

# **Telefónica SDG Framework**

January 2021

## Introduction

Telefónica is one of the largest telecommunications and digital services Group in the world in terms of number of customers. Telefonica Group (hereinafter, also referred to as „Telefónica“) offers connectivity, digital services and technological solutions to help companies and individuals with their own digital transformations. Headquartered in Madrid, Telefónica’s customer base exceeds 320 million accesses and is distributed between Spain, the United Kingdom, Germany and Latin America. Telefónica operates in 14 countries and generates 75% of its business outside of Spain.

Telefonica is committed to offering its customers the connectivity and digital services they need to enhance their lives and their businesses. Doing this in a responsible way and offering digital solutions which contribute to making the world a better place to live, are a strategic part of this business model.

Working in a sustainable way and helping our customers do the same makes the company more resilient and efficient, and ensures our products and services are not only contributing to the sustainable development of our society, but also help to tackle some of the most important challenges society is facing today.

Through its Responsible Business Principles, Telefonica constitutes its code of ethics reflecting the company’s commitment to ethics and compliance, as well as to three values on which it bases all actions: Integrity, Commitment, Transparency

Telecommunications and connectivity are essential services and a transversal pillar to tackle the Sustainable Development Goals (SDGs) according to United Nations. All in all, Telefonica has developed a core strategy that is coherent with its mission, “To make our world more human by connecting lives” and its Responsible Business Principles, focusing on the role as a key enabler to a responsible, inclusive and sustainable digitalization, to redouble its contribution to the SDGs Goals. Telefonica’s strategy is based upon 3 main pillars:

- 1) **Help society thrive, favoring economic and social progress through digitalization**, leveraging our key role as connectivity provider:
  - Providing faster and higher quality Internet access to people and businesses
  - Promoting the digitalization of small and medium-sized enterprises and enabling digital transformation
  - Contributing to the empowerment of people to be able to meet the challenges and opportunities of the technological revolution, supporting education initiatives and training for new digital competences.
  
- 2) **Build a greener future**, promoting a 'green world' through digitization, which stresses our role as builders of more efficient, greener networks:
  - Deploying the most efficient telecommunication networks (fiber and 5G) powered by 100% renewable energy.
  - Becoming a leading provider of solutions that help our customers reduce their CO2 emissions.
  - Promoting the circular economy in the use of electronic devices through eco-design, reuse and recycling.

- 3) Go beyond responsibility, **leading by example** and building trust for all our stakeholders:
- Becoming a leading inclusive employer to drive equality and equity among our employees
  - Building digital trust, safeguarding data security and privacy of our customers.
  - Promoting sustainability in our supply chain expanding the positive impact to other players along our value chain.
  - Ensuring the trust of customers and society by building it through clarity, transparency, reliability and consistency in our day-to-day operations.

Since inequalities are the biggest challenge we are confronting, we should ensure that most of the population has access to technology and the opportunities the new digital world brings. Broadband and digital services are connecting society, which means anyone with access to the internet has increased access to information, educational content, employment opportunities, business development opportunities and even financial or medical services. Digital inclusion and the opportunity to thrive through digital is all about having access to quality connectivity and having the skills to take advantage of digital tools. In addition, in a business environment, SMEs need access to fibre optic infrastructure, cloud connectivity and other digital services in order to survive and compete in the digital world, and many employees need to learn new skills so as not to be left behind in the digital transformation.

That is why Telefonica is actively addressing the needs of those who have been left out of the digital world, deploying networks in uncovered or underserved areas. In most developed and developing markets basic connectivity is almost universally available, although significant coverage gaps and insufficient quality service remain, mainly in rural areas.

Moreover, Telefónica has been promoting the development of technological-digital entrepreneurship and talent in countries where we are present in order to make local ecosystems thrive and incorporate innovation into our organization. Open Future, Wayra and Telefonica Venture Capitals programs have been our key pillars in financing innovation and fostering entrepreneurship. As a result, hundreds of new startups have flourished bringing new economic possibilities and employment avoiding the delocalization of entrepreneurship and the migration of young entrepreneurs to other more prosperous regions. The socio-economic development coming out from the creation of new businesses through entrepreneurship programs generates a positive impact through increased productivity, improved employment and development of technology and innovation in the communities where these new businesses are based.

In addition, to its own business activity, Telefonica annually donates funds to the Telefonica Foundation, the mission of which is to improve people's development opportunities through educational, social and cultural projects adapted to the challenges of the digital world. We are addressing the transformation of labour markets. Professions that did not exist few years ago are being created and other will disappear by automation. This requires investing in new skills and upskilling and reskilling the workforce to meet the needs of the digital transformation. To better describe the situation, in several markets, such as Spain or Brazil, unemployment is a strategic national issue. By the end of 2020, the unemployment rate in Spain was above 16%, and unemployment among young people (under 25) raises up to 40%. In Brazil, the unemployment rate at the end 2020 raised up to 14%, and youth unemployment rate was over 25%.

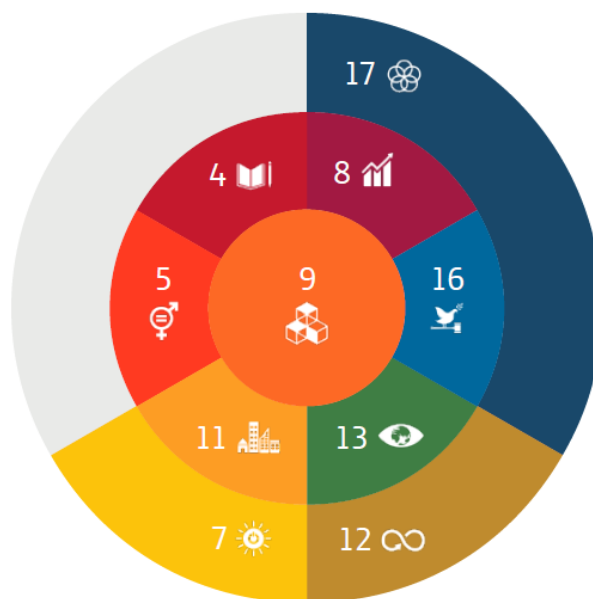
Regarding climate change, Telefónica is reducing its impact by decarbonising its operations and committing to decouple its business growth from greenhouse gas emissions. The company's objective is to align its efforts with the level of decarbonisation required to limit global warming to 1.5°C and its targets have been validated by the Science Based Targets Initiative (<https://sciencebasedtargets.org/>). As a result, Telefónica will reduce its greenhouse gas emissions by 70% by 2025, 90% in the 4 main

markets (Spain, Brazil, UK, Germany), achieving net-zero emissions by 2040 <sup>1</sup>at the latest, including its value chain. These targets will contribute to the Paris Agreement and EU emissions reductions targets, which have been recently updated to at least -55% compared to 1990.

Demand for data traffic is predicted to increase exponentially, which means our network is expected to grow. In order to reach its environmental goals, we are engaged in an ambitious transformation plan aimed at innovating our networks to reduce their energy consumption per data unit (optic fiber and 5G are significantly more efficient than previous technologies) and implement energy efficiency projects that will help keep our energy needs as low as possible. Simultaneously, Telefonica has committed to ensuring its electricity consumption is 100% renewable by 2030, already renewable in its 4 main markets. In that way the company is rolling out an ambitious renewable energy plan which will help not only to reduce our carbon footprint but also contribute to the increase the renewable matrix in the countries where we operate.

In addition, Telefonica helps its customers reducing their carbon and environmental footprints, by offering them digital services which allow for more efficient resource consumption („EcoSmart“ services, for different sector energy, cities, agriculture, logistics, industry, etc.) and the monitoring and mitigation of environmental impacts (waste management, monitoring of pollution, etc.).

Given the nature of our business, we have identified Goal 9 (industry, innovation and infrastructure) as the Goal we provide most value to. However, we have also identified impacts of our activity on the other 16 Goals - in particular those related to economic growth, the environment, education, the development of sustainable societies, diversity and gender equality.



Telefonica has decided to consider issuing green, social and or sustainable bonds as a natural integration of sustainability in all company practices, and financial strategy is key to foster a sustainable society. By linking its financing to business-relevant projects and the sustainability targets and/or kpi's by which they are evaluated, the company is going a step further in integrating its sustainability strategy into its business strategy.

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<sup>1</sup> 2025 in the 4 main markets (scope 1+2)

As part of this continued commitment to sustainability, Telefónica created in 2018 its SDG Framework, which is now reviewing, and that is in accordance with the Green Bond Principles 2018 and the EU Green Bond Standard, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018<sup>2</sup>, and under which Telefónica can issue Green, Social, or Sustainability Bond(s). It is our intention to follow best practices in the market as the standards evolve.

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<sup>2</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

## 1. Use of Proceeds

Under this Framework, Telefónica can issue three types of bonds (the “Bonds”):

1. Green Bonds – for which the funds raised are exclusively allocated to Green Projects Categories;
2. Social Bonds – for which the funds raised are exclusively allocated to Social Projects Categories; and
3. Sustainability Bonds – whereby the funds raised are allocated to Green Projects Categories and to Social Projects Categories.

The Use of Proceeds of any Telefónica Green, Social, or Sustainability Bond under this Framework will be subject to the following eligibility criteria, to be applied to new or existing projects<sup>3</sup>. This list may be further updated as technologies and other circumstances evolve.

Eligibility Criteria for **Green Bond**:

Project Category	Eligibility Criteria	Sustainability objective	Taxonomy alignment <sup>4</sup>
Energy Efficiency of Telefonica’s Network Infrastructure	<p>Network deployment transformation (both mobile and fixed) with a view to base connectivity on the latest technologies, making networks more energy-efficient, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Modernisation of broadband networks, both fixed and mobile (5G deployment). Optic Fiber deployment, with the aim of transforming wireline legacy copper networks into latest generation fiber networks.</li> <li>• Improvement of supporting infrastructure with a view to making it more efficient (including but not limited to: free cooling systems, cooling optimization, power modernization, smart management, intelligent lighting or optimization of power storage). This also includes digital process transformation, like automatization of maintenance processes.</li> </ul>	<p>SDG 7.3: By 2030, <b>double the global rate of improvement in energy efficiency.</b></p> <p>SDG 9.4: By 2030, <b>upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies</b> and industrial processes, with all countries taking action in accordance with their respective capabilities.</p> <p>Telefonica commits to reducing its energy consumption per unit of data traffic 90% by 2025.</p> <p>Telefónica also commits to reaching net-zero emissions by 2040, including all its operations worldwide and value chain, 2025 for 4 main markets (scopes 1+2).</p>	Not covered yet for our sector.

<sup>3</sup> Existing assets refer to assets financed up to 24 months before the issuance of any Telefónica Green, Social or Sustainability Bond

<sup>4</sup> Draft delegated act, november 2021, Annex I technical criteria.

Project Category	Eligibility Criteria	Sustainability objective	Taxonomy alignment <sup>4</sup>
	<ul style="list-style-type: none"> <li>Software aimed at reducing power consumption, such as, but not limited to, power saving features, servers virtualisation, remote and data management applications, machine learning and artificial intelligence applications.</li> </ul>	<p>As part of this commitment, GHG emissions will be reduced 70% by 2025, 90% in the 4 main markets, complying with 1.5°C scenario of the Paris Agreement.</p> <p>Between 2015 and 2019 energy consumption per data traffic (MWh/petabyte) has decreased 72% and GHG emissions (tCO<sub>2</sub>) by 50%</p>	
Renewable Energy	<p>Implementation of Telefonica's renewable energy plan:</p> <ul style="list-style-type: none"> <li>Self-generation of electricity from renewable sources such as solar, wind, mini-hydro and geothermal. (excluding large hydro over 25MW and geothermal with life cycle GHG emissions &gt; 100 gCO<sub>2</sub>/kWh).</li> </ul>	<p>SDG 7.2: By 2030, <b>increase substantially the share of renewable energy</b> in the global energy mix.</p> <p>SDG 8.4: <b>Improve progressively, through 2030, global resource efficiency in consumption and production</b> and endeavour to decouple economic growth from environmental degradation</p> <p>Telefonica commits to renewable energy sources for its business: 100% renewable electricity consumption by 2030. By 2019, it already consumes 100% RE electricity in its operations in Spain, UK, Germany and Brazil, and 82% globally.</p>	<p>Project category <b>fully aligned</b> with EU Taxonomy: Climate change mitigation</p> <p>4.1 Electricity generation from solar PV</p> <p>4.3 Electricity generation from wind power</p> <p>4.5. Electricity generation from hydropower</p> <p>4.6 Electricity generation from geothermal</p>
Energy Efficiency/resources: Digital Solutions for the Environment	<p>Development and implementation of digital products and services, based on Internet of Things (IoT), Big data or Artificial Intelligence (AI), which aims at saving energy or natural resources.</p> <p>Including, but not limited to, hardware, software and innovation investments in:</p> <ul style="list-style-type: none"> <li>IoT Products and services: Telefónica is an End to End (E2E) IoT solutions provider.</li> <li>IoT connectivity, connecting assets, devices, endpoints, in order to acquire real time</li> </ul>	<p>SDG 7.3: By 2030, <b>double the global rate of improvement in energy efficiency.</b></p> <p>SDG 8.4: <b>Improve progressively, through 2030, global resource efficiency in consumption and production</b> and endeavour to decouple economic growth from environmental degradation</p> <p>SDG 11.6: By 2030, <b>reduce the adverse per capita environmental impact of cities</b>, including by</p>	<p>Project category <b>fully aligned</b> with EU Taxonomy, but not all activities are covered yet.</p> <p>8.2 Data-driven solutions for GHG emission reductions.</p>

Project Category	Eligibility Criteria	Sustainability objective	Taxonomy alignment <sup>4</sup>
	<p>information of remote equipment in order to enable operational efficiencies.</p> <ul style="list-style-type: none"> <li>○ Specific products like, but not limited to: Smart metering, Smart Energy; Smart cities Platform, Smart Mobility, Smart Industry, Smart Agro, Smart Retail or Consumer IoT.<sup>5</sup></li> <li>○ IoT Enabling capabilities:</li> <li>○ New IOT connectivity, such as but not limited to: NB-IoT and LTE-M, belong to the LPWA family, that stands for Low Power Wide Area. Such technologies are a foundational efficiency, for example large duration of batteries and indoor coverage.</li> <li>○ IoT analytics: Data processing mechanisms oriented to process data obtained from IoT devices, increasing efficiencies and decreasing impacts due to outages, refurbishing or maintenance.</li> </ul>	<p>paying special attention to air quality and municipal and other waste management.</p> <p>SDG 12.6: Encourage companies, especially large and transnational companies, <b>to adopt sustainable practices and to integrate sustainability information into their reporting cycle</b></p> <p>SDG 6.4: By 2030, <b>substantially increase water-use efficiency across all sectors</b> and ensure <b>sustainable</b> withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity</p> <p>SDG 13.1: <b>Strengthen resilience and adaptive capacity to climate-related hazards</b> and natural disasters in all countries</p> <p>Telefonica commits to contributing to avoiding emissions through customer services in a substantial proportion with respect to our own emissions of scope 1+2 by 2025.</p>	

<sup>5</sup> Telefonica excludes products and solutions developed specifically to support the fossil fuel industry/infrastructure



## Eligibility criteria for **Social Bonds**:

<p><b>INCLUSIVE CONNECTIVITY:</b> Broadband Equality. Accelerating deployment of broadband in unconnected or underserved areas</p>	<p>Deployment, extending and optimization of broadband <sup>6</sup>(fixed or mobile) connectivity services in unconnected or underserved areas (rural and remote areas), in order to provide Internet access with sufficient bandwidth for the new digital services</p> <p><b>Target beneficiaries:</b> Population with limited or low-quality access to broadband networks in rural or remote areas. <sup>7</sup></p>	<p><b>SDG 9.1: Develop quality, reliable, sustainable and resilient infrastructure</b>, including regional and transborder infrastructure, <b>to support economic development and human well-being</b>, with a focus on affordable and equitable access for all.</p> <p><b>SDG 9.c Significantly increase access to information and communications technology</b> and strive to provide universal and affordable access to the Internet in least developed countries by 2020</p>
<p>Supporting employment generation, entrepreneurships, education initiatives and development of new skills for economic growth</p>	<p>Funding and supporting entrepreneurship ecosystem programs and direct or indirect investment in start-ups and SMEs.</p> <p><b>Target beneficiaries:</b> local entrepreneurs, start-ups and small-medium enterprises (SMEs) where unemployment is a critical risk for socio-economic deployment and social welfare <sup>8</sup></p>	<p><b>SDG 8.3.:</b> Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.</p> <p>Telefonica commits to supporting, financing and/or investing in start-ups and/or small and medium-sized companies with a view to supporting</p>

<sup>6</sup> Broadband mobile connectivity includes all the technologies capable to provide quality broadband access to the Internet and digital services (technologies such as HSPA+, 4G, LTE, 5G, etc.)

<sup>7</sup> Telefonica definitions:

- Unconnected: no service exists (fixed or mobile) by any operator.
- Underserved communities: There is at least mobile service by one operator with no broadband capacity. The backhaul or access capacity of the given site does not allow for a quality Internet experience. For the avoidance of doubt, according to the new definition (2018) from FCC (Federal Communication Commission), the definition of broadband internet is a minimum of 25 Mbps download and 3 Mbps upload speeds. This would include, among others, HSPA+, 4G and 5G broadband mobile technologies. Usually (but not necessarily) involves disperse population and rural municipalities.
- Rural areas are defined by local governments according to their political and geographical structure and organisation.

<sup>8</sup> Telefonica defines small and medium-sized companies as companies with less than 250 employees and a turnover equal or under 50 million €. Regions with a high unemployment ratio include countries with unemployment ration above OECD average and local regions, such as rural and remote places, where unemployment and migration and key issues

Telefonica applies exclusion criteria to these support and investment projects which include not investing or supporting:

- Production or activities involving harmful or exploitative forms of **forced labour or child labour** as defined in the ILO core labour standards.
- Production or trade in **controversial weapons** or important components for the production of controversial weapons (anti-personnel mines, biological and chemical weapons, cluster bombs, radioactive ammunition, nuclear weapons).
- Any business activity involving **child pornography**.
- Production or distribution of **racist or anti-democratic media**.

	<p>Tackling inequalities by investing in education, new skills, new competences and upskilling /reskilling programmes.</p> <p><b>Target beneficiaries:</b> unemployed population, including people with limited knowledge of digital technologies and people with low level of education. Also, workforce at risk of losing their job due to lack of knowledge of new digital competences</p>	<p>entrepreneurship, creativity, innovation and job creation.</p> <p><b>SDG 4.4</b> Increase the number of youth and adults who have relevant skills including technical and vocational skills, for employment, decent jobs and entrepreneurship</p>
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## **2. Project Selection and Evaluation Process**

A SDG Bond committee / working group will monitor the project selection and evaluation allocation process as per the eligibility criteria defined in the Use of Proceeds section.

This committee will be integrated of senior management representatives from Telefónica's:

- ❖ Finance department
- ❖ Sustainability department
- ❖ Control department
- ❖ Other technical areas

The SDG Bond committee / working group will be responsible for the following:

- Review and validate the selection of Eligible Projects based on the defined Eligible Categories listed by the Use of Proceeds.
- Monitor the Eligible Projects portfolio, during the life of the transaction. Specifically, during the life of each Bond, the SDG Bond committee can decide to replace some Eligible Projects if an Eligible Project no longer meets the eligibility criteria.
- To manage any future updates of the Framework

## **3. Management of Proceeds**

It is Telefonica's intention to manage the proceeds of the Green, Social or Sustainability Bond(s), establishing an SDG Bond Register. The proceeds of each Telefónica's Green, Social or Sustainability Bond(s) will be deposited in the general funding accounts and earmarked for allocation using the SDG Bond Register. Until they are allocated to eligible projects, proceeds will be invested according to Telefónica's normal liquidity policy.

The SDG Bond Register will be reviewed annually.

The SDG Bond Register will contain relevant information including:

- (1) Details of the Bond(s): ISIN, pricing date, maturity date, etc
- (2) Per Green, Social and Sustainability Bond issued, details of Eligible Use of Proceeds, including:
  - Project Categories and Eligibility Categories
  - Amount of allocation made
  - Estimate of impact of the Eligible Use of Proceeds

## 4. Reporting

On an annual basis and until the proceeds have been fully allocated, it is Telefónica’s intention to publish annually an allocation report and an impact report, as detailed below.

If, after completion of the allocation period, some Eligible Projects are replaced, Telefónica will publish an updated allocation report and an updated impact report.

### 4.1 Allocation Reporting

Telefónica will provide information on the allocation of the net proceeds of its Green, Social or Sustainability Bond(s) on Telefónica’s website. The information will contain at least the following details:

- I. A list of Eligible Projects financed through Telefónica’s Green, Social, or Sustainability Bond(s), including amounts allocated; and
- II. Bond proceeds allocated per eligibility category; and
- III. The remaining balance of unallocated proceeds.

### 4.2. Impact Reporting

Impact reporting will be provided at the level of each eligibility criteria and may include the following estimated Impact Reporting Metrics:

<b>Green Project Categories</b>	<b>Impact Reporting Metrics</b>
Energy Efficiency of Telefonica Network Infrastructure	<ul style="list-style-type: none"> <li>• Energy consumption per data traffic (MWh/PB or equivalent unit)</li> <li>• Estimated GHG Emissions reduced (tCO<sub>2</sub>eq)</li> <li>• Expected energy saved (in MWh)</li> </ul>
Renewable Energy	<ul style="list-style-type: none"> <li>• Renewable MWh generated or purchased</li> <li>• % of electricity consumption from renewable sources</li> <li>• Estimated avoided GHG Emissions (tCO<sub>2</sub>eq)</li> </ul>
Energy Efficiency: Digital Solutions for the Environment	<ul style="list-style-type: none"> <li>• Estimated avoided GHG Emissions through services (tCO<sub>2</sub>eq)</li> <li>• Expected energy savings (in MWh)</li> <li>• Service-related kpi’s such as number of smart meters.</li> <li>• Qualitative reporting on new innovations</li> </ul>
<b>Social Projects Categories</b>	
Inclusive Connectivity – Broadband equality	<ul style="list-style-type: none"> <li>• Population covered with broadband networks in unconnected or underserved areas</li> <li>• Number of users connected with broadband networks in unconnected or underserved areas</li> </ul>
Supporting employment generation, entrepreneurship, education initiatives and development of new skills for economic growth	<ul style="list-style-type: none"> <li>• Number of Entrepreneurs / Start-ups / SMEs supported or funded</li> <li>• Estimated number of jobs created</li> <li>• Number of beneficiaries of education and upskilling/reskilling programmes.</li> </ul>

## **5. External Review**

### *5.1 Second Party opinion*

Telefónica has appointed Sustainalytics SARL to provide a Second Party Opinion on this SDG Framework. This Second Party Opinion document will be made available on Telefónica's website.

### *5.2 Post issuance external verification*

External independent auditors appointed by Telefónica will ensure that the Allocation Report is consistent with Telefónica's SDG Framework, on an annual basis until full allocation.

Auditors will in particular review the compliance of the selected Eligible Projects and reporting metrics, with the Framework.