

The company presents its Integrated Report for 2017

IN 2017 TELEFÓNICA ACHIEVED ITS BEST RECORD TO DATE IN ITS CUSTOMER SATISFACTION INDEX AND ASPIRES TO BE "THE MOST RECOMMENDED" IN THE SECTOR

- **A company with a positive impact:**
 - **8,697 million euros invested 2017**
 - **52,232 million euros contributed to GDP**
 - **23.4 euro for each 100 paid in taxes**
- **And more technological:**
 - **European leader in fibre optic deployed and third country in the OECD.**
 - **Pioneer in 5G in Spain with "living labs" in Segovia and Talavera.**
 - **At the forefront of network virtualisation**
- **More sustainable:**
 - **Will reduce 30% the emission of greenhouse gases by 2020**
 - **Electricity consumption 100% renewable by 2030.**
 - **At the forefront of circular economy: 98% of batteries, 97% of waste and 99% of paper is recycled**
- **Open, diverse and inclusive:**
 - **Telefónica is one of the 5 global Telcos included in the Bloomberg Gender Equality Index**
 - **Role of "Chief Diversity Officer" to ensure diversity**
 - **Goal of 30% women in managing positions by 2020**
- **Committed to employment and talent:**
 - **A total of 122,718 employees of 91 nationalities in 24 countries, 97.9% of them with permanent employment contracts.**
 - **Almost one million jobs generated between direct, indirect and induced**
 - **In the last two years almost 15,000 young people have joined the global workforce and 25,000 more will do so in the next 3 years.**

Madrid, July 5, 2018 - The Chief Finance and Control Officer of Telefónica, Laura Abasolo, and the Director of corporate ethics and sustainability, Elena Valderrábano, presented the integrated company report for 2017 today in Madrid.

The report integrates financial and non-financial parameters that allow a global idea to be had regarding the evolution of the activity of Telefónica and its social, economic and environmental impact in all countries in which it operates.

Telefónica has presented this report model to the market for the third consecutive year to reinforce its commitment to transparency to all stakeholders: from its 340 million customers distributed in 17 countries, up to the nearly 123,000 employees in 24 countries where Telefónica is present, through its 1.2 million shareholders around the world, about 11,000 providers and 900 operators with which it works or has worked in more than 210 countries.

Telefónica revolves around its customers

Of all of the above "the customers are the most important interest group for Telefónica" - said Elena Valderrábano-. The company has, for the first time, drafted its 'Customer Promise', a commitment to its users around the world based on the pillars of transparency, simplicity and integrity. "The customer demands a reliable, simple quality service; transparent with respect to how much it costs and how it will be charged; as well as several accessible channels for communicating with Telefónica, to make arrangements, to express its disagreement, or request information; they want us to be honest and transparent", she explained.

The company performs monthly satisfaction surveys among its customers in all markets, in order to obtain their opinion about the service: network, channels, billing price, to obtain from this, the main indicator, the customer satisfaction (CSI). In the last year, the CSI has risen from 7.46 to 7.58, due specially to the performance in Brazil and Spain, which achieved its best historical data on customer satisfaction in 2017.

For several years now 20% of the variable remuneration of employees throughout the Group is directly linked to the degree of satisfaction of our customers. The "Customer Promise" requires that the trust of users, in other words, their propensity to recommend the products and services of Telefónica to friends and family through the NPS (Net Promoter Score) indicator is also measured. "We aim higher - says Valderrábano – and we have to continue improving both indicators, and especially the NPS." We want to be the brand most recommended by our customers to their immediate environment."

The BSB segment customers, both multinationals and large companies and SMEs, are managed by the Telefónica Business Solutions division and in 2017 they have managed to surpass the planned ISC expectations (7.83 out of 10) to close the year at 7.88, which makes Telefónica leader in satisfaction also in this market.

In this year 2018, Telefónica Spain continues digitizing their processes and will start a new form of relationship with customers through Aura, its bet built on trust, privacy and ethical and responsible artificial intelligence that was created to strengthen the company's relationship with its clients and as a virtual assistant to facilitate users ' day-to-day life.

Telefónica's positive impact

"Telefónica is an economic and social agent that impacts positively on the communities where it operates," explained the CFO of Telefónica, Laura Abasolo. "In 2017, the company's contribution to the GDP of the group of countries in which it operate was 52,232 million euro, which accounts for almost 0.6% of the total wealth generated by the most relevant countries a whole". For every euro Telefónica generated, it contributed 3.2 euro to the GDP of the countries in which it operates. In Spain it is responsible for the 1.4% of the GDP.

Telefónica's economic and social contribution is also quantifiable in terms of its contribution to local authorities. For every 100 euro of the company's volume of business, 23.4 euro is allocated to paying taxes. Of these, 6.4 are for payment of input taxes and 17, to the tax collected. The total tax contribution of the company in 2017 was more than 12,000 million euro.

As a sign of commitment to the countries where it operates, last year Telefónica awarded 83% of their purchases to local suppliers, especially in the areas of network infrastructure, terminals or information systems. All of them are obliged to develop their activity applying similar ethical standards to Telefónica's responsible business principles, complying with the fundamental human and labour rights and the protection of the environment.

In terms of their investments, last year Telefónica reached 8,697 million euros, mainly focused on the deployment and expansion of 4G and Ultra Broadband networks, and the simplification and digitalisation of processes and systems.

A technological company

"Telefónica is building a company of platforms to promote a people and customer-centric digitization. This means, for example that the network acts, it adapts; it is flexible, virtualised and powerful. And more efficient, to the extent to which the customer sees the network is theirs, that they can configure it, that it talks to them and things happen, which is sincere and it is sincere and transparent with its rates. In addition, it understands this and acts in real time. A network and a digitization, made with integrity, commitment and transparency", said Elena Valderrábano during the presentation.

The company continues to make progress in the development and improvement of its four platforms to transform, Telefónica itself, but also the societies in which it operates. Thanks to the digitization of processes, for example, it has been possible to negotiate electronically 31,108 million euros, with the emission of 1.2 million virtual invoices, nearly 20% more than in 2016, about 1,000 contracts signed digitally or the management of more than 170,000 orders between companies of the group and its suppliers.

The first platform, the physical assets, is practically virtual from the networks to the base stations, stores or customer teams. The second, the TI and systems, is an automated platform and links the data generated by the first platform with the business component. It encourages end to end digitalization and allows the connection of the other platforms. In this respect, in 2017, 62% of our customers have already migrated to the Online Invoicing System, benefiting from precise information concerning their balances and consumption in real time.

The third platform, focused on personalisation, is the products and services offered by Telefónica and which make up a distinctive, personalized and simple offer. And the fourth is comprised of an ecosystem that connects data, devices, networks and people. We are strengthening our capabilities to capture, store, analyse, interpret, and act with information in the most appropriate way in real time, in order to enable more effective interfaces that are better adapted to the characteristics and needs of our customers.

In 2017, Telefónica continued taking steps to adapt its infrastructures to the arrival of 5G, a new mobile generation that will make it possible to increase the speed and obtain peaks from 1 to 10 Gbps, which triple the current speed of fibre in homes and it will reduce the latency for calls. Telefónica selected Segovia and Talavera de la Reina to become, over the next 3 years, the first two 5G cities and as a benchmark technological mobility.

Reduction of the carbon footprint, renewable and EcoSmart services

Telefónica is committed to helping achieve the 17 goals of sustainable development (ODS) of the United Nations, with special attention to objective 9, the reference to industry, innovation and infrastructure, which can provide more value to the company due to the characteristics of its business.

The goals achieved in 2017, include having advanced compliance with the aim of energy efficiency, with 52% MWh/traffic compared to 2015. 46.8% of the electricity comes from renewable sources, the reduction of emissions decreased by 28% compared to 2015, while the waste management in 6 countries where it operates is digitized.

Through the decarbonisation of Telefónica's activity, with a commitment to the dissociation between business growth and greenhouse gas emissions, the idea is to help keep global warming below 2 C. The company's carbon footprint is derived from the network, from the energy needed to provide the services. With the company's plan, the aim is to reduce 30% of the emission of greenhouse gases by 2020 and 50% by 2030. In addition, Telefónica's commitment is that electricity consumption will be 100% renewable by 2030.

In addition, digital services are already helping to reduce greenhouse gas emissions in other sectors and cities. In 2017 69% of emissions were avoided - 939 ktCO₂ - thanks to services such as smart mobility, for example. This is the equivalent of the emissions produced by a car travelling back and forth between the Earth and the Sun 17 times.

The figures for net positive impact on the environment in 2017 include a leading position in circular economy: recycling reached 98% for batteries, 97% for waste and 99% for paper.

The company is committed to diversity, talent and quality employment

Telefónica closed 2017 with a workforce of 122,718 professionals, 98% of them permanent. The average age of employees is 39.7 years of age, and they represent 91 different nationalities. 32% work in Latin American countries, 28.5% in Brazil, 26% in Spain, and the rest are distributed in other countries, such as Germany and United Kingdom. The presence of women has increased and currently represents 37.7%.

The footprint of Telefónica on employment in the countries where it operates is closer to one million people, 950,678, including direct, indirect and generated jobs, since for each contracted person in the workforce; in addition 7.8 jobs are generated.

We also promote the incorporation of young talent into the company. Thus, in the past four years, 71% of new employees at Telefónica Spain are under 34 years old. In the last 2 years we have recruited almost 15,000 young people to our global workforce and our commitment for the next three years is to recruit 25,000 more young people.

Diversity is one of the major strategic drives for Telefónica. "Our customers are diverse and the company has to respond to what they request. Diversity is wealth and long-term growth. Our commitment in this regard is absolute," said Laura Abasolo, President of the Diversity Committee of the group.

There are 17.6% women in the management team of Telefónica and 6 nationalities are represented. The goal is to reach 30% of women in 2020. 75% of the Chairpersons and CEOs of the countries are local.

In 2017, a "Chief Diversity Officer" was nominated to ensure diversity as a lever for future growth, and Telefónica Spain has designed the Momentum Plan to Diversity in order to promote a culture of equality, diversity and inclusion, enhance the talent management and develop an inclusive leadership style.

Telefónica is one of the 5 global Telcos included in the Bloomberg Gender Equality Index

To access the integrated 2017 report, verified by PwC and AENOR, click here:

https://www.telefonica.com/en/web/about_telefonica/publications/annual-reports