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Annexes

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Summary of Milestones in 2016 and Challenges for 2017

	MILESTONES		SHORT-TERM CHALLENGES
Business ethics and compliance	Creation of a communication channel with external stakeholders.	 100% Achieved	Internal communication campaign on the new Responsible Business Principles.
	Revision of internal regulations. Revision of the Responsible Business Principles.	 In progress	Training course in Responsible Business Principles (90% workforce participation).
Supply chain management	Incorporation of Telefónica into the industry initiative JAC (Joint Audit Cooperation).	 100% Achieved	Tighten the monitoring checks on the higher-risk suppliers as regards customer privacy and data protection.
Network deployment	Increase LTE coverage in Spain to over 85% (as compared to 75% in December 2015).	 100% Achieved	Extension of VoLTE technology deployment in Latin America and Europe.
Diversity	Creation of a Global Diversity Council.	 100% Achieved	Reach a goal of 30% of women in managerial positions by 2020.
Accessibility	Further the implementation of "Design for All" throughout all Company departments.	 In progress	Create a global catalogue of handsets that include accessibility features for all our operations.
Sustainable Innovation	Include metrics for measuring our social and environmental impact in key services.	 100% Achieved	Increase investment in new projects and acceleration of innovation initiatives with a social or environmental impact.
Environment	Reduction of energy consumption by 2.17% despite an increase in traffic of more than 50%.	 100% Achieved	100% of our Group operators to be certified to ISO 14001 standard.
	Reduction of our carbon footprint by 22%.	 100% Achieved	Comply with the energy and greenhouse gas emissions objectives.
	90% of Telefónica's Environmental Management Systems certified to ISO 14001 standard.	 100% Achieved	Extend the Eco-Rating initiative to more of the countries in which we operate, and launch the OpenEcoRating website.



Principles for preparing the Report

The Telefónica Annual Integrated Report 2016 reflects the progress made during the year by the Company and its value chain in economic, social and environmental matters, as well as its strategic and market positioning, enabling the reader to get a better understanding of our business model, its ability to generate value from the capitals which comprise it, and our interaction with stakeholders.

Telefónica makes all of its information available to all its stakeholders, providing reliable, tangible, concise and comparable details of the Company's performance, its business model, its value drivers and its strategic lines for the coming years. All this information is published annually and can be accessed from here in all its various books:

Integrated Report: drawn up according to the IIRC (International Integrated Reporting Council) recommendations.

Sustainability Report: comprises part of the Integrated Report and has been drawn up under the general G4 guidelines issued by the Global Reporting Initiative (GRI). For its Annual Sustainability Report Telefónica has chosen GRI's "Exhaustive Compliance Option" in accordance with the G4 guidelines. This option has been subsequently subjected to external verification by EY.

Financial Report: drawn up according to international financial information standards and externally audited by EY.

Corporate Governance Report: drawn up according to the model of the Spanish National Securities Market Commission.

Director Remuneration Report: drawn up according to the model of the Spanish National Securities Market Commission.

Telefónica Atlas: downloadable graphics and data, both past and current, for countries and regions, of all the Sustainability KPIs that comprise the integrated report.

Additional and complementary information is available to all our stakeholders online via the Telefónica web pages. We highlight the following:

FIND OUT MORE: 

- ▶ **About Telefónica**
- ▶ **Press Room**
- ▶ **Shareholders and investors**
- ▶ **Quarterly results**
- ▶ **20F (SEC)**
- ▶ **Corporate governance**
- ▶ **Responsible Business**
- ▶ **Jobs**
- ▶ **Public policies**
- ▶ **Business solutions**

In this document Telefónica reports on its commitment with regard to the following International Standards:

- ▶ Universal Declaration of Human Rights of the United Nations
- ▶ Sustainable Development Goals of the United Nations (SDG)
- ▶ Covenant on Civil and Political Rights
- ▶ Covenant on Economic, Social and Cultural Rights
- ▶ Convention on the Rights of the Child
- ▶ Convention on the Rights of People with Disabilities
- ▶ Agreements of the International Labour Organization
- ▶ Union Network International (UNI)
- ▶ OHSAS
- ▶ Basel Convention (hazardous wastes)
- ▶ Sarbanes-Oxley Act (USA)
- ▶ ISO Standards (14.001, 50.001, 14.064, 31.000, 27.001, 22.301)
- ▶ International Guidelines (ICNIRP)

Information is also submitted in reference to different voluntary standards to which Telefónica subscribes:

- ▶ United Nations Global Compact
- ▶ GRI G4
- ▶ OECD Guidelines for Multinational Enterprises
- ▶ Conthe Code
- ▶ UN Principles for Responsible Investment (UNPRI)
- ▶ Global Network Initiative (GNI)
- ▶ Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High Risk Areas
- ▶ Global e-Sustainability Initiative (GeSI)
- ▶ Electronic Industry Citizenship Coalition
- ▶ Public-Private Alliance for the Responsible Minerals Trade (PPA)
- ▶ London Benchmarking Group (LBG)
- ▶ Collaboration with ETNO (European Telecommunications Network Operators Association), ITU (International Telecommunication Union) and GSMA (World Association of Mobile Phone Operators)
- ▶ ICNIRP (International Commission on Non-Ionizing Radiation Protection)
- ▶ Carbon Disclosure Project
- ▶ GHG Protocol
- ▶ Code of Good Advertising Practices, Self-Monitoring



Below we explain how the standards have been applied, listing those which determine the content and the quality, and which ensure a balanced and reasonable presentation of the performance of the organisation. This whole process has been performed taking into account both the experience and the purpose of Telefónica, as well as its usefulness for its stakeholders. Moreover, the review carried out by EY was conducted under the principles defined by the Standard AA1000AS (2008), the values of which seek to “ensure the quality of the organisation’s Sustainability Report and the processes, systems and competences which serve as a basis for its execution by the entire organisation”.

Both the principles issued by the Global Reporting Initiative (GRI) and those defined by Standard AA1000AS (2008) are the most recognised and commonly used standards in the preparation of sustainability and corporate social responsibility reports.

The point of contact for any questions regarding this report is the [Global Department of Corporate Ethics and Responsible Business](#).

PRINCIPLES FOR DETERMINING THE CONTENT OF THIS REPORT

▶ **Participation by stakeholders**

The chapter on 'Managing our stakeholders and reputation' identifies these groups and explains how Telefónica has responded to their reasonable expectations and interests.

▶ **Sustainability context**

Telefónica contributes to the progress of the communities in which it operates and their sustainability, both social and environmental, throughout its value chain: from working with our suppliers, to the marketing of sustainable products and services, and respect for consumer rights.

▶ **Materiality**

Aspects are addressed which reflect the significant economic, environmental and social effects of the Company and which substantially influence the assessments and decisions of our stakeholders. For this purpose we have conducted a materiality analysis at a local, regional and corporate levels.

▶ **Thoroughness**

We indicate the material aspects and their cover, scope and time, in such a way that their significant economic, environmental and social effects are reflected. In this way, stakeholders can analyse Telefónica's performance in the period under study.

PRINCIPLES FOR DETERMINING THE QUALITY OF THE INFORMATION IN THIS REPORT

According to the reporting standards of the GRI (Global Reporting Initiative):

▶ **Balance**

This testimony reflects both the positive and negative aspects of the Company's performance in order to propitiate a well-founded assessment.

▶ **Comparability**

The information contained herein is submitted in a systematic manner in order to enable stakeholders to analyse the evolution of the Company's performance, so that it can be compared with that of other organisations.

▶ **Precision**

This Report is accurate in qualitative and quantitative terms, enabling stakeholders to assess the performance of the organisation.

▶ **Punctuality**

This Report is submitted on the occasion of the convening of Telefónica's Ordinary Meeting of Shareholders, in order to maintain a regular schedule so that stakeholders have all the information at that time and can make well-grounded decisions.

▶ **Clarity**

The information is set out in a comprehensible manner for stakeholders who have reasonable knowledge of the Company and its activities. In addition, the information given by indicators is maintained in series of three years.

▶ **Reliability**

This Report is externally reviewed by EY, as is reflected in the attached independent review report.

In accordance with the AA1000 sustainability assurance standards:

▶ **Inclusiveness**

This refers to the participation of stakeholders in the development and achievement of a responsible and strategic response to sustainability.

▶ **Relevance**

By means of this principle, Telefónica has determined the importance of each issue for its stakeholders.

▶ **Response capacity**

This is Telefónica's reaction to the demands of its stakeholders, reflected in the Company's milestones and challenges in terms of sustainability.

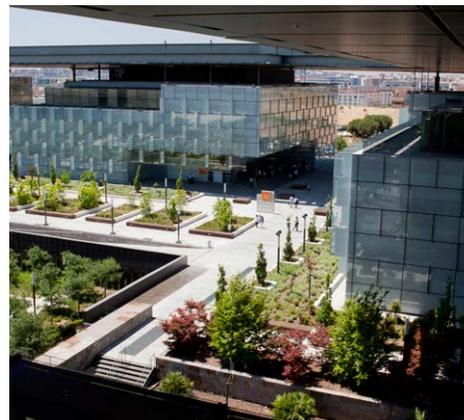
Structure and scope of consolidation of the Report

During 2016 the following variations took place in the scope of consolidation:

- ▶ Since the second quarter of 2016, Telefónica United Kingdom's operations have ceased to be reported as discontinued operations, and its assets and liabilities are no longer classified as "held for sale". They are now reported line by line using the Global Integration Method in accordance with the IFRS for all financial information and is once again included in its totality in non-financial information.
- ▶ On 15 November, Telefónica S.A. sold 100% of the share capital of Televisión Federal, S.A. ("Telefe") to Viacom International Inc, which it indirectly owned.
- ▶ The equity value was 345 million U.S. Dollars (approximately 322 million euros).
- ▶ In February, Telxius was created, a new global company that groups together certain infrastructure assets of the Group, including mobile telecommunications towers and the Group's fibre optic international submarine cable.
- ▶ Following closure, on 20 February 2017, Telefónica signed an agreement to sell up to 40% of the social capital of Telxius, the company created in February of the same

year, to Taurus Bidco S.à.r.l. for 1,275 million euros (12.75 euros per share). Finalisation is subject to the relevant regulatory approvals. In any case, following the transaction, Telefónica will maintain control of Telxius and therefore its results remain wholly incorporated in the financial and non-financial information of this Report.

The complete list of all the companies which comprise the Telefónica Group is published in Annex VI: "Main companies of the Telefónica Group" of the Consolidated Financial Statements accompanying this report, and which can be found on the corporate website.



THE ORIGIN OF THE INFORMATION IN THIS REPORT

Corporate governance and shareholders

Taken from the same sources as those which draw up the information contained in the Annual Report on Corporate Governance 2016, included in full in the annexes.

Economic and financial information

Taken from the same sources as those which draw up the information contained in the Financial Report 2016, audited by EY and included in full in the annexes.

Innovation

Consolidated through the corporate Innovation department, for information on both R&D and open innovation. The sources of the data in these chapters come from the purchasing systems and are consolidated without applying any proportionality criterion.

Customers

Taken from the management control systems of Telefónica S.A. and the operations in the countries. The Company's total number of accesses does not necessarily coincide with their partial total, country by country, given that, with homogenisation criteria, the Corporate Management Control area standardises some accounting criteria for the accesses.

Employees

The figure comes from the management systems of Corporate Human Resources and local management departments. This Report uses the concept of people rather than employees. In cases in which the information is submitted in a consolidated form, the number of people is used as a proportionality factor. The chapter devoted to employees includes the entire economic scope of the Telefónica Group, except for the section on Employee Health and Safety, in which the rates reported are only those of the Group's telecommunications businesses, so that they may be more easily compared with other companies in the sector, as specific circumstances and legislation in the sector are taken into account in their preparation (e.g. listing of occupational diseases), and account for a proportion greater than 86% of the total number of employees.

	Telecommunications businesses	Other companies
Revenue (Millions of euros)	97.5%	2.5%
People	91.4%	8.6%



Environment and climate change

The information comes from the Environment and Operations areas in each country by means of online questionnaires and other computer applications. The data are consolidated by simple addition and, in the case of climate change, take into account the emission factors of the GHG Protocol.

Suppliers

Taken from the contract procurement system through the Purchasing areas. Consolidation of the information is performed without applying any criterion as a proportionality factor and is submitted by country. The chapter devoted to suppliers includes the entire economic scope of the Telefónica Group. It is important to underline the difference between the data on procurements in the consolidated accounts of the financial statements (in accordance with the accrual criterion and the accounting scope of consolidation of the Telefónica Group) and the allocated purchases criterion used in different sections of this Report, which refer to the purchases which are approved within the period, regardless of the accounting criterion and periodification as an expense.

Digital inclusion

The information reaches the systems of the local operators of the countries and the Telefónica Foundation.

Social action

The data come from the management control systems and sponsorship committees of the Telefónica Foundation, ATAM and the Telefónica Group, and are integrated under the LBG criterion.

Exchange rates

All the information in this Report is submitted in current euros, unless otherwise indicated. The exchange rates applied correspond to those used in all the financial statements published by the Company (balance sheet, consolidated and individual income statements) in order to facilitate the overall relationship between financial and non-financial variables.

Telefónica United Kingdom

In 2016, Telefónica United Kingdom's operations ceased to be reported as discontinued operations, and its assets and liabilities no longer classified as "held for sale", and consequently have been reported line by line using the global integration method in accordance with the IFRS, for both 2016 and 2015, and therefore the financial and market information are shown in such a way in this Report. By contrast, the non-financial information has not been reconsolidated in its historical data for the purpose of preserving the sustainability context principle and to be able to reflect the real impact and contribution that Telefónica as a whole had on its social and environmental surroundings in said previous years. Nevertheless, organic growth in some internal variables is also shown, where expressly indicated.

SCOPE OF CONSOLIDATION OF EACH SECTION OF THIS REPORT

	"Core"	Other subsidiaries	Corporate centres	Outside the organisation
Market indicators	▲			
Financial indicators	▲	▲	▲	
Non-financial indicators	▲	▲	▲	▲
Corporate governance			▲	
Impacts on the community	▲	▲	▲	▲
Social and cultural action	▲	▲	▲	▲
Business model	▲	▲	▲	
Stakeholders and Materiality	▲	▲	▲	▲
Reputation management	▲		▲	
Sustainability governance and management	▲	▲	▲	▲
Ethics and compliance	▲	▲	▲	
Supply chain	▲	▲	▲	▲
Customer promise	▲	▲		▲
Digital trust	▲	▲	▲	▲
Human team	▲	▲	▲	
Social innovation (digital inclusion)	▲	▲	▲	▲
Digital education	▲	▲	▲	▲
Innovation	▲	▲	▲	
Environment	▲	▲	▲	▲

Relevant awards and recognitions in 2016

MEXICO

- ▶ “Ethics and Values in the Industry” award for Telefónica from the Confederation of Industrial Chambers of the United States of Mexico (CONCAMIN).
- ▶ Company Quality of Life Award for the Feel Good programme granted by the Mexican Center for Philanthropy (Cemefi), the Social Responsibility Alliance in Mexico (AliARSE) and the Business Forum.
- ▶ ‘Best Consumer Experience’ award in IZO Telecommunications, given to companies with the best practices and highest degree of innovation in customer experience in Ibero-America.

VENEZUELA

- ▶ “Banco Exterior por un Mundo Sin Igual” (Banco Exterior for an Unparalleled World) award for the ‘Movistar goes to University’ programme, for its socially responsible nature.

COLOMBIA

- ▶ LTE Network Quality Innovation award for Movistar.
- ▶ Honoured as one of the 10 companies that most promotes gender equality in the country, by the District Secretariat for Women in Bogotá, the Secretariat for Economic Development, the consultancy firm Aequales and the College of Higher Management Studies (Spanish acronym: CESA).

BRAZIL

- ▶ Telefónica Brazil recognised as one of the best companies in 2015 according to the magazine Consumidor Moderno (Modern Consumer) in a ranking carried out by the Padrão Center for Intelligence (CIP).
- ▶ Vivo named Outstanding Company in 2016 in the ranking of Biggest and Best Companies published in *Exame* magazine, and developed by the Institute of Economic Analyses at the University of São Paulo.
- ▶ First position in five out of six TMT sector awards in the 2016 Latin America Executive Team Ranking from Institutional Investor: CEO of the year, best director of Investor Relations, Best Investor Relations Programme, Best Web Page for Investor Relations and Best Analysts Event.
- ▶ Award for the best deployment of Self-organising Network technology at SON World 2016, for excellence of the Vivo service during the 2016 Summer Olympic Games held in Rio de Janeiro.

GERMANY

- ▶ TÜV Saarland certification for the elevated data protection on the Telefónica platform.
- ▶ Second place in the GERMAN GENDER INDEX.

SPAIN

- ▶ Movistar, leader in customer service and technical assistance in the Telco sector, according to the Adeces Consumer Association.
- ▶ Best company in the field of Digital Transformation in the Telecommunications and Network Transformation categories of the “Computing Awards in the Digital Era Awards”.
- ▶ ONCE 2016 Solidarity Award for implementing the Movistar+ 5S integrated accessibility platform.
- ▶ Expansion Award for the Telefónica Talentum LAB program in the IoT category.
- ▶ Gold Medal for the Movistar + Eurofighters production at the New York Television and Film Festival.
- ▶ Best EnerTIC 2016 Project for the Valencia Smart City Platform (VLCi) implemented by Telefónica, with three additional recognitions in the Smart Cities, Smart eGovernment and Smart Sustainability categories.
- ▶ Iris Critics Award from the Television Academy for the Movistar + programme #0.

CENTRAL AMERICA

- ▶ TopBrands Nicaragua recognised Movistar as one of the country’s leading brands for reliability, innovation and closeness.
- ▶ Best marks in mobile internet and telephony in Costa Rica according to the Superintendency of Telecommunications (Sutel).

PERU

- ▶ Best employer in the telecommunications sector, by Marca Empleadora 2016.

CHILE

- ▶ Telefónica Chile chosen as the second best company for young people by Best FirstJob Employers.

EXTERNAL RATINGS FROM SUSTAINABILITY ANALYSTS AND INDICES

MSCI Rating A

Dow Jones Sustainability Indexes Member of the World and Europe Index

FTSE4Good Member

CDP The top worldwide A list

Rank 8

Excellence Register

Member

71 points

Prime C+

6th Telco out of 112 companies

Euronext 120

Glomo Award 2016

Bronze 83 points

GLOBAL

- ▶ GSMA award at the Global Mobile Awards for our Energy Efficiency programme in the Green Mobile category.
- ▶ OpenStack, “Business Transformation” award from “Red Hat Open Innovation Club” for the paradigm change in telecommunications networks by means of NFV technology development.
- ▶ “Architectural Collaboration of the Year” award from Cisco’s Partner Summit Awards, as best technological partner.
- ▶ Telefónica Open Future, granted fourth position in the Berlin Startup Europe Partnership organised by the Nesta Foundation.
- ▶ Second highest score (9 points) in Ibx-35 Fiscal Transparency awarded by the Transparency and Commitment Foundation.



Tables of GRI compliance

GRI G4 Content Index

For “in accordance” - Comprehensive

GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance
Strategy and Analysis			
G4-1	3		Statement from the most senior decision-maker of the organisation.
G4-2	58 and 76		Description of key impacts, risks, and opportunities.
Organisational Profile			
G4-3	7		Name of the organisation.
G4-4	7		Primary brands, products, and services.
G4-5	7		Location of the organisation’s headquarters.
G4-6	9		Countries where the organisation operates.
G4-7	7		Nature of ownership and legal form.
G4-8	9		Markets served.
G4-9	7		Scale of the organisation.
G4-10	117		Total number of employees by employment contract, region and gender.



GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance
G4-11	117		Percentage of total employees covered by collective bargaining agreements.
G4-12	63, 64, 65, 66, 67, 68, 69, 70, 71, 72 and 73		Organisation's supply chain.
G4-13	182		Significant changes during the reporting period.
Commitments to External Initiatives			
G4-14	157		Precautionary approach or principle addressed by the organisation.
G4-15	180, 181		Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.
G4-16	52 and 53		Memberships of associations.
Identified Material Aspects and Boundaries			
G4-17	ICA: 286, 287, 288 and 289		Entities included in the organisation's consolidated financial statements or equivalent documents.
G4-18	183		Process for defining the report content and the Aspect Boundaries.
G4-19	54		Material Aspects identified in the process for defining report content.
G4-20	183		Aspect Boundary within the organisation.
G4-21	183		Aspect Boundary outside the organisation.
G4-22	182 and 183		Restatements of information provided in previous reports.
G4-23	182 and 183		Significant changes from previous reporting periods in the Scope and Aspect Boundaries.
Stakeholder Engagement			
G4-24	47 and 48		List of stakeholder groups engaged by the organisation.
G4-25	43, 44, 45, 46, 47 and 48		Basis for identification and selection of stakeholders with whom to engage.
G4-26	43, 44, 45, 46, 47 and 48		Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group.
G4-27	44 and 45		Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded.



GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance
Report Profile			
G4-28	7		Reporting period.
G4-29	7		Date of most recent previous report.
G4-30	7		Reporting cycle.
G4-31	181		Contact point for questions regarding the report or its contents.
G4-32	180		'In accordance' option, GRI Content Index, reference to the External Assurance Report.
G4-33	180 and 181		Organisation's policy and current practice with regard to seeking external assurance for the report.
Governance			
G4-34	IAGC: 13, 29, 30, 31 and 32		Governance structure of the organisation.
G4-35	42		Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.
G4-36	42		Whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.
G4-37	42		Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics.
G4-38	28		Composition of the highest governance body and its committees.
G4-39	27		Whether the Chair of the highest governance body is also an executive officer.
G4-40	IAGC: 17		The nomination and selection processes for the highest governance body and its committees.
G4-41	IAGC: 36		Processes for the highest governance body to ensure conflicts of interest are avoided and managed.
G4-42	42		The highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.
G4-43	IAGC: 26		Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.
G4-44	IAGC: 22 and 23		Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics.
G4-45	IAGC: 31 and 32		Highest governance body's role in the identification and management of economic, environmental and social impacts, risks and opportunities.



GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance
G4-46	IAGC: 31 and 32		Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.
G4-47	42		Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.
G4-48	3		Highest committee or position that formally reviews and approves the organisation's sustainability report.
G4-49	42		Process for communicating critical concerns to the highest governance body.
G4-50	44		Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.
G4-51	IAGC: 90, 91, 92, 93, 94, 95, 96, 97, 98, 99 and 100		Remuneration policies for the highest governance body and senior executives.
G4-52	IAGC: 91		Process for determining remuneration.
G4-53	IAGC: 91		How stakeholders' views are sought and taken into account regarding remuneration.
G4-54	IAGC: 111 ICA: 172	On the referenced pages you can find the information which allows calculation of this ratio.	Ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees.
G4-55	IAGC: 111 ICA: 172	On the referenced pages you can find the information which allows calculation of this ratio.	Ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees.
Ethics and Integrity			
G4-56	60		Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.
G4-57	62		Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity.
G4-58	61		Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
CATEGORY: ECONOMIC			
Indirect Economic Impacts			
G4-DMA	19 and 20		Disclosures on management focus.
G4-EC7	22		Development and impact of infrastructure investments and services supported.
G4-EC8	19 and 20		Significant indirect economic impacts, including the extent of impacts.
Procurement Practices			
G4-DMA	63 and 64		Disclosures on management focus.
G4-EC9	9		Proportion of spending on local suppliers at significant locations of operation.
CATEGORY: ENVIRONMENTAL			
Energy			
G4-DMA	153, 157 and 165		Disclosures on management focus.
G4-EN3	167, 169 and 171		Energy consumption within the organisation.
G4-EN4	159 and 168		Energy consumption outside of the organisation.
G4-EN5	167, 169 and 171		Energy intensity.
G4-EN6	170 and 171		Reduction of energy consumption.
G4-EN7	175, 176 and 177		Reductions in energy requirements of products and services.
Emissions			
G4-DMA	154, 165 and 166		Disclosures on management focus.
G4-EN15	168 and 171		Direct greenhouse gas (GHG) emissions (Scope 1).
G4-EN16	168 and 171		Energy indirect greenhouse gas (GHG) emissions (Scope 2).
G4-EN17	168 and 171		Other indirect greenhouse gas (GHG) emissions (Scope 3).
G4-EN18	168 and 169		Greenhouse gas (GHG) emissions intensity.
G4-EN19	169 and 170		Reduction of greenhouse gas (GHG) emissions.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
G4-EN20		Still in the process of acquiring the data.	Emissions of ozone-depleting substances (ODS).
G4-EN21		Not relevant. Emissions of these pollutants are not significant to our business.	NO _x , SO _x , and other significant air emissions.
Effluents and waste			
G4-DMA	153 and 159		Disclosures on management focus.
G4-EN22		Pouring water in Telefónica is just a sanitary issue and is poured into municipal sanitation systems.	Total water discharge by quality and destination.
G4-EN23	163		Total weight of waste by type and disposal method.
G4-EN24		There have been no significant spills.	Total number and volume of significant spills.
G4-EN25	163		Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
G4-EN26		Pouring water in Telefónica is just a sanitary issue and is poured into municipal sanitation systems.	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff.
Products and Services			
G4-DMA	175		Disclosures on management focus.
G4-EN27	159 and 176		Extent of impact mitigation of environmental impacts of products and services.
G4-EN28	163 and 164		Percentage of products sold and their packaging materials that are reclaimed by category.
CATEGORY: SOCIAL			
SUBCATEGORY: LABOUR PRACTICES AND DECENT WORK			
Occupational Health and Safety			
G4-DMA	130		Disclosures on management focus.
G4-LA5	131		Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.
G4-LA6	131		Type of injury and rates of injury, occupational diseases, lost days, and absenteeism and total number of work-related fatalities, by region and by gender.
G4-LA7	131		Workers with high incidence or high risk of diseases related to their occupation.
G4-LA8	131		Health and safety topics covered in formal agreements with trade unions.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
Training and Education			
G4-DMA	118		Disclosures on management focus.
G4-LA9	119	Breakdown by gender is not available. We are adapting our information systems to be able provide these figures shortly.	Average hours of training per year per employee by gender, and by employee category.
G4-LA10	118 and 119		Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
G4-LA11		Breakdown is available by hour, but not by employee, due to possible duplication of information. We are adapting our information systems to be able provide these figures shortly.	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.
Diversity and Equal Opportunity			
G4-DMA	121		Disclosures on management focus.
G4-LA12	117 and 123		Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity.
Equal Remuneration for Women and Men			
G4-DMA	126		Disclosures on management focus.
G4-LA13	127		Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.
Supplier Assessment for Labour Practices			
G4-DMA	63 and 64		Disclosures on management focus.
G4-LA14	63		Percentage of new suppliers that were screened using labour practices criteria.
G4-LA15	70		Significant actual and potential negative impacts for labour practices in the supply chain and actions taken.
SUBCATEGORY: HUMAN RIGHTS			
Investment			
G4-DMA	133		Disclosures on management approach.
G4-HR1	68		Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.
G4-HR2	60		Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.

**SPECIFIC STANDARD DISCLOSURES**

Management focus and indicator	Page	Omissions	External Assurance
Non-Discrimination			
G4-DMA	133		Disclosures on management focus.
G4-HR3	16		Total number of incidents of discrimination and corrective actions taken.
Freedom of Association and Collective Bargaining			
G4-DMA	126		Disclosures on management focus.
G4-HR4	66		Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.
Forced or Compulsory Labour			
G4-DMA	133 and 134		Disclosures on management focus.
G4-HR6	66		Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.
Supplier Human Rights Assessment			
G4-DMA	133 and 134		Disclosures on management focus.
G4-HR10	69		Percentage of new suppliers that were screened using human rights criteria.
G4-HR11	134		Significant actual and potential negative human rights impacts in the supply chain and actions taken.
SUBCATEGORY: SOCIETY			
Anti-Corruption			
G4-DMA	60		Disclosures on management focus.
G4-S03	62		Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.
G4-S04	60		Communication and training on anti-corruption policies and procedures.
G4-S05	62		Confirmed incidents of corruption and actions taken.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
Supplier Assessment for Impacts on Society			
G4-DMA	63 and 64		Disclosures on management focus.
G4-S09	69	Percentages are not available; only total amounts are given.	Percentage of new suppliers that were screened using criteria for impacts on society.
G4-S10	70		Significant actual and potential negative impacts on society in the supply chain and actions taken.
SUBCATEGORY: PRODUCT RESPONSIBILITY			
Customer Health and Safety			
G4-DMA	172		Disclosures on management focus.
G4-PR1	173		Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.
G4-PR2	173		Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcome.
Customer Privacy			
G4-DMA	100		Disclosures on management focus.
G4-PR8	104		Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.



OTHER NON MATERIAL SPECIFIC STANDARD DISCLOSURES REPORTED

Management focus and indicator	Page	Omissions	External Assurance
CATEGORY: ECONOMIC			
Market presence			
G4-EC5	127		Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
CATEGORY: ENVIRONMENTAL			
Materials			
G4-EN1	163		Materials used by weight or volume.
G4-EN2	163		Percentage of materials used that are recycled input materials.
Water			
G4-EN8	161		Total water withdrawal by source.
Supplier Environmental Assessment			
G4-EN32	70		Percentage of new suppliers that were screened using environmental criteria.
G4-EN33	70		Significant actual and potential negative environmental impacts in the supply chain and actions taken.
CATEGORY: SOCIAL			
SUBCATEGORY: LABOR PRACTICES AND DECENT WORK			
Labor Practices Grievance Mechanisms			
G4-LA16	62		Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms.
Child Labor			
G4-HR5	66		Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.
Product responsibility			
G4-PR5	95		Results of surveys measuring customer satisfaction.
ICA	Financial Report.		
IAGC	Annual Report on Corporate Governance.		
20F	Form 20-F de la SEC.		
IAR	Annual Compensation Report.		
PDA	Business Principles.		



Commitment to the United Nations Global Compact



Network Spain
WE SUPPORT

CHAPTERS

			CHAPTERS
Human Rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed Human Rights.	Human Rights
	Principle 2	Businesses should make sure that they are not complicit in Human Rights abuses.	Human Rights
	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Freedom of association, social dialogue and fair compensation
Labour	Principle 4	Businesses should support the elimination of all forms of forced and compulsory labour.	Managing the supply chain
	Principle 5	Businesses should support the eradication of child labour.	Managing the supply chain
	Principle 6	Businesses should support the elimination of discrimination in respect of employment and occupation.	Managing diversity

CHAPTERS

			CHAPTERS
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges.	Commitment to the environment
	Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.	Commitment to the environment
	Principle 9	Businesses should encourage the development and diffusion of environment friendly technologies.	EcoSmart services
Anti-Corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	Business ethics and compliance

FURTHER INFORMATION



Visit the United Nations Global Compact website.



Commitment to the United Nations Global Compact

• Economic impacts		• Digital trust							
• Environmental impact			• Staff evolution						
• Impacts of the Network		• Talent and diversity management							
• Ethics and compliance				• Freedom of association, social dialogue and fair compensation					
• Managing our interest groups and reputation		• Derechos Humanos							
• Supply chain management				• Digital inclusion					
• Network Deployment		• Social and cultural action							
• Digital transformation				• Growth in a green economy					
• Innovation									

External validation



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INDEPENDENT REVIEW REPORT ON TELEFÓNICA S.A.'S 2016 INTEGRATED REPORT

To the Regulation and Institutional Affairs of Telefónica, S.A.

Scope of work

We have reviewed the contents of Telefonica, S.A.'s 2016 Integrated Report (the Report) which was prepared in accordance with

- The Global Reporting Initiative (GRI) Preparation Guide 4 (G4).
- The principles stated in the AA1000 Assurance Standard Guide issued by AccountAbility (Institute of Social and Ethical Accountability).

The scope determined by Telefónica for the preparation of this report is defined in the section "Structure and scope of consolidation of the Report" of the accompanying Report

The preparation of the accompanying Report, as well as the information contained therein, is the responsibility of the Institutional Affairs Committee of Telefónica, S.A. They are also responsible for defining, adapting, and maintaining the management and internal control systems from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

Criteria

Our review was carried out based on:

- Standard ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), with a limited scope of assurance.
- AA1000 AccountAbility Assurance Standard 2008, with a moderate level of type 2 assurance.
- The Guidelines for reviewing Corporate Responsibility Reports, issued by the Official Register of Auditors of Accounts (ICJCE).

Applied procedures

Our review consisted in requesting information from Telefonica S.A.'s Corporate Ethics and Sustainability Global Direction and the management of business areas participating in the preparation of the Report, and applying certain analytical procedures and sampling review tests as described in general terms below:

- Interviews with the persons in charge of Telefónica S.A.'s Corporate Ethics and Sustainability Global Direction and a selection of managers and key management personnel involved in the Report's preparation. The purpose of these was to obtain awareness of the opinion of Corporate Sustainability objectives and policies, as well as how they are put into practice and integrated into Telefónica's strategy.
- Review of the principal processes and systems through which Telefónica establishes its commitments with stakeholders, along with the relevance and integrity of the information included in the Report.
- Analysis of the adaptation of the structure and content of the Report as indicated in G4 Global Reporting Initiative (GRI).
- Checks, on a sample basis, of the quantitative information included the Report, as well as its adequate compilation from data supplied by information sources. The review tests have been defined to provide assurance levels in line with the criteria described in this report. The review was carried out based on Telefónica's operations in Spain, Brazil, Argentina, Germany, Chile and Colombia.

This review is considerably less in scope than a reasonable assurance report. Therefore, the degree of assurance is also less extensive. This report should in no case be considered an audit report.

These procedures were performed on the information contained in the accompanying Report and GRI tables with the perimeter and scope indicated above

Independence and quality control

We have complied with the requirements of independence and other requirements of ethics the code of ethics for professionals of accounting issued by the International Ethics Standards Board for Accountants (IESBA).

Our firm applies the standard International Quality Control Standard 1 (NICC 1) and therefore maintains a global system of quality control that includes policies and procedures documented compliance with requirements of ethics, professional standards and legal and regulatory provisions applicable.

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INDEPENDENT REVIEW REPORT ON TELEFÓNICA S.A.'S 2016 INTEGRATED REPORT

Conclusions

As a result of our review of the Telefonica S.A.'s 2016 integrated report, and the scope indicated in "Applied procedures" above, we conclude that:

- No matter came to our attention that would indicate that the Report had not been prepared according to the Guidelines included in the Global Reporting Initiative (GRI) Preparation Guide for Sustainability Reports.
- No se ha puesto de manifiesto ningún aspecto que nos haga creer que el Informe no haya sido preparado de acuerdo con los principios recogidos en la Norma AA1000 APS (2008) emitida por AccountAbility, entendidos como:
- No matter came to our attention that would lead us to believe that the Report has not been prepared in accordance with the principles established in standard AA1000 APS (2008), such as:
 - Inclusiveness:** The mechanisms are in place to identify stakeholders, as well as to gain an awareness and understanding of their expectations, as explained in the "Managing our stakeholders and reputation" section of the accompanying Report.
 - Relevance:** Relevance is analyzed and a survey conducted to select the most significant matters to be included in the Report, as described in its "Managing our stakeholders and reputation" section.
 - Responsiveness:** Telefonica has the mechanisms to design, develop, evaluate and communicate the responses necessary to meet the principal expectations of stakeholders, which are reflected in the "Managing our stakeholders and reputation" section and included in the various sections of the accompanying Report.

Recommendations

We also presented to the Regulation and Institutional Affairs of Telefonica, S.A. our recommendations regarding areas of improvement related to the application of standard AA1000 APS (2008), as well as to actions taken with main stakeholders. The most significant recommendations are summarized below:

a) Inclusiveness

Telefonica takes into account the opinion of its stakeholders to select the most relevant issues that guide its sustainability strategy. Interaction with stakeholders is carried out periodically through the Sustainability Advisory Panel. Our recommendation is to reinforce the consideration and contribution of value of the "Clients" stakeholder on Telefonica's sustainability strategy.

b) Relevance:

Telefonica conducts a materiality assessment at the corporate and local levels and includes the results of the study in the Report. In 2016, this process has been reinforced by regular consultations with stakeholders. We recommend that stakeholders be regularly consulted to reinforce the inclusion of relevant factors in their sustainability strategy.

c) Responsiveness:

Telefonica has different communication channels for each stakeholder. Our recommendation is to take advantage of periodic stakeholder consultations to assess the effectiveness of communication channels and their influence on the company's responsiveness in order to improve corporate communication.

In addition, we present below a series of recommendations on the actions related to the different dimensions included in the Report:

1) Economic dimension:

Telefonica has reviewed the minimum criteria on responsible business demanded from its suppliers. Our recommendation is to continue to strengthen the different control mechanisms to ensure the compliance of Human Rights by its suppliers, especially on aspects related to the privacy and protection of clients' data.

2) Environmental dimension:

In 2016, Telefonica has published a more detailed report on its environmental performance. It is recommended to continue working on improving the definitions of environmental indicators and increasing the reporting frequency of certain indicators to improve their management.

3) Social dimension:

Telefonica, through the constitution of the Global Diversity Council, manages diversity as a source of added value, promoting initiatives aimed at consolidating diversity as a key factor for digital transformation. Our recommendation is to improve the quality and homogeneity of the information to be reported in the different countries in which it operates.

This report has been prepared solely for the attention of the Regulation and Institutional Affairs of Telefonica, S.A., in accordance with the terms set out in our engagement letter.

ERNST & YOUNG, S.L.



(signed in the original issued in Spanish language)

(Free translation from the Original Report on Independent Review in Spanish dated May 12th 2017. In case of any discrepancy, the Spanish version always prevails)

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AENOR

Verification Statement of AENOR for Telefónica on the Inventory of greenhouse gas emissions corresponding to the year 2016

DOSSIER: 2009/1133/HCO/01

Introduction

Telefónica (hereinafter the company) commissioned AENOR to make a limited revision of the inventory of greenhouse gases (GHG) of its activities included in the GHG report of 2016, which is part of this Declaration.

AENOR is accredited by Entidad Mexicana de Acreditación (OVVGEI 004/14) (issue date: 31/10/2014; expiry date: 31/10/2018), according to ISO 14065:2007, to conduct GHG verifications according to ISO 14064-3:2006 in the Energy Sector.

Inventory of GHG emissions issued by the Organisation: Telefónica, C/ Ronda de la Comunicación, Distrito Telefónica, Madrid (Spain).

Representatives of the Organisation: Maya Ormazábal Herrera/Ana Belén Pociña Hijosa, Climate Change and Energy Efficiency Office

Telefónica was responsible for reporting its GHG emissions considered in accordance with the reference standard ISO 14064-1:2006.

Objective

The objective of the verification is to provide the interested parties with an independent and professional opinion on the information and data contained in the above mentioned GHG Report issued by Telefónica.

Scope of the Verification

The GHGs, considered emissions sources as well as the organizational boundaries from the activities of Telefónica included in the GHG inventory are described below.

The GHG inventory of the organization includes the following GHGs: CO₂, CH₄, N₂O and HFCs.

Direct, indirect activities and exclusions from the verification.

- Scope 1- Direct GHG emissions
- Scope 2 – Energy indirect GHG emissions
- Scope 3- Other indirect emissions:



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- o Purchased goods and services
- o Capital goods
- o Fuel- and energy-related activities (not included in scope 1 or scope 2)
- o Waste generated in operations
- o Business travel
- o Use of sold products
- o Investments

General Exclusions

The following ghg emissions sources have been excluded:

- Emissions from purchases of works and services and Marketing within the category of "Purchased goods and services".
- Emissions from the use of mobile phones within the category of "use of sold products".

The exclusions are justified based upon the criteria of emissions which are not technically feasible or profitable due to robust data are not available or the organization has not the ability to manage those emissions.

During the verification the information was analysed according to operational control approach. Under this approach the geographic scope is established in the following countries where Telefónica Group operates:

Organizational and geographic boundaries		
Europe	Latin America	Telxius
Spain	Argentina (Fixed and Mobile network)	
Fixed and Mobile Network	Brazil (Fixed and Mobile network)	
Distrito Telefónica	Chile (Fixed and Mobile network)	
Telefónica Soluciones	Colombia (Fixed and Mobile network)	
Telxius	Ecuador (Mobile Network)	
Germany (Fixed and Mobile network)	El Salvador (Mobile Network)	
United Kingdom (Fixed and Mobile network)	Guatemala (Mobile Network)	
	Mexico (Mobile Network)	
	Nicaragua (Mobile Network)	
	Panama (Mobile Network)	



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	Peru (Fixed and Mobile network)	
	Costa Rica (Mobile network)	
	Uruguay (Mobile Network)	
	Venezuela (Mobile Network)	

Base year

Telefónica has selected 2015 as the base year.

Materiality

For the verification it was agreed to consider as material discrepancies those omissions, distortions or errors that could be quantified and result in a difference of more than 5% with respect to the total of emissions declared.

Criteria

The criteria and information that have been taken into consideration to carry out the verification were the following:

- 1) Standard ISO 14064-1:2006: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals.
- 2) Standard ISO 14064-3:2006: Specification with guidance for the validation and verification of greenhouse gas assertions.
- 3) Referencial ITU-T L.1420 (02/2012) *Methodology for energy consumption and greenhouse gas emissions impact assessment of information and communication technologies in organizations*
- 4) GHG Protocol A Corporate Accounting and Reporting Standard. Rev 01.

AENOR waives any responsibility for decisions, regarding investment or of any other type, based on this declaration.

Conclusion**As a conclusion and according to the limited level of assurance agreed, AENOR states:**

Based on the above, in our opinion *there is no evidence to suggest that the information on emissions reported in the Greenhouse Gases Report of Telefónica for period 2016, dated March 31st, 2017 is not a true reflection of the emissions from its activities.*

In consequence with this Declaration below is a list of the emissions data that were finally verified.



AENOR

Year: 2016	t CO ₂ e
Scope 1: Direct GHG emissions	291.770
Scope 2: Energy indirect GHG emissions (Location-Based Method)	1.855.167
Scope 2: Energy indirect GHG emissions (Market-Based Method)	1.080.374
Scope 3: Other indirect emissions	1.019.875
o Purchased goods and services	269.458
o Capital goods	117.754
o Fuel- and energy-related activities (not included in scope 1 or scope 2)	144.901
o Waste generated in operations	619
o Business travel	33.127
o Use of sold products	63.932
o Investments	390.085
Emissions from biofuels	11.648

Lead Verifier: Raúl BLANCO BAZACO
Madrid, April 26th, 2017

Environment Manager: José MAGRO GONZÁLEZ