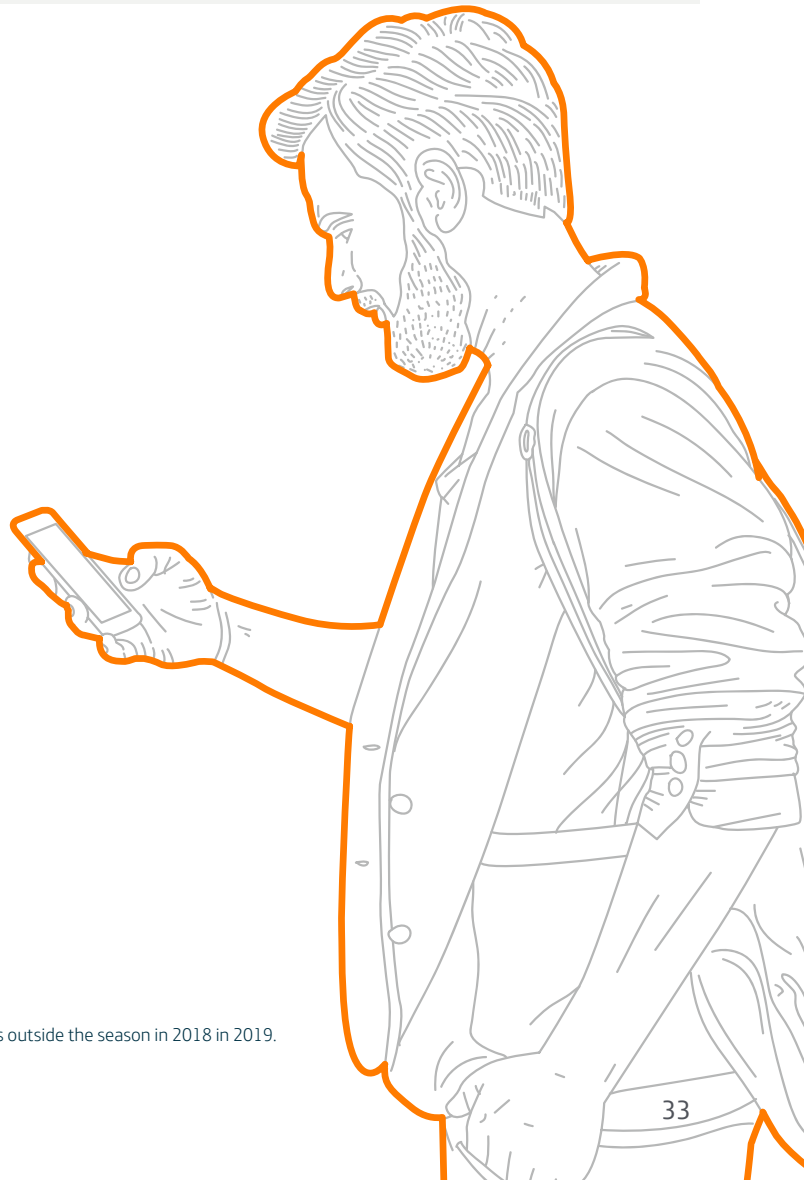
1. As from 29 October 2019, which reflects the aggregate scope of the relationship efforts outside the season in 2018 in 2019.

# Sustainability at the highest level

## Approval

**Board of Directors**

| Our Responsible Business Principles | ▶ | Our ethical framework |

**+**

| Our Responsible Business Plan | ▶ | Our roadmap for sustainability |

**+**

Main Sustainability Policies

## Supervision

**Sustainability and Quality Committee**

Supervise the implementation of the Responsible Business Plan

**Audit and Control Committee**

It supervises the compliance function, the analysis and risk management process and the reporting processes at the Company.

## Monitoring

**Responsible Business and Reputation Office**

## Implementation

**Corporate Support and Business Areas**

**Country Operators**

# We generate trust with Society

At Telefónica, we are aware of the challenges and changes demanded by society. This is why we serve the communities in which we operate with the highest ethical and human rights standards, in addition to supporting and promoting projects and investments that help to address the social, environmental, technological and economic challenges we have ahead of us.

## Responsible Business Principles

Our Responsible Business Principles are embodied in the various policies and regulations approved by the Board of Directors or the Executive Committee. The major ones approved in 2019 were:

### Ethics

Global Human Rights Policy
(approved in 2019)

Whistleblower Channel & and Responsible Business Channel policies (updated in 2019)

### Human Resources

Protocol of Action in Situations of Workplace Harassment, Sexual Harassment and Discrimination (approved in 2019)

### Supply chain

Supply Chain Sustainability Policy and Rule (updated in 2019)

Regulations governing Contracting Goods and Services (updated in 2019)

### Responsible Communication

Movistar+ Responsible Communication Code (created in 2019)

Protocol of Action and Transparency in Handling the Media (approved in 2019)

Reputational Crisis Committee (created in 2019)

# Compliance

## Training and Ethics

| | **TOTAL 2019** |
|---|---|
| Number of employees and executives who received anti-corruption training | **29,749** |
| Percentage of the members of the Board of Directors who received anti-corruption training | **100%** |
| Percentage of employees and executives receiving training on Responsible Business Principles and Human Rights since its launch | **93.2%** |
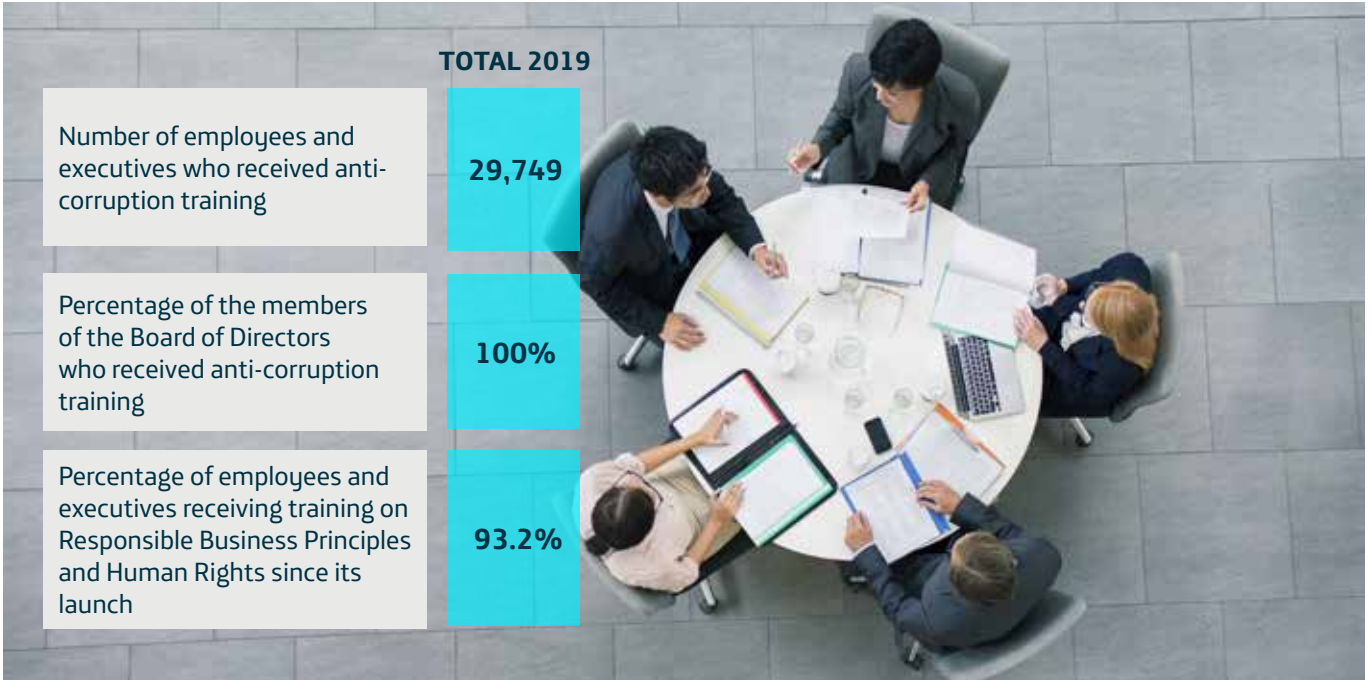
## Reputation

Telefónica has decided to bring in reputation as a key pillar on which to build a vision that is consistent with the company's long-term plans. Thanks to this KPI, we can measure society's (customer and non-customer) perceptions of our overall performance and its future expectations.

We measure using the *RepTrak Pulse*®
model to find out the emotional attraction of our brands

| Admiration and respect | Esteem | Trust | Good impression |
|---|---|---|---|

In 2019, we beat our expected annual target

Consolidated value of *RepTrak Pulse*® 2019
**56.4**
points out of 100

# Trust as the basis of the relationship with our customers



## *Net Promoter Score* (NPS)

Since 2018, this shows us whether our products and services meet or exceed our customers' expectations and whether or not they recommend us.

**21%**
NPS 2019

**+1 point**
on the NPS 2018

## *Responsibility by Design*

We want responsibility to be a key design factor that addresses innovation, incorporating matters related to reputation, sustainability, human rights, eco-design, privacy and data ethics from the outset.

*Responsibility by Design* means considering **how we can use technology to achieve more sustainable products, from the initial idea to its delivery to the end customer.**

The *Responsibility by Design* approach seeks to 'ground' these solutions and integrate them into our daily activity

▶▶ Highlighting the potential **positive impact of our products and services** with regard to these challenges.

▶▶ Minimising risks and anticipating regulation in the area of sustainability.

▶▶ Meeting the needs of **our customers,** who increasingly are looking not only to acquire just a product or service, but also to interact with **more aware and committed companies.**

# Digital trust

To generate this trust, we have defined a four-pillar strategy as our commitment to the customer.

## Privacy

Transparency and access to give our customers control of their data.

## Security

Reliability and security of networks and systems, to be able to guarantee privacy.

## Artificial Intelligence

Ethical use of AI to promote people-centred digitalisation.

## Children

Protecting the most vulnerable collectives.
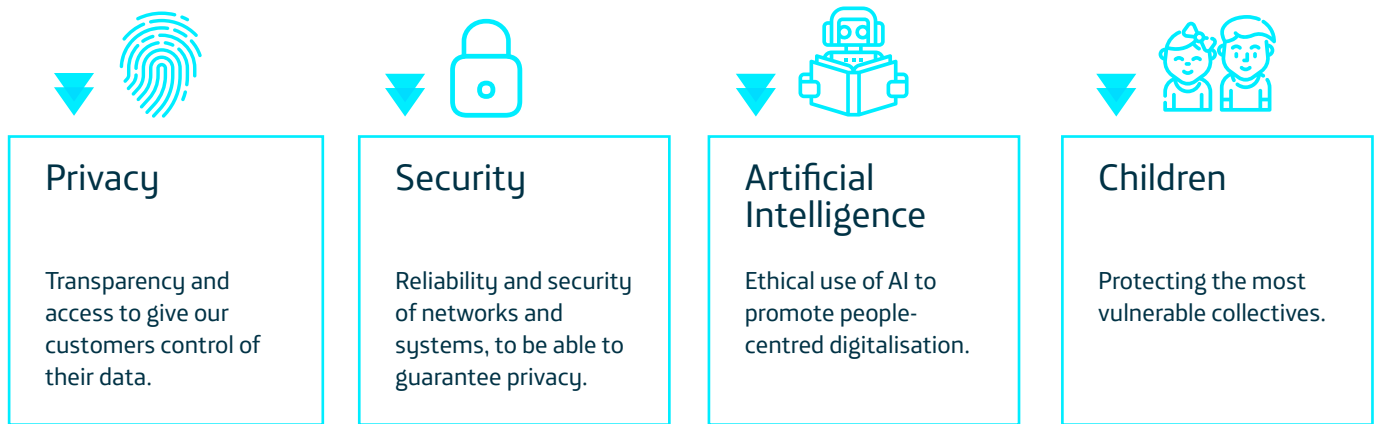
## Digital confidence starts with Design

### Privacy

Telefónica has a set of processes designed to ensure **our commitment to the right to privacy** of all persons to whose data we have access.

### A Governance

- From the Board of Directors

### B Policies

- Global Privacy Policy.
- Governance Model Rule on Personal Data Protection.
- Regulations Governing Enquiries from the Competent Authorities.

### C Privacy/security by design

- Protecting privacy and security in the early stages of any product or product design or service that may affect personal data

### D Transparency

- Global and local Privacy Centres.
- Telecommunications Transparency Report
- Personal Data Space: it enables our customers to access the data they generate during their use of our services

### E Consultation and complaint mechanisms

- Responsible Business Channel. This is our first consultation and complaint mechanism
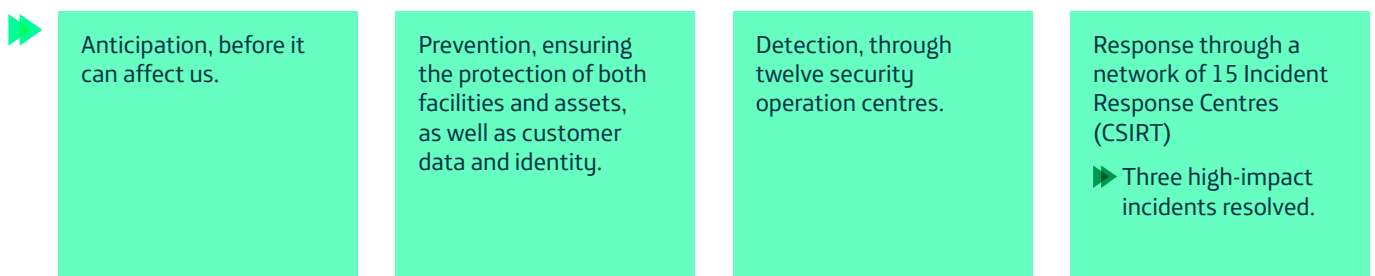- Voluntary mediation system with AUTOCONTROL

## Security

**Digital security** is a key element of our business.
Its ultimate goal is to ensure our resilience, in other words, the ability to withstand and contain attacks so that our business is not affected at all or, if it is affected, the level is tolerable.

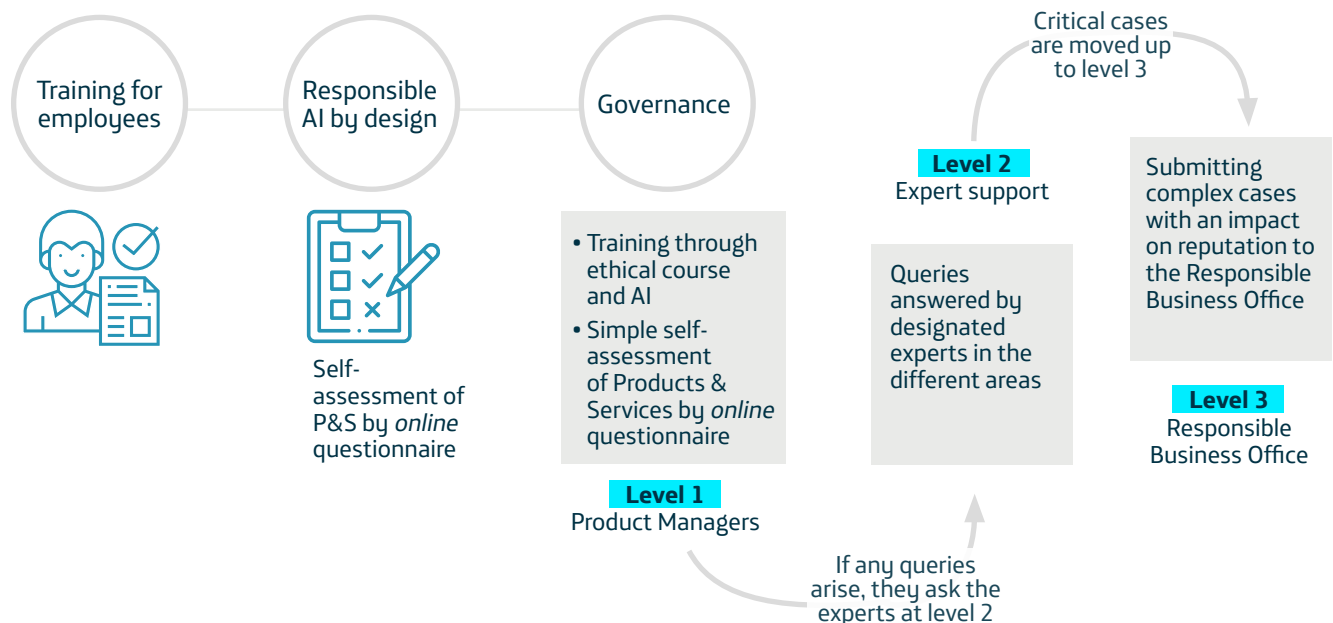We have tools and capabilities for the entire cycle of potential incidents:

| | | | |
|---|---|---|---|
| Anticipation, before it can affect us. | Prevention, ensuring the protection of both facilities and assets, as well as customer data and identity. | Detection, through twelve security operation centres. | Response through a network of 15 Incident Response Centres (CSIRT) ▶▶ Three high-impact incidents resolved. |

Telefónica's cyber-security unit is called **ElevenPaths.** We make security more human and give people the trust and peace of mind they need.

In 2019, ElevenPaths achieved turnover of 495 million euros

## Artificial Intelligence
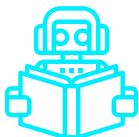
During 2019, we have been working on implementing our AI principles across our operations, focusing on three interrelated pillars.

Training for employees

Responsible AI by design

Governance

Self-assessment of P&S by *online* questionnaire

- Training through ethical course and AI
- Simple self-assessment of Products & Services by *online* questionnaire

**Level 1**
Product Managers

If any queries arise, they ask the experts at level 2

**Level 2**
Expert support

Queries answered by designated experts in the different areas

Critical cases are moved up to level 3

Submitting complex cases with an impact on reputation to the Responsible Business Office

**Level 3**
Responsible Business Office

## ▶▶ Responsible use

Our commitment to and strategy for protecting minors on the Internet and promoting the responsible use of technology take the form of six lines of work:

### 1. Alliances with stakeholders

We participate in the *ICT Coalition* and in the *Alliance to better protect minors online.*

### 2. Blocking of content

We block content with images of online child sexual abuse, following the guidelines and lists provided by the *Internet Watch Foundation.*

### 3. Audiovisual environment

We foster the consumption of responsible digital leisure through an app for children, **Movistar Junior.**



### 4. Products and services

Promotion and development of **parental controls** and other **multi-device security solutions** that help us to better manage our digital life and that of our family: **Movistar Protege** and **Smart WiFi** are an example of this.

### 5. Working together with our suppliers

In the implementation of the basic mechanisms for the protection of minors, especially in the field of security, from the design of terminals and operating systems.

### 6. Education and awareness-raising initiatives

The **Dialogando** portal with content on protecting children online and responsible use of technology (digital gap, gaming, cyberbullying, grooming, cybercontrol, sexting, privacy. etc.).

# Human Rights

## Our due diligence

In line with our Global Human Rights Policy, we have a human rights due diligence process in place to identify, prevent, mitigate and remedy (potential and actual) human rights impacts.

## Children

During 2019 we wanted to take a step forward in children's rights. For this reason and based on the Rights of the Child and Business Principles developed by UNICEF (in collaboration with the Global Compact and *Save the Children*), we have used the MO-CRIA (UNICEF *Mobile Operator Child Rights Self-Impact Assessment Tool)* to assess the impact of our business on aspects such as access to inappropriate information.

**Our Due Diligence in Human Rights**

1. Policy
2. Impact Assessments
3. Integration in Processes
4. Assessment and Reporting
5. Complaints and Remedy Mechanisms

## Key human rights indicators*

|  | 2018 | 2019 |
|---|---|---|
| Number of employees trained in human rights through the Responsible Business Principles course since its launch | 101,431 | 107,017 |
| % operations subject to a human rights impact assessment of 2013 | 100 | 100 |
| Number of *on-site* human rights audits of suppliers / labour issues, child/forced labour, health and safety, privacy and security) | 9,989 | 11,601 |
| Number of queries/complaints received on human rights through the Responsible Business Channel** | 0 | 0 |

- First in the *Digital Rights Ranking*
- Independent evaluation *Global Network Initiative*

Investors/analysts assess it very positively

*With respect to the number of significant investment agreements signed with clauses on human rights: there have been no significant investment agreements signed by Telefónica S.A. at a corporate level during the reporting level. Significant investment agreements are understood to be those that have given it a position of control of another entity and have started up a material project to invest capital for the financial accounts.

**The well-founded complaints filed on the internal complaints channel regarding human rights issues such as privacy, mobbing and discrimination are covered in the chapter on Ethics and Compliance (complaint and remedy mechanisms: consultation and complaint channels).

# Suppliers, our allies

We work together to achieve high standards of social and environmental management, promoting respect for human rights.



## A sustainable purchasing model

We have a global purchasing management model from Telefónica Global Services in coordination with the local purchasing teams in each country.

The model is aligned with our Responsible Business Principles and is based on transparency, equal opportunities, objective decision-making and sustainable management of our supply chain.

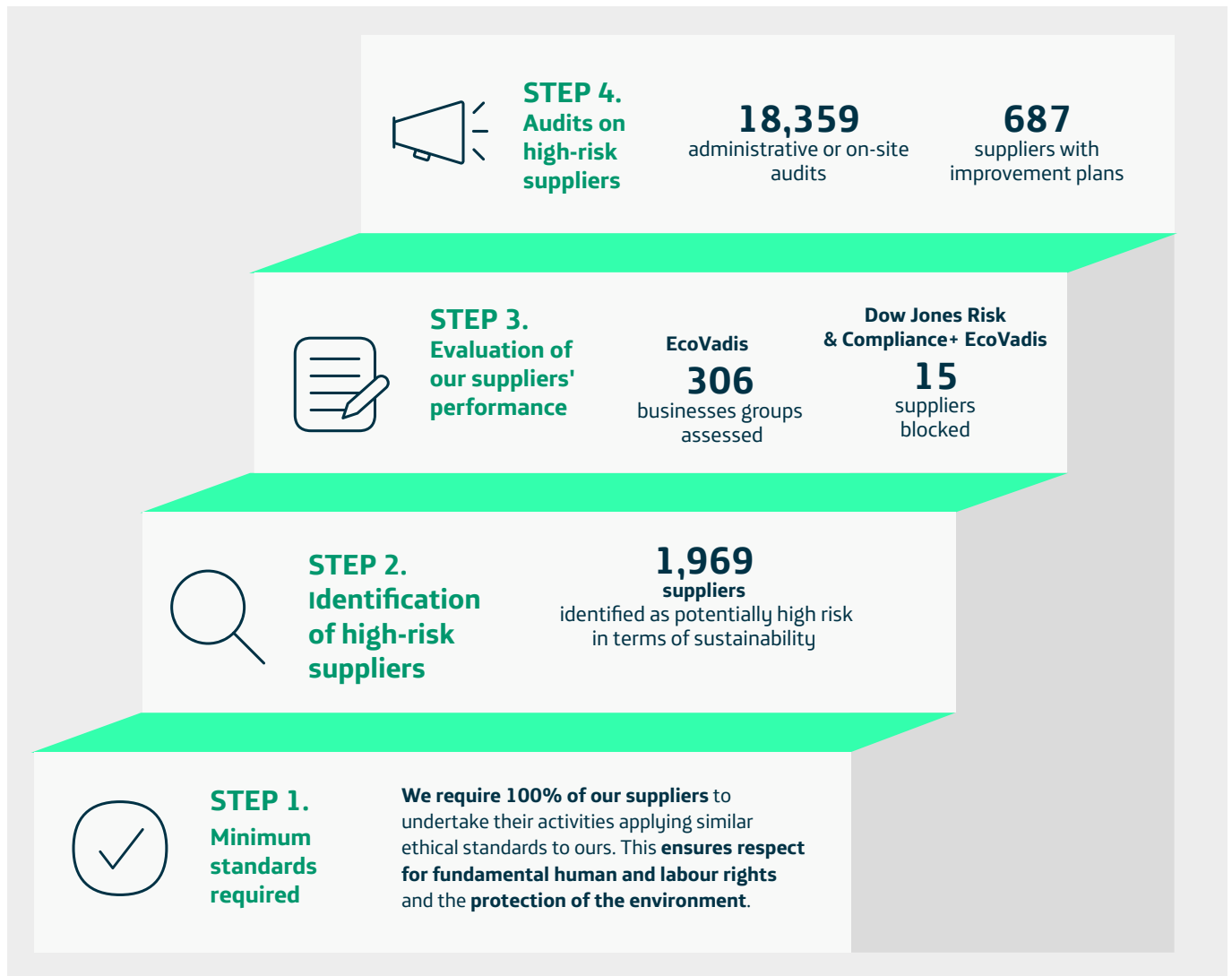### 25.274 M€

Volume of purchasing

## Digitalisation of our processes, providing greater efficiency, integrity and traceability

▶▶ We received **1,517,400** invoices issued electronically (**+ 8% compared to 2018**).

▶▶ We digitally signed **1,565** contracts and **4,236** letters of award.

▶▶ We trained over **5,115** suppliers in the electronic management of negotiations, orders and invoices.

## Our approach: sustainable management of the supply chain in 2019

### STEP 4.
**Audits on high-risk suppliers**

**18,359**
administrative or on-site audits

**687**
suppliers with improvement plans

### STEP 3.
**Evaluation of our suppliers' performance**

EcoVadis
**306**
businesses groups assessed

**Dow Jones Risk & Compliance+ EcoVadis**
**15**
suppliers blocked

### STEP 2.
**Identification of high-risk suppliers**

**1,969**
suppliers
identified as potentially high risk in terms of sustainability

### STEP 1.
**Minimum standards required**

**We require 100% of our suppliers** to undertake their activities applying similar ethical standards to ours. This **ensures respect for fundamental human and labour rights** and the **protection of the environment**.

## We foster collaboration and *engagement*

**Joint Audit Cooperation (JAC)**
We participate in the Joint Audit Cooperation sector initiative with 16 other telecommunications operators. We join forces to verify, evaluate and develop the implementation of sustainability standards in factories.

**66**
suppliers audited in 2019

**Climate change partnership programme with key suppliers**
We work on managing emissions in our supply chain both globally and locally.

**-24.6%**
$CO_2$ emissions of our supply chain per euro purchased, with respect to 2016.

**Objective: -30%**

**Telefónica**

More information and queries: responsabilidad.corporativa@telefonica.com

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