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José María Álvarez-Pallete

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Through digitisation, we contribute to a more sustainable, circular and decarbonised world
2020 will be a year we will never forget, a year that showed how vulnerable we still are. The coronavirus has caused significant human damage; it has affected every aspect of social and economic life, and has showed us what we thought we would never have to see.

It has also been the year in which Telefónica’s purpose—to make our world more human by connecting people’s lives—has become more meaningful than ever. We have been at the service of society and all our stakeholders.

It is no longer enough for a company to ensure responsible business management and show excellent performance; it is now important to understand the consequences of our activity on the communities in which we operate.

Over the past year, we have been shaping the New Telefónica by culminating the strategic plan presented at the end of 2019. It has been the roadmap we have followed through so much uncertainty. In such an exceptional period, Telefónica has completed some of the most significant operations in its near century-long history of success.

Once again, Telefónica has been a driving force for social progress in different areas. In economic terms, we have contributed nearly 45 billion euros to the Gross Domestic Product (GDP) in our major markets, paid taxes amounting to 8.16 billion euros and generated nearly one million direct and indirect jobs, which means that we create nearly eight jobs for every new hire. On the environmental front, we have helped companies save 9.5 million tonnes of CO₂ and have achieved a situation in which 88% of our electricity consumption comes from renewable sources, a figure that reaches 100% in our main markets.
It is no longer enough for a company to ensure responsible business management and show excellent performance; it is now important to understand the consequences of our activity on the communities in which we operate.

On the digital front, we have achieved 4G coverage of more than 90% of the population in the four main countries where we operate, we have made progress in deploying our fibre not only in urban areas, but also in rural areas, and we have expanded our 5G networks in our major markets. In Spain these networks are now available to 78.5% of the population.

Our recent issue of a sustainable hybrid bond, the first of its kind in the telco sector, endorses the fact that we will continue to invest in renewable, social projects to insist on our commitments to fight climate change and promote inclusive digitisation for all. Telefónica does not rest.

In such a difficult year, we have managed to increase the trust and loyalty of our employees, our customers and society in general. The Telefónica indicator that measures the degree to which the company’s employees recommend the organisation as a good place to work (eNPS) rises to 65%, clearly up from 58% in 2019 and well above the 40% that is considered synonymous with excellence.

Building on the strength of our networks and our vocation to serve people, the bond with our customers has continued to strengthen, as shown by the Net Promoter Score (NPS), which measures the degree of satisfaction of our users and is 7 percentage points higher than the previous year in the four main markets in which we operate: Spain, Germany, Brazil and the UK.

At Telefónica we are aware of the challenges that await us as a company and as a society. In just a few months, the digital transformation has taken a leap of years, with all the positive aspects this process holds for sustainable progress, given that digitisation can reduce between 15 and 35% of global CO₂ emissions. However, we also face it with the responsibility of being aware of the associated risks, which make it necessary to ensure network security and data privacy and avoid unequal access to technology.

We will continue to work to help make the economic and social recovery fairer, greener, more inclusive and prosperous for all, because our long-term growth potential depends on our ability to help the community of which we are a part to thrive. Together we go further. It cannot be otherwise and there is no alternative. Society expects us to get involved, to help solve the big problems, to improve their lives and the world.

Making our world more human by connecting people’s lives has become more meaningful than ever. We have been at the service of society and all our stakeholders.

That is why we will maintain our commitment to the principles of the Global Compact and the United Nations Sustainable Development Goals (SDGs).

Telefónica is the best travelling companion, no matter what. It is always there when you need it most. Now is the time to get going. Now is the time to excel.

José María Álvarez-Pallete
Chairman of Telefónica
Telefónica at a glance

Key business figures 2020

<table>
<thead>
<tr>
<th>INCOME</th>
<th>€43,076 M</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIBDA</td>
<td>€13,498 M</td>
</tr>
<tr>
<td>CapEx</td>
<td>€5,861 M</td>
</tr>
</tbody>
</table>

In 2020 we have made some important achievements

- **1st TELCO WORLDWIDE**: Ranking Digital Rights
- **1st TELCO WORLDWIDE**: to launch a sustainable hybrid bond
- **2nd GLOBAL ICT COMPANY**: Digital inclusion (World Benchmarking Alliance)

Our scope

- **24 COUNTRIES**
- **+345 M CUSTOMERS AROUND THE WORLD**
- **112,349 EMPLOYEES**
- **135 M PROPERTY UNITS PASSED UBB**

-61% GHG EMISSIONS SCOPE 1+2 base year 2015; -23% vs 2019

24% NPS +7 pp vs 2019

27% FEMALE EXECUTIVES
1. Infraestructura sobre la que damos servicio a nuestros clientes. Incluye red interna y externa. 2. Unidades de propiedad de clientes, de c. 4,000 del segundo tramo de la transacción en Alemania, esperada para el 3T del 2021 (Fuente: Resultados 2020 de Telefónica). 3. Tráfico de IP en hora pico. 4. En 2021. Incluye consorcios.
Telefónica and COVID-19

The pandemic crisis has irreversibly accelerated the digitisation of society. There is no longer an analogical life and a digital life; they are one and the same thing. The world has already changed and Telefónica will play a key role as a catalyst in this new reality.

Our roadmap:

- Execute contingency plans to ensure network and employee security.
- Respond to increased traffic demand on our networks.
- Collaborate with public health, education and support for the most vulnerable groups.
- Secure our assets against any attack or failure and guarantee security.
- Protect our financial capacity and responsiveness to the interests of all our stakeholders.

Customers

To cope with the 50% increase in demand for fixed and mobile bandwidth, we have undertaken a number of initiatives:

- We have frozen prices, doubled prepaid top-ups, provided priority telephone support and boosted entertainment content.
- Support for the digitisation of start-ups and SMEs, providing technological solutions, advanced support and online training.
- We are driving the innovation and development of technology products based on AI and Big Data to control virus outbreaks and assist mobility.

Employees

Our priority has been to ensure the health and safety of our team.

- 95% of employees home-working (70% at present). We provide online training and reinforce our policies on digital disconnection and emotional health care.
- We ensure internal coordination in crisis management and through internal committees and drills.
- We inform all employees proactively and continuously about the crisis situation and the measures for COVID-19 protection and action.
**Society**

Our priority has been to ensure that the telecommunications network operates at full capacity in a reliable, stable and secure manner.

- We place our capabilities at the disposal of public administrations and health institutions.
- We created a fund of 25 million euros to purchase health equipment.
- We strengthen online educational content and free and open online learning platforms.

**Suppliers**

We work with our suppliers to guarantee supplies and ensure the viability of their businesses.

- We advance payment of invoices to our SMEs to improve their liquidity in the face of the crisis.
- We share our internal protocols on Health and Safety and COVID-19 with our suppliers, contractors and subcontractors.
- We promote home-working at call centre service providers.

**Shareholders and investors**

We have maintained two-way communication with our shareholders and investors in a proactive and continuous manner.

- We organise virtual briefings and roadshows, where we report on the Company’s performance and results and answer questions from analysts and institutional investors.
- Both the shareholders’ meeting and the preliminary meeting were held virtually for the first time in history.
We are Telefónica

We create long-term value

We are changing to respond to economic, social and environmental challenges in partnership with our stakeholders

Customers
Telefónica’s mission “to make our world more human by connecting people’s lives” has become more meaningful this year with COVID-19. Thus, the priority has focused on customers and society.

Our products and services have an approach from Responsible Design

Employees
This year, the company has focused on taking care of people, ensuring the health and safety of our team. Despite the difficulties, employees have been more motivated and committed.

65% of employees recommend us as a good place to work

Strategic partners and suppliers
Telefónica is committed to helping suppliers and strategic partners.

77% of total procurement volume was awarded to local suppliers
Shareholders and institutional investors
We offer our shareholders long-term growth, profitability and sustainable efficiency. Our objective is to maintain a continuous, transparent and equal relationship with shareholders and institutional investors.

Engagement activities with minority and institutional shareholders
28 ENGAGEMENT ACTIVITIES WITH MINORITY AND INSTITUTIONAL SHAREHOLDERS

Governmental and regulatory bodies
We propose a new dialogue between governments, society and business to advance policies and regulations in line with the challenges of a green and digital transition, upholding fundamental rights and values.

Events held in different countries to create spaces for discussion and encourage conversation
+40 EVENTS HELD IN DIFFERENT COUNTRIES TO CREATE SPACES FOR DISCUSSION AND ENCOURAGE CONVERSATION

Opinion leaders and the media
We create relationships of proximity and trust based on the generation and transmission of truthful information in a transparent, clear and responsible manner.

Interactions (10% more) through press releases, meetings and interviews
7,000 INTERACTIONS (10% MORE) THROUGH PRESS RELEASES, MEETINGS AND INTERVIEWS

Society
The current situation has shown that digitisation is essential for development. The impact of telecommunications and broadband on the economy has been well documented in various international studies which conclude that we are a strategic player in both direct and indirect terms because of our involvement with other industries.

Impact of our businesses on total GDP in our main markets
0.5% IMPACT OF OUR BUSINESSES ON TOTAL GDP IN OUR MAIN MARKETS
The three pillars of our strategy

Helping society thrive
We work towards economic and social development based on digitisation

Leading by example
We seek to build trust capital with our customers, employees, suppliers and shareholders

Building a greener future
Through digitisation, we contribute to a more sustainable, circular and decarbonised world
Helping society thrive

We listen to social demand by developing a sustainable telecommunications infrastructure that is key for progress and from which no one is excluded. In this way we are furthering our goal of contributing to social inclusion in a world where demand for digital skills is increasing.
Our impact on communities

We have a work agenda that revolves around Goal 9, to which we contribute by deploying sustainable, resilient and quality infrastructure and by harnessing our capacity for innovation to address major global challenges.

We allocate more than 5.8 billion euros to network deployment.

We have a 4G coverage of 82.5%.

Our contribution to R&D amounts to 959 million euros. We have an Industrial Property Rights Portfolio with 440 patents.

We connect more than 1,800,000 people with our 'Internet for all' project.

We accelerate more than 780 start-ups through our Open Innovation programmes.

More than 78% of the Spanish territory has 5G.

ProFuturo
Transforming education*.

More than 16 million children in 40 countries have benefited from the Profuturo programme.

MIRÍADAX
Online Training*.

More than 6 million students enrolled in MOOCS.

More than 2 million people benefited from digital skills training.

More than 3 million hours of employee training.

We contribute 44,692 million, equivalent to €3.3 per euro of gross operating margin to the GDP in the main countries where we operate.

We contribute 8.16 billion euros to local finances.

We generate 7.8 jobs for every person we hire in the countries where we operate.

Impact on employment of the Telefónica Group: 957,314 jobs.

We award 77% of our purchase volume to local suppliers.

* Projects of Fundación Telefónica.
Our aim is to reach 33% of women in management positions and equal pay by reducing the gender-adjusted pay gap to +/-1%.

38% of women in our workforces
27.4% of managers are women
2.5% adjusted pay gap

Enhancing trust through the ethical and responsible use of technology, ensuring the security and privacy of our customers’ data.

We have received acknowledgement in 2020 from the World Benchmarking Alliance as the world’s second-most influential company in the ICT sector for our ability to lead the way in digital inclusion.

Our aim is to foster collaboration with other organisations to innovate and increase access to and use of technology and digitisation in all areas of society.

85.2% penetration of the LTE service in the customer base

100% of electricity consumption in Europe, Brazil and Peru comes from renewable sources, 87.5% globally.

98% of recycled waste in 2020

Our electricity consumption since 2015 has decreased by 1%, while data traffic over our networks has increased by more than 5 times.

Our products and services avoided 9.5 million tonnes of CO₂ emissions thanks to the efficiencies digitisation generates for our customers.
Digital inclusion

We promote a more inclusive connectivity in which we bring digitisation to all people and boost the social and economic development of the communities in which we are present.

Our pillars of action

Digital skills
Addressing existing inequalities by investing in training and education in digital skills as tools for personal development and facilitators of social development, as well as promoting technology among all groups.

Inclusive digital access
Ensuring that everyone has access to our digital services and can use them safely and securely:
1. Promoting the accessibility of our solutions.
2. Offering solutions that are affordable for the majority of the population.

Innovation in digital content and services
To promote new and increasingly innovative solutions, services and content that enable us to connect people’s lives.

Sustainable Infrastructure Deployment
Strengthening and investing in very high capacity networks while at the same time investing in the roll-out of more efficient and sustainable networks.

+90% 4G coverage in the four main countries where we operate
Best fibre network in the OECD: 135 million of property units passed
Internet for all: more than 1,800,000 people with Internet access in remote areas
We continue to be the only private television with accessible content thanks to Movistar + 5S
We are committed to innovation

We invest heavily in research and development...

- Investment in R&D&I: €4.6 billion
- Investment in R&D: €959 million
- Investment R&D&I / income: 10.7%
- New patents registered: 14

...and we generate a technological ecosystem around us

- More than 500 active Start-ups in portfolio
- More than 130 Start-ups working with Telefónica
- More than 25 Start-ups invested in directly by Telefónica Ventures
- 35 Open Future Spaces
- 2 Scouting centres of Telefónica Innovation Ventures (Silicon Valley and Spain)
- 7 Hubs of wayra
Leading by example

In order to lead by example, it is essential to build trust with our customers and suppliers. In this way, we shape and prioritise what the customer and our stakeholders demand, instilling from the outset a responsible use of technology and our principles of Corporate Governance.
Corporate Governance

Telefónica is firmly committed to continuously improving its Corporate Governance framework. To this end, we increase, strengthen and consolidate best practices in this area.

Our 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 Nominee Director; Mr. José María Álvarez-Pallete López, Chairman and Executive Director; Mr. Isidro Fainé Casas, Vice-Chairman and Nominee Director; and Mr Ángel Vilá Boix, Chief Executive Officer and Executive Director.

From left to right, standing, Mr. Antonio García-Mon Marañés, Deputy General Secretary and Deputy Secretary to 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 Thiennemann, Independent Director; Mr. Peter Erskine, Other External Director; Mr. Jordi Gual Solé Nominee 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, Nominee Director; Mr. Francisco Javier de Paz Mancho, Other External Director; and Mr. Pablo de Carvajal González, General Secretary and Secretary to the Board.
Remuneration linked to sustainability in 2021

Short-term variable compensation factors

- **Operational and financial targets**
  - 30% OIBDA
  - 30% Operating income
  - 20% Free Cash Flow

- **Non-financial targets linked to customer trust and ESG targets**
  - 20% OIBDA
  - 40% NPS
  - 25% Climate Change - GHG Emissions
  - 15% GAP NPS
  - 15% Trust from Society - REP Trak
  - 5% Gender Equality - % Women Executives

Long-term variable compensation factors

- **Operational and financial targets**
  - 50% Relative TSR
  - 40% Free Cash Flow

- **Non-financial targets linked to customer trust and ESG targets**
  - 10% Neutralisation of CO₂ emissions to reach net zero emissions by 2025
Sustainability governance

The Sustainability function is implemented at all levels of the company, ensuring both the programming of an ambitious agenda, structured through our Responsible Business Principles and the Responsible Business Plan, approved by the Board of Directors, and its execution through supervision, monitoring and implementation mechanisms at corporate and local level.

Sustainability at the highest level

Approval

Board of Directors

Our Responsible Business Principles
Our ethical framework

Our Responsible Business Plan
Our sustainability roadmap

Main Policies related to Sustainability

Supervision

Sustainability Commission & Quality
Oversees month-by-month implementation of the Responsible Business Plan

Audit & Control Committee
Oversees the Company's compliance function, risk analysis, management and reporting processes

Monitoring

Responsible Business and Reputation Office

Implementation

Business Areas and Corporate Support
Operators Country
Responsible business management

The Responsible Business Principles are embodied in the various policies and regulations approved by the Board of Directors or by the Executive Committee, the most significant of which were approved and updated in 2020:

**Ethics**
- Compliance Function Policy (updated 2020)
- Crime Prevention Policy (updated 2020)
- Internal Rules of Conduct (updated 2020)
- Compliance Function Policy (updated 2020)
- Telecommunications Fraud Prevention and Management Regulation (adopted in 2020)

**Privacy & Freedom of Expression**
- Global Privacy Policy
- Personal Data Protection Governance Model Regulation
- Rules of Procedure in response to Requests from Competent Authorities

**Security**
- Global Security Policy
- Global Security Regulations (updated 2020)
- Business Continuity Regulations
- Incident and Emergency Management Regulations
- Physical Security Regulations (updated 2020)
- Security of Persons Regulations
- Network and Communications Security Regulations
- Change Management Regulations (updated 2020)
- Regulations on the Classification and Processing of Information

**Supply Chain**
- Supply Chain Sustainability Policy (updated 2020)
- Supply Chain Sustainability Standard (updated 2020)
- Low Carbon Procurement Instruction (updated 2020)
- Procurement of Goods and Services Standard (updated 2020)
- Supply Chain Security Regulations (updated 2020)

**Human Resources**
- Protocol for Action in Situations of Workplace or Moral Harassment, Sexual Harassment and Discrimination
- Occupational Health, Safety and Well-being Regulations
- Diversity and Inclusion Policy

**Responsible Communication**
- Communication of Information to Markets Standard (approved 2020)
- Shareholder Communication Policy (updated 2020)
- Responsible Communication Policy (updated 2020)
- Social Media Regulations (updated 2020)

**Environmental Management and Climate Change**
- Global Environmental Policy
- Energy Management Policy

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**Ethics and compliance training**

Employees trained in anti-corruption*

104,522

Percentage of employees trained in anti-corruption*

93%

Percentage of employees trained in anti-corruption by 2020

31%

* Includes the Responsible Business Principles Course (since 2018), Foreign Corrupt Practices Act (since 2017) and local anti-corruption courses (since 2019).
Our customers

With the COVID-19 crisis, our mission to "make our world more human, by connecting people's lives" became even more relevant and therefore we have endeavoured to meet the needs of our customers and society.

Net Promoter Score (NPS)

Customer satisfaction is a key commitment for us, which is why we have incorporated indicators in our employee remuneration. Since 2018, we track and report the Net Promoter Score (NPS) as a recommendation indicator for our products and services. In 2020 we exceeded our targets, with the perception of the quality of our network being key.

Reputation

Telefónica has decided to add reputation as a fundamental 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.

In 2020, we exceeded our planned annual target

The consolidated RepTrak Pulse® score for the 4 main countries (UK, Germany, Spain and Brazil) in 2020 was 66 points on a scale of 100, exceeding the previous score by more than 10 points. This increase is due to:

- Society's positive assessment of the important role played by connectivity and all the actions Telefónica has taken to fight the pandemic.
- A consolidation of the new methodology implemented in 2019.

66 points out of 100 (+10 compared to 2019)
Consolidated value of RepTrak Pulse® 2020*

*The calculation of the global value considers only the 4 main countries, extracting the result of Hispam by which it was previously considered.
Responsible 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.

The two pillars of Responsible Design are ethics and sustainability:

- Design ethics
  - Principles of Customer Responsibility
    - Simplicity
    - Transparency
    - Integrity
  - Ethical principles applied to algorithms and data
    - Compliance with Telefónica's AI Ethical Principles

- Sustainability applied to design
  - PEOPLE Impact on human rights and society
    - Accessibility of websites and apps
  - PLANET Impact on the environment
    - Ecodesign
    - Waste
    - Energy consumption

The Responsible Design approach seeks to 'ground' these solutions and integrate them into our daily activities, highlighting the potential positive impact of our products and services in the face of these challenges.

- Minimising risks and staying ahead of sustainability regulations.
- Responding to the needs of our customers, who are increasingly looking not only to acquire a product or service, but also to relate to companies that are more aware and committed.
Digital trust

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

Privacy
- Transparency and access to take control of data

Security
- Security of networks/systems to ensure integrity, availability and confidentiality of information

Artificial Intelligence
- Ethical use of Artificial Intelligence (AI) to promote people-centred digitisation

Responsible use
- Protecting the most vulnerable groups

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

Lines of action
- Privacy by design
- Digital privacy
- Transparency initiatives
- Customer Empowerment
- Consultation and complaint mechanisms

Privacy/security by design
- The principle of Privacy by Design (PbD) is one of the essential and strategic pillars of the Telefónica Group. The duty of the entire organisation to establish a data management governance model from the early stages of any project

Policies
- Global Privacy Policy
- Personal Data Protection Governance Model Regulation
- Rules of Procedure in response to requests from Competent Authorities

Transparency
- Global Privacy Centre
- Operators’ Privacy and Security Centres
- Telecommunications Transparency Report

Consultation and complaint mechanisms
- Responsible Business Channel: Public channel where all our stakeholders can consult and complain
- Voluntary measurement systems with Autocontrol
The increase in the number and complexity of security threats highlights the need for continuous improvement that encompasses physical and operational security, including cyber security.

To achieve this protection, the area of security is indexed in the organisational structure starting with the Board of Directors through its Sustainability and Quality and Audit and Control Committees.

**Lines of Action:**
- Digital Security or Cybersecurity
- Physical or Operational Security
- Security by Design
- Supply chain security

We have tools and capabilities for the whole 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 (CSIRTs) working to restore normality in the shortest possible time and with the least possible impact

**Privacy/security by design**

Security is considered from the earliest stages in all areas of activity to ensure that it is an integral part of the entire technology lifecycle. This approach is based on a process of risk analysis and management, as well as the development of proprietary technologies and support for innovation.

**Privacy**

Transparency and access to take control of data

**Security**

Security of networks/systems to ensure integrity, availability and confidentiality of information

**Artificial Intelligence**

Ethical use of Artificial Intelligence (AI) to promote people-centred digitisation

**Responsible use**

Protecting the most vulnerable groups
Artificial Intelligence (AI) and Big Data are on the up and can be applied to a wide range of fields. However, concerns have recently been expressed about their use, especially in relation to possible discrimination, the lack of interpretability of algorithmic conclusions and the transparency of the personal data used.

To address these potential problems, we published the AI Principles in 2018.

**Lines of action**
- Training for employees
- Responsible AI by design
- Governance and implementation

**Through our AI Principles we are committed to designing, developing and using AI that is...**

**Fair**
- We make sure that the applications do not lead to results with biases and discriminatory or unfair impacts.
- We guarantee that there are no discriminatory elements when the AI learns and the algorithms decide or recommend.

**Transparent and explainable**
- We make known to users the data we use and their purpose.
- We take sufficient measures to ensure that their decisions or recommendations are understood.
- We require our suppliers to have or adopt our or similar AI principles as their own.

**With people as our priority**
- We make sure that AI always respects Human Rights.
- We are committed to the UN’s Sustainable Development Goals.
- We help to avoid the improper use of technology.

**With privacy and security from the design**
- When constructing Artificial Intelligence systems, we take particular care with the security of information.
- We respect the right to privacy of people and their data.

**With partners and third parties**
- We confirm the veracity of the logic and the data used by providers.
The life our children lead is now a digital life. For this reason, we need to be able to integrate and adapt traditional educational guidelines to an ecosystem in which analogue has lost its hegemony. We must continue to educate in values and accompany and set an example, generating spaces for dialogue on the use we make of technology.

Our commitment to the responsible use of technology is embodied in 6 lines of action:

1. **Alliances with stakeholders**
   - We participate in the ICT Coalition and the Alliance to better protect minors online

2. **Blocking of content**
   - We block content with child sexual abuse images on the Internet following the guidelines and lists provided by the Internet Watch Foundation

3. **Audio-visual environment**
   - We promote the responsible consumption of digital entertainment through numerous tools, including the children’s application Movistar Junior

4. **Products and services**
   - We encourage the promotion and development of parental controls and other multi-device security options that help us to better manage our digital lives and those of our families: Qustodio and Smart WiFi are examples of this

5. **Working together with our suppliers**
   - Together with our suppliers, we implement the basic mechanisms for the protection of minors, especially in the area of security, from the design of terminals and operating systems

6. **Education and awareness-raising initiatives**
   - We develop training and awareness-raising activities for families through the Dialogando web portal to reflect on the use we make of technology and facilitate coexistence in the digital society (digital divide, gaming, cyberbullying, grooming, sexting, privacy...)
Human Capital

Having a diverse workforce and fostering an organisational culture of equity, plurality and inclusion, where the unique skills, abilities and ways of thinking of our employees help us make the best decisions for the business.

We believe in diversity as a lever for the future

Our diversity and inclusion strategy is based on four pillars:

1. The Global Diversity Council
2. Meritocracy in selection and promotion
3. Diversity on the Board of Directors
4. Sustainability policies in the supply chain

112,349 employees
11,110 newly hired employees under 35 years of age
27.4% women in management positions
38% women in the workforce

Talent management, key to transformation

The evolution of our business, the explosion of data and the technological advancement of our networks demand new capabilities from our teams:

- Attracting and managing new talent
- Reskilling and Upskilling
- Identification of new capabilities

32 training hours per employee
+ 3.5M hours of training
30% of training activity in Spain
25 virtual courses, reaching 12,910 people trained in Universitas
Success story: Telefónica de España's reskilling programme

+14,000 employees in reskilling/upskilling programmes in Spain

- Training activity has increased significantly in 2020:
  + 20pp (increase in training hours compared to the previous year)
  More training

- It has multiplied x2.6 the total number of students (compared to the previous year).
  For more people

- In online training, the following have been offered 1,185 courses on various topics such as:
  - Sales
  - Technology
  - Robotisation
  - Programming
  - Soft Skills
  - Diversity
  - Digital capabilities
  - Personal development, etc.
  More variety of content

- In 2020, the traditional mix of 'classroom-online' training methodology has been reversed, with a shift to an 8-92%, respectively.
  More methodologies for learning

- Increase in the quality of training: 8.32 (8.28 in 2019)
  More quality
Well-being of our employees

New ways of working:

(Employee Net Promoter Score)

In 2019 we decided to adopt the Employee Net Promoter Score (eNPS), which measures the degree to which the Company’s employees recommend the organisation, answering the question: **How likely would you be to recommend your company as a good place to work to people close to you? (1=Definitely would not recommend, 10=Definitely would recommend).**

Formula for calculating eNPS

<table>
<thead>
<tr>
<th>Detractors</th>
<th>Passives</th>
<th>Promoters</th>
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<tbody>
<tr>
<td>1 2 3 4 5 6</td>
<td>7 8</td>
<td>9 10</td>
</tr>
</tbody>
</table>

\[
eNPS = \frac{\% \text{ of Promoters} \ (9 \text{ and } 10)}{\% \text{ of Detractors} \ (1 \text{ to } 6)} - 0\%
\]

In 2020 we achieved an eNPS of 65%, which is a 7-point improvement on the 2019 result of 58%.

Pay gap

In the Telefónica Group in 2020 the gross pay gap is 19.9% and the adjusted pay gap is 2.5%.

Health and Safety

99% of operators have a **safety, health and well-being management system** (calculated on the basis of operators’ revenues). 49% of operators with a safety, health and well-being management system **certified compliant with the ISO 45001 or OHSAS 18001 standard**

95% of the workforce home-working

By the end of 2020, 70% teams working in Agile methodology

+400
Suppliers

We work together with our suppliers to ensure the smooth operation of the network and the connectivity of people, as well as high standards of sustainability in our supply chain.

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.

We digitise our processes, providing greater efficiency, integrity and traceability.

Volume of purchases awarded %/Total

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobility</td>
<td>34%</td>
</tr>
<tr>
<td>Network</td>
<td>22%</td>
</tr>
<tr>
<td>Services and Works</td>
<td>20%</td>
</tr>
<tr>
<td>B2B/B2C</td>
<td>11%</td>
</tr>
<tr>
<td>IT</td>
<td>9%</td>
</tr>
<tr>
<td>Advertising and Marketing</td>
<td>4%</td>
</tr>
</tbody>
</table>

(1) Agreements negotiated in Procurement with impact in 2020.

€24,268 M
Volume of purchases awarded

77% of purchases awarded to local suppliers

9,038 awardee suppliers

91% local awardee suppliers
Our approach: sustainable supply chain management by 2020

Risk Management

**STEP 1**
All suppliers must accept our minimum standards

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

**STEP 3**
Evaluation of the performance of our high-risk suppliers

**STEP 4**
Administrative or on-site audits of high-risk suppliers

Engagement

Our sustainable management model is complemented at every step by training and engagement with our suppliers, enabling us to raise awareness and promote capabilities to improve supply chain sustainability

We foster collaboration and engagement

We participate in the Joint Audit Cooperation sector initiative with 17 other telecommunications operators. We join forces to verify, evaluate and develop the implementation of sustainability standards (with a focus on working conditions, environment, human rights and ethical principles) in factories run by common suppliers, mainly in risk areas such as Asia, Latin America and Eastern Europe.

Climate change collaboration programme with key suppliers

We work on emissions management in our supply chain, both globally and locally.

-26.8% CO₂ emissions from our value chain compared to 2016, with emissions from our supply chain being the most relevant to our scope 3 (56%)

- 60 supplier audits together with other operators
- 16,105 administrative or on-site audits
- 560 suppliers with improvement plans
Human Rights

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.

Key human rights indicators

<table>
<thead>
<tr>
<th>1. Policy</th>
<th>2. Impact Assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees trained in Responsible Business and human rights through the Principles Course since its launch</td>
<td>Operators submitted to a human rights impact assessment</td>
</tr>
<tr>
<td>103,934 (93% of our workforce)</td>
<td>12 (100% of our operators)</td>
</tr>
<tr>
<td>Training hours</td>
<td></td>
</tr>
<tr>
<td>207,868</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3 queries/complaints received through the human rights channel</td>
<td></td>
</tr>
<tr>
<td>10,090 on-site human rights audits of suppliers (labour, child labour, safety, health, privacy and security)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Complaint and Remedy Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st company in the Digital Rights Ranking</td>
</tr>
<tr>
<td>Independent evaluation of Global Network Initiative</td>
</tr>
</tbody>
</table>

Minors

In 2020, we continued to strengthen our advocacy for children’s rights by analysing the impact of our activities. Based on the Children’s Rights and Business Principles developed by UNICEF in collaboration with the Global Compact and Save the Children, we use its MO-CRIA (UNICEF Mobile Operator Child Rights Self-Impact Assessment Tool) to systematically analyse the impact of our activity on aspects such as: access to inappropriate information; protection of privacy, information, personal reputation and the impact of products and services; inappropriate advertising and marketing actions, or any procurement conditions that could violate their rights.
Building a greener future

Telefónica’s priority is to help protect the environment by providing its customers with digital solutions that help them reduce their carbon emissions and use fewer resources. In addition, we are moving towards being a zero net emissions and zero waste company, rolling out state-of-the-art grids, using renewable energy and fostering the circular economy.
Responsibility with the Environment

Telefónica’s decarbonisation, on the road to neutrality

Environmental strategy

- Risks + Opportunities = + Efficiency = + Resilience

We reduce our impact and provide solutions to major environmental challenges through digitisation.

We can identify opportunities in a low carbon economy for both internal energy management and business growth, by selling products that reduce our customers’ carbon emissions.

Green finance

Hybrid green bond:

- **To finance** projects aimed at increasing the Company’s energy efficiency through the process of transforming our copper network to fibre optics (85% more efficient)

- **We have saved** 50 GWh between May 2019 and August 2020

- **We have reduced** our energy consumption by shutting down 990 copper plants and the corresponding support systems by 2020

Objective: 100% of customers on fibre by 2025
Energy and climate change

We are committed to achieving zero net emissions by 2025 in our major markets and 2040 with our value chain. Our 1+2 range emissions are 61.1% lower than in 2015, in the same period, energy consumption has decreased by 2% while data traffic has increased by a factor of 5. Scope 3 emissions have been reduced by 26.8% since 2016.

Route to Net Zero

We reduce our emissions in line with the 1.5°C scenario and neutralise the remaining emissions to Net Zero.

NET EMISSIONS ZERO

- 2025: 4 main operations
- 2040: Value chain and Hispam
Circular economy

We promote the circular economy in the use of electronic devices through eco-design, reuse and recycling. Since 2015 we have increased the reuse of equipment by more than 451%.

Moving towards a zero waste-to-landfill company

- 61% of CO₂ emissions avoided at our customers due to digital services
- 4 million devices reused
- 98% of waste recycled

Benefits for the planet

- 9.5 million tCO₂ avoided at our customers due to digital services
- 4 million devices reused
- 98% of waste recycled

Customer

- Ecosmart Service (IoT, Big Data)
- Ecorating
- Reuse/Buy Back

Telefónica

- Recycling and reuse
- Energy efficiency
- Renewable energy
- Preventive maintenance

Non-strategic procurement

Benefits for the planet

- 20% of CO₂ emissions avoided at our customers due to digital services

Suppliers

- Ecodesign
- Low carbon procurement
- Services vs. Products
- Recovery
Eco Smart Services

Our connectivity and digitisation solutions are key to decarbonising other sectors and give us access to new business opportunities. With the "Eco Smart" seal, we recognise digital solutions that favour the digital transformation of our customers and also generate major environmental benefits in their production process or daily activity, allowing them to develop their business in a more efficient and sustainable way.

Digitisation to decarbonise the economy

9.5 M tCO₂ avoided in 2020 thanks to digitisation during the pandemic