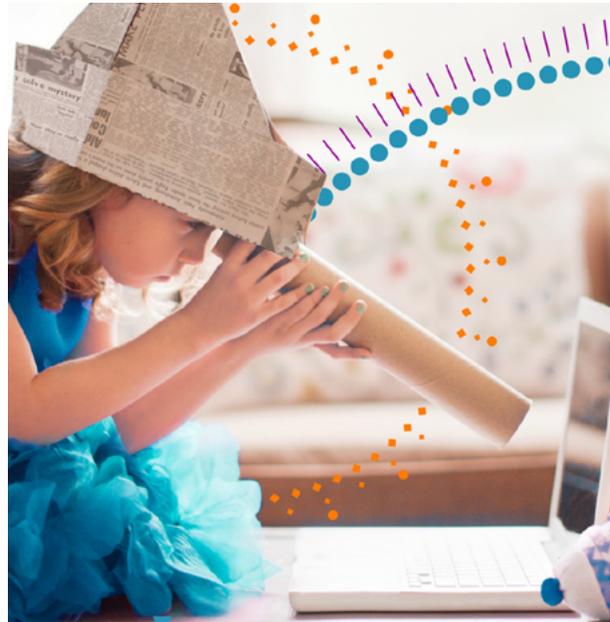




Towards a
sustainable and
long term company

Index



Letter to shareholders 4

1 **Connected, business model and strategy** 9

2 **Responsibility and digital wellbeing** 73

1.1. Telefónica at a glance	11
1.2. A context of change	20
1.3. Main business milestones in 2018	22
1.4. Our impact on communities and tax information	24
1.5. A more human connectivity	33
1.6. An inclusive-platforms company with the customer at the center	34
1.7. Our relations with stakeholders	48
1.8. Material aspects of our business	54
1.9. The vector of innovation	57
1.10. CASE STUDY FLAGSHIP: Internet for All	64
1.11. CASE STUDY FLAGSHIP: Roll-out of fibre in Spain	68

2.1. A safe digital environment for our customers	75
2.2. Digitalization and the environment	94
2.3. Committed to social well-being	125
2.4. Our team set us apart	136
2.5. Suppliers, our allies	162
2.6. A management framework for business sustainability	175
2.7. CASE STUDY FLAGSHIP: Internet of Things: key to energy efficiency	194
2.8. CASE STUDY FLAGSHIP: Blockchain in the supply chain	198
2.9. Appendix	202

3 Evolution of our business 225

3.1. 2018 Highlights	226
3.2. 2018/2017 Consolidated results	229
3.3. 2018/2017 Segment results	236
3.4. 2017 Highlights	261
3.5. 2017/2016 Consolidated results	264
3.6. 2017/2016 Segment results	270

6 Other information 321

6.1. Liquidity and Capital Resources	322
6.2. Treasury shares	325
6.3. Events after the reporting period	327
6.4. Average payment period of the Spanish companies	329
6.5. Glossary of terms	330

4 Risks 295

5 Annual corporate governance report 319

There is more detailed public information in the Telefónica corporate governance report.



Letter to shareholders

José María Álvarez-Pallete
Telefónica's Chairman



Today we are closer to being the company we want to be than the company we proudly once were

Three years ago, we intensified a transformation of Telefónica that we had initiated some time ago. This transformation is turning a historic voice services company into a technology company.

We embarked on this path at a time when few others had seen it. We were pioneers. As Hemingway once said: *"At the most important crossroads in our life there are no signs"*. Telefónica was able to see the technological transformation path of the Company, our Company, and we decided to follow it.

Well, I can assure you that today we are closer to being the company we want to be than the company we proudly once were:

- » We are already a technology company that is at the heart of the digital revolution that we are living because the driving force behind that revolution is the connectivity we provide for our customers; intelligent connectivity on new high-speed, flexible, secure and advanced networks featuring elements of artificial intelligence.
- » We are a technology company because, on this intelligent connectivity, we provide the new digital services that customers demand.
- » We are a technology company that is at the forefront of new technologies, making pioneering use of artificial intelligence in the way it relates to customers, processes and management systems.

- » We are a technological company moving towards an "All Digital" model.

It is always a major challenge to foster change in large organizations with long histories. Despite this, 2018 was the year in which we crossed the equator of Telefónica's transformation process while concurrently:

- » **Gaining relevance in the lives of our customers.** At the end of 2018 we had a total of 356 million customers; customers with whom we have a higher-value relationship and who are increasingly satisfied. We have more broadband customers with fibre or cable than with copper, and post-pay customers already account for half of our mobile customers. Moreover, approximately 50% of our mobile customers are already enjoying 4G technology.
- » **Improving in the main financial figures:** revenue is growing and we have become a data business insofar as data now account for 53% of total sales. Operating income and net income are also rising, the latter for the third consecutive year and by 6.4%, exceeding €3.3 billion and with margins that are a sector-wide benchmark. In addition, free cash flow excluding spectrum continues to grow, exceeding the €5 billion threshold for the second year in a row.

*In 2018 we had a total
of 356 million customers;
customers with whom
we have a higher-value
relationship and who are
increasingly satisfied*



- » **Maintaining a high level of investment** to reinforce our technological platforms and hence satisfying customers' needs: €82 billion since 2012. And we are achieving this by becoming increasingly digital: 65% of our processes have already been digitized.
- » **Substantially reducing debt** by €12 billion since June 2016, both organically and through divestment of non-strategic company assets.
- » **Maintaining attractive shareholder remuneration**, with a sustainable dividend of €0.40 per share which is comfortably covered.

Frankly, it has not been easy to drive the transformation of Telefónica while also meeting these business targets. We have had to carry out this transformation in an environment that was not favourable to this change (when not adverse) in which different factors converged: on the one hand, turbulence in important markets in Latin America and the United Kingdom and, on the other hand, market doubts about our sector. The negative performance of IBEX companies on the stock market was also a challenge.

Despite all these factors, today Telefónica is considerably stronger than it was 3 years ago and, although we have already seen a recovery in our share price, we are convinced that it still has growth potential to reflect the true value of your Company.

It is true that a transformation project of a company with 95 years of history and the scale of Telefónica requires both effort and time. But, above all, it requires a clear definition of its mission and long-term strategy.

Our mission: to make our world more human by connecting lives

It is no coincidence that while accelerating our transformation we redefined our **mission**: "To make our world more human by connecting lives". Thus stated, our mission may sound as broad as it is ambitious; and that is true. But this is easier to understand when explained within the context of the digital revolution that is transforming the economy, society and our lives. Telefónica is striving to ensure that people and societies can benefit from this revolution and not be overwhelmed or left behind.

It has rightly been said that the mission of a company cannot be summed up by a simple empty phrase. Its mission statement must be its fundamental reason for existing, i.e. what it does every day to generate value for its stakeholders.

In building this technology company, we have not limited our vision to the next quarter or even to the next two. We are re-shaping the Company for the next 20 or 30 years. And certain requirements must be met when the goal is to generate long-term value.

The first is to create a relationship of trust with all our stakeholders, starting with customers and, and this must be based on satisfaction. In this regard we have reached record levels. We are encouraged to have been recognised by Fortune for the second consecutive year as Europe's most admired Telco and the third most admired worldwide.

That trust, which we must also build with our investors and society as a whole, is achieved through management guided by respect for human values. Protection of privacy and the security of communications or the controlled and ethical use of artificial intelligence are included among these values. At Telefónica we promote a Digital Rights and Obligations because we believe that the new digital world should not lead to a loss of individual or social rights that were already in-place in the analogue world.

We are building this technology company for the next 20 or 30 years

The second requirement is growth. To be precise, inclusive and sustainable growth. Growth that includes the greatest number of people and that is environmentally-friendly.

Our concern for *inclusion* is reflected in numerous initiatives aimed at reducing the digital divide and promoting inclusive connectivity. If any single programme exemplifies this effort, it is "Internet for All" which is already serving 600,000 people in remote areas of Peru.

Our concern for *sustainability* makes the development of services with a positive impact on the environment a priority, as evidenced by double-digit growth in these services over the past year.

The third and final requirement for a company with a long-term vision is efficiency, which implies optimisation of all our capabilities and where digitisation, both of networks and operations, is key. In this area, Telefonica is recognised as a market leader.

We have significantly reduced energy consumption and are increasingly consuming energy from renewable sources, already reaching in 2018 the ambitious goals that we had set for 2020. This has allowed us to successfully issue the first Green Bond in our sector.

Trust, growth and efficiency depend largely on a company's employees. Our teams are increasingly trained with new commercial and technological skills. And their structure increasingly reflects cultural, racial, generational and profile diversity. There is a growing gender balance: 38% of our workforce are women and 23% of our management positions are held by women and we intend to continue increasing this mix.

Overall, no large company is sustainable in the long term if it does not generate benefits for all its stakeholders. Companies whose overarching value does not include contributing to the development of societies are destined to disappear.

I am proud to tell you that your Company contributes to social development in many ways. We have an impact of over €53 billion on the GDP in the countries where we operate, a fiscal contribution to the public budget of more than €10 billion, this is €21 for every €100 invoiced and more than 1.2 million direct and indirect jobs. This gives you an idea of the magnitude of the social contribution that your Company makes.

At Telefonica we are committed to the United Nations Sustainable Development Goals. As a tangible sign of our commitment to the long term and to sustainability, starting this year, the variable remuneration of our entire team will include factors such as *customer trust, trust of society, gender equality and climate change*.

In last year's letter and in my speeches at previous General Shareholders' Meetings, I referred in some detail to the wave of technology that was approaching. The fact that we saw it coming made us pioneers. "*We are living in a unique moment because never before in the history of humankind has technology advanced at this speed ... It brings together virtual and augmented reality, the explosion of connectivity, the Internet of Things, biotechnology, robotics, blockchain, the softwarization of everything and the ramping-up of artificial intelligence...*" were some of the expressions I used.

I also talked about voice and image recognition, the possibilities of 3D printing and deep learning.

Some shareholders celebrated this vision of the future while others expressed their curiosity and surprise at what appeared to be remote. Well, not much time has gone by and we already have self-driving cars on some roads. In just a short span of time, artificial intelligence has become a familiar expression. Today image recognition is increasingly common and is being frequently used.

All these things which seemed like science fiction three years ago, are happening today and are being transported on our networks.

Now it is time to talk about another phenomenon that is already impacting our business: the explosion of cognitive intelligence. Just to give you an idea, the database of Walmart, the number one retailer in North America, generates 40 petabytes of data per year while Facebook generates 4 petabytes a day. Connected cars with all of its sensors will generate 40,000 petabytes a day and very soon there will be 100 billion people and things connected. Data traffic will continue to grow exponentially. All this places infrastructure at the heart of this transformation and speaks to the relevance of our networks.

The digital experience of our customers will change radically over a short period of time. In fixed connectivity, the transition from copper to fibre is producing that quantum leap and the same will happen in mobile connectivity with advanced 4G until 5G is rolled out.

This will require even faster networks that are much more capable, much safer and much simpler; networks with less latency and that are much more intelligent. On top of this we need to consider *edge computing* which requires a network prepared to process the data generated by the



internet of things closer to the point at which they are created. All of this again opens a world of opportunities for our Company.

Telefónica has a very bright future ahead because it is capable of generating long-term value in all the societies where it operates and for all its stakeholders

The history of Telefónica is one of permanent change. Your Company, our Company has been forged to change. And as Stephen Hawking once said: *"Intelligence is the ability to adapt to change"*.

Our Company was created with the mission of deploying fixed infrastructure, and we accomplished that. Our goal was to provide a simple voice service in Spain and those roots are indelibly marked in our name (Tele-Fónica).

At a certain point we realised that this was not enough; that this was going to be a business of scale. And the courageous decision was taken to venture outside of our national borders. Telefónica became a large multinational. We then saw the world of mobile telephony and accepted the challenge of providing both fixed and mobile networks. We saw broadband coming and stayed ahead of the others. Later we saw the world of television and positioned ourselves. We understood that connectivity would be key and we

committed to rolling out fibre. We envisaged the world of platforms and again we stayed ahead of the pack.

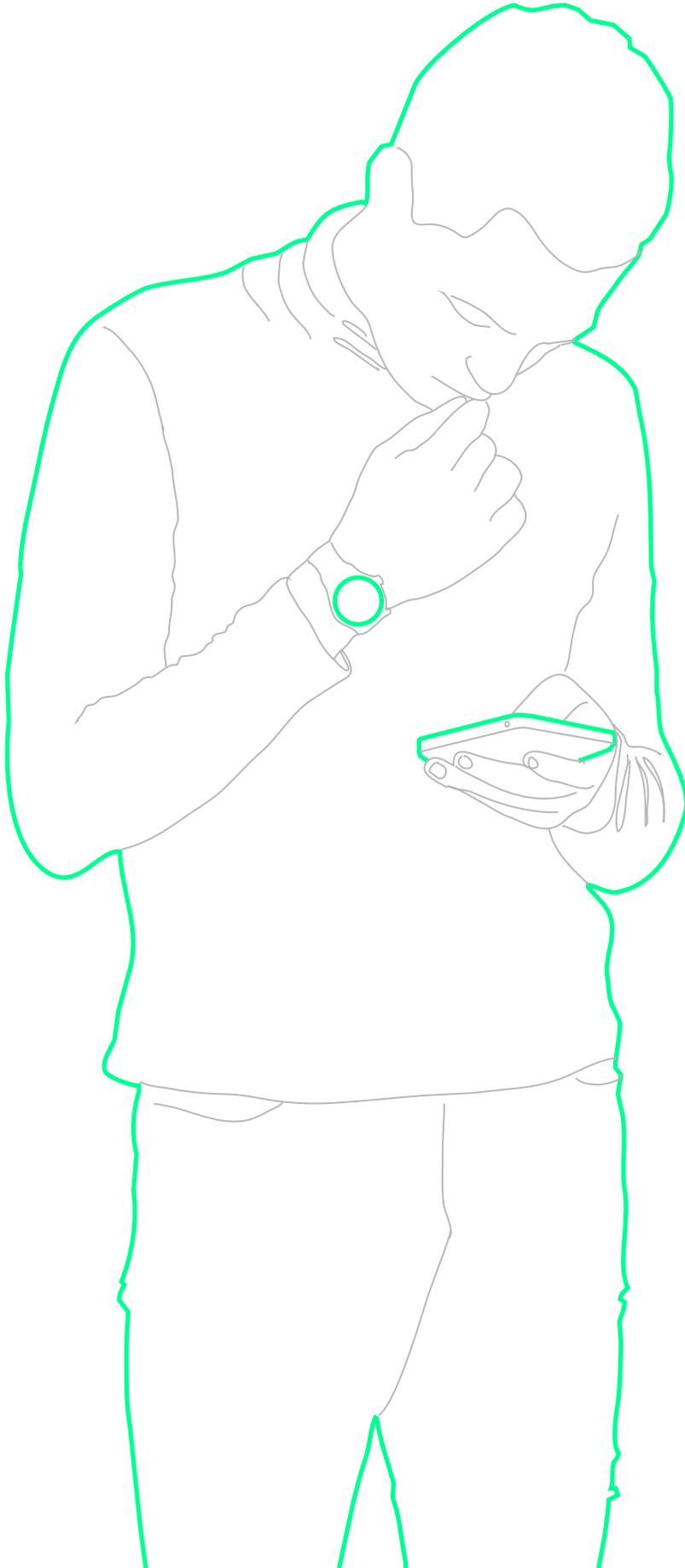
The waves of opportunity may again accelerate. Connectivity gives us one of those enormous opportunities to grow by embracing the world of big data, and we are ready. A fourth wave is coming in the wake of cognitive intelligence that will make us even more relevant.

I can assure you that your Company, our Company, will honour its history and will know how to capture all these opportunities thanks to our technological platforms.

Telefónica has a very bright future ahead because it is capable of generating long-term value in all the societies where it operates and for all its stakeholders: shareholders, employees, customers and suppliers.

Thank you for the time you have spent reading this letter. In it I have tried to summarise the most relevant events that have marked the performance of Telefónica over the past year and the ideas that inspire us towards a future full of achievable opportunities. It is, in any case, a letter written with absolute frankness in recognition of the trust you have placed in the managers of your Company.

José María Álvarez-Pallete
Telefónica's Chairman



Connected



1

Connected, business model and strategy

- » 1.1. Telefónica at a glance
- » 1.2. A context of change
- » 1.3. Main business milestones in 2018
- » 1.4. Our impact on communities and tax information
- » 1.5. A more human connectivity
- » 1.6. An inclusive-platforms company with the customer at the center
- » 1.7. Our relations with stakeholders
- » 1.8. Material aspects of our business
- » 1.9. The vector of innovation
- » **1.10. CASE STUDY FLAGSHIP: Internet for All**
- » **1.11. CASE STUDY FLAGSHIP: Roll-out of fibre in Spain**





1.1. Telefónica at a glance

Telefónica is one of the world's leading communications services providers. Our objective is to create, protect and promote fixed and mobile connections for our customers helping them to take control over their digital lifestyle. Therefore, we primarily offer our customers the connectivity they need to interact and live in the markets where we operate through simple products and services while protecting their data and managing it in a responsible

way. Telefónica is today a Telco that relies on modern technology in order to create a better and more inclusive society. We aim at offering our customers the possibility to reach the digital world no matter the location, economic status or digital knowledge and capacities. We are a completely private company that offers telecommunications services in 17 countries with headquarters in Madrid (Spain) where 100% of the shares are freely circulating.

A diversified presence

OPERATOR'S REVENUES AND ACCESSES



(1) Central America includes telecommunications operations in Costa Rica, El Salvador, Guatemala, Nicaragua and Panama. On January 24, 2019, Telefónica reached an agreement for the sale of Telefónica Móviles Guatemala, S.A. and Telefónica Móviles El Salvador, S.A. of C.V. The closing of the sale of Telefónica El Salvador is subject to the relevant regulatory conditions while the closing of the sale of Telefónica Móviles Guatemala took place on that date. In addition, On February 20, 2019, the Board of Directors of Telefónica, S.A. has approved the sale of the Telefónica Group businesses in Panama, Nicaragua and Costa Rica. The closing of the agreement is expected in the short term.

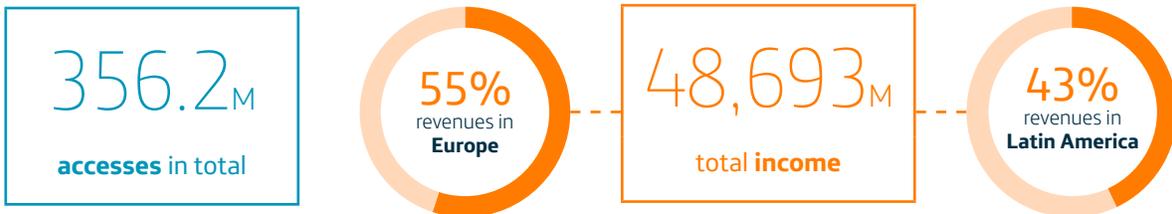
102-5
102-6
102-7

More information, in the section "6.3. Events after the reporting period".

In Telefónica we are organized by segments: Telefónica Spain, Telefónica United Kingdom, Telefónica Germany, Telefónica Brazil, Telefónica Hispam Norte (formed by the Group's operators in Colombia, Mexico, Venezuela, Central America and Ecuador) and Telefónica Hispam Sur (formed by the Group's operators in Argentina, Chile, Peru and Uruguay). These segments include the information related to wireline, wireless, cable, data, Internet and television businesses and other digital services provided in each country or countries. Any services not specifically included

in these segments are part of 'Other companies and eliminations'. Telxius' financial figures are fully reported under 'Other companies and eliminations' since January 1st, 2017, reflecting the integration within Telxius of the mobile telecommunications towers transferred from Telefónica Spain, Telefónica Germany, Telefónica Brazil and Telefónica Hispam Sur Telefónica (Peru) and Telefónica (Chile) segments and the international submarine fibre optic cable (which had been previously reported under 'Other companies and eliminations').

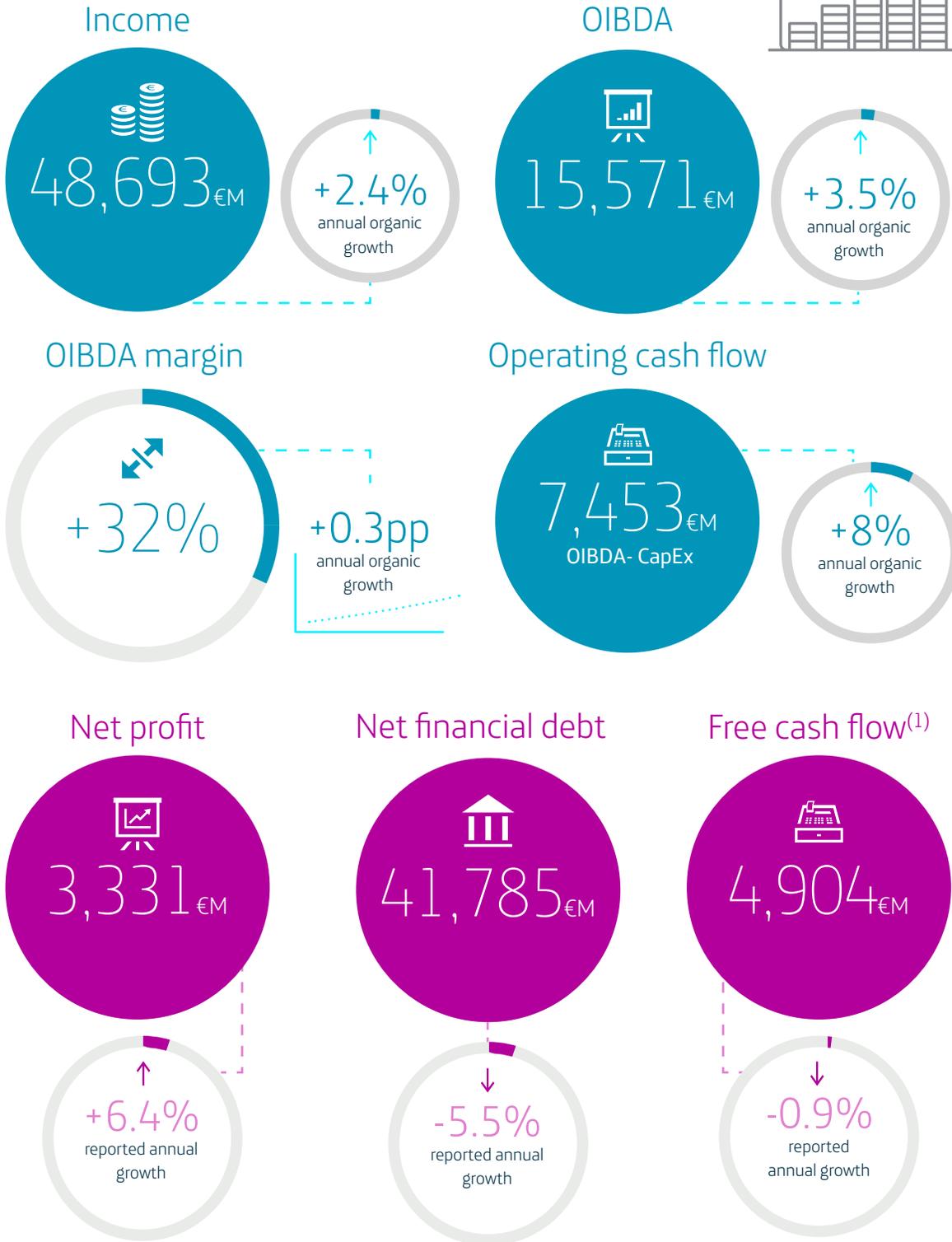
OUR MAIN FIGURES, AT THE CLOSE OF 2018:



We own and operate our own global IP network in over 40 markets. And we maintain strategic partner agreements to offer our services in over 170 countries, providing customers with coverage wherever they are and wherever they want to be.



1.1.1. Solid financial results



(1) Excluding spectrum expenditure, FCF growth is 5.6%

1.1.2. Share price performance in 2018

Following the synchronized global GDP rebound in 2017, expectations were for continued robust growth in 2018, but resulted in disappointment almost everywhere except for the U.S., with Europe and Japan being particularly poor, and a sharper than expected economic deceleration in China. Rising U.S. rates became an additional macro challenge for many emerging market economies. With regards to monetary policy, the ECB maintained marginal lending facility rate stable throughout the year at 0.25%, but in December 2018 decided to end the net purchases under the Asset Purchase Program, as anticipated, and announced the intention to continue reinvesting the principal payments as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. In the US, Federal Reserve's continued the gradual normalization of USD monetary conditions, with the Open Market Committee increasing interest rates 4 times in the year from 1.50% to 2.50%, while balance sheet normalization continued throughout the year.

On the political front, the focus was on trade disputes between the U.S. and China, the U.S. midterm elections which led to a divided congress, negotiations over Brexit between Brussels and the UK, as well as Italian March elections that resulted into a coalition government between a populist party and an anti-EU sovereignty party, while in Spain political instability arose as a result of the no-confidence vote leading to a change in Government.

In this context, the main European indexes closed 2018 with a negative performance; EStoxx-50 (-14.3%), DAX (-18.3%), CAC-40 (-11.0%), FTSE-100 (-12.5%), and Ibex-35 (-15.0%).

European DJ Stoxx-600 (-13.2%) sectors posted negative performances across-the-board, being Auto & Parts (-28.1%) and Banks (-28.0%) the bottom performers. The performance of the Telecommunications sector (-13.0%) was in-line with the wider market, and was explained by a weak growth outlook, adverse regulatory environment, intense competition in some markets, high leverage and stressed capital intensity. However, in the last quarter of the year, the Telecommunications sector outperformed the wider market by +13.7 percentage points, within a rotation to defensive sectors that was followed by most operators beating Q3 18 results expectations and raising guidance for the year, leading to improved EPS estimates momentum, and some positive news flow regarding European regulators' stance on M&A.

Telefónica closed 2018 at 7.34 euros per share, (-9.7%) in the year, though following a dividend distribution of 0.40 euros per share in cash total shareholder return was (-4.8%), better than the European sector average. The Telecommunications sector in Europe (-13.0%) posted a total shareholder return after dividends of (-8.2%). The performance of Telefónica was mainly explained by the adverse evolution of exchange rates throughout most of the year, which affected earnings momentum. In the last quarter of the year, Telefónica outperformed the broad sector by +5.8 pp, after beating Q3 18 results expectations and raising revenue guidance for the year, within a better exchange-rate environment.

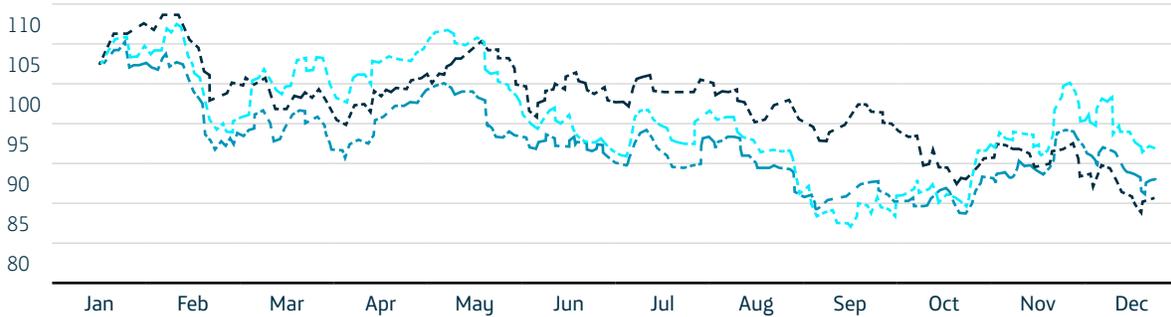
Telefónica closed the 2018 financial year with a market capitalization of 38,105 million euros, ranking as the thirteenth company in the telecommunications sector worldwide.



More information, in our website "Shareholders and investors".

SHARE PRICE PERFORMANCE 2018

(Telefónica, DJ Telco, IBEX 35)



Source: Bloomberg 31/12/18

Telefónica

DJ Telco

IBEX 35

**Remuneration/
Profitability total**
paid out to the shareholder

0.4 euros per share in cash

- » 0.2 on 20 December 2018
- » 0.2 in June 2019
- » Paid in cash in 2018: 0.2 on 12 June and 0.2 on 20 December.

TSR 2018: -5.0%

Analysts' recommendations

Buy	54%
Hold	37%
Sell	9%

Source: Bloomberg 31/12/18

MAJOR SHAREHOLDINGS

- **BBVA (5.28%)**
- **CAIXA (5.01%)**
- **BLACKROCK (5.08%)**

9.06

€/per share
Target price

Source: Bloomberg 31/12/18

1.3

Million
shareholders

SHARE FIGURES

Close (€)	7.34
52-week maximum	8.599
52-week minimum	6.59
Average daily volume (millions)	59.1
Number of shares (millions)	5.192
Capitalisation (million €)	38.105

Source: Bloomberg 31/12/18

STOCK EXCHANGE LISTINGS

- **MADRID**
- **NEW YORK (ADR)**
- **LIMA (ADS)**
- **BUENOS AIRES**
- **LONDON**

Credit ratings

Moody's	Baa3
Fitch	BBB
S&P	BBB

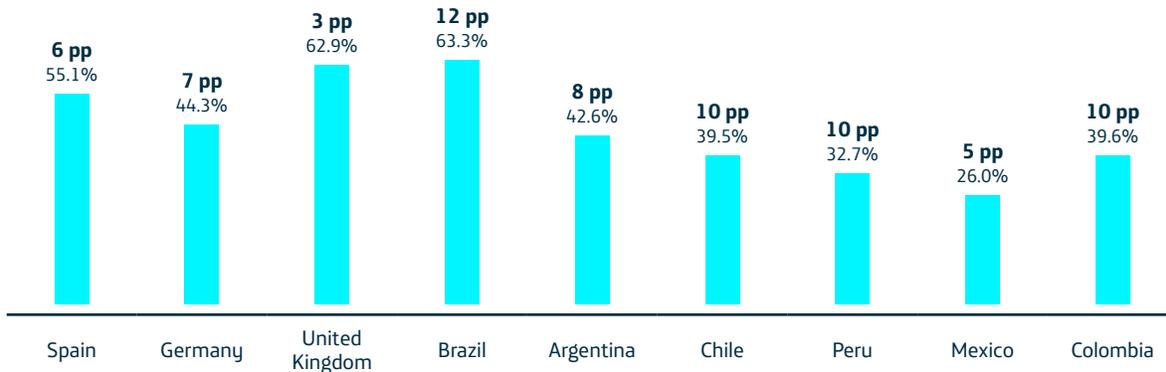


1.1.3. Advancing towards a more sustainable world

We achieved strong growth in the penetration of LTE and FTTX in the communities in which we do business.

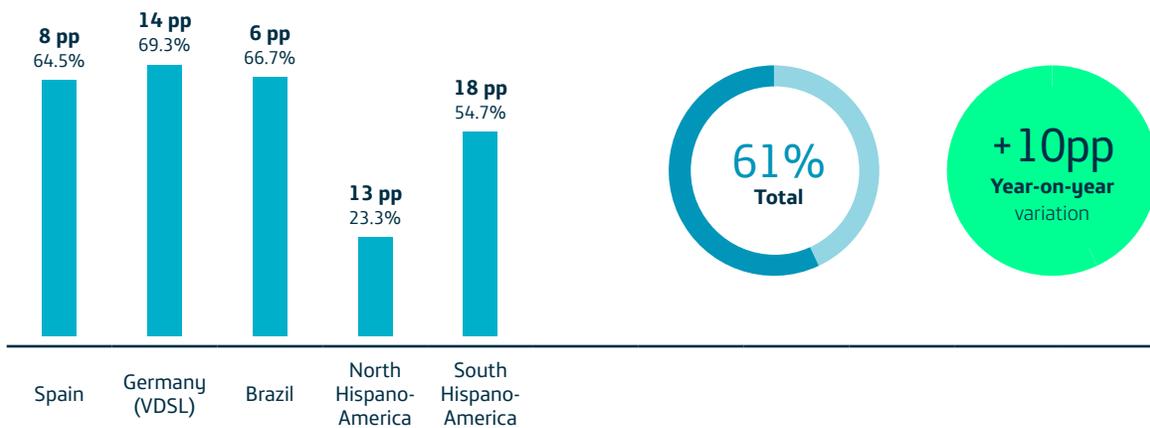
LTE PENETRATION

and year-on-year variation (in bold)



FTTX/CABLE BROADBAND PENETRATION 2018

and year-on-year variation (in bold)

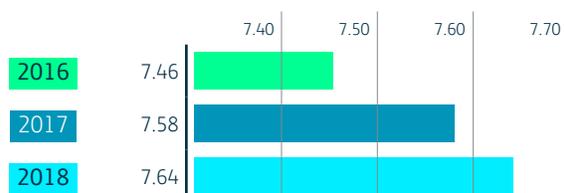


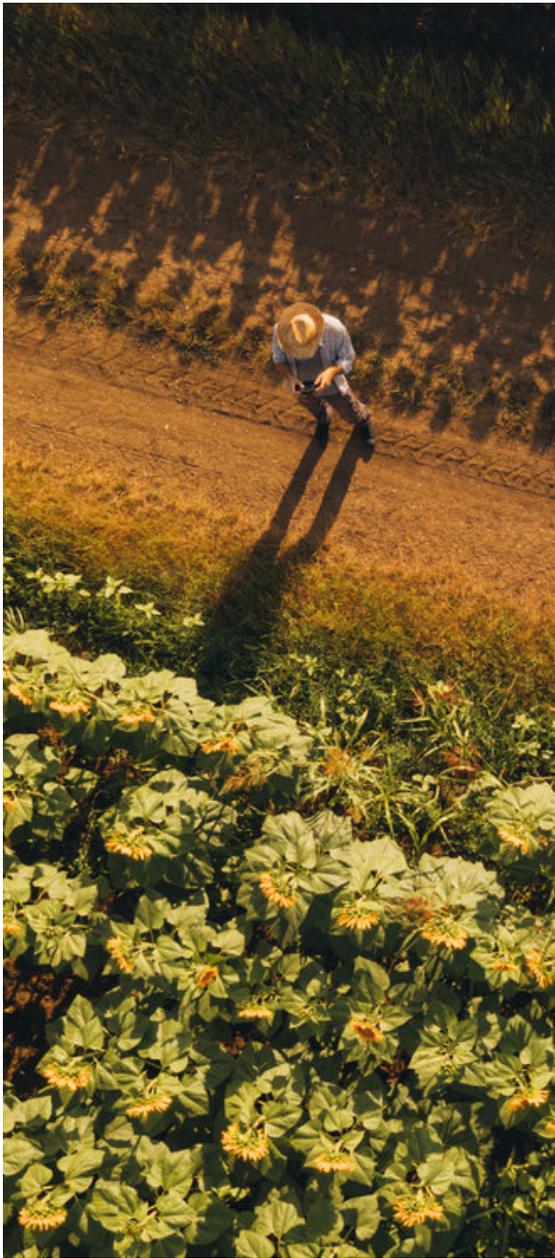
In 2018, Telefónica's consolidated CSI was 7.64 out of 10, being the best historical data.

With a customer satisfaction index that improves year by year:

This is complemented by the Net Promoter Score (NPS), implemented in 2018, which allows us to measure the emotional bond with our customers. The NPS at the end of 2018 was 20%.

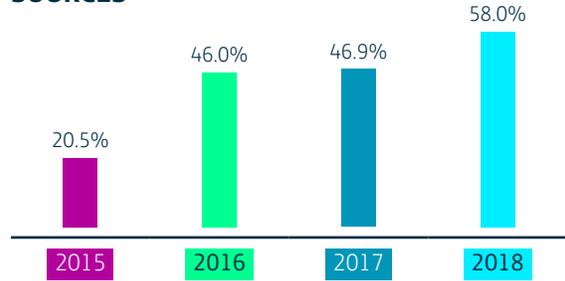
TELEFÓNICA GROUP CSI





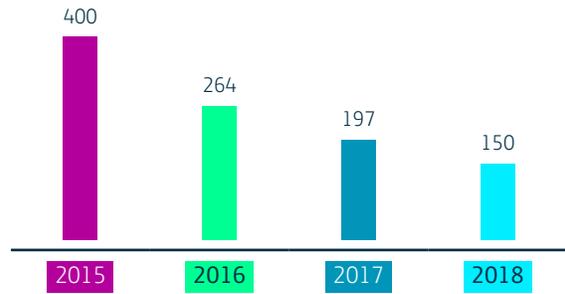
We fulfilled an ambitious emissions reduction and energy efficiency plan:

PERCENTAGE OF ENERGY FROM RENEWABLE SOURCES



ENERGY CONSUMPTION BY TRAFFIC

(MWh/PB)



1 + 2 GHG EMISSIONS AVOIDED

(tCO₂eq)



We maintain our commitment to diversity:

COMMITTED TO DIVERSITY

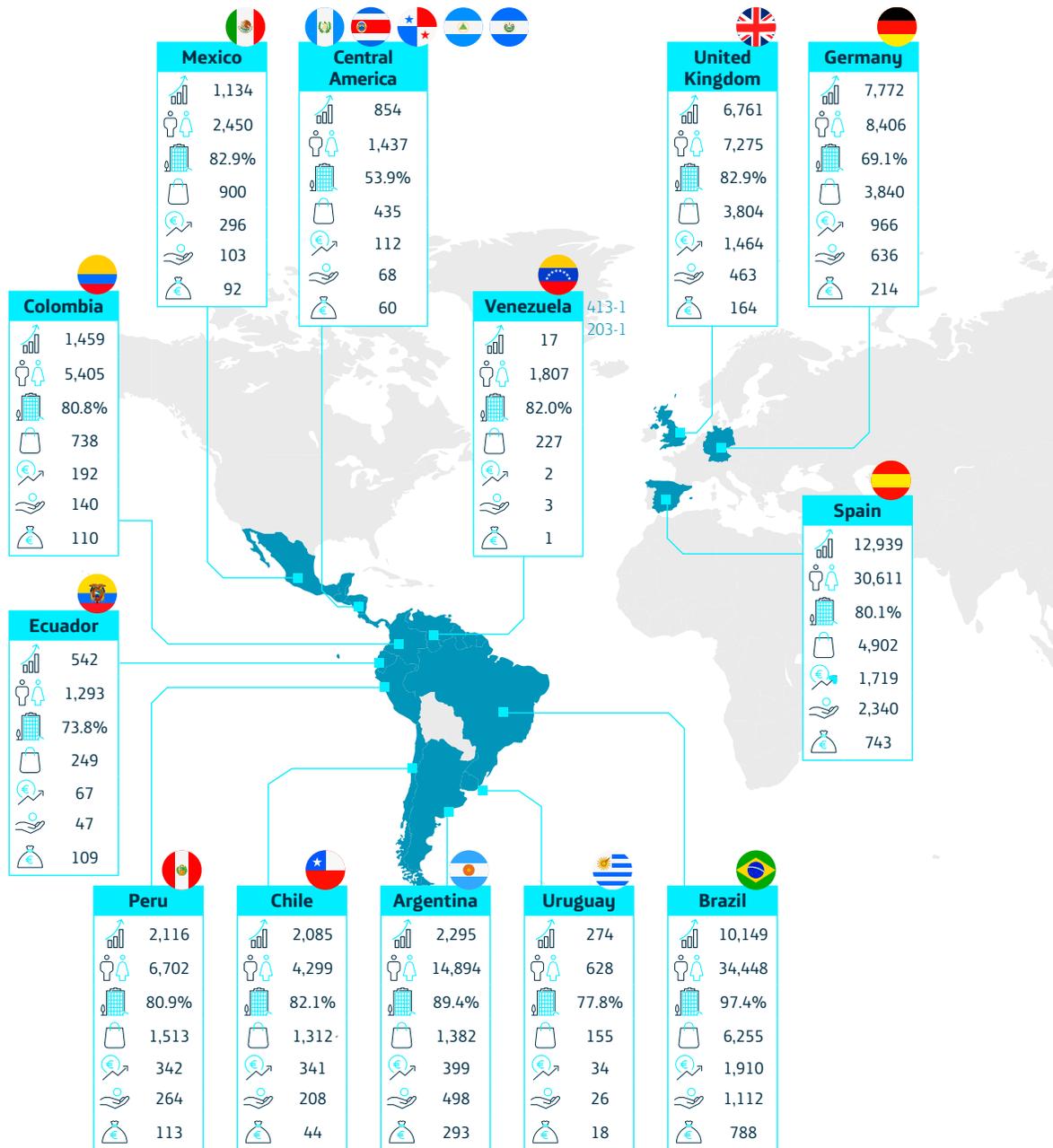
(%)



38%
Female workers



AND WE DEVELOP THE COMMUNITIES IN WHICH WE OPERATE:



Group revenue by country ⁽¹⁾	Employees in the country (people)	% of local suppliers	Purchases made in the country ⁽¹⁾ (million euros)
Investment made in the country* (million euros)	Salary costs in the country ⁽¹⁾ (million euros)	Taxes paid in the country ⁽¹⁾ (million euros)	

413-1
203-1

(1) Currency figures in million euros (conversion at 2018 average exchange rates).

1.1.4. Our brands

Telefónica's brand strategy combines 'Superbrands' with specialized brands to ensure competitiveness and add value to the business.

Superbrands

Our 'Superbrands' are recognized, relevant and differential and add value to our core business of connectivity in 17 countries.



Telefónica is our institutional brand and the one for our multinational customers and employees. This brand operates in 17 countries and has presence in 24.



Specialized Brands

They forcefully break into the capture of new digital businesses and new business models beyond our grassroots activities. Highlighting:

Brands specialising in B2B

- Infrastructure company that manages towers and the international network of high capacity fibre optic cable.
- Business unit specialising in cybersecurity at Telefónica
- Telefónica's Big Data and Artificial Intelligence services unit
- The brand that offers hosting, dedicated servers and cloud servers in Spain.
- Company specialized in in-store media and audiovisual services for companies, as well as in the implementation and management of out-of-home digital advertising networks

Innovation Brand

- Area that integrates external innovation related to Telefónica's core business.

MVMO (Mobile Virtual Network Operator) Brands

- Present in Spain, Argentina, Ecuador, Guatemala.
- Operates in United Kingdom.
- Provides its services in Germany.

Social brands

- Through its *Fundación*, Telefónica contributes to the economic, social and cultural development of the countries in which it is present.
- Digital education initiative for vulnerable children promoted by Fundación Bancaria La Caixa and Fundación Telefónica.



1.2. A context of change

The solution to the major new issues is a priority that requires a genuine focus on sustainability for keeping up with the demands of every stakeholder: from society, governments and regulatory authorities to the world's leading investors, in the conviction that sustainability is a necessary condition for achieving prosperity, efficiency and profitability in the medium term.

The environment in which Telefónica carries on its business underwent considerable change over the course of the last financial year, driven by two fundamental trends: growing instability and the need and desire for long-term sustainability.

Instability is inherent in times that represent or precede a change of era, as is the case today. That is particularly evident in two areas: in political terms, 2018 saw a number of fast-evolving upheavals around the world, the outcomes or consequences of many of which, such as Brexit, are still far from clear; in economic terms, volatility has been high and has specifically affected leading technology companies, whose (until now) solid business models are being questioned.

All of this is having considerable social consequences. Last year, mistrust among citizens and companies increased, notably affecting people's perceptions and

expectations regarding technological challenges and advances. There is growing concern about the level of technology and how it is used, and this has led to greater caution and a demand for accountability in both its management and impact. This has been the case, for example, with personal privacy, the use of data as a mass-management and decision-making tool and the effects and uncertainties associated with digitalization, such as digital well-being or the possible impacts on employment and social relations.

The [World Economic Forum](#) has referred to this context as 'Globalisation 4.0' and has included a number of imbalances which have yet to be resolved:

- » Economic growth vs conservation of the planet.
- » Global citizenship vs patriotism.
- » People's work vs machines.



- » Technology 'for' vs 'against' people.
- » Economic growth vs reduction of inequalities/ eradication of poverty.
- » International competition vs collaboration.

The solutions to these issues are a priority which require a genuine focus on sustainability in keeping up with the demands of every stakeholder: from society, governments and regulatory bodies to the world's leading investors, in the conviction that sustainability is necessary if we are to achieve prosperity, efficiency and profitability in the medium term.

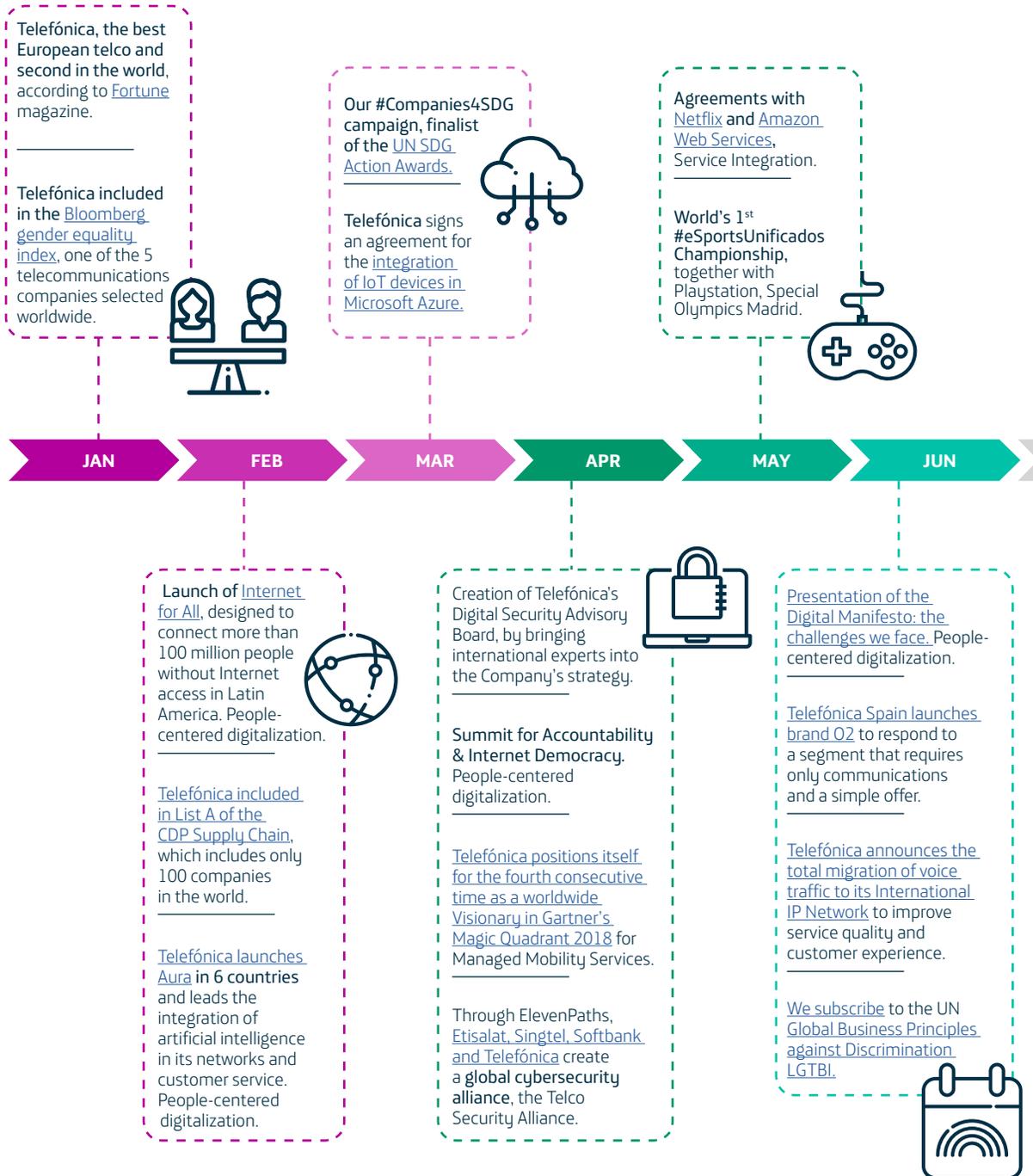
Addressing these challenges also entails a wide range of growth opportunities for society in all its fields. The combination of sustainability with the latest

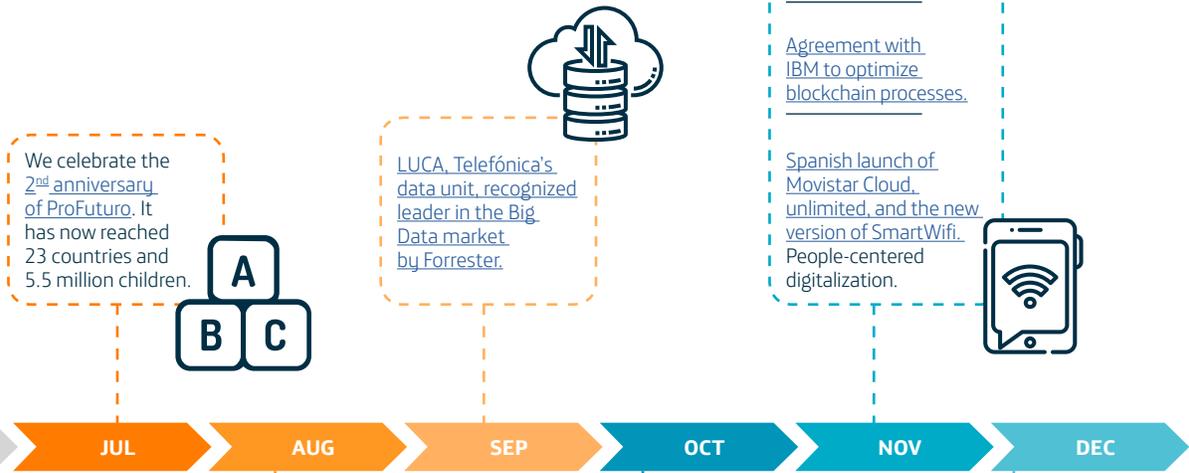
technology is especially important and this is where Telefónica already plays a special and increasingly important role. Our Company, because of its position as the enabler of all digital services, its history, its social and economic involvement in all the countries in which it operates, is in a key position to make a substantial contribution to sustainable development. A contribution which, despite being a company with almost 100 years of existence, has only just begun and which is fundamentally articulated around three lines of action:

- » Provide people with the power of connectivity.
- » Optimize our capabilities for a sustainable digital future.
- » Ensure maximum responsibility in all our actions.



1.3. Main business milestones in 2018





We celebrate the 2nd anniversary of ProFuturo. It has now reached 23 countries and 5.5 million children.



LUCA, Telefónica's data unit, recognized leader in the Big Data market by Forrester.



Telefónica, among Europe's 100 digital pioneers, according to Financial Times.

Telefónica presents the beta version of its Cloud Virtual Data Center 4.0 service at VMworld Europe.

Netflix and Movistar Play in more than 10 countries in Latin America

Agreement with IBM to optimize blockchain processes.

Spanish launch of Movistar Cloud, unlimited, and the new version of SmartWifi. People-centered digitalization.



Agreement with Allot, McAfee to launch cybersecurity solutions for SMEs.

One million customers have chosen our fibre-optics in Spain. People-centered digitalization.



We are one of the first companies with a code of ethics for AI: Principles of Artificial Intelligence.

16th Edition - International Telefónica Volunteer Day: More than 22,000 Telefónica Volunteers in 31 countries.

Telefónica wins the award for Best Latin American Wholesale Operator at the 2018 Carrier Global Awards.



Telefónica IoT world leader in the Magic Quadrant of Managed M2M Services for the fifth year running.

Telefónica exceeds the target of being 50% renewable, with the target of being 100% renewable by 2030.

4th Edition of the Sustainable Innovation initiative: 155 proposals from 17 countries.

For the fifth consecutive year, Telefónica is the world leader in climate change management according to the CDP's List "A". The results were published in January 2019 based on data from 2017, due to a change in methodology in the CDP.





1.4. Our impact on communities and tax information

Connectivity plays a fundamental role in the data economy. Our sector has become an essential part of people's lives.

1.4.1. Contribution to progress

At Telefónica, we believe our contribution to society goes beyond the Company's economic value and, therefore, we assess and monitor our contribution to an impact on our surroundings.

Telefónica is one of the main driving forces behind economic progress in the societies in which we operate. The company has significant impacts on GDP, employment, environmental efficiency, SDGs

and local tax revenue. We also perform internal analyzes of external factors and apply methodologies that quantify the impact of our products, technological projects and services. To date, we have analyzed IoT solutions, connectivity services, energy efficiency projects, health care platforms and mobility management services, etc., assessing said services for society and detecting potential negative impacts that need to be corrected or minimized.

INTERNAL ANALYSIS OF EXTERNAL FACTORS



For every euro of OIBDA obtained, we contributed 3.4 euros to the GDP of the main countries in which we operate.

1.4.2. Impact on GDP

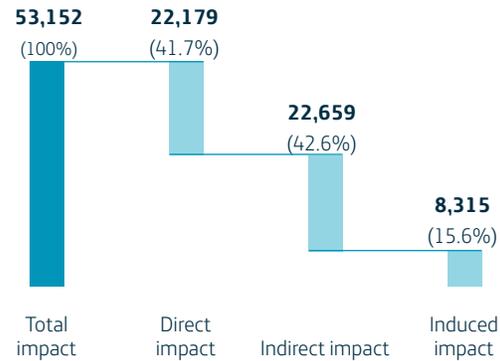
According to internal calculations based on the methodology developed by PWC in 2015, our global contribution to GDP in 2018 was 53,152 million euros, which is almost 0.5% of the total wealth generated in the most relevant countries where we operate.

For each euro of GDP created directly in the nine most important countries, we indirectly generated an additional 1.4 euros in 2018 through our spending and investments.



IMPACT ON TELEFÓNICA GROUP GDP IN 2018

Millions of euros (%)



Total impact: Total impacts generated by corporate activity and the expenses and investments we make in the countries in which we operate.

Direct impact: Impacts generated directly by the development of our activity.

Indirect impact: Impacts generated by the expenses and investments carried out throughout our supply chain.

Induced impact: Impacts generated by increased consumption, derived from the increase in labour income generated by direct and indirect employment.

IMPACT ON THE GDP OF THE MAIN COUNTRIES WHERE WE OPERATE IN 2018

Millions of euros (% of local GDP)



(1) Calculated data on 2018 closure estimates of the corresponding local public bodies (INE, DESTASIS, etc.).

1.4.3. Impact on employment

Employment is one of the main social concerns in many of the communities in which we are present. Therefore, we place particular importance on how we affect the capacity for creating and maintaining jobs.

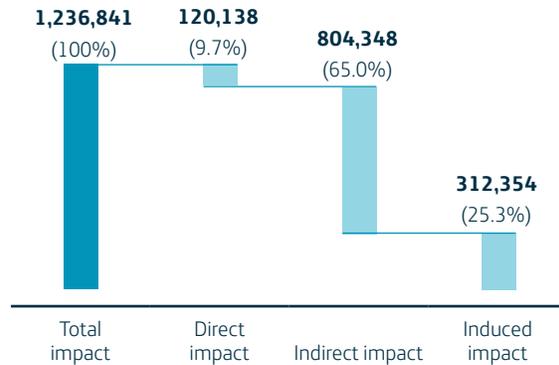
According to the methodology used for the impact analysis, Telefonica's contribution to worldwide employment in 2018 amounted to 1,236,841 direct and indirect jobs. This means that, in the countries in which we operate, our business creates 9.7 jobs per person we employ.



In 2018, our contribution to worldwide employment amounted to 1,236,841 jobs.

IMPACT ON TELEFÓNICA GROUP EMPLOYMENT IN 2018

People (%)



Total impact: Jobs generated by the corporate activity and the expenditure and investments we make in the countries where we operate.

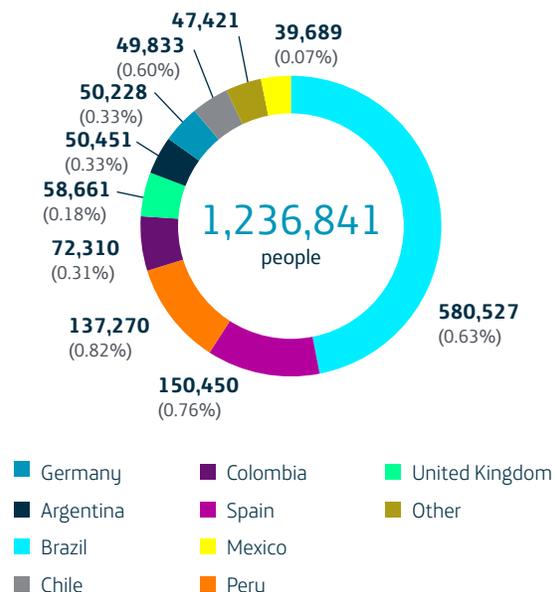
Direct impact: Employees hired directly.

Indirect impact: Jobs generated in those companies and sectors receiving our expenditure and investments and by their respective suppliers.

Induced impact: Jobs generated in all sectors of the economy thanks to economic activity generated in induced form.

IMPACT ON EMPLOYMENT OF THE MAIN COUNTRIES WHERE WE OPERATE IN 2018

Total people employed (% of total local employment)



1.4.4. Positive impact on the environment

Certain aspects of our business have a negative effect on the environment; however, the Company's services generate environmental benefit because digitalisation offers our clients us solutions to major environmental challenges.

We therefore analyse our net impact, specifically on climate change, because it is the main environmental challenge worldwide and also the area in which we have the greatest influence on a global scale.

 More information, in the chapter titled "2.2. Digitalization and the environment".

a) Telefónica's carbon footprint

We reduce the impact on climate change by decarbonising our activity, betting on a decoupling

between the traffic growth that passes through our networks and greenhouse gas emissions. The goal is to bring our efforts in line with the level of decarbonisation required to limit global warming to below 2°C; accordingly, we aim to reduce our emissions by 50% by 2030.

Our carbon footprint comes primarily from electricity consumption, so we are committed to making our electricity consumption 100% renewable by 2030.

At the present time, 58% of our current electricity consumption comes from renewable sources globally, 100% in Europe and Brazil (Telefónica Brazil 100% renewable since November 2018). Together with an ambitious energy efficiency programme, this has reduced our carbon emissions by 37% in absolute terms and 36% in revenue intensity compared to 2015.

We also take into account the impact our value chain has on climate change as a result of our business. We therefore calculate our Scope 3, which has been reduced by 12% since 2016.

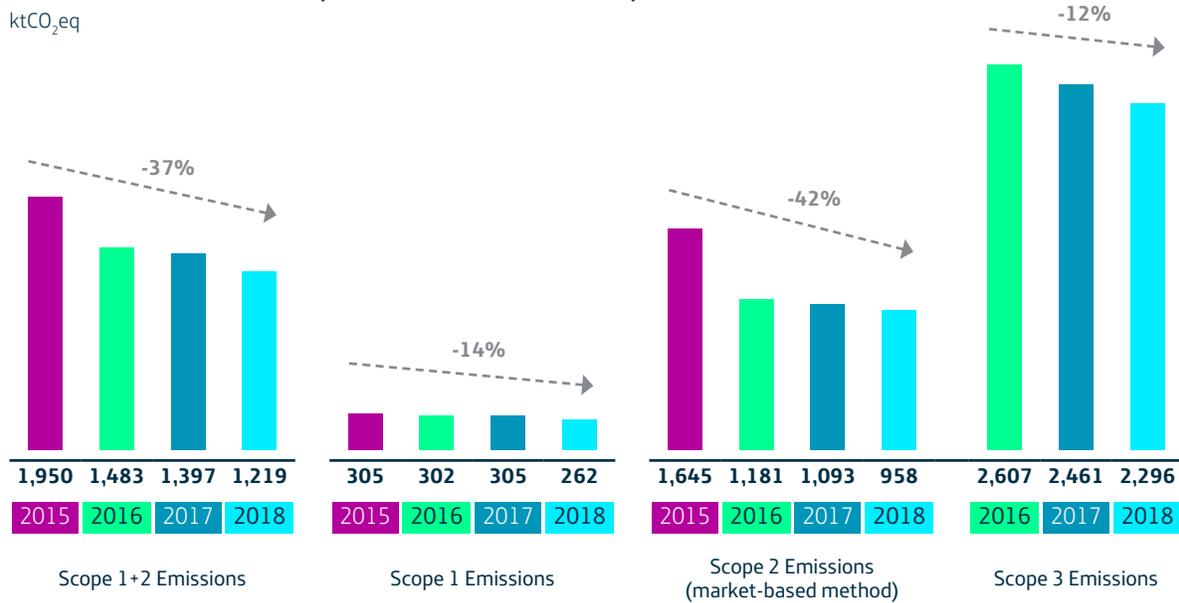


(1) Telefónica Brazil 100% renewable electricity since November 2018.

Telefónica's emissions without our renewable energy plan would have been 80% higher.

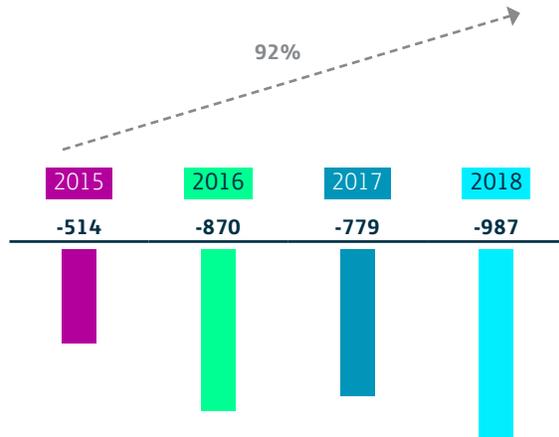
TELEFÓNICA EMISSIONS (SCOPE 1 + 2 AND SCOPE 3)

ktCO₂eq



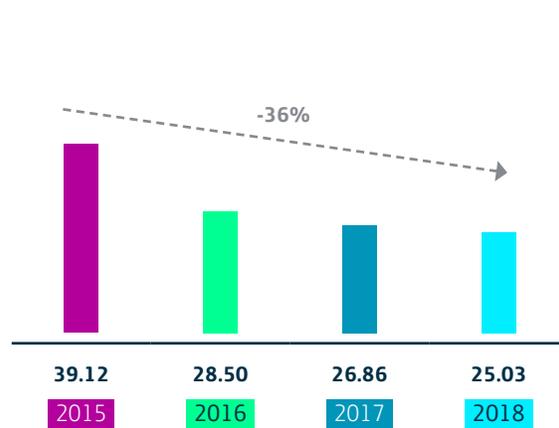
EMISSIONS AVOIDED BY USING RENEWABLE ENERGY

ktCO₂eq



INTENSITY OF EMISSIONS (SCOPE 1+2/REVENUE)

tCO₂eq/Million euros



Scope 1: Our Scope 1 emissions come from two main sources; fuel consumption in our lines of business and fugitive emissions of refrigerant gases from air conditioning units. We reduce them through different initiatives, such as replacing fuel-powered generators with renewable self-generation or substituting cooling units with free cooling or with other units with refrigerant gases with lower warming potential. Through these measures we have reduced this scope by 14% compared to 2015, which represents a reduction of more than 43,500 tonnes of CO₂ eq emissions per year.

Scope 2: Scope 2 emissions, from power consumption, are the most significant in our activity. The actions we carry out to reduce them are based on implementing energy efficiency projects and on transitioning to consuming more renewable energy. Through these actions we reduced our Scope 2 emissions by 42% in 2018 compared to 2015, which represents a reduction of more than 687,000 tonnes of CO₂ eq emissions per year.

b) Our ecosmart services

Our greatest contribution to reducing and adapting to climate change will undoubtedly come from increased digitalisation, supported by a renewable network and solutions that are already responding to environmental challenges.

Our services enable us to reduce carbon emissions from other sectors and increase the resilience of the communities in which we operate. For example, we have IoT and Big Data services designed to improve our customers' mobility and energy efficiency; and our Cloud and video-conferencing services also prevent greenhouse gas emissions.

c) Net positive impact

When considering our net impact on climate change, we take into account those of the Company's emissions that are necessary to provide our services and the emissions avoided through digital services. The difference between the two gives our company's net positive impact, avoiding more than 180 thousand tCO₂.

According to the energy and climate change strategy, Telefónica will contribute to a decarbonised economy. Year after year we will avoid more emissions than we generate in a 3 to 1 ratio in 2021. That is, for each emission ton, we will be able to avoid the atmosphere 3 in the next 3 years.

*Through our services
we avoid more
carbon emissions
than we generate.*

1.4.5. Contribution to local tax revenue

Our contribution to the economy and society as a whole may be quantified not only in terms of corporation tax but also by means of other specific contributions in the countries in which we operate. These include fees (for use of the public domain and the financing of the radio and television corporation, among others), local taxes, social security payments and similar contributions in other countries.

Besides these direct taxes, as a result of our business and on behalf of other taxpayers, we pay other amounts into the public coffers as part of the company's total tax payment. Such payments include indirect taxes, withholdings applied to workers' salaries and others.

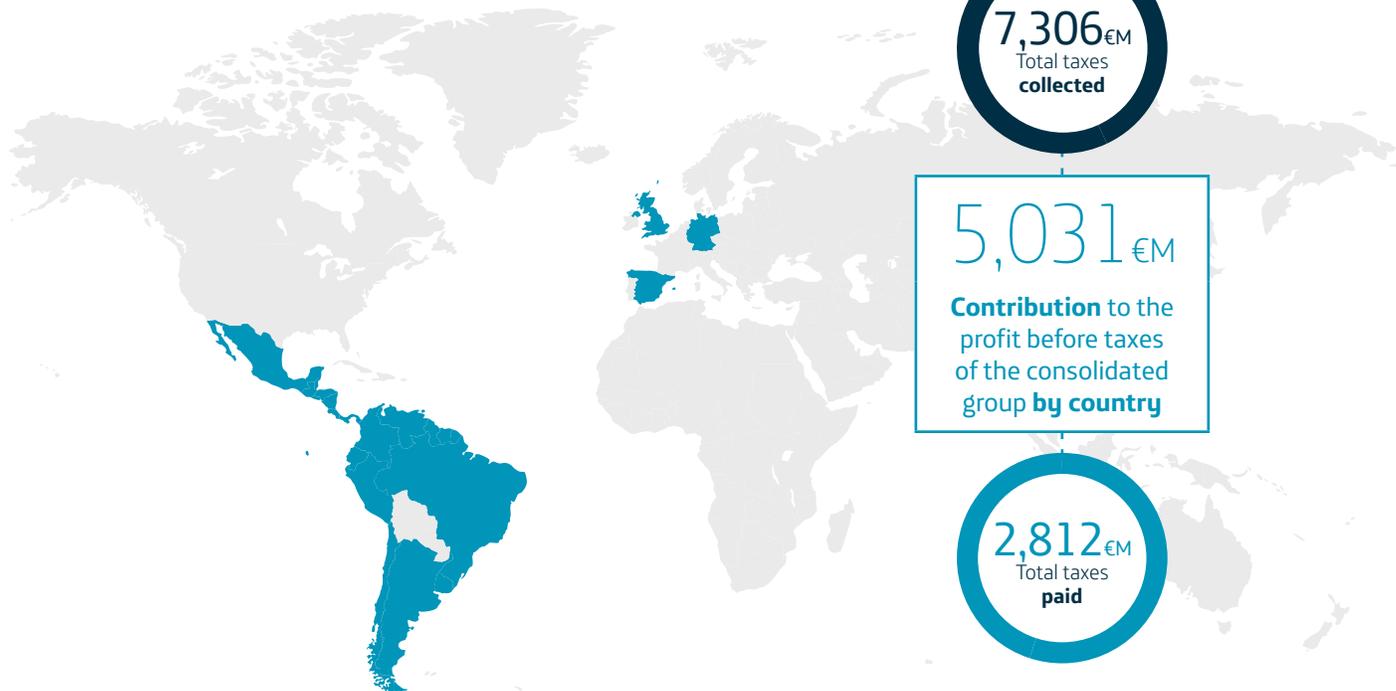
Accordingly, in 2018 our Total Tax Contribution (TTC) stood at 10,118 million euros (2,812 million euros in taxes paid and 7,306 million in taxes collected), accounting for 47.7% of our distributed value⁽¹⁾.

As the markets that return the highest operating profit, Brazil and Spain were the jurisdictions with the highest figures for taxes paid and collected.

Thus, for every 100 euros turned over by the Company, 20.8 euros were paid in taxes (5.8 for taxes paid and 15 for taxes collected).

The group's income tax figure stands at 865 million euros, with 22 million euros in subsidies received by Telefónica in 2018.

CONTRIBUTION TO LOCAL TAX REVENUE



Millions of euros	Contribution by country to the profit before taxes of the consolidated Group ⁽¹⁾	Total taxes paid	Total taxes collected	Totals
Germany	181	214	599	813
Argentina	335	293	500	793
Brazil	2,631	788	3,097	3,885
Central America	131	60	78	138
Chile	154	44	196	240
Colombia	49	110	156	266
Ecuador	13	109	28	137
Spain	981	743	1,950	2,693
Mexico ⁽²⁾	-589	92	82	174
Peru	-81	113	148	261
United Kingdom	713	164	450	614
Uruguay	127	18	11	29
Venezuela ⁽³⁾	159	1	1	2
Others	228	63	10	73
Total	5,031	2,812	7,306	10,118

(1) Contribution to the consolidated profit before taxes for 2018, adjusted for the coupon corresponding to the undated deeply subordinated securities. The consolidated financial statements of the Telefónica Group are drawn up in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The local accounting regulations applicable in each of the countries in which the Group is present may differ from the standards set by the IFRS.

The table above groups together all companies of the Group according to the country of their registered office. This grouping does not coincide with the distribution by segment of the Telefónica Group. The results by country include, as appropriate, the effect of the allocation of the purchase price to the acquired assets and the liabilities assumed. The results by country exclude income generated by dividends of Group subsidiaries, as well as the change in the provision for impairment of investments in companies of the Group, which are eliminated in the consolidation process.

(2) This includes the impairment of goodwill allocated to Telefónica Móviles México recorded in 2018, amounting to 350 million euros.

(3) The financial result derived from the correction for hyperinflation of the net monetary position and of the exchange differences due to balances in foreign currency of Telefónica Venezolana was 219 million euros in 2019. The expense for deferred tax liabilities corresponding to the adjustments due to inflation of net assets which, according to the current tax legislation in Venezuela, are not tax deductible amounted to 186 million euros in 2018. The loss after tax of Telefónica Venezolana in 2018 amounted to 34 million euros.



1.4.6. Contribution to Sustainable Development Goals

We play an important role in the 2030 Agenda of the United Nations and in achieving the Sustainable Development Goals (SDGs), because, as we have seen, new digital technologies are today one of the main driving forces behind economic and social change.

Accordingly, we made a detailed analysis of our capacity for contributing to the SDGs in 2016 and we update the study each year. Our aim is to evaluate development during these first 3 years and constantly adapt our priorities and lines of action.

Specifically, our business has a clear impact on 'Goal 9: industry, innovation and infrastructure'. However, our commercial activity and technological solutions mean we are capable of actively contributing to other goals, such as 'Sustainable cities and communities' (SDG 11), 'Decent work and economic growth' (SDG 8), 'Gender equality' (SDG 5), 'Climate action' (SDG 13) and, through *Fundación Telefónica*, 'Quality education' (SDG 4).

For each of the main SDGs identified as priorities, we have defined a number of medium- and long-term targets and indicators to help us monitor our contribution. This means we can strengthen and boost the lines of the Company's business that most increase the positive impact we have on society.



More information, in the annex "2.9.6. Sustainable Development Goals".

We have medium and long-term objectives, as well as indicators that reflect how our contribution to the SDGs we have identified as priorities is evolving.

TELEFÓNICA'S COMMITMENT WITH SUSTAINABLE DEVELOPMENT GOALS



Boost global and accessible connectivity.

Telefónica's goals:

- » Provide internet access to 100M people in LATAM by 2025.
- » Improve LTE coverage and promote the deployment of 5G.
- » Promote sustainable innovation projects.



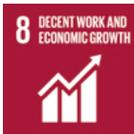
Democratise education for children worldwide.

- » Transform the education of 10 million children by 2020.



Achieve gender equality.

- » 30% of executive positions held by women by 2020.
- » Promote activities for sensitisation and raising awareness of unconscious bias for the entire workforce.



Job creation and economic growth.

- » Have a positive impact on local tax revenues and economies.
- » Create high quality jobs.



Encourage the use and development of smart services for communities.

- » Promote ecosmart services (10 tCO₂ avoided / 1 tCO₂ emitted) by 2025.
- » Reduce or mitigate financial and environmental losses caused by natural disasters.



Fight climate change and improve the efficiency and use of resources. Promote the use of affordable, safe, sustainable and modern energy for all. Ensure sustainable consumption and production models.

- » Reduction 50% GHG (Scope 1 + 2) by 2030 (year base 2015).
- » Reduce +70% energy consumption per unit of traffic by 2020.
- » Achieve 100% of electricity consumption from renewable sources by 2030.
- » Reduce 30% emissions of suppliers/€ destined to purchase by 2025 (year base 2016).
- » Boost waste recycling.



1.5. A more human connectivity

Technology reaches every dimension of the human being and society. There is no denying its positive contribution to our lives, our surroundings and businesses. However, it also brings uncertainties that lead us and our stakeholders to question its impact on our lives.

Technology should unite not separate; it should improve our lives, not take control; it should let us share experiences and opinions, not hide our existence or render us anonymous.

We are convinced it is people who give meaning to technology, not the other way round. In that belief, we work to ensure that technological progress brings a higher quality of life, free from fear.

Therefore, we have set ourselves a mission:

“To make our world more human, connecting people’s lives”.

More information, in the section of our web “Our mission”.

We know that the most important connections are human connections. When we are connected, humanity not only exists, it progresses. Our work is key in that progress, and so we offer networks that unite rather than isolate, services that invite people to be themselves, to express themselves, to share and collaborate. Connections that ensure the safety, integrity and dignity of every individual and the groups

to which they belong, leaving no one behind. Bringing people, companies and society together to prosper and enjoy.

We pledge to achieve our aim by working to **our Company values:**

» **We are open.** We believe that the best solutions are found through collaboration, amiability and transparency at work. We are an open system in which everyone counts.

More information, in the section “1.9. The vector of innovation”.

» **We are challengers.** We offer innovative solutions, we transform and simplify our stakeholders' lives. And we are not stuck in our ways; we are always willing to change to do things better.

More information, in the section “1.10. CASE STUDY FLAGSHIP: Internet for All”.

» **We are trustworthy.** We work in an honest, simple, committed manner, offering safe, quality connections. We are still here after almost 100 years of constantly adapting to our customers' needs.

More information, in the section “2.8. CASE STUDY FLAGSHIP: Blockchain in the supply chain”.



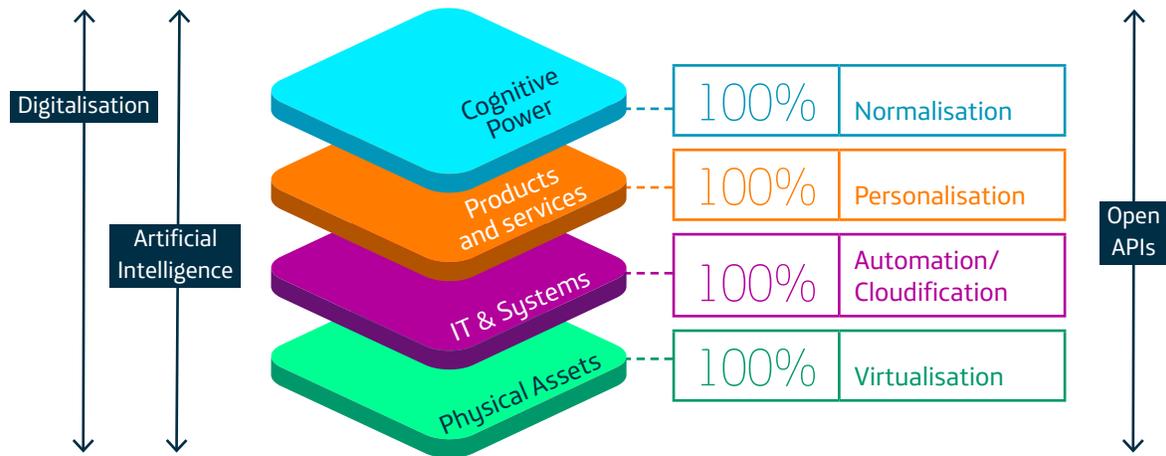
1.6. An inclusive-platforms company with the customer at the center

Today, Telefónica is a communication networks, digital services and entertainment company using technology to create a better, more inclusive society. Telefónica is committed to developing infrastructure and solutions that make the digital world accessible to everyone, whatever their location, economic status, knowledge or capabilities. That network is precisely the gateway to the digital world, giving meaning to communications, facilitating relations among people, speedy transmission, the acceleration of change and the exponential growth of many industries.

Telefónica is at the cutting edge of technological transformation through its platforms strategy:

- » **First platform.** The network, as the basis of connectivity.
- » **Second platform.** The information systems, as the source of digitalization.
- » **Third platform.** Offer of services and products.
- » **Fourth platform.** A centralized and normalized view of the data.

PLATFORM STRATEGY



1.6.1. First platform: the network is the basis of connectivity

The network is Telefónica's main asset, the platform that enables us to develop all the other platforms, our springboard for innovation. A network originally designed to carry voice traffic that has become a flexible, open, dynamic and secure data network, evolving through initiatives such as virtualization and 'cloudification', incorporating artificial intelligence technologies to improve its management.

Telefónica is the leader in Europe in the deployment of fibre. In Spain alone, there are more homes with fibre than in Germany, the United Kingdom, France, Italy and Portugal. That experience in the roll-out and connection of fibre has permitted the industrialization of those processes, which represents a competitive advantage as it considerably reduces costs, incidents and installation times, accelerating the execution of investments in each country.

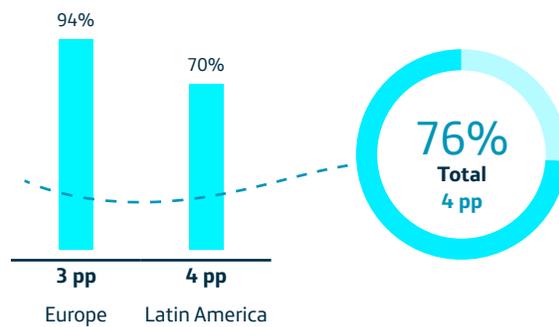
That means replacing the old telecommunication networks based on copper infrastructure, which, in the case of Spain, have been in operation for over 80 years, with new, innovative technologies such as FTTH (Fibre To The Home, Fibre to the Curb, etc.). Telefónica Spain's goal is to be one of the first countries to complete the transition to fibre, for which we have implemented a gradual switch-off of copper exchanges, at the rate of 1 per day, until 700 exchanges have been shut down by 2020, thereby improving the quality of the service by reducing network outages by over 60%. Telefónica's fibre network is now able to deliver download speeds of up to 2.5 Gbps, and to evolve even further, to 25 Gbps, in the future.

The Group's FTTx/cable coverage at close of December was 82.7M premises passed⁽¹⁾ (50.5M of our own network, +14% year-on-year); 21.3M FTTH in Spain, 9.4M FTTx/cable in Latin America (+37% year-on-year) and 19.8M in Brazil; and the connected accesses grew by 21% year-on-year (13.2M), which means that over 44% of broadband customers enjoy speeds of over 50 Mbps.

The efforts made in the roll-out of 4G networks, with coverage in excess of 76% of our footprint, together with the commercialization of smartphones and the growth in the use of mobile data, have made it possible for many people and companies to benefit from the digital society. Evidence of that is the fact that average mobile data consumption per customer in our network is 2.6 GB/month, i.e. an annual growth of 53%. Likewise, LTE traffic accounts for 65% of all traffic in our mobile networks.

LTE - 4G NETWORK COVERAGE 2018

and year-on-year variation



GLOBAL SMARTPHONES PENETRATION 2018

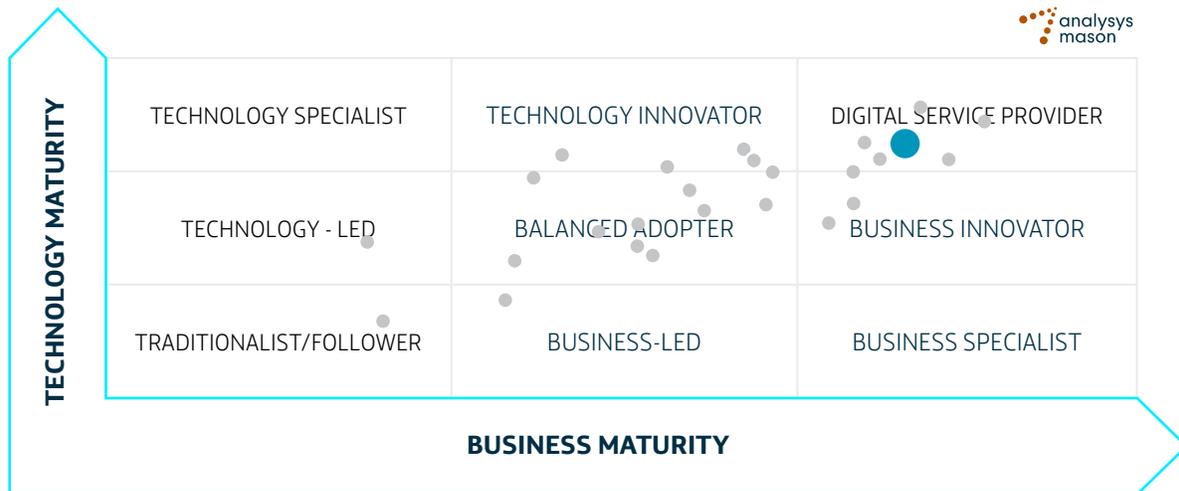
and year-on-year variation



This network must grow and adapt in order to absorb the volume of data, which increases exponentially each year: between 2015 and 2018, data traffic in our mobile networks increased 4.3-fold, and 2.3-fold in land-line networks (4.7 Exabytes/month). So, Telefónica is reinforcing and transforming its main infrastructure, advancing towards a fluid network that adapts dynamically to customers' needs, with the greatest capacity and reliability. With our network virtualization program, UNICA, we can rollout new network functions and solutions in a flexible, efficient manner. In 2018, we launched UNICA in 11 countries and 2 global centers. Telefónica is leader in its sector in network virtualization, as reported by [Analysys Mason](#) in its 'Telco Cloud Index 2018'.

(1) Premises passed: units passed with fibre to the home in the case of FTTH or with fibre to the wardrobe, to the home or VDSL or cable in the case of FTTx. The difference with households is that it includes premises and empty dwellings.

TELEFÓNICA'S POSITION IN THE TCi MATRIX



● Telefónica

Source: Analysys Mason.

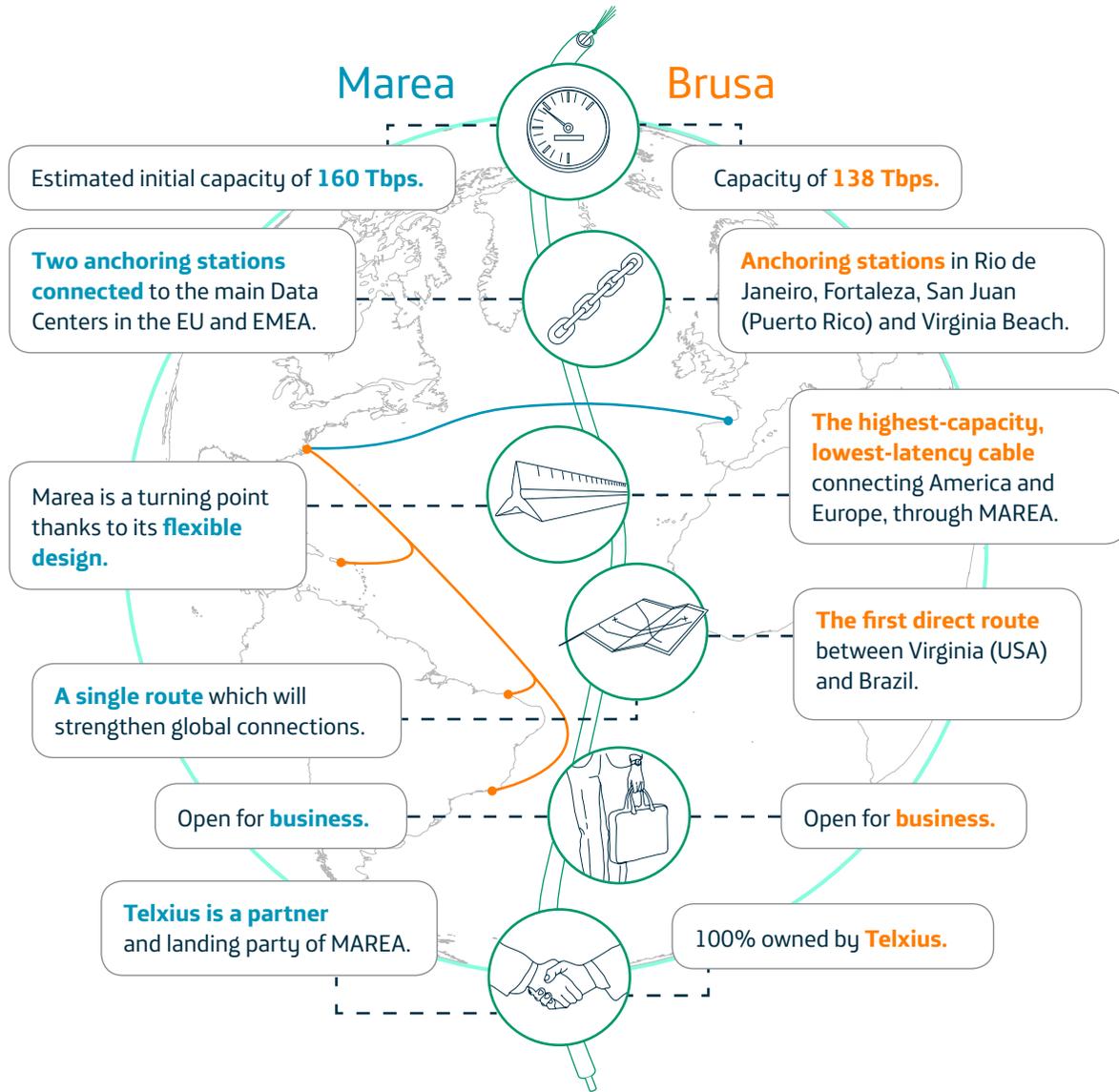
However, we think not only about the network, but also the devices we have in our customers' homes, in order to provide them with the best service. We have developed the HGU (Home Gateway Unit), a high-performance router which optimizes customers' WiFi and provides the best connectivity (up to 1Gbps). We have currently more than 4 millions installed HGUs in all our footprint. We also recently launched another smart device for the home: [Movistar Home](#), which incorporates the artificial intelligence of [Aura](#) so that users can manage the contents of Movistar+ and the communications and connectivity of the device in a user-friendly way.

Our attitude is one of openness and interoperability. Until now, network devices have been based on proprietary standards, which have increased costs and hampered flexibility. Proprietary standards can also be opaque in the way they process information. Telefónica is committed to the opening-up of standards and devices, with important global consortia such as TIP ([Telecom Infrastructure Project](#)) or ONF ([Open Networking Foundation](#)). That is already bearing fruits, such as 'Internet for All', which has made it possible to efficiently rollout infrastructure in the most remote, underprivileged areas of the Amazon region.

⊕ More information, in the section "1.10. CASE STUDY FLAGSHIP: Internet for All".



THE WORLD'S TWO LARGEST FIBRE OPTIC SUBMARINE CABLES



A key asset in the roll-out of connectivity is [Telxius](#), a Telefónica telecommunications infrastructure company that manages a large number of towers in six countries (over 16,550 towers) and an international, high-capacity optic fibre cable network. Telxius offers advanced IP services, capacity, placement and security in its international network of some 87,000 km. Among other assets, it manages ten high-capacity underwater optic fibre cables, including the two highest-capacity cables in the world, MAREA and BRUSA.

Beyond the roll-out and updating of networks and the interoperability of devices, **we are ready to respond to** natural disasters, external **factors** and energy failures, etc. **that could cause one-off disruptions in the service.**

All threats to the service must be prevented in order to avoid serious losses that could affect business viability. To achieve that, we have developed processes, mechanisms and techniques that reduce the risks and ensure high availability in the Company's operations in crisis situations and emergencies. Accordingly:

- » We have early warnings and specially trained teams who undertake drills for different types of emergencies.
- » We coordinate the different platforms, which enables us to intelligently use the data we generate. Thus, the use of Big Data as a statistical and analysis tool for certain variables related to climate change or people’s movement patterns helps us define more precise models and more useful scenarios when responding to emergencies and natural disasters. Those patterns can also assist governments and administrations in the management of the resources necessary to respond to such emergency situations.
- » We have **Global Business Continuity Regulations** which, among other matters, contemplate the controls necessary to ensure the security and continuity of our processes, defining the necessary management, roles and responsibilities. These regulations contemplate:
 - › **Business Continuity Plan:** Outlines the process and associated logistics so that the Company can recover and restore critical functions that have been partially or totally disrupted within a given time after an unwanted shutdown.
 - › **Global Crisis System:** By means of which we manage the high-impact incidents that threaten us. It has a Global Crisis Committee, which

includes specialists depending on the type of incident (natural catastrophes, man-made incidents, cyber-threats, incidents in networks, incidents in information systems, etc.). The Committee acts in four phases: alert of the crisis at local level, evaluation of the impact at global level, development of the activity and implementation of the action procedures, and close of the crisis for return to normality.

- › **Ensuring resilient, high-quality infrastructure:** We work to ensure that our network is of the highest quality, resistant to failures and protected from disruptions. We have innovative services to improve our ability to react to those situations, helping the civil population and local administrations to respond more efficiently. For example, satellite equipment maintains communications during the reactivation of infrastructures affected by a natural disaster. We have Cell Backhaul, BGAN (Broadband Global Area Network) and satellite telephone services, which have been used in those cases.
- › **Offering as much information as possible about the status of our networks and services** always, even in adverse situations. Besides periodically publishing reports on the quality of our services, we also offer users tools to check the status of the mobile network in real time via the websites of our brands and countries, e.g. [Movistar](#) in Spain and [O2](#) in the UK.

Significant network outages 2018

Incident	Outage of the O2 mobile data network, United Kingdom.
Date	6 December 2018.
Duration	24 hours.
Impact	O2 customers and customers of O2’s mobile virtual network operators were unable to use their mobile data.
Cause	An expired certificate in the versions of Ericsson software installed in the network. Similar problems affected a limited number of operators in several countries.
Corrective actions	The 2G and 3G mobile data services were restored in 17 hours. 4G mobile data services were restored in 24 hours. O2 issued an apology to its customers and compensated its entire customer base equivalent to two days for customers on monthly plans, a 10% additional top-up in the Pay As You Go service or a 10% discount on mobile broadband connections.

We also collaborate with governments, administrations and humanitarian organizations to strengthen response strategies.

EXAMPLE OF THE MAIN CRISIS AND EMERGENCIES IN 2018

Crisis	Eruption of the Fuego volcano in Guatemala. June 2018.
Type of crisis	Natural disaster.
Impact	Approximately 1.7 million people affected. Over 100 fatalities and over 3 million people evacuated. Damage to antennas and connectivity problems in the localities of Sacatepequez, Escuintla and Chimaltenan. Connectivity was restored in an established average time.
Actions	The Central Protection Office provided every possible assistance and consultancy to collaborate with the Security and Network areas in case of need due to renewed activity by the volcano. Telefónica Volunteers collected donations of 30,000 euros. Donations of medicines were also received.
Crisis	Floods in Málaga, Spain. October 2018.
Type of crisis	Natural disaster.
Impact	Over 600 people affected, 1 fatality and considerable material damage.
Actions	Telefónica volunteers participated in the support work for victims, clearing ditches and channels in the most affected areas.

1.6.2. Second platform: the information systems, as the source of digitalization

Telefónica's systems, which make up the second platform, are also being transformed in order to adapt to the digital challenge. The barrier between the systems and the network is steadily being broken down. For some time now, Telefónica has been working to facilitate the integration of those two worlds, with the development of systems for the automatic management, configuration and monitoring of the network or the development of our own and third-party services.

Our customers demand a truly digital, personalized experience, control over the entire purchase cycle and subsequent use of the services and products, and their interaction with the Company from any place and any device. At close of December 2018, 65% of the processes were digitalized and managed in real time (+6 pp year-on-year), improving the 'time-to-market' and customer experience. Furthermore, 30% of the entire customer base had been migrated to 'Full Stack' systems (+7 pp year-on-year). Our aim is to consolidate that transformation, evolving towards end-to-end automation of the processes, inspired by 'zero touch', ultimately to unify the experience of customers with our brands.

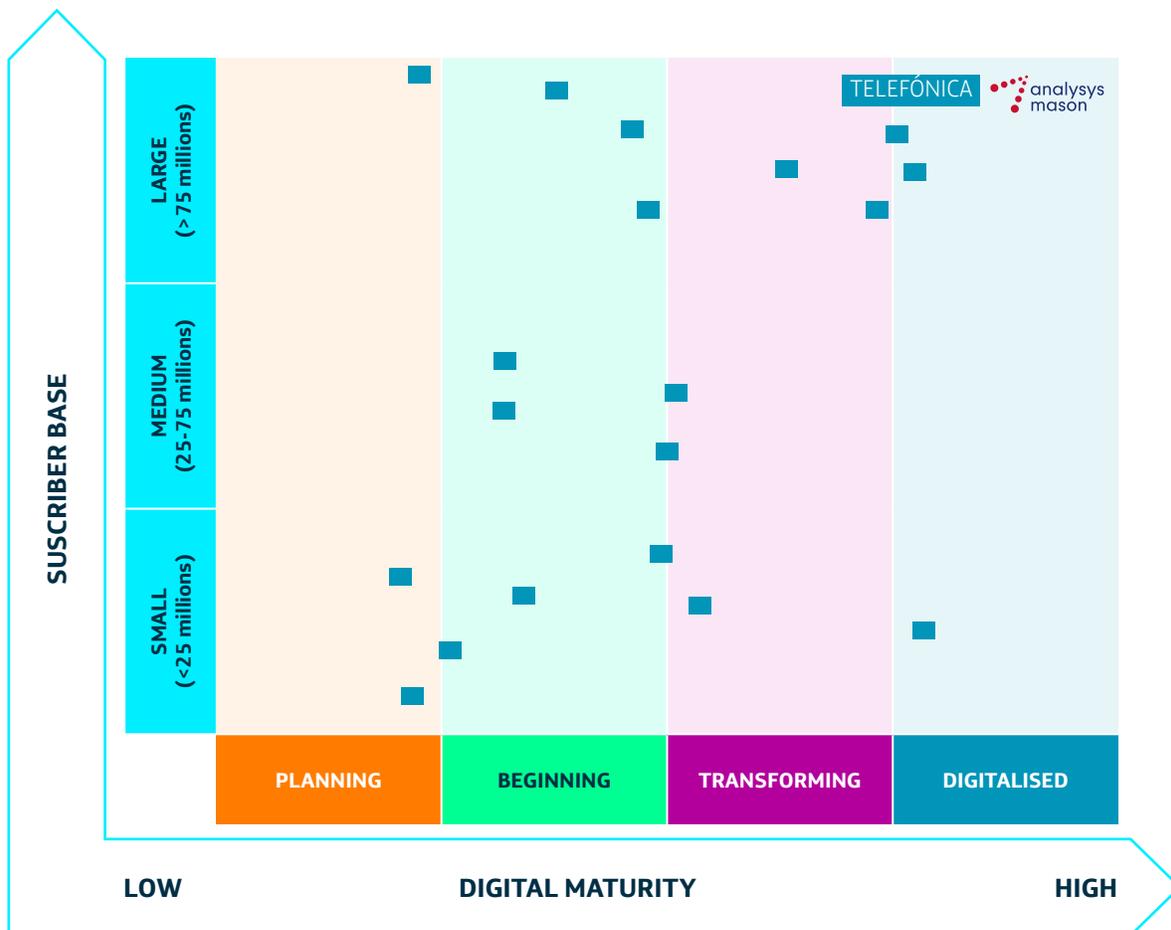
The **E2E Digitalization**, program, the roll-out of the main technological enablers and the constant review of our processes brought the following achievements in 2018:

- » **A better digital experience in the sales process.**
The evolution of the digital marketing ecosystem, the personalization and contextualization of the offering by means of Advanced Analytics (better knowledge of and response to customers and over 80 cases of use implemented in Spain) have made it possible to reduce the sales cost and obtain 30% of the savings achieved in 2018. In Spain, 31% of *Fusión* sign-ups were completed via the online channel (+8 pp vs 2017).
- » **Attention and management through digital channels,** reducing the 'provision cost' (40% of savings), boosted by the automation of customer services (self-management), the use of the app and digital channels, while at the same time reducing the volume of calls to the call center by 17%. Particularly notable was the improvement achieved in Brazil (-27% calls to the call center; +22% use of the 'Meu Vivo' app).
- » **Rollout of cognitive platforms at the Contact Centers,** with the first cases of use in Brazil, and shortly in Peru in 2019.

- » **Greater efficiency in the management of payments and collections**, especially in Latin America, by means of operational simplification (20% of savings) and the introduction of the digital bill (Brazil +16 pp year-on-year; +5 pp in 4Q).
- » **Automation of processes**, with increases in quality and availability and a reduction in costs.
- » In the provision and technical support processes, automation of the resolution of incidents (+30% year-on-year in Spain).
- » Launch of robot development centers ('Robot Factories') in Brazil, Spain, Germany and most operators in Latin America (150 robots).

We are leaders in digitalization according to Analysys Mason's "Digital Experience Index"

TELEFÓNICA'S POSITION IN THE DIGITAL EXPERIENCE INDEX



Source: Analysys Mason

1.6.3. Third platform: offer of services and products

1.6.3.1. Our residential customers

We work to win our customers' trust through simplicity, transparency and integrity. In our offer and in all the contacts with them, we strive to make their life easier in a permanently connected world.

- » First of all, we provide both land-line and mobile services, including voice telephony, as well as broadband access for access to value-added services, applications and content. On the other hand, Telefónica offers wholesale [roaming](#) services (use of mobile services while roaming internationally).
- » Telefónica offers its customers bundled or integrated services which, under one single invoice, provide our customers with access to all land-line and mobile voice, Internet, broadband and television services in one single package. An example of this is the [Fusión](#) service in Spain.
- » One of the main barriers to accessing the Internet, especially in some sectors of society, is the cost of services and terminals. Therefore, although the price per Gigabyte falls year after year, as part of our effort to bring connectivity to the entire population, we work on models and commercial proposals adapted to people with fewer economic resources. Prepay service models (55% of our mobile customer base) and specific broadband packages such as 'Charges per Day' (affordable Internet tariffs offered in several Latin American countries for access to connectivity services by low-income sectors), are just a few examples.
- » We are focusing our offer on more flexible and personalized options to provide customers with the possibility of a tailored product adapted to their needs. This is the goal of several initiatives recently launched in some of our main markets:

["Customise your plan"](#) (UK), ["Vivo Easy"](#) (Brazil), ["Connect"](#) (Germany), ["Pack Digital"](#) (Chile) o ["Pasá GB"](#) (Argentina), among others.

- » We help our customers manage their digital life. With services such as 'Smart WiFi', 'Security' or 'Connected Car', they can extend and manage their communications in a safe and accessible way that also takes into account the digital well-being of the whole family. Smart WiFi is available in 6 countries.
- » In video we have a global platform that offers traditional Pay TV, Video on Demand and multi-device access. We already have almost 10 million TV customers and the leading content offering in the Spanish-speaking world. Our growing capacity for producing our own content has brought successes that include , [Campeones](#), [La Peste](#), [Gigantes](#), [Virtual Hero](#) and [El embarcadero](#).
- » Our Movistar Home service provides customers with voice-based management of their digital life. It is a way of recovering the land-line telephone in the home, turning communications back into something that connects and brings families together at home. It enables access to all our services through the voice of [Aura](#). In addition, it makes it possible for our customers to use natural language with their devices.
- » Services accessible to all: In line with our commitment to placing technology at the service of society, we want to ensure that all these people can attain the benefits of digital transformation, building a more accessible world. To achieve this, the Company's global commitment to accessibility includes:
 - » The development of products and services adapted to the needs of people with disabilities, turning innovative and disruptive ideas into reality.
 - » Actions aimed at improving the accessibility of our customer service and communication channels.



Accordingly, within the framework of the global project Accessible Telefónica, we work to ensure that our value chain integrates the concept of 'Design for All', incorporating accessibility in our processes, products and services from design stage. We organize training and awareness-raising activities for employees and, in particular, for the developers of these channels and solutions.

In order to achieve technological solutions that enable access to information for people with disabilities, we work closely with leading disability associations to know more about the needs and demands of this segment. In Spain this is the case of [Fundación ONCE](#) e [Ilunion](#), [CERMI](#), [CENTAC](#) and [FASOCIDE](#), among others.

This line of work has led to services such as the following:

- › **Movistar+ 5S:** This service allows customers with hearing or visual disabilities to access the contents of the Movistar+ television platform using a three-way accessibility system:

Spanish sign language, subtitling for the deaf, and audio description.

Accessibility of the Movistar+ application, which ensures that disabled users can choose the film or series they want to enjoy on their own and then, use their terminal as an accessible remote control.

- › **Breaking Sound Barriers:** An educational solution developed in collaboration with the Adecco Foundation and Ericsson that translates the teacher's explanation into simultaneous subtitling via a mobile application.
- › **uSound:** A solution that converts the disabled person's smartphone into a hearing aid as an affordable alternative to hearing aids.
- › As far as terminals are concerned, we provide information on the accessibility features of the mobile devices in our catalogue. This means, customers can identify the best terminals for overcoming visual, auditory, cognitive and dexterity difficulties through the use of icons.

In addition to our efforts to have a simple, accessible and innovative offer, we contribute to the **Universal Service Fund** in seven countries, which at the end of 2018 made a global contribution of **246 million euros**. This is a public investment fund whose objective is to guarantee services for all users regardless of their geographical location, in compliance with quality standards and at an affordable price. The investment is controlled by the public bodies designated for this purpose in each country.

1.6.3.2. Our business customers

In the Business segment, **Telefónica is working to position itself as the benchmark partner** for SMEs, multinationals and wholesalers tackling the challenge of digital transformation. **We leverage our assets** to serve business customers anywhere in the world: 75,000 km. of fibre in our international networks, 25 data centers, 12 security operations centers, and 12,000 sales agents, among others.

Our services cover private networks that offer secure and reliable communications to businesses. Thanks to virtualization or SDWAN (Software Defined Wide Area Network), networks are more dynamic, adaptable and accessible. Our networks carry

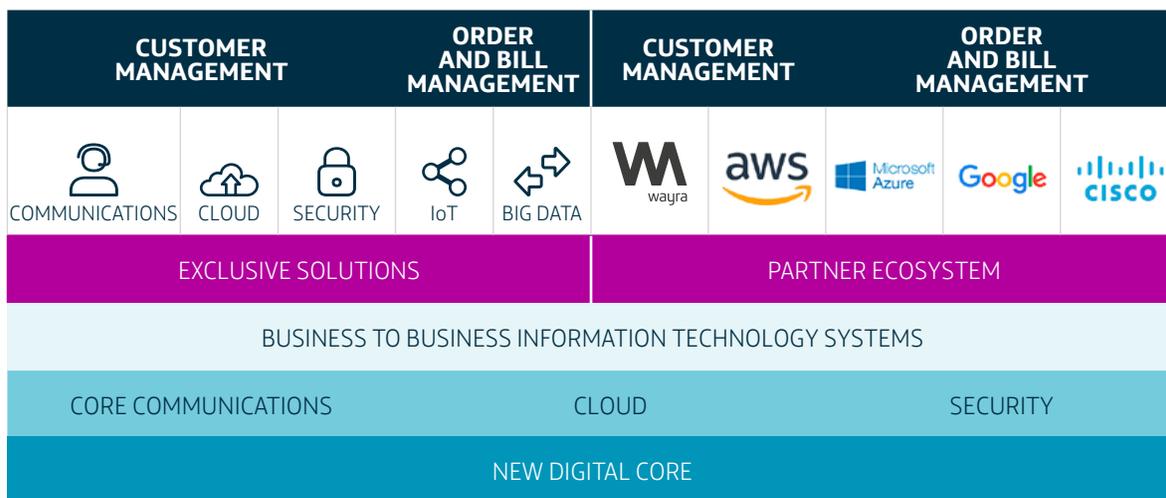
additional layers of security through **ElevenPaths**, which protect them from the growing number of cyber-attacks. We also enable the connection and management of thousands of devices through our IoT (Internet of Things) 'Kite' platform.

Telefónica's model is open, where new partners can enrich our service offer in accordance with our customers' expectations. Accordingly, for example, in 2018 we reached global agreements with Netflix, Amazon and Microsoft to allow us to integrate the best services in a unique experience and meet our residential and business customers' digital needs.

We also help our customers with their own digital transformation by migrating their systems to the cloud using our Cloud services, in alliance with the main world suppliers (AWS, Google etc.). And finally, the transformation of their business through data with LUCA, our Big Data unit.

In the **Business segment** we have a **'lego-like' value proposition** where **our digital services and those of our partners** are at the top of the New Digital Core (Communications Services + Cloud + Security).

LEGO-LIKE VALUE PROPOSITION



For this proposal we work to a model of continuous improvement, based on optimizing processes, appropriately structuring functional areas and digitalizing interaction with the customer. This proposal is deployed in each sub-segment according to customers' requirements.

SMEs: Improving the experience and satisfaction of small and medium enterprises

Throughout 2018, under the levers of personalization, convergence, end to end vision, digitalization in customer service processes and the automation of tasks in our Contact Center, we have achieved notable improvements in customer experience. We highlight the following:

- » New **global technical support model**, implemented in several Latin American countries, significantly reducing complaints and billing adjustments.
- » New **operating model for after-sales service**, transformed to increase customer satisfaction and offer a personalized, digital experience.
- » **Digitalization of our customer service** through the development of new customer service channels (Live Chat, APP and Web) and the automation of our internal processes, together with the application of analytics techniques to our operations.

Large Enterprises: Creating committed customers

Our Large Customers' requirements have evolved towards the search for ad hoc solutions and experiences. Accordingly, we have developed a large number of programs to strengthen our relations and effectiveness in this segment. Here, the main achievements in 2018 are as follows:

- » **"Customer Centric Leadership"** program, which implements an excellent relations model, placing the customer at the center of decision-making processes and creating relationships of loyalty and commitment.

- » **"Voice of Customer"** Program (VoC) which gives us 360° vision, providing more efficient and effective responses and actions according to their needs.
- » Loyalty and awareness-raising initiatives, such as the following programs: **operational improvement of the customer experience⁽¹⁾**; **awareness and communication of customer experience⁽²⁾** and **"Zero Dissatisfied Customers"**⁽³⁾.

We are also already working on the creation of analytical models, using Machine Learning and Big Data techniques to develop proactive proposals and improve our personalized offer, customer loyalty and their link with our brands.

1.6.4. Fourth platform: normalization of data with cognitive experience

Our fourth platform processes all the data generated by Telefónica in an integrated manner, ensuring power and control for the customer and always placing privacy and security as the top priority. It ensures a set of consistent capabilities in our business management and provides greater flexibility for sharing the data generated through the services we provide with our customers.

As an **absolute reference**, the core of this initiative is the **protection of our customers' privacy**, providing them with tools to understand the potential of their data but also the risks involved when they are used in a non-transparent manner.

A centralized and standardized view of data allows us to apply artificial intelligence on an industrial scale to all our business areas, from operations to supply (LUCA, Aura, etc.). In particular, the technologies associated with Big Data and data analysis are proving an invaluable tool for serving our customers and contributing to a more digital and humane society by allowing, among other things, the analysis of indicators that increase understanding of the challenges facing different communities.

(1) Aimed at maintaining continuous contact with the client, understanding their expectations and launching action plans that meet their needs.

(2) Allows you to focus on the issues of greatest interest to the client.

(3) Its objective is to proactively identify dissatisfied customers and launch activities that change that perception.

Examples of use cases developed with Artificial Intelligence capabilities on data include:

- » **Advanced network planning system:** It allows the design of our networks to take into account the customer experience from the very start, combined with the search for maximum coverage and optimal capacity in each cell.
- » **Terminal recommender:** It offers a personalised proposal for our customers when they have to change their mobile terminal. Based on the selection available, the proposal will take into account the features that best meet each person's needs.

1.6.5. Our platforms create a more digital and humane society

Telefónica works to build a better and more humane world through technology. And our platforms will allow us to contribute more than ever.

Today, it is no longer simply an aspiration; we now have real examples, such as digital inclusion. Thanks to the use of our platforms, this brings the digital world closer to everyone, regardless of their location, economic status, knowledge or skills. It helps reduce poverty, develop the economic and productive fabric, improve basic services and avoid gaps between connected and unconnected societies.

1.6.5.1. Customer satisfaction indicators

The experience of our customers, the quality plans designed for its improvement and the measurement of their satisfaction are strategic issues for Telefónica. Consequently, they are reported at the highest level in the Executive Committee.

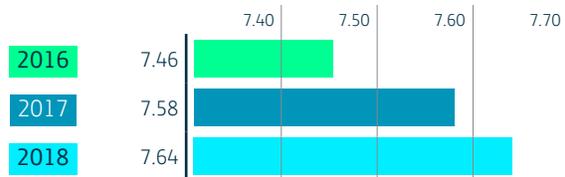
Furthermore, at Group level, the Board of Directors has a **specific Committee dedicated to Quality and Customer Service**. Said committee meets five times a year to review, among other issues, the evolution of customer satisfaction and the main local and global initiatives in said area.

All Telefónica operators conduct monthly customer satisfaction surveys to hear their opinion on the service we provide. The surveys ask about the most relevant aspects of the business, such as network quality, our commercial offer, service through different channels, invoicing, recharging and prices, etc. We then extract one of our main quality indicators: the CSI (Customer Satisfaction Index). This information leads to better relations with our customers and anticipation of their needs.

Offering our customers the best experience to meet their expectations is part of the DNA of Telefónica's employees. For this reason, for some years now, a part of the variable remuneration of the Group's employees has been directly linked to the Customer Satisfaction Index. We provide more information in the Corporate Governance chapter of this report.

In 2018, in the markets in which Telefónica operates, Telefónica's CSI was 7.64 out of 10, being the best historical fact and outperformed competitors in 11 markets.

TELEFÓNICA GROUP CSI



During 2018 we incorporated the NPS to our quality and customer satisfaction monitoring model, closing the year with a result of 20%. By 2019 it will be one of the benchmark indicators in the Company's objectives. We seek to ensure that our customers are not only satisfied with the service we provide, but also that we establish an emotional bond with them that materializes in the recommendation of our services to their closest environment.

In addition, we measure the perceptions that society (client and non-customer) has of the Company's overall performance through the RepTrak model. In this way, we know the emotional appeal of the brands (RepTrak Pulse) as well as the dimensions and business variables that most influence reputation. Our consolidated value of RepTrak Pulse in 2018 was 51.4 points on a scale of 100. This indicator has been incorporated since 2019 in the variable remuneration of the Company's employees.

1.6.5.2. Complaints system and customer defense service

Telefónica offers its connectivity services on a continuous and uninterrupted basis 365 days a year, 24 hours a day. Accordingly, we work to reduce the number of dissatisfied customers and the number of complaints in all our operations.

We also report the number of complaints and their resolution times in all the regulated markets in which we operate in accordance with the guidelines and parameters set by each country's regulatory body.

Country	Regulatory body	Service quality report
 Spain	 Secretaria de Estado para el Avance Digital/CNMT	
 UK	 Office of Communications (Ofcom) Financial Conduct Authority (FCA)	
 Germany	 Bundesnetzagentur	
 Brazil	 Agencia Nacional de Telecomunicaciones (Anatel)	
 Argentina	 Ente Nacional de Comunicaciones (ENACOM)	
 Chile	 Servicio nacional del consumidor (SERNAC) and Subsecretaria de telecomunicaciones (SUBTEL)	
 Colombia	 Comision de Regulación en Telecomunicaciones (CRCOM)	
 Peru	 Ministerio de Transportes, Comunicaciones, Vivienda y Construcción/ Organismo Supervisor de Inversión Privada (OSIPTEL)	
 Ecuador	 Agencia de Regulación y Control de las comunicaciones (ARCOTEL)	
 Mexico	 Instituto Federal de Telecomunicaciones (IFT)	

For instance, in Spain, the Service Quality report is published quarterly on our website as provided in Order IET/1090/2014 of 16 June, which regulates conditions relating to service quality in the provision of electronic communications according to the guidelines published by Spain's Secretariat of State for Digital Advancement (SEAD). **In the last 6 years in Spain, the number of complaints in the residential segment has been reduced by more than 75%.** For the business segment, the complaints reduction project began in 2016 and, in just 3 years, it has successfully halved the number of complaints.

Several pillars have contributed to this significant improvement in the service we provide to our customers:

- » The simplification of the offer with the arrival of convergent packages of Fusión from 2012.
- » The popularization of online procedures that allows customers to manage part of the process on their own.
- » The redesign and improvement of operational processes and commercial policies, involving all areas of the company.

For example, in 2018, resolution times at Movistar Spain were reduced by 25% for the land-line service: from 21 days to just over 16 days. And for the mobile

service, they were reduced by more than 40%: from 30 to less than 13 days.

Complaints systems

In all our markets we provide different channels for our customers to exercise their right to complain at any time 365 days a year, 24 hours a day, 7 days a week. The main ones include: call centers, online channels, our shops and mail post.

Customer Defense Service

Telefónica has a Customer Defense Service in Spain (the only operator to offer it since 2006) and Brazil, and it will soon be extended to other Latin American markets. This service provides a review channel for customers who have previously resorted to the ordinary complaint channels made available by Telefónica, thus acting as a second-instance mechanism.

This service is also responsible for identifying opportunities for improvement in the current processes and actions of the companies in the Group regarding their customer relations. It is simultaneously being set up as an entity independent of the Telefónica Group, which contributes to its objectiveness and impartiality when carrying out its functions and defending customers' rights.

COMPLAINTS SYSTEMS





1.7. Our relations with stakeholders

Over the course of 2018, Telefónica continued its process of transformation and simplification, consolidating its impact on business and society. These two aspects - business and society - explain the Company's mission: to create a more human world in an increasingly technological setting.

This goal is the result of active dialogue with our stakeholders, enabling us to work together on Telefónica's value proposal and materiality while at the same time shaping the society of the future.

The Responsible Business Consultancy Panel was created in 2016 and has afforded structured dialogue with our main stakeholders in all the countries in which we operate. The Panel has two tiers: central and extended, covering all the places in which we do business and evaluating the most relevant material issues for each group. Through that platform for dialogue, Telefónica complements and reinforces each operator's daily relations with local stakeholders. Telefónica's relations with its stakeholders can be summed up as follows:



OUR RELATIONS WITH STAKEHOLDERS

 <p>Involvement and action</p>	<p>BOARD COMMISSION</p>	<p>Who: Commission on Public Affairs and Regulation.</p> <p>What: Supervises, receives evaluation and sets guidelines.</p> <p>Frequency: Annually.</p>
 <p>Dialogue and collaboration</p>	<p>CENTRAL RESPONSIBLE BUSINESS PANEL</p>	<p>Who: Panelists who are experts in sustainability and with a global vision.</p> <p>What: In-depth discussion of the issues identified and prioritized in the opening session.</p> <p>Frequency: Quarterly.</p>
 <p>Consultation</p>	<p>EXTENDED RESPONSIBLE BUSINESS PANEL</p>	<p>Who: Panelists identified by internal areas based on their knowledge of the material issue and influence.</p> <p>What: Structured consultation based on relevant issues common to our geographies.</p> <p>Frequency: Half-yearly.</p>
 <p>Information and dialogue</p>	<p>LOCAL AND INTERNATIONAL INTEREST GROUPS</p>	<p>Who: All local and global stakeholders.</p> <p>How: Through local and global areas, in relation to stakeholders.</p> <p>Frequency: Daily dialogue.</p>

1.7.1. Central responsible business panel

In 2018, following two years of collaboration, we changed the number of participants to further the debate and renewed 30% of the panellists in accordance with the Panel's working principles. Today, it is composed of 12 organizations: Allianz,

Bankia, Cambridge Business Ethics Center, David Rockefeller Center for Latin American Studies, eRevalue, Ericsson, European Women Shareholder, Fundación El País Digital, Gestamp, GSMA, Kream and Systain.

The Responsible Business Consultancy Panel met 3 times in 2018 and discussed key issues previously identified by the panelists:

NEW PANEL STRUCTURE

a) Protect human rights in the new digital context:

Privacy, Health and Safety Diversity and non-discrimination	Transparency Minerals in conflict	Due diligence Areas of influence
	LESSONS LEARNED	CHALLENGES
GENERAL 	<ul style="list-style-type: none"> » Protecting human rights is a complex issue. It requires regular evaluation of our activity and its impact on all stakeholders, reviewing policies, processes, associated KPIs, training... » Protecting privacy and non-discrimination are key aspects of the challenges associated to new technologies: Big Data, Artificial Intelligence... 	<ul style="list-style-type: none"> » Transparency to build trust: report the quantitative and qualitative impacts, and the consequent lines of action and the progress made. » It comprises global level protection, requiring international standards designed to guide development of new technologies in the digital environment: Artificial Intelligence, Deep Learning, Edge Computing...
DETAILS BY STAKEHOLDER 	<p>CUSTOMERS</p> <ul style="list-style-type: none"> » Human rights by design, to ensure comprehensive protection of human rights in all processes and products from the outset. » Access to products and services. <p>EMPLOYEES</p> <ul style="list-style-type: none"> » Basic training to raise awareness and modify processes. 	<ul style="list-style-type: none"> » SUPPLIERS AND SOCIETY » Define the different levels of responsibility and influence in the value chain. Protecting human rights requires the collaboration and engagement of every player. » Incorporate the environmental impact analysis.

b) Artificial Intelligence and the ethical dilemmas it poses:

Privacy and Security Transparency	Ethics Innovation	Human Rights Training	Corporate Governance Regulatory Framework
LESSONS LEARNED		CHALLENGES	
GENERAL	» Advances in Big Data and Artificial Intelligence are already present in our lives, with their benefits and risks . » Perform impact assessments to provide evidence of the potential for use, inclusion and new gaps. » Use reliable algorithms that incorporate ethics by design and do not work as "black boxes". » Set up internal committees to monitor the impact and its implications , consulting external, multidisciplinary groups of experts.		» A cultural change is needed to make intelligent, responsible use of data possible . Not only with regard to obtaining/facilitating new data, but also to managing existing data in both organisations and people. » The international and intercultural perspective increases complexity , given the different regulations, values, economic interests and levels of development.
DETAILS BY STAKEHOLDER	CUSTOMERS » Protect privacy rights and security. Transparency, control and ownership of data use is demanded. EMPLOYEES AND SOCIETY » Regular training to integrate ethics into the design of products and present the new environment to citizens.		SOCIETY » Promote multidisciplinary discussions about the ethical implications of Artificial Intelligence and how to define sector and regulatory frameworks that can eliminate such implications. » Leadership is expected from Telefonica to ensure a fair, transparent and inclusive transition to the new digital ecosystem.

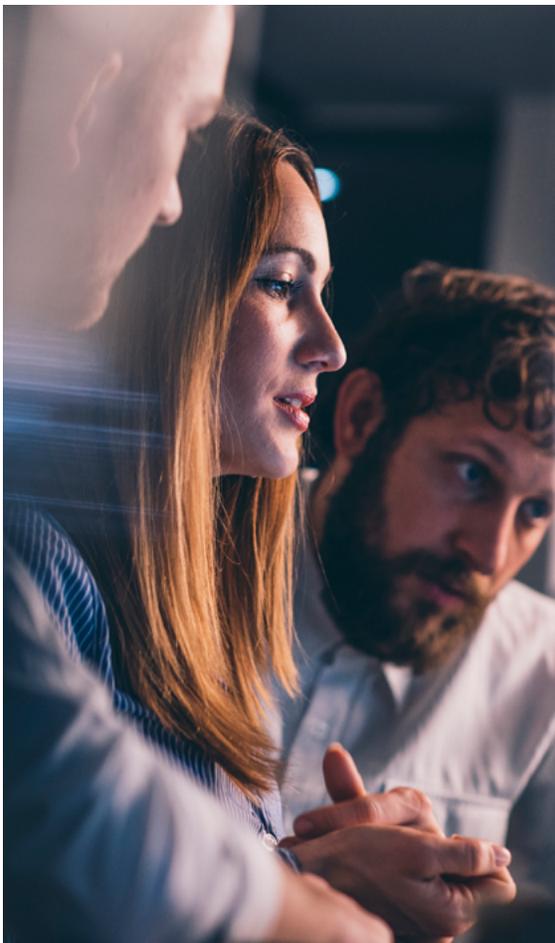
c) Talent and diversity management as growth drivers:

4 th Industrial revolution Purpose and values	Skills Training	Attraction and retention Fair, inclusive work	Culture Customer focus
LESSONS LEARNED		CHALLENGES	
GENERAL	» The big fish does not eat the little one, but rather the fast fish eats the slow one . » The 4th Industrial Revolution will benefit companies capable of innovating and adapting . Accordingly, new skills and a new style of leadership are necessary . » The automation of labour turns people into the greatest source of competitiveness of companies . » Diversity must be tackled using a two-pronged approach; eliminate barriers and talent management . » The diversity policy must be part of the strategy and be aligned with the company's purpose and values .		» Deeper analysis is necessary to understand the correlation between diversity and specific business results and to identify management levers on which to act. » Two keys to a successful diversity management model: (1) A strategic and conscious vision of the diversity and inclusion policy. (2) An integrated management model that involves the entire company, ensuring internal coherence of the different actions .
DETAILS BY STAKEHOLDER	CUSTOMERS » Today, more than ever, diversity is a strategic aspect of business management due to its impact on innovation and competitiveness. EMPLOYEES » Approach diversity from a common framework, addressing the specificities of the different groups at the same time.		EMPLOYEE » Organisation: anticipate and prepare the workforce for the change, developing the necessary skills in flexible, multidisciplinary, autonomous teams . » The new ways of working affect workers' quality of life and it is therefore necessary to ensure digital well-being and the right to disconnect .

1.7.2. Extended responsible business panel

In 2018, the Panel welcomed the participation of 410 organizations in two consultation sessions, with methodological support provided by the [Reputation Institute](#):

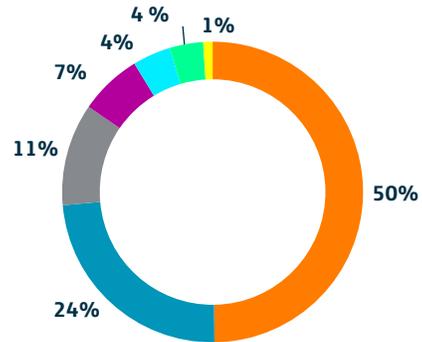
- » **Individual, in-depth dialogue to identify areas for improvement:** with experts from over 50 organizations, ending in February 2018 and results published in the [2017 Telefonica Integrated Report](#).
- » **Online consultation:** perception of the degree of progress and the relevance of the [Sustainable Development Goals](#), with the participation of 367 organizations and 364 employees.



Participation in the consultation on the Sustainable Development Goal

STAKEHOLDERS DISTRIBUTION

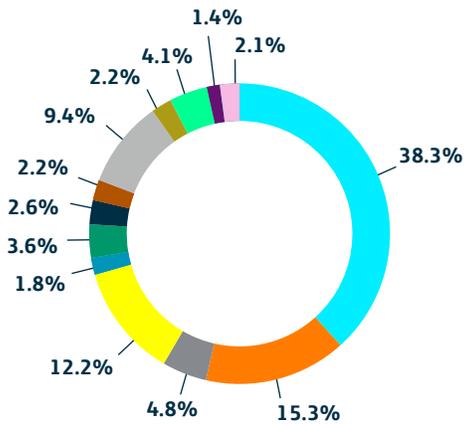
(%)



- Employees
- Society
- Strategic partners and providers
- Government entities
- Customers
- Opinion leaders and media
- Shareholders and Investors

COUNTRY DISTRIBUTION

(%)



- Argentina
- Brazil
- Chile
- Colombia
- Costa Rica
- El Salvador
- Ecuador
- Guatemala
- Mexico
- Nicaragua
- Panama
- Peru
- Corporate

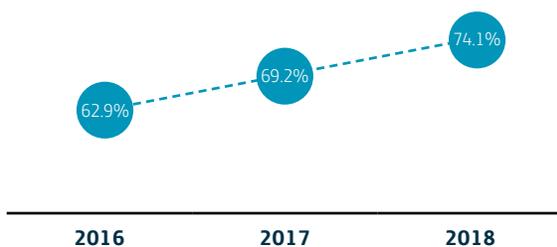
Telefónica's reputation among expert audiences is strong, reaching levels close to 75%.

On this occasion, we evaluated each country's awareness of the SDGs and their perception of Telefónica's performance for achieving said goals.

One of the main findings was that the countries and experts consulted had low-level knowledge of the SDGs and that the private sector was the most active in terms of their fulfillment and dissemination. We stand out among the most active organizations.

Telefónica's impact in terms of the SDGs was perceived as most prominent in goals 4, 9, 11 and 12. Our actions in this area reinforce Telefónica's reputation among the expert audiences, which scores us at levels close to 75 on a scale of 100, according to the [Reputation Institute](#) RepTrak Pulse metric:

REPTRAK® PULSE



1.7.3. Dialogue strategy at local level

In 2018 we updated the stakeholder map at the local level. In this way we identify those organizations that

best represent our main audiences at the local level, according to the categories indicated in Appendix I.

Thanks to the update we have been able to launch initiatives in response to concerns in the different countries, mainly:

- » Creation of the Sustainability and Reputation Committee in Brazil, with functions that include supervising relations with stakeholders, identifying potential risks and taking actions to avoid or mitigate said risks.
- » Specific materiality analysis in Brazil, Panama, Guatemala, El Salvador, Nicaragua and Costa Rica.
- » Dialogue with suppliers on the prevention of corruption in Colombia.
- » Citizen roll-out of fibre optics in Chile, planned in collaboration with local authorities and residents' associations to convey all the benefits of the digital world.
- » Presidency of the gender coordination platform, also in Chile.
- » The 9th Energy Efficiency and Climate Change Workshop, held in Argentina.

With regard to privacy, one of the most relevant material aspects was the presentation and discussion of the new edition of the [Digital Manifesto](#) in the main countries in which the Group operates.



1.8. Material aspects of our business

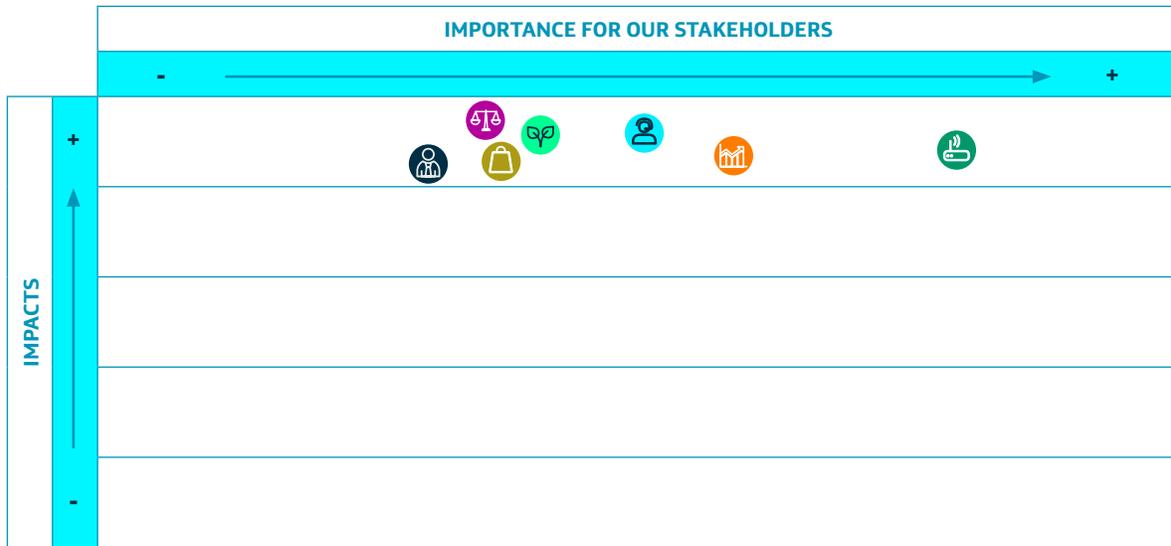
Dialogue with our stakeholders is the main basis for our materiality analysis. They help us identify the main issues we need to respond to and bring sustainability to our business.

To increase comparability and be more thorough, we take into account the materiality analysis

of the Global e-Sustainability Initiative (GeSI), the indications given in the GRI Guide and our business targets. We also regularly validate results at local level.

Thanks to this methodology, we have identified **seven priority issues across our value chain.**

MATERIALITY MATRIX



- 
Digital trust
- 
Telcos as driving forces for development
- 
Customer focus
- 
Environment
- 
Ethical and responsible behaviour
- 
Supply chain management
- 
Attract and retain talent



To evaluate the materiality of issues that affect the sustainability of our business, we take into consideration internal and external factors based on the degree of importance our stakeholders give to each one and their impact on society:

a. Analysis of importance for our stakeholders:
We take into account [our stakeholders'](#) expectations and reasonable interests according to their involvement and dialogue at the Company.

b. Impact analysis: We award the status of 'significant impact' to impacts that affect the economy, the environment and society, and that are of concern to our stakeholders or have been identified as fundamental to our purpose and mission, competitive strategy and the expectations given in the international agreements and standards to which we subscribe, such as the SDGs of the United Nations and the GSMA.

The issues arising from this exercise in materiality define our Responsible Business Plan:

- » **Digital trust:** We have more and more personal information about our customers, which has increased the ability to relate much more data (Artificial Intelligence). We place great importance on the processing of this information being beneficial for our customers, guaranteeing their rights and having a positive impact on society.

 More information, in the chapter titled "2.1. A safe digital environment for our customers".

- » **Telcos as driving forces for development:** Our business is key to the progress of communities, businesses and individuals. We play an active role in the digitalization process and work to ensure digital inclusion and innovation.

 "More information, in the chapters titled "1.6. An inclusive-platforms Company with the customer at the center" and "1.9. The vector of Innovation".

- » **Customer focus:** At Telefonica we seek a relationship of trust with our customers, which is why we work under a principle of transparency; we listen to them, provide a quality service according to their expectations and anticipate their needs.

 More information, in the chapter titled "1.6. An inclusive-platforms company with the customer at the center".

- » **Environment:** Although our environmental footprint is relatively small compared to other sectors, we want to reduce the impact we have and solve environmental problems through digitalization.

 More information in the chapter titled "2.2. Digitalization and the environment", which also contains a specific matrix on materiality for these issues.

- » **We work to ethical standards** that can also be seen in the way our employees' behave. We see transparency as a key factor, combined with a culture of ethics and engagement and processes that prevent and punish improper conduct.

 More information, in the chapter titled "2.6. A management framework for business sustainability".

- » **Supply chain management:** The supply chain is a significant part of our business and reputation. In terms of regulations, analysts and investors, management and reporting requirements are increasing. Furthermore, our partners and customers (consumers and companies) demand responsible management.

 More information, in the chapter titled "2.5. Suppliers, our allies".

- » **Attracting and retaining talent:** Our employees are our greatest source of competitiveness and differentiation. Innovation is key to long-term continuity and possible only if you have the best talent and it is diverse and committed and you help your employees grow both personally and professionally.

 More information, in the chapter titled "2.4. Our team sets us apart".

In order to respond to all these material aspects, we have defined a Responsible Business Plan, led by the Corporate Ethics and Sustainability Department, which is reported monthly to the Institutional Affairs and Regulation Committee.

The Plan is mainly articulated by the following initiatives: customer promise and digital trust, supply chain; talent and diversity, environmental management and climate change; safety and health, human rights and sustainable innovation.

The initiatives are developed in a coordinated manner at global and local level, in the different markets, which allows us to adapt to the expectations of stakeholders in each area.



1.9. The vector of innovation

Innovation has been part of Telefónica's DNA since the very beginning. Our strategy is based on striking a balance between in-house innovation, dedicated to our core business, and open innovation.

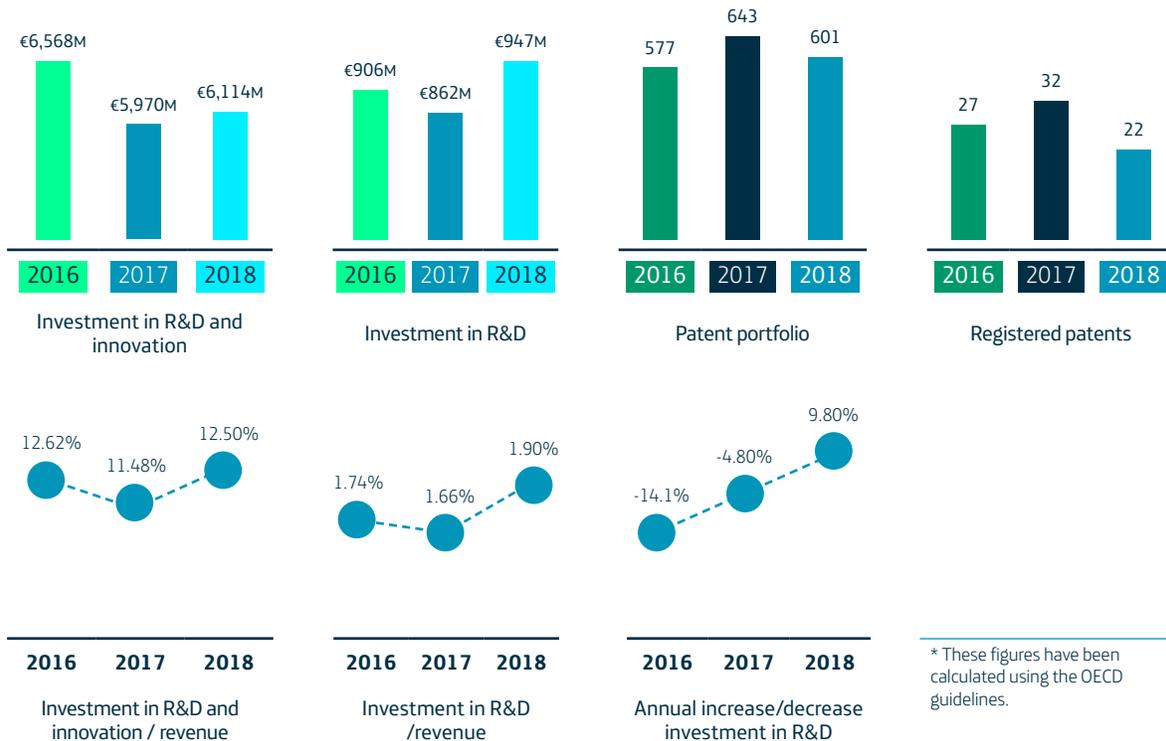
This means that 80% of the innovation work focuses on identifying future opportunities in our business - Core Innovation - and the other 20% on looking for new areas where the company can reinvent itself through disruptive models - Open Innovation. By doing this, we guarantee our capability to anticipate short, mid and long term needs as regards developing our own services and

platforms and finding new opportunities that are yet unknown.

An intrinsic part of the innovation process is our commitment to developing sustainable innovative solutions that have a good impact on the environment and on economic and social progress in the regions where we operate. In addition, we promote accessibility of our products through technology in order to provide all groups with access to the digital world.

The following indicators reflect our innovation capability in 2016, 2017 and 2018.

OUR INNOVATION CAPABILITY

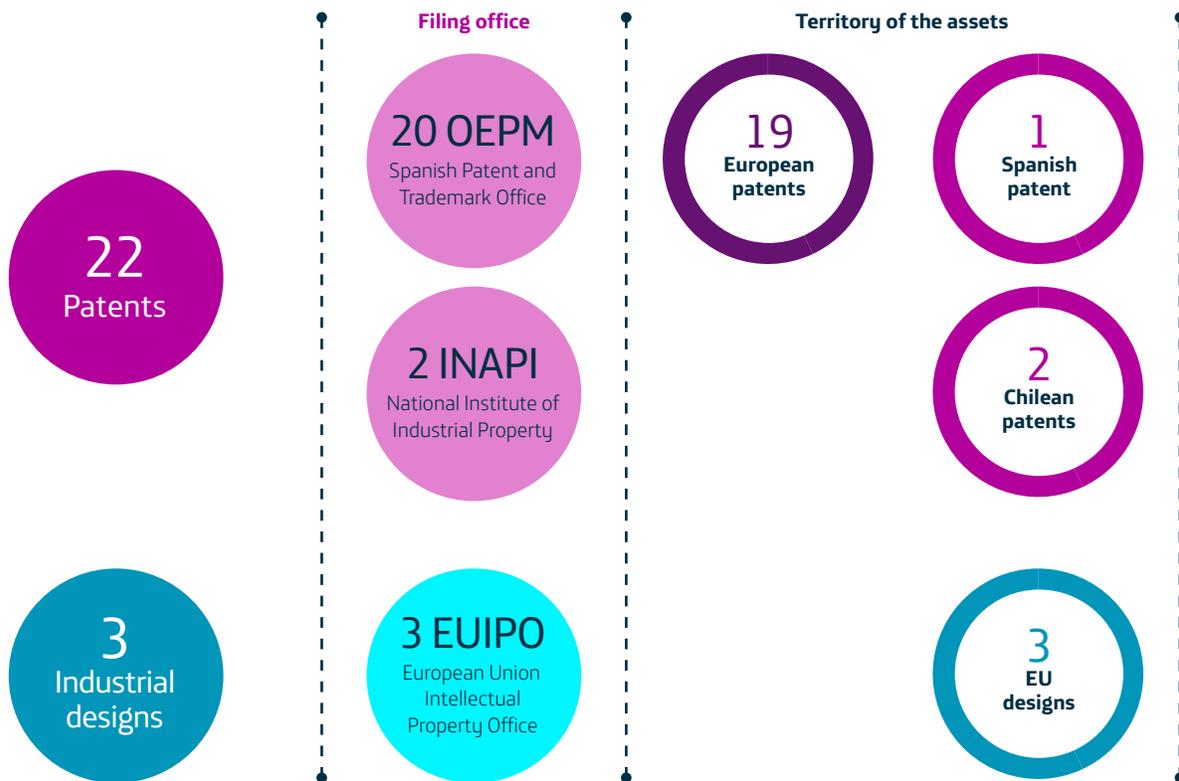


* These figures have been calculated using the OECD guidelines.

We invested more than 900 million euros in R&D in 2018.

Telefónica registered 22 new patent applications in 2018, 19 of which were European applications, one Spanish (all of them via the Spanish Patent and Trademark Office) and two Chilean applications. Telefónica registered 3 new industrial designs with EUIPO (European Union Intellectual Property Office) in 2018.

NEW ASSETS GENERATED IN 2018

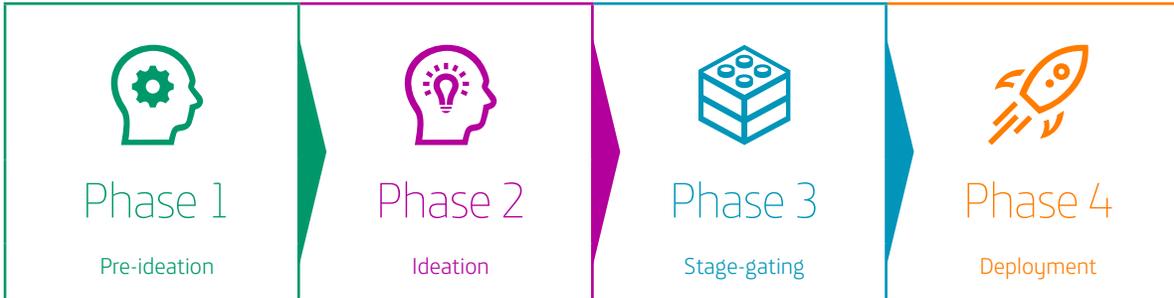


1.9.1. Internal innovation (core innovation)

A large part of the innovation activities and projects are implemented by the Core Innovation area. Its mission is to increase our competitiveness by improving networks, communications and data, developing new products and experimental and applied research. To carry out its functions, this unit collaborates with external organisations and universities that share our goal of boosting technological innovation.

A key ingredient of this way of working is the Lean Startup methodology. Telefónica started applying this methodology to innovation projects in 2012. Lean Startup has enabled us to shorten the innovation process and do more with less with a clear market and customer approach. The model divides the design process into 4 phases which are developed up until the commercial launch, during which various targets must be achieved to determine the continuity of the project and whether it is adequate or to reject it:

CORE INNOVATION



Another main internal pillar is seeking ideas from employees and creating an in-house innovation culture. Through the **"IN_Prendedores"** global program we integrate all assets dedicated to innovation in order to provide funding and resources to the best ideas submitted by employees.

Within this framework we have promoted projects associated to security, sustainability the Internet of Things, connected home, online channels and others. The most noteworthy are the Internet for All projects, Niji (security) or Smart Cities and Smart Energy ([Internet of Things](#)).

Telefónica continued working on edge computing technology throughout 2018 in order to enhance the quality of the services it provides to customers. This year the first global virtual switchboard with real customers connected was deployed, creating the first multi-access edge computing laboratory in the world (residential, business and mobile).

1.9.1.1. Innovation in networks and communications

The main goal of this activity is to get our infrastructures ready for the future by building a high-capacity, programmable, flexible, scalable and open multi-service network capable of offering the features that our new services will demand in a financially sustainable manner through network virtualization.

We continued fostering research and development of new 5G networks in 2018. In the long term, our networks and information technologies will integrate with a shared and ubiquitous high capacity network based on using high performance and programmable general purpose hardware that will offer transport, routing, storage, and process execution resources.



The European Commission and IT industry are working on the '5G Infrastructure Public-Private Partnership' (5G PPP) in order to rethink the current infrastructure and create the next generation of networks and services that will provide ultrafast ubiquitous connectivity and enable services to be provided under any circumstances.

1.9.1.2. Innovation in new products and solutions

We are working on developing solutions and applications associated to the digital world, advanced user interfaces, television and multimedia content distribution and other added-value services, leveraging the potential of the telecommunications infrastructures developed.

More specifically, the main activities in 2018 were associated with developing customer-based network services, Big Data and data analytics services, video and multimedia services, and advanced business, the Internet of Things (IoT) and cognitive digital marketing solutions, applying Artificial Intelligence to company sales processes in order to personalize the relationship with customers of solutions that strengthen identity authentication security, thereby enhancing security and the user experience.

In 2018, 5G based solutions such as the 5G self-driving bus and the pilot of the first mobile 4K television demonstrator in Spain were developed. Enhancements to the Movistar+ user experience were also promoted with applications like [Xtreamr](#).

1.9.1.3. Disruptive, applied and experimental innovation

We have innovation teams that analyze the future possibilities of technology. The results of these innovation activities and areas include the creation of the Internet of Things (IoT) and Artificial Intelligence business units, which have become strategic areas for developing our business. We have also worked with universities, suppliers and internal bodies in areas like networks, the future of the Internet and automatic learning.

Mobile data is a constant source of extremely useful information about human activity. No other data source can currently provide such a high level of global data flow and scope. For this reason it is the data of choice for analyzing any human behavior that involves mobility. In many cases mobile data is complemented by other data sources that can be applied, for example, to understand and stop infectious diseases from spreading or for crime prevention. Telefónica is currently developing Artificial Intelligence related research projects to analyze online abuse. In addition, we continue positioning the company as a pioneer in the development of blockchain technology.

In addition to the development projects that enable us to offer our customers innovative solutions, we have initiatives designed to address some of the major global challenges whilst generating a sustainable business model for our company. This is what we call sustainable innovation and at Telefónica it is built on three pillars or subjects:



Connecting everyone

Connectivity projects in remote areas, portable communications as emergency response or accessible connectivity services for groups with disabilities.



Protecting the planet

Renewable energy solutions, energy efficiency and circular economy, both for internal application and for marketing ([ecosmart solutions](#)).



Sustainable societies

Sustainable transport solutions, intelligent cities or digital development of the rural environment. Smart Agro solutions or Open Government services.



The activities conducted in 2018 include the “4th sustainable Innovation Initiative” in which 155 projects were submitted from teams and employees in the countries where we operate, the startups in the Wayra and Open Future ecosystem and Telefónica suppliers. We promote projects that address the United Nations Sustainable Development Goals.

The projects promoted by this edition of the Sustainable Innovation Initiative were:

a. Producing Right!

A solution to help farmers gradually improve their production methods, taking into account social and environmental aspects. This project focuses on the food crises that are becoming more recurrent due to the advancement of climate change and directly affect people, such as the case of climate refugees. It will be developed in Ecuador by the BovControl startup, accelerated by Wayra Brazil, and the LUCA Big Data for Social Good team.

b. Electricity and Connectivity for All.

A Telefónica and Acciona.org solution for creating a business model that rolls out connectivity and electricity to remote areas of Latin America with a pilot program in the Napo river basin, Peru.

c. IoT drones for traffic control.

Development of IoT drones that could be controlled from the traffic control center via a mobile network and send real-time information on road and traffic conditions and provide connectivity to remote

areas. This solution would be very useful in a road emergency to reduce the response times of emergency services and provide the information necessary for acting in real-time.

d. VIVO Financial Assistant.

Build a financial education platform integrated with Aura virtual assistant to help reduce the financial gap in Brazil through education and digital innovation.

e. Constant measuring of radon gas levels.

Radon is the second leading cause of lung cancer in the world, after smoking. Constantly detecting the concentration of this gas in closed spaces via the IoT spaces enables mitigating measures to be implemented.



This area of activity also includes **Telefónica Alpha**, Telefónica's disruptive innovation subsidiary, which has become Europe's leading moonshot factory, or in other words, the leading factory of solutions designed to invent and create technologies that could make the world a radically better place. Alpha mainly works on mid and long-term projects with a large social impact and more specifically, it is currently working on solutions that seek to resolve some of the major challenges associated to health and energy.

 More information, in the section of our web “Sustainable projects”.

1.9.2. Open innovation

OPEN INNOVATION

Entrepreneurship ecosystem		Funds
OPEN FUTURE_ Public-Private Alliance		Innovation funds:
Innovation driver	Innovation booster	<ul style="list-style-type: none"> • From third-parties • Own: Telefónica Ventures

Telefónica's strategy, in the area of Open Innovation, is based on supporting innovative companies that they are in different stages of development. Thanks to our Telefónica Open Future units and Wayra as well as the Innovation Funds, we have global and open programs designed to connect entrepreneurs, startups, investors and public and private organizations around the world.

The main goal of these programs is to develop and foster talent and technological entrepreneurship in the local ecosystem where Telefónica is present in order to incorporate the innovation of the startup it supports in the company. It does this by promoting project scale up and companies and detecting and supporting talent at any stage of maturity.

Our more than 60 open innovation hubs are a single point of access for startup to sales acceleration programs with Telefónica and with our corporate partners, investors, governments and public institutions. We promote the global entrepreneurship ecosystem, supported by more than 140 public and private partners that extend our service offering and provide our entrepreneurs with access to events, competitions, funding rounds, etc.

We currently operate in 17 countries in three continents and have an active portfolio of more than 400 startups, 20% of which do business with Telefónica units and more than 100 have developed applications and services that are integrated with Telefónica; 60% in Latin America and 40% in Europe.

1.9.2.1. Entrepreneurial ecosystem

Wayra is the global interface between Telefónica and the entrepreneurial ecosystem. As a strategic partner, Wayra operates through 11 hubs in 10

countries: Argentina, Brazil, Chile, Colombia, Germany, Mexico, Peru, Spain, United Kingdom and Venezuela, taking entrepreneurs from these ecosystems to a global scale. Its mission is to connect innovators with Telefónica to create joint business opportunities or operating efficiencies.

In 2018 we relaunched Wayra with the aim of accelerating and investing in technology companies that are more mature and that fit in with the Company's strategic projects or in fields such as Big Data, Artificial Intelligence, Internet of Things, cybersecurity or fintech. Coinciding with this relaunch, the value has been placed on the new IoT activation program; a program especially aimed at startups that need to boost the development of Internet solutions for Things by making exclusive services and tools available to creators, developers and entrepreneurs so that they can try out new IoT solutions for free to reduce the time it takes to launch onto the market.

In 2018, the agreement between [Renfe](#) and [Wayra España](#) for the development of the [TrenLab](#) project stands out, which launches three major business challenges for the innovation and entrepreneurship community: Digital Mobility, Digitization of Operations and On-Demand Logistics.

Additionally, we collaborate with public and private partners, generating spaces for entrepreneurship with the **Open Future hubs**, which offer physical work space, mentoring, access to exclusive offers from commercial partners, etc. Companies that do not yet have a viable product or that generate business are potential candidates to enter the Open Future programs. We have 50 hubs in 16 countries that reinforce Wayra's hub network.



1.9.2.2. Investment Funds

Our network of venture capital innovation funds includes public and private co-investors for the financing and acceleration of technology companies. This capacity to attract external capital multiplies the investment capacity and extends its scope. We have a total of 9 investment funds through which we have invested in more than 100 startups in Europe and Latin America, with presence in Spain, Brazil, Chile, Colombia, Mexico and Peru.

At the same time, we have a corporate investment fund, **Telefónica Ventures**, with scouting offices in Silicon Valley, Israel, China and Spain. Through this fund we invest in mature startups aligned with Telefónica's global strategy, which can sign agreements to provide their services to the Company's millions of customers.

In summary, our main open innovation data are:



More than **400 startups** in portfolio/active.



More than **100 startups** working with Telefónica



16 countries



More than 60 Open Future and Wayra spaces



4 scouting centers in Silicon Valley, Israel, China and Spain



1.10. CASE STUDY FLAGSHIP

Internet for All



What is it...

Almost 100 million people are not connected⁽¹⁾ or suffer from poor connectivity⁽²⁾ in the countries where Telefónica carries on its business, mainly in Latin America. For this reason, we have launched our **Internet for All** programme, which reinvents how we design, deploy, operate, maintain and commercialize networks to take profitable mobile Internet access to the entire population.

With a focus on minimizing costs to ensure economic sustainability, we have designed a new open business model with a flexible and secure architecture to outsource our networks for management by new partners, i.e. rural operators, while maintaining end-to-end control by Telefónica.

In short, **we are reinventing the concept of a 21st century Telco** through innovation, efficiency, a new supply chain, open technology and operations based on a start-up model.

(1) **People not connected.** People without connectivity. Citizens living in areas without land-line or mobile connections of any kind (voice or data) provided by any operator. General characteristics: remote populations (more than 20 km from the nearest town), small populations (less than 800 inhabitants) and geographically complex (deep forests, mountains or deserts).

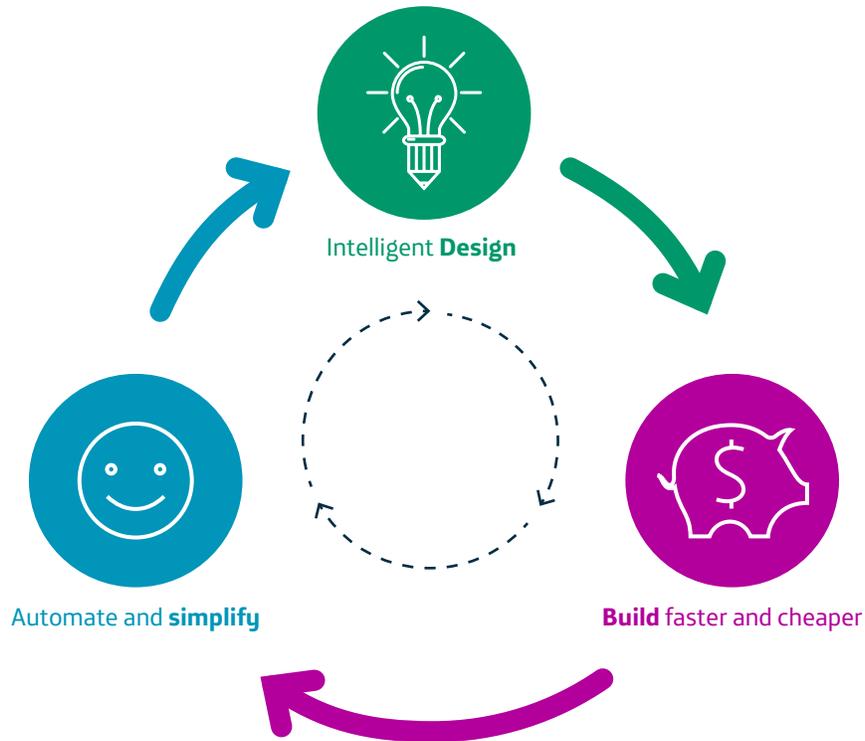
(2) **People with poor connectivity.** Those who have at least one operator's mobile voice service or where connectivity is not good enough for a quality Internet experience (e.g. insufficient satellite link). General characteristics: medium-sized (fewer than 3000 inhabitants) and dispersed populations (more than 10 km from the nearest town).



Our goals...

By the year **2025**, we aim to reach **100 million people** who are either not connected or suffer from poor connectivity in Latin America.

SUSTAINABLE TRANSFORMATION OF THE TELECOMMUNICATIONS VALUE CHAIN



Why it is important...

Connectivity and access to the Internet are proving to be key to addressing the challenge of digital inclusion and improving the economic and social development of **more underprivileged communities**. In Latin America, thanks to the adoption of the Internet and, mainly, mobile broadband, we are reducing one of the main barriers to digital inclusion by providing infrastructures and connectivity for rural populations who have been generally ignored.

Digital inclusion offers opportunities at different levels:

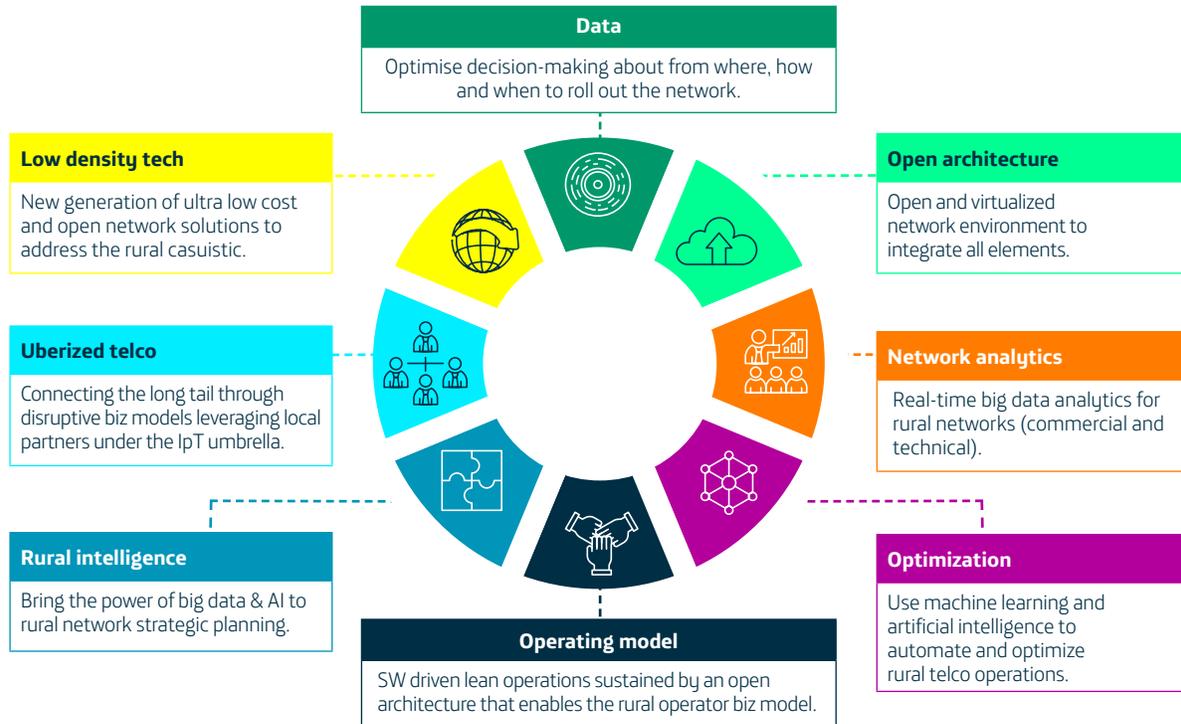
- » Redefinition of business models
- » Access to education
- » Financial inclusion

- » New models of health systems
- » Creation of new types of employment
- » Driving force for economic growth

These are all key opportunities for maintaining growth levels in developing countries.

However, the **Internet for All** programme not only has an impact on society, but is also an opportunity for economic growth for Telefonía. It affords the possibility to evaluate new business models and connectivity technologies in geographical areas not explored until now, increasing our customer base in new markets.

THE CONNECTIVITY FACTORY COMPRISES A SET OF TOOLS, PROCESSES AND TECHNOLOGIES THAT DEFINE A RURAL NETWORK PRODUCTION LINE



What we have already achieved...

In 2017 and 2018, we have incubated this rural connectivity model in **Peru**, bringing Internet access to part of the population in remote areas of the country.

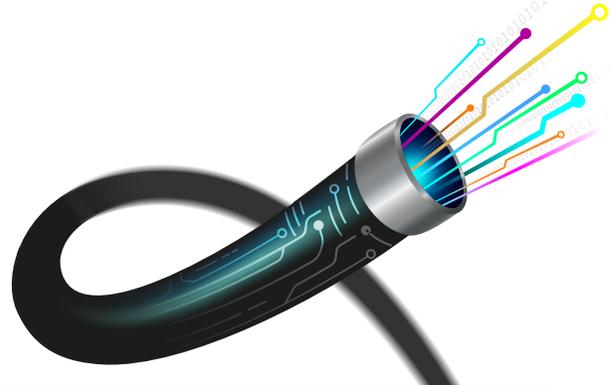
Project coverage up to now:





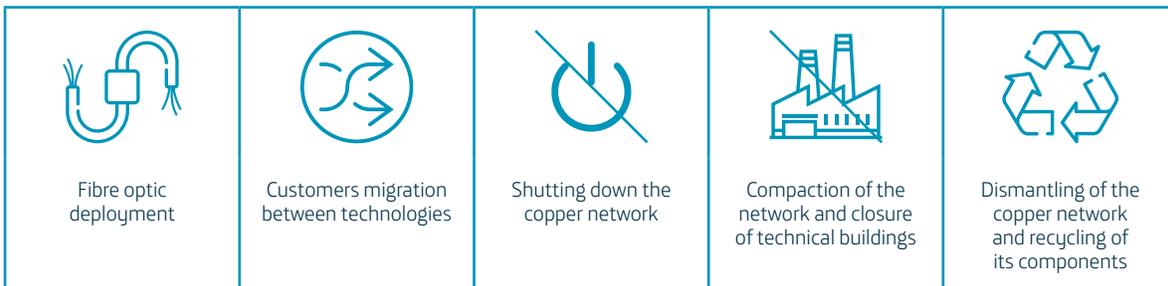
1.11. CASE STUDY FLAGSHIP

Roll-out of fibre in Spain

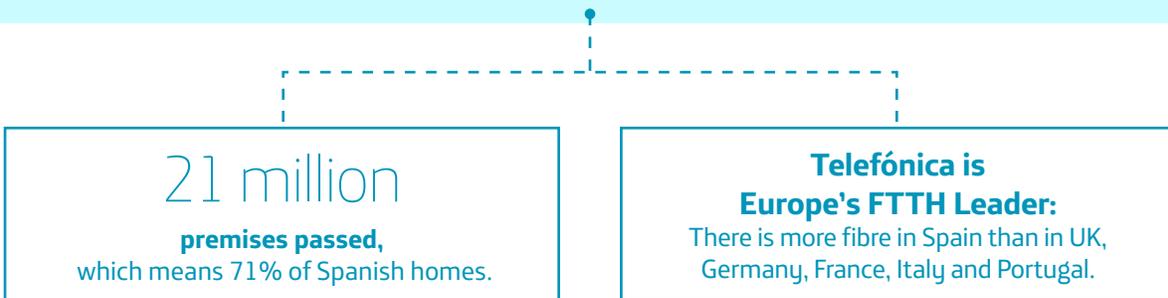


What is it...

Completely replacing Telefónica's fixed network in Spain, based on copper, with a fibre optic network⁽¹⁾, which entails the following processes:



Thanks to fibre optics, Telefónica would have a network that is better prepared for the future and that can cope with the demands of 5G, virtualization and services such as Cloud/Edge Computing, Big Data or Analytics.



(1) Subject to public funds award for the broadband coverage's extension



Our objectives...

In line with our global objectives, this transformation project seeks to achieve maximum business and environmental efficiency in the deployment and maintenance of our network. In a exponential data traffic growth scenario, we have set the following objectives:

- » 100% of consumer customers migrated to fibre in 2025.
- » To reduce energy consumption⁽²⁾ through:
 - 1) Shutting down the copper network and the related IT systems: 700 technical buildings in 2020.
 - 2) Huge data volumes management & transmission efficiencies.

(2) In 2018 we have managed to reduce our energy consumption by Petabyte 64% compared with 2015.

Why is it important...

Fibre is much more efficient than copper and it plays a key role in sustainable connectivity. Specifically, this initiative represents:



1 Greater **simplification and environmental efficiency** in the operation of our business:

- » **Simplification of processes:** The processes of provision and maintenance would be on a single access network.
- » **Space savings: fibre:** 10 times less cross-section, 100 times more capacity. A 2,400-pair copper bundle serves 2,400 customers. A 256-fibre cable serves 16,384 customers.
- » **Quality of the network and reduction of maintenance and support resources:** With fibre half as many faults occur as with copper, which reduces the number of call-outs, the need for spare parts and logistics.
- » **Closure of exchanges:** fibre optic connections have 4 times more range (distance) than copper connections, which means that we could progressively be closing technical buildings.
- » **Energy savings:** Access by fibre consumes between 7 and 20 times less energy per user (> 85% efficiency) than access by copper (depending on the use of the equipment)
- » **Circular economy:** The closure of the copper network allows the recycling of plant equipment and the recovery of cables to obtain secondary raw materials: metals, rare earths, etc.



2

A **new model for relationships** between customers and services based on self-installation/self-provision, flexibility and immediacy.



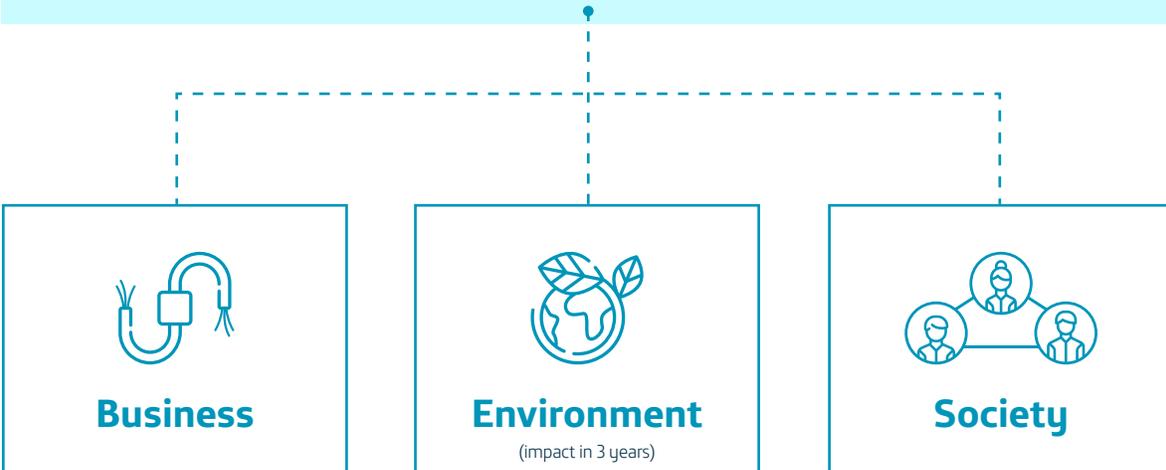
3

A **social and economic impact on people, companies and territories.** Facilitating digital education, entrepreneurship, new business models and relationships, greater work-life balance, better access to health services and the establishment of population in rural areas.



What we have already achieved: 2015 - 2018...

Between 2015-2018 we have achieved important impacts in:

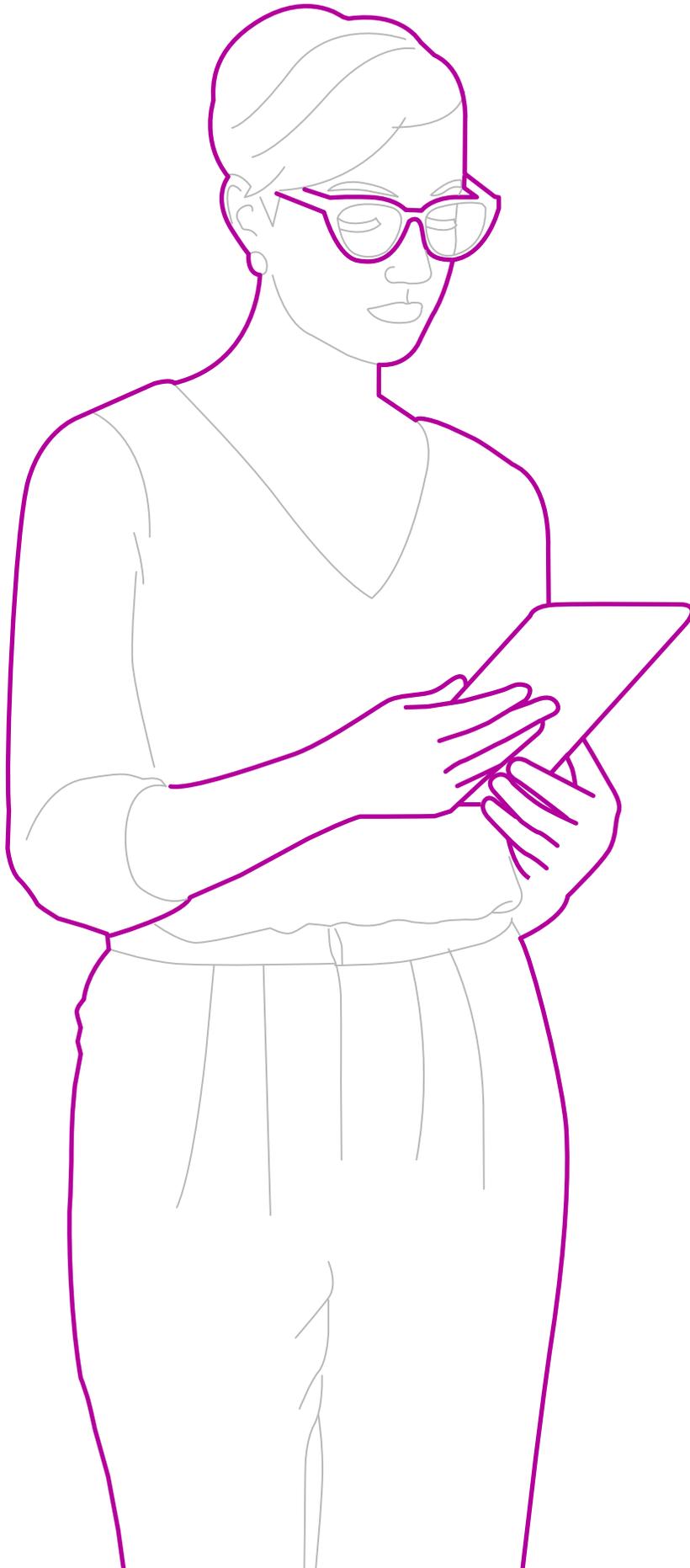


» Spain has the largest fibre-to-the-home network in Europe **(larger than the current networks of Germany, France, United Kingdom, Italy and Portugal)**, with about 4 million connected customers and more than 21 million premises passed.

- » 208 GWh of energy saved in the period.
- » 56,500 tCO₂ avoided, equivalent to the carbon captured by more than 900,000 trees.
- » 300,000 elements switched off.
- » 255 exchanges closed.

» Various studies indicate that communities with high broadband connections have higher GDP than others that do not have this type of connection, with an increase of 1.1% in GDP ⁽¹⁾.

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



digital wellbeing

2



2

Responsibility and digital wellbeing

non-financial information
statement

- » 2.1. A safe digital environment for our customers
- » 2.2. Digitalization and the environment
- » 2.3. Committed to social well-being
- » 2.4. Our team set us apart
- » 2.5. Suppliers, our allies
- » 2.6. A management framework for business sustainability
- » 2.7. **CASE STUDY FLAGSHIP: Internet of Things: key to energy efficiency**
- » 2.8. **CASE STUDY FLAGSHIP: Blockchain in the supply chain**
- » 2.9. Appendix

Introduction

Telefónica is committed to create long-term value by building the pillars of our future world and adopting more sustainable and inclusive economic models. We believe in a sustainable world, in the broadest sense: socially fair, environmentally safe, economically prosperous, inclusive and more predictable. With this, we mean:

- » Create long-term value for our stakeholders through the development of innovative and competitive digital products, oriented to fill unmet needs of our customers.
- » Do business in a financially, environmentally and socially responsible way.
- » Anticipate, adapt and create new business opportunities from changes in our environment of business.

We make large investments in the countries in which we operate to promote and encourage a digital economy aim to increase the welfare of humanity. Our networks are the basis and the heart of the digital

economy. They allow to create, capture, grow, enable, love, play, have fun, understand, learn, invest and to do good to our society. With a value-based strategy that promotes transparency and integrity in the relationship with all our stakeholders.

This chapter is about how we do it, focusing on the key aspects that drive our business.



More information, in the chapter titled "1.8. Material aspects of our activity".

- » Digital Trust built around privacy, security, Artificial Intelligence and responsible use of technology.
- » The efficient use of the environment and natural resources.
- » The development and welfare of the communities in which we operate.
- » Our human team, including both the staff and the supply chain.





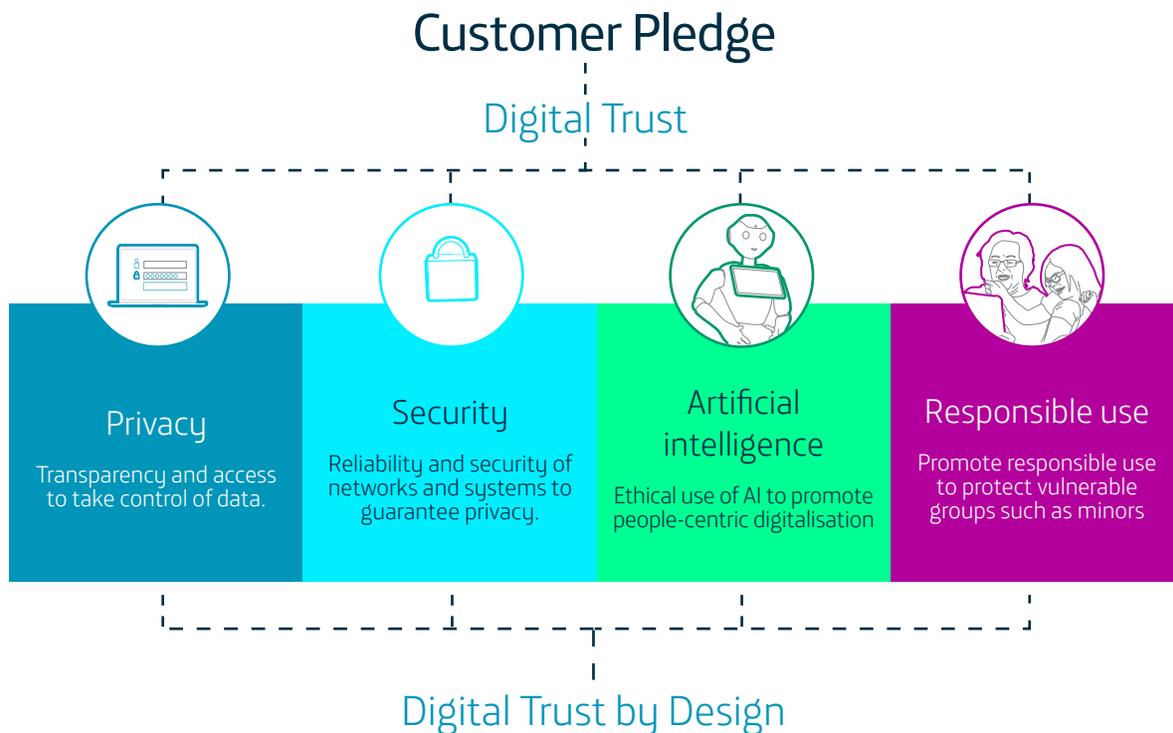
2.1. A safe digital environment for our customers

2.1.1. Strategy: generating trust

Having the trust of customers is the *raison d'être* of Telefonica's Customer promise and becomes even more relevant in an interconnected and constantly changing digital environment. We want customers to feel safe using our products and services; not to have to worry about the

privacy or security of their data and to be aware that we always respect their rights by offering them choices regarding the use of their personal information. In short, we want our customers to be in control of their digital experience.

To generate this trust, we have defined a strategy based on four pillars that constitute our commitment to the customer:



More information, in the section of our web "Customer satisfaction".

103
416-1
418-1

In each of these pillars, we have policies and processes that not only ensure compliance with growing regulation, but also increase transparency about how we manage data privacy and security and how we use Artificial Intelligence. We also believe in the concept of **"digital trust by design"** incorporating these policies into the design, development and management process of our products and services.

In addition, in view of the impact that new technologies and developments based on Artificial Intelligence have on people's privacy and freedom of expression, we have incorporated it into the due diligence process detailed in the [human rights section](#). As a result of this work, different lines of action have been considered in each of the pillars that help to prevent and/or mitigate the impacts that we may cause due to our activity and the context in which we operate and which we develop in this chapter.

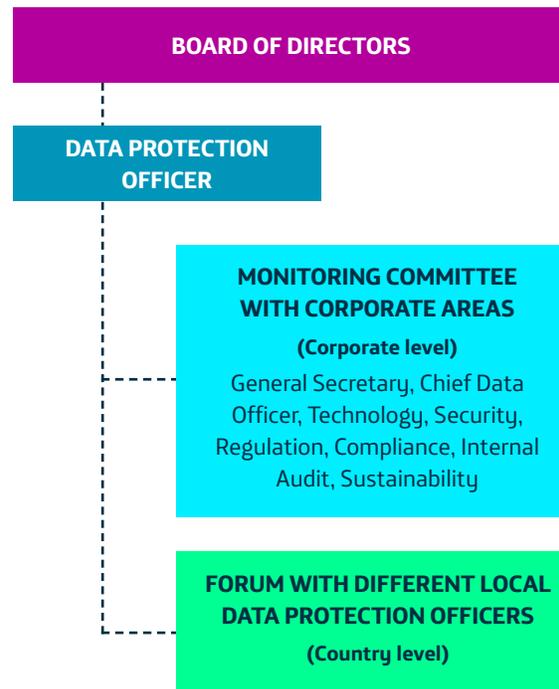
In this way we ensure that our customers are always informed on:

- » How and why your data is collected, stored and used.
- » The fact we protect your data with a maximum level of security.
- » The fact we commit ourselves to using artificial intelligence ethically.
- » The fact we promote the responsible use of technology, especially when it comes to vulnerable groups such as minors.

The body responsible for all issues related to digital trust is the Board of Directors, as reflected in the governance section of each of the issues.

2.1.2 We respect the right to privacy

We establish a management model with clear responsibilities: Governance



The person responsible for the Company's personal data protection function is the Data Protection Officer, who reports directly to the Board of Directors of Telefónica, S.A. through the Audit and Control Committee. To ensure compliance with this function, the different corporate areas meet biannually in the Monitoring Committee Governance Model and the Local Data Protection Delegates.

At Telefónica we want our customers to have control of their digital experience.



We also have a Chief Data Officer, who forms part of the Executive Committee and participates in the Monitoring Committee, to define and monitor the implementation of the Company's data strategy.

We define policies and processes

We promote and review different policies and processes to strengthen our commitment to the right to privacy of all those to whose data we have access. To meet the expectations of our customers, we actively involve them in the development of these policies and processes, for example, through focus groups and pilot tests in different channels.

- » **Global Privacy Policy:** In September 2018, we updated our [Global Privacy Policy](#) to build a digital experience based on trust. This policy guarantees our customers control over their

personal data when they are processed by Telefónica. It establishes obligatory rules of common behaviour for all the Company's entities, laying the foundations for an approved privacy culture based on the principles of legality, transparency, commitment to the rights of the data subjects, security and limitation of the retention period. Thus, while responding to the [General Data Protection Regulation](#), applicable in Europe, we increase the standards in this area in the other regions where we serve.

- » In addition, we approve the [Governance Model Rule on Personal Data Protection](#) which establishes the strategic, organizational and operational and management framework applicable to the different actions in the field of data protection.

Global Privacy Policy

Data

Is necessary to provide better communications services every day. In addition, it gives Telefónica the opportunity for enriching the lives of citizens and contributing to the development of societies. All of this **fundamental rights** and **public freedoms**.



Therefore, we take care of personal data:

With transparency

We let you know:

- The type of information collected.
- By what channels we collect it.
- For what purposes we treat it.
- How long we keep it.



Within lawfulness **legality**

We treat personal data:

- For a **legitimate purpose**.
- Through consent or other legitimizing basis.

With **guarantees**

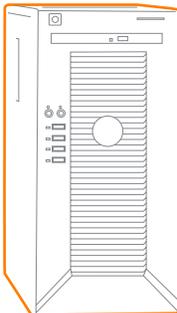
We offer people:

- **Clear and simple tools and procedures** to access their data, rectify and delete them.
- Channels so that they can ask questions or make claims.



With **limitation**

We preserve data for the justified time **according to the law**.



With **security**

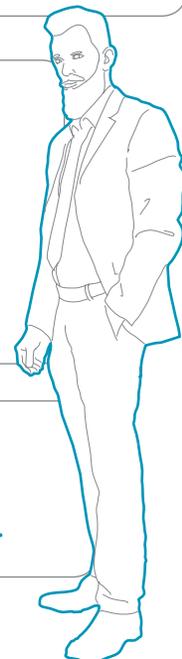
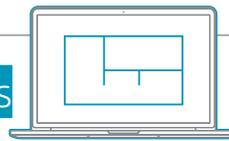
We apply the necessary measures to **guarantee the adequate security** of personal data.



With **focus**

We take special care of privacy in:

- **Privacy by design**.
- Supply chain.
- Protection of minors.
- International transfer of information.



With **the DPO**

Data Protection Officer, **who reports directly to the Telefónica, S.A. Board of Directors**.

All our activities are based on "Telefónica's Responsible Business Principles".



We put it into practice, increasing transparency and facilitating dialogue:

- » **Global Privacy Center:** In 2018 we are working to improve the [Global Privacy Center](#), which is the public reference point for our privacy and security policy and processes. There our customers can find all relevant information in an easy and understandable way. One example of this is the [video](#) that contains the main aspects of the [Global Privacy Policy](#).
- » **Operator Privacy Centers:** These centers help us extend and implement global customer privacy policies and processes locally. In 2018, we expanded the number of local Privacy Centers available on commercial websites, thus covering 8 of the 17 countries where we operate: Germany, Argentina, Brazil, Colombia, Ecuador, Spain, Peru and United Kingdom.
- » **Transparency Report:** We have published the [third report](#) on the requirements received from the authorities in the 17 countries where we operate about legal interception, access to metadata, blocking and filtering of contents and suspension of the service.

For any requirement we follow a procedure which simultaneously guarantees the fulfilment of our obligations in terms of collaboration with these authorities and the protection of the fundamental rights of the people affected, in accordance with what is set out in our [section on respect for human rights](#).

- » **AURA Personal Data Space, available in 2019:** As part of our principle of transparency, Telefónica provides its customers with access to the data

they generate during the use of our services. Through Personal Data Space, each user will be able to view and download the information that has been processed and recorded in 4th Platform, albeit in accordance with the applicable regulations from the point of view of privacy. For example, in Europe this processing will be fully aligned with the European Data Protection Regulation (GDPR). It is important to note that such information will be displayed in a clear manner for customers. This is an example of Telefónica's commitment to bringing the world of data closer to each individual and eliminating technological barriers. The Personal Data Space will be available, from 2019, through AURA for our customers as the capabilities of the 4th Platform are deployed in different countries.

- » **Voluntary mediation system with AUTOCONTROL:** Operational since January 2018, to provide an agile response to complaints related to identity theft and the receipt of unsolicited advertising. The procedure, developed by the [Asociación para la AUTOregulación de la Comunicación Comercial \(AUTOCONTROL\)](#), in collaboration with the [Agencia Española de Protección de Datos \(AEPD\)](#), has the participation of Orange, Telefónica and Vodafone and is open to other entities. This information can be found in the [Movistar Privacy Center](#).
- » **Responsible Business Channel:** We have an external channel where all our stakeholders can consult or make a complaint about any aspect related to the [Responsible Business Principles](#). During 2018, three communications associated with privacy and none with freedom of expression were processed, responded to/remedied, as appropriate.

2.1.3. We create a safe environment

With a management model with clear responsibilities: Governance



The person responsible for the Company's security function is the Global Director of Security and Intelligence. He participates in the Executive Committee of Telefónica S.A., and the **Digital Security Committee**, created in 2018, and reports to the Board of Directors of Telefónica, S.A. through the Audit and Control Committee and the Regulation and Institutional Affairs Committee. For governance and coordination purposes, he chairs the **Global Security Committee**, which includes the corporate heads of the other business areas (compliance, audit, legal, technology and operations, human resources, Chief Data Officer, etc.), in addition to country security directors. The Committee has been delegated the authority and responsibility by the Board to establish the global security strategy, as well as to lead the regulatory framework in this area, guide and governs global security initiatives. Similarly, there are local and functional security subcommittees chaired by the Security Officers, which collaborate in the definition of global strategy and implement them in each country.

The creation of the **Cybersecurity Advisory Board** is an essential lever to support the Company's comprehensive digital security strategy. The Board is composed of renowned experts in the fields of information security, cybersecurity and technology.

We promote and periodically review policies and processes

They are necessary to achieve a level of security that guarantees the adequate protection of the information and the technologies that process it, so that all customers can use our services with confidence.

- » **Global Security Policy:** The Global Security Policy is governed by national and international standards and regulations on physical and logical security and establishes the guiding principles that are applicable to all the companies that are part of Telefónica. Its objective is the effective and efficient protection of company assets to facilitate the viability of the business, including people, physical assets, networks, technologies, sites, applications and information itself. As such, comprehensive security encompasses physical security, operational security (of people and goods), information security, cybersecurity, information technology security, network security, business continuity, fraud prevention, as well as any other relevant area or function whose objective is corporate protection against potential damage, whatever it may be, or possible loss.

This policy is developed in the **Global Security Regulations** and associated regulations that establish the necessary controls and processes to guarantee security in each specific domain.



Lines of action

The Global Security Committee annually reviews and approves the **Global Strategic Security Plan** which is submitted to the Company's Management Committee through the Global Security Director. In 2018 the focus of the plan has been the execution of structural initiatives in operational security and digital security.

Operational security

In this area, the Company invests a continuous effort in improving its physical protection capabilities for infrastructure and assets.

» **Business Continuity:** This is ensured through the establishment of capacities and operational procedures that provide appropriate mechanisms to ensure the minimum impact and the best response time for a return to normality. For this reason, business continuity groups have been created in those geographical zones that did not have them, local business continuity plans have been standardised and new tools are being implemented to facilitate the recovery of continuity and enable a global vision of the associated risks and their management.

In addition, in those geographical areas where there are critical infrastructure requirements, we work closely with the regulator and other relevant public bodies to guarantee compliance with the technical, operational and documentary requirements necessary to achieve the levels demanded.

» **Crisis management:** Part of the success of all security controls is based on the effectiveness of action in the event of incidents that critically affect any asset, process or service, facilitating coordination, communication and collaboration of all the divisions involved until operational normality is restored in the shortest possible time and with the least possible impact.

 More information, in the chapter "1.6.1. FIRST PLATFORM: the network is the basis of connectivity" section "Global Crisis System".

This effectiveness has been validated in a practical way during 2018 through the execution of various local, regional and global crisis management exercises. Different procedures have been reviewed, reinforced and tested in internal and external simulations of various crisis cases in the areas of physical and digital security, with the active participation of all company areas and the direct involvement of the different management levels.

» **Supply chain security:** The integral security of products and services necessarily relies on the strengthening of security controls in the entire supply chain cycle, specifically in the security of suppliers. To this end, during 2018 we have reinforced the design of pre- and post-control security in the different phases of acquisition and development of goods and services, working in an integrated manner with the areas of security, financial control, purchasing, technology and operations to ensure that suppliers and partners strictly comply with



the security controls required by Telefónica's regulations and any other regulatory requirements and industry best practices.

Furthermore, several programs are being implemented, including:

- ▶ The interconnection of monitoring and alarm control centers to turn them into a resilient network that reinforces the availability of the infrastructure supporting surveillance and protection services.
- ▶ The management of travel security for Telefónica personnel, which substantially improves response time and mechanisms for responding to any incident that could occur during a business trip.
- ▶ The implementation of homogeneous and digital procedures and tools for global security monitoring.

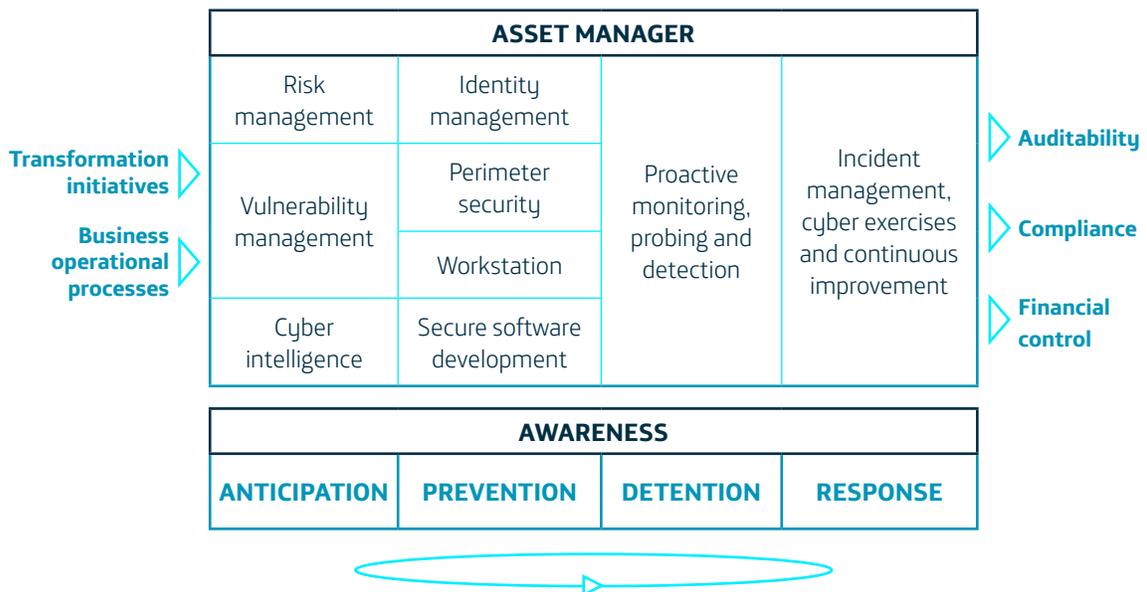
Digital security

Digital security is based on preserving the confidentiality, integrity and availability of the Company's services and data throughout their lifecycle.

We have an essential definition of basic digital security processes that reinforce both operational business processes and transformation initiatives, as set out in the security strategy. This basic process framework is similar and compatible with all other industry reference frameworks (NIST, ISO27000, ISMS, etc.).

The graph below details these basic processes and how they are integrated into the security life cycle (Anticipation-Prevention-Discovery-Response) and support the Company's auditability, compliance and control frameworks.

REGULATORY FRAMEWORK AND SECURITY POLICIES



These processes are identified as key, those related to asset management as the basis for all others and risk management as the basis for decision-making focused on the effectiveness and efficiency of structural security programs.

In addition, we work to facilitate efficiency of controls, such as the development of platforms for unique identity in the Group, anticipation through digital surveillance mechanisms and proactive analysis of vulnerabilities or the comprehensive management of security incidents.

To the extent that it is efficient for customer relationship processes and regulatory compliance, our security controls framework is formalized in official certifications such as ISO27000 or PCI-DSS, and we require our IT service providers to have security management systems certified with or equivalent to ISA3402 or similar.

» **Network Security:** Our approach to networks and communications is based on good knowledge of our assets and sites, their characteristics and their importance to the business, so that the networks are properly planned and executed, always maintaining the applicable security requirements to minimize the risk of unavailability, unauthorized access or destruction of these.

Telefónica's role as a telecommunications operator makes it essential to enhance controls for the security of its own fixed and mobile communications networks and infrastructure, as well as the associated service platforms (e.g. video, IoT). In this sense, the aforementioned security processes are applied in an integral manner to manage the risks associated with attacks and exploitation of vulnerabilities in networks and protocols, with significant activity at internal level, with the main technological partners and with international organizations (e.g. GSMA) to reduce potential impacts. Examples of this come from the work done on 4G/LTE, SS7, BGP and other critical enabling technologies.

» **Cybersecurity, vulnerability and gap management:** Our approach is based on proactivity, and the application of knowledge and technology to achieve the required levels of protection by quickly detecting breaches

or active attacks and building the technical and human capabilities necessary to respond effectively and quickly to any breach or incident, in order to minimize attacks and their consequences.

A bug-bounty reward program has been available with selected companies acknowledged as industry experts.

We have a network of **Incident Response Centers (CSIRT)**, at global level, which work in a coordinated manner to understand and analyse the risks of potential cyberthreats; monitor the serious vulnerabilities existing in the most critical technological assets; establish relationships with other national and international CSIRTs/CERTs in both the public and private sectors; detect potential security incidents that are affecting Telefónica's technological assets and respond to and manage the security incidents that affect the organization.

Lessons learned from incidents are a major part of feedback to safety improvement projects, both in processes and in technological capabilities and platforms.

The **Cyber exercise of the CSIRT Network**, is an initiative carried out by the CSIRT Global that offers an environment of evaluation, training and formation specially designed for incident response teams, currently with the participation of 14 teams.

When the impact or consequences of an incident and/or vulnerability threaten the continuity of one or more critical processes or services or the reputation of the organisation, the Business Continuity Plan supported by the Global Crisis Management System comes into operation.



More information, in the chapter "1.6.1. FIRST PLATFORM: the network is the basis of connectivity" section "Global Crisis System".

During 2018, were just 8 security incidents and had a minimal impact thanks to existing incident response protocols.

In addition, both the [Global Privacy Center](#) and [local centers](#) have a [public mailbox](#) at the

disposal of any user, where they can report any vulnerability or threat that could affect Telefónica's technological infrastructure.

During the period 2015-2018 and up to the present date, the Company has had various insurance programs in place to mitigate the impact on the balance sheet resulting from the materialization of a large number of risks. In particular, there is **coverage for 'Cyber risks'** that could cause a loss of income, loss of customers, extra costs or costs of recovery of digital assets, among others, and a coverage of "Technological Errors and Omissions" in the event of claims for damages caused to customers and third parties in general. The currently contracted limits at global level are:

- › Cyber Risks Insurance: €105 million.
- › Technological Errors and Omissions insurance: €300 million.

» **Security services:** [ElevenPaths](#), Telefónica's global cybersecurity unit, is a major player in the cybersecurity sector after more than 5 years of offering disruptive innovation to bring confidence and privacy to our digital life and that of our customers. In 2018, the company's cybersecurity unit had more than €500 million of turnover and managed the security of 11 million customers.

Today, we are exposed to increasingly frequent and sophisticated attacks that endanger our business along with our reputation, privacy and trust. Therefore, we need to be increasingly receptive to cybersecurity measures and redefine our strategy towards [cyber-resilience](#). With this objective, we dedicate all our experience and effort to the creation of innovative cybersecurity products in order to always be one step ahead of our attackers, who have become a growing threat in our digital life.

Since the ElevenPaths brand was created, we have combined the development of patented innovative technologies with the technologies of key market players (partners) to provide unique solutions.

Global cybersecurity services are designed to continually improve the effectiveness of our security infrastructure. To this end:

- › We work to develop new security services and capabilities designed to help to protect businesses and people from the threats and vulnerabilities present in the environments in which they operate.
- › We collaborate and exchange information on threats in real time with major agencies and bodies such as the [European Commission](#), [Cyber Threat Alliance \(CTA\)](#), [ECSO](#), [EuroPol](#), [Incibe](#) and the [OAS](#).
- › We have 11 Security Operations Centers (SOC) and a new Advanced Global Center (Telefónica Advanced Global SOC-TAGS) with highly qualified personnel that allow us to face security threats and problems with an approach which is global but also close to our customers.
- › We invest in cybersecurity start-ups such as [CounterCraft](#), [4iQ](#), [BlueLiv](#), [LogTrust](#), [IMBox](#) y [Alise Devices](#).

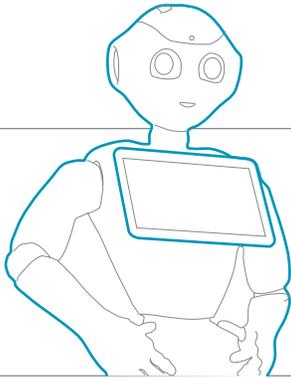
Thanks to these collaborations, alliances and our own experience, Telefónica's global cybersecurity unit has a portfolio of comprehensive security solutions for the world of Internet of Things (IoT), identity and privacy, anti-fraud, industrial cybersecurity, secure mobility, digital exposure, risk management and regulatory compliance.

2.1.4. Artificial intelligence at the service of people

Our strategy is set forth in the [Artificial Intelligence Principles](#) approved by the Executive Committee in October 2018.

In the principles we commit ourselves to design, develop and use Artificial Intelligence in a fair, transparent and easily explicable manner, giving priority to people, using privacy and security by design and with partners and third parties.

Our principles of Artificial Intelligence



Big Data and Artificial Intelligence (AI) allow us to transform business, people's lives and society.

With these advances, **we want to improve as a company** at the same time as making the world a better place for everyone. To do so, we are committed to designing, developing, and using an AI that is:

Fair

We ensure that applications **do not lead to biased results and unfair and discriminatory impacts.**

We guarantee that **there are no discriminatory elements** when AI learns and algorithms decide.



Human-centric

We ensure that **AI always respects human rights.**

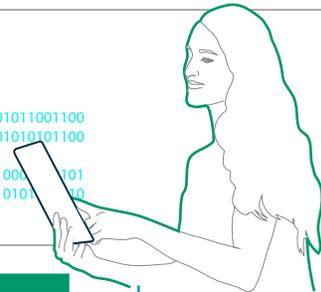
We are **committed to the UN Sustainable Development Goals.**

We contribute to **preventing improper use** of technology.

With partners and third parties

We confirm the veracity of the logic and the data used by the suppliers.

```
0101010110011000110010101011001100
0110010101011001100011001010101100
1100011001010101
1001100011001010101100110001101
010110011000110010100101010101010
001100101010110011
```



Transparent and explainable

We inform users of the **data that we use and its purpose.**

We take sufficient measures to ensure the understanding of the AI's decisions.

We tell our users when they are interacting with an AI system.

Privacy and security by design

To build Artificial Intelligence systems, **we take special care of information security.**

We respect the right to privacy of people and their data.



More information, in our website "AI principles of telefonica".

The areas involved in the development and implementation of the principles are the Chief Data Officer and the Data Protection Officer, as well as the Global Director of Digital Transformation, the Director General of Regulation, the Director of Communication, Brand, Public Affairs and Sustainability and the Secretary General.

Following the publication of the Artificial Intelligence Principles, an internal group comprising the above-mentioned areas was created to manage the implementation of the Principles during 2019. This work plan includes training actions, internal awareness-raising as well as the development of a process of digital trust by design.

 More information, in the section "2.6.3. Respect for human rights."



2.1.5. Responsible use of technology

Our Commitment

The Regulation and Institutional Affairs Committee is responsible for promoting the development of the Global Responsible Business Plan, which includes the responsible use of technology, especially by vulnerable groups such as minors.

We have a firm commitment to this group, which is reflected in the Business Principles and in different corporate policies such as, for example, the Diversity Policy, the Responsible Communication Policy and the Sustainability in the Supply Chain Policy.

Our strategy

The life that our children lead is already a digital life. The moment when we are capable of accepting this, we will be able to integrate and adapt our longstanding educational guidelines to an ecosystem in which the analogical arm has lost its hegemony. It is not a question of inventing anything new, but of continuing to educate in values, accompanying our children and setting an example, generating spaces for dialogue and discovering together the advantages and disadvantages that can be derived from the use we make of technology. We need to learn that there are times to connect to the Internet and times to connect with other people.

We are convinced that it is people who give meaning to technology and that is why we define a global strategy based on the responsible and intelligent use of the Internet and devices, in all areas of our lives and protecting the most vulnerable groups.

Precisely because of this, and because Telefónica is convinced that it is people who make sense of technology, we have defined a global strategy based on the promotion of a responsible and intelligent use of the Internet and connected devices in all areas of our lives, but with special emphasis on the protection of the most vulnerable groups.

Our commitment to the protection of minors on the Internet and the promotion of the responsible use of technology is reflected in a strategy consisting of **6 lines of work**:

a) Alliances with stakeholders: Ensuring a more secure Internet is a task that we cannot tackle alone. At Telefónica, we work together with sector and civil society partners to make children and young people aware that the Internet is an open window of opportunity, but that it is also important to know there are risks that need to be managed.

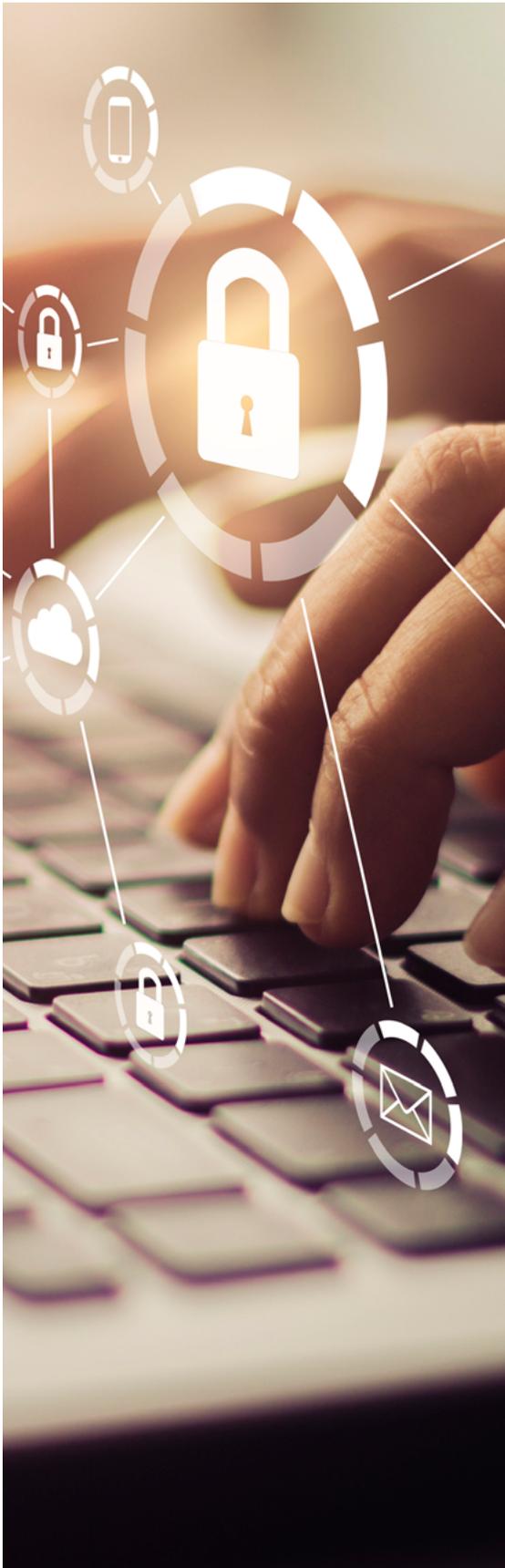
In this sense, we can emphasise our collaboration with:

- › National Law Enforcement Forces, as well as support for the different national reporting lines (*Equipo Niños*, *ASI*, *Safernet*, *Te Protejo*, Center for Child Protection on the Internet, *Alerta Amber*, etc.)
- › NGOs, national associations (*Pantallas Amigas*, *Safernet*, *UNICEF*, *Faro Digital*, *NSPCC*, *RedPapaz*, *Argentina Cibersegura*, *Nativo Digital*, *Brave Up*, *Fundación Ideas para la Infancia*, *Comisión Unidos vs la Trata*, *Puntos México Conectado*, etc.)
- › Actions with key stakeholders in online child protection (*Inhope*, *Insafe*, *ANATEL*, *CONNA*, *UNODC*, *Red de Aliados por la Niñez*, *Zentrum für Kinderschutz im Internet*, *INAI*, *ITAIPIUE*, *Red Contra la Pornografía Infantil*, *Capital Humano Social CHS*, Governments, etc.)

Telefónica also participates in the following alliances with the aim of promoting at global level the sharing of best practices and the promotion of specific actions regarding proper use of the Internet:

- › Alliance with the *GSMA* for the fight against content involving child sexual abuse.





› [ICT Coalition](#).

› [Alliance to better protect minors online](#).

At local level, we also participate in numerous working groups that promote the responsible and intelligent use of technology among young people.

b) Blocking of content: In the proactive fight against the contents of images of sexual abuse of minors on the Internet, Telefónica blocks these materials following the guidelines and lists provided by the [Internet Watch Foundation](#) in the following countries: Argentina, Chile, Costa Rica, Ecuador, El Salvador, Spain, Guatemala, Nicaragua, Mexico, Panama, Peru, UK, Uruguay and Venezuela. Telefónica Colombia does the same through [MINTIC](#) and [DIJIN](#).

c) Audiovisual environment: The way people consume TV content has changed; however, it is no surprise to anyone that both children and teenagers make increasingly intensive use of audiovisual content. Screens, moreover, constitute a fundamental part in their personal, social and civic development, which is why at **Movistar+ we believe it is vital:**

- › To ensure that our programming protects children from potentially inappropriate content.
- › To establish the necessary tools to make good use of television, ensuring that parents have effective technical means to enable them to exercise their responsibility over the televisual content that their children watch.
- › To promote digital literacy among children and their families in order to make use of the potential of audiovisual media and make them aware of the need for responsible and intelligent consumption and leisure.

That is why we have included the following initiatives in our operations:

- › Content labelling by age or type of content.
- › Parental controls, parental PIN and purchase PIN on the device that allow the customer to be able to block channels and content on demand for minors.

- › Specific adult content is presented in a section separate from the other content and a special PIN must be used to access it.
- › Information on responsible use of TV or on audiovisual content on TV and on the commercial website.
- › Awareness-raising activities on the responsible use of screens.
- › [Movistar Junior Application](#): children's app for Smartphone and Tablet (iOS and Android) with which children can enjoy Movistar+ children's content in a safe and secure environment. Some of the functionalities of the application: children's zone (0-12 years) with live TV channels, children's series on demand, videos of activities and musicals, and parents' zone, from which families can carry out their desired configuration actions: Parental PIN, definition of the age range for which the content will be available (up to 4 years, from 5 to 7 years and/or from 8 to 12 years), language of the content, consumption times and/or time zone of use.

d) Products and services: Although we firmly believe that nothing can replace the mediating work of an adult when we talk about educating children in the responsible use of technology, when this is not possible, we will always have the support of technology. To this end, we are committed to the promotion and development of products and services that encourage the responsible and safe use of the Internet and connected devices:

- › Parental controls: [Movistar Protege](#) (Spain), [Vivo Filhos Online](#) (Brazil), [Qustodio](#) (United Kingdom).
- › Security solutions with parental control functionality: Escudo Movistar ([Argentina](#), [Colombia](#), [Peru](#), [Uruguay](#)), Seguridad Multidispositivo ([Argentina](#), [Chile](#)), Seguridad Total de McAfee ([Argentina](#), [Chile](#), [Peru](#)) y Centro de Seguridad de McAfee ([Colombia](#)).
- › Other services (antivirus, personalised packs): [Conexión Segura](#) (Spain and Argentina), [Smart WiFi](#), [O2Protect](#) (Germany), [Vivo Família Online](#) (Brazil), [Localizador Familiar](#) (Argentina), [Seguridad Dispositivo](#) (Spain).

e) Working together with our suppliers:

- › Together with our suppliers we examine the possibility of implementing the basic parameters of child protection to ensure the best development of children through different security-related initiatives in the design of terminals and/or operating systems.
- › We ask both device manufacturers and operating system suppliers to include child protection mechanisms (parental control, age restrictions, approval systems for the installation of applications, purchase protection systems, etc.) and to provide regular security updates to protect our customers against the new risks and threats that are constantly appearing and that endanger users' data and privacy.

f) Education and awareness-raising initiatives:

We continually talk about the challenge of being aware of every technological development that appears on the market today, not simply because we know about the most modern versions of the new gadgets connected to the Internet, the latest in robotics or artificial intelligence, but because each advance puts us all, old and young alike, in the presence of a new educational challenge that we need to know how to take advantage of.

Telefónica, being fully aware of this reality, is committed to the development of training and awareness-raising initiatives for all audiences that can facilitate coexistence in an increasingly digital society:

The [Dialogando](#) portal is an example of this, and the initiative, implemented in 15 countries where the Telefónica group is present, helps society at large to reflect on the use we make of technology in our daily lives thanks to the resources prepared by a committee of experts in different issues related to digital life.

31 awareness-raising initiatives have been carried out in the following areas: grooming, cyberbullying, digital divide, cybercontrol, Internet tolerance, meaningful connection, digital violence, responsible driving, online fraud, privacy, digital identity, eSports, etc. with a total of 84.9 people affected.



2.1.6. Internal control

To comply with the legal provisions of each country, related to the Data Privacy Policy, in the **2018 Annual Audit Plan**, specific projects are carried out to verify compliance, as well as the identification of best practices in data protection matters. In 2018 we continued with the personal data protection reviews, conducting a total of 13 internal audits in this area in the Company.

The most important aspects that we have reviewed are: application of security measures in the processing of personal data; control of logical access to the data; ensuring the integrity of the information; quality of the information; consent for the processing of the data and the possibility for users to exercise their rights of access, rectification, cancellation and opposition of the information related to them.

As part of the **Annual Internal Audit Plan**, all aspects relating to Cybersecurity and Security in Networks and Information Technology Systems have been strengthened, as a solid basis for protecting the access and integrity of these elements, verifying that the logical access security is adequate. The performance of these

highly specialised technical tasks provides a comprehensive analysis of the logical security of networks and information technology systems, risks and vulnerabilities of cybersecurity, incident management, as well as the review of perimeter security controls. In relation to this area, in 2018 a total of 108 audits were carried out covering the above matters. One of the main control objectives of these tasks was to verify that the Group's Security Regulations, mainly in relation to logical access control, operation and data protection, have been properly implemented in the network assets and audited systems.

It is important to highlight that cybersecurity and security audits have been performed mainly in critical Group assets such as FullStack environments.

It is important to note that, in relation to various alerts issued by the SEC in 2018, work has been done to review the implementation of the governance model of cybersecurity risks and incidents, as well as the process of reporting cyber-incidents to the various administrations. The company-wide control environment over cybersecurity has also been reviewed through a questionnaire agreed with the external auditor.

2.1.7. Training and awareness-raising

During 2018, 84,354 attendees completed training in privacy/data protection and security/cybersecurity.

In addition, communication and awareness-raising programmes are being reinforced, using the different channels available to ensure that messages reach all levels and geographies of the company.

2.1.8. Relationship with stakeholders

Telefónica actively participates in various international organisations and forums, most of which are multipartite in nature. Highlights in 2018:

- » [Internet Governance Forum](#): Our Director of Policy and the Internet is a member of the Consultative Group (MAG) established by the Secretary-General of the United Nations. Its main objective is to advise the Secretary-General on the agenda and schedule of meetings of the Internet Governance Forum. The MAG is made up of 55 members from governments, the private sector and civil society, including representatives of the academic and technical communities.
- » [Internet Governance Forum in Spain](#): With a focus on the social impact of artificial intelligence, blockchain, cybersecurity, digital democracy and the empowerment of society.
- » [Global Network Initiative \(GNI\)](#): We have participated since 2017 in this multi-stakeholder organisation to advance the protection and promotion of freedom of expression and privacy in the ICT industry. To this end, joint strategies and positions on freedom of expression and privacy rights are agreed upon. Several events in which we have participated have been organised this year, including a colloquium co-organised with UNESCO on how to improve the information and communication ecosystem to protect the integrity of elections, and others on the way jurisdiction impacts human rights online and the way governments exercise their authority across borders in the Internet age.
- » [GSMA](#): In 2018 the working sessions to produce the Principles of Mobile Ecosystem Responsibility and to draw up the "[Digital Declaration](#)".
- » [Center for Information Policy Leadership](#): A thinktank on privacy and security policy that brings together industry leaders, regulators and policy makers from around the world. This organisation is concerned with helping to contextualise and promote privacy and cybersecurity policy on a global scale.
- » [Council of Europe](#): We are members of the partnership established in 2017 by digital companies, operators, sectoral organizations and the Council of Europe for the promotion of digital rights. During 2018 we have participated as panelists in various forums on cybersecurity.
- » [Cybersecurity Tech Accord](#): Telefónica is a founding member of this private sector initiative.
- » [Paris Peace Forum](#): We participated in and signed the document resulting from this annual forum which is promoted by the French President Emmanuel Macron and organised by an NGO founded in 2018 by the Körber Foundation, the Mo Ibrahim Foundation, the Institut Français des Relations Internationales, the Institut Montaigne, Sciences Po and the French Ministry of Foreign and European Affairs.
- » [Internet Commission](#): An independent initiative to promote the development of a more reliable and responsible Internet. With multi-stakeholder participation, it aims to guide the strategy and purpose of organisations towards sustainable, people-centered digitalisation and to promote prosperity and peace.
- » [Summit for Accountability & Internet Democracy](#) - Shaping an Internet of Values -: Telefónica participated in the launch of the initiative in May 2018 in The Hague, with the aim of promoting a democratic and sustainable Internet of values for the benefit of society.



2.1.9. Milestones and challenges

MILESTONES 2018

- » Global Privacy Policy Update.
- » Expansion of local Privacy Centers (now in 8 countries).
- » Constitution of the Security Advisory Board & Digital Security Committee of Telefónica.
- » Security by design in the company's main transformation programs (Big Data/4th platform, digital transformation, UNICA/ evolution to 5G, IoT).
- » Publication of the '[Artificial Intelligence Principles](#)'.
- » Development of tools to encourage minors to make good use of audiovisual content.
- » Definition, implementation and consolidation of the global-regional-local crisis management model and capabilities; crisis simulation exercises with senior management and areas involved for the various types of crises and security incidents.

CHALLENGES 2019

- » Implementation of Global Privacy Policy in all countries (2021).
- » Personal Data Space implemented.
- » Local Privacy Centers in 100% of countries (2020).
- » Full implementation of security controls in the life cycle of products and services based on supply chain security.
- » Implementation of the AI Principles in the Company's processes.
- » Four awareness-raising campaigns through the [Dialogando](#) platform and social networks on the responsible use of technology.
- » Study of risks and opportunities of technology in childhood and adolescence.
- » Operational simplification in all operations of security processes and their execution for regulatory compliance (focus on actionable controls for access management, privileged activity and security monitoring).

2.1.10. Key indicators

Key Indicators in Digital Trust in 2018

No. of attendees at training courses in Privacy/Data Protection and Security/Cybersecurity	84,354
No. of hours of training in Privacy/Data Protection and Security/Cybersecurity	127,614
No. of procedures opened for Privacy/Data Protection issues	28
No. of fines for Privacy/Data Protection issues	31
Amount of fines for Privacy/Data Protection issues	€1,034,408
No. of queries/complaints on Privacy issues through the Responsible Business Channel	3
Number of queries/complaints on Freedom of Expression issues through the Responsible Business Channel	0
No. of internal audits in Privacy/Data Protection and Security/Cybersecurity	121
No. of external audits in the area of Product and Service Security ⁽¹⁾	10
No. of Security/Cybersecurity incidents or breaches	8
No. of training and awareness-raising initiatives on the responsible use of technology	31

(1) Products and Services audited: Movistar Home, Aura, 4th Platform, Niji Home - Smart Wifi, Niji Network, Smart Digt, Smart Steps, Movistar Video, Novum UK, Smart M2M.





2.2. Digitalization and the environment

2.2.1. Our strategy and materiality

Telefónica would like to create a world where digital technology contributes to protecting the planet. To achieve this, we have reduced our footprint on the environment whilst promoting digitalisation as a key tool for addressing the main environmental challenges. Some of our products and services already provide solutions for climate change, waste, water, air pollution, fires and biodiversity.

This is just the beginning, because there are more and more opportunities for growth in the green economy. In a digital world there are more opportunities for eco-efficiency and a decarbonised and circular economy.

At the end of 2018 we announced the [Telefónica Sustainable Financing Framework](#), under which the company issued the first Green Bond of the sector in January 2019. The environment has become a strategic issue for the Company.

The Green Bond, for an amount of 1,000 million euros and a five-year term, was participated by more than 310 investors. The funds obtained will be used to finance projects aimed at increasing the Company's energy efficiency through the process of transforming copper into fibre optic in Spain and can be used, in any case, for existing initiatives (no older than three years) and for future projects.

The FTTH (Fibre to the home) is 85% more energy efficient in customer access than the copper network. And it has saved 208 GWh in the last three years, which means avoiding the emission into the atmosphere of 56,500 tons of CO₂, equivalent to the

carbon sequestered by more than 900,000 trees. In addition, the deployment of fibre is allowing Telefónica to close a copper plant daily, recycling all the material as part of its commitment to the circular economy.

We have a global environmental strategy and act at different levels in alignment with our business strategy:

- » Environmental management under ISO 14001:2015.
- » Internal eco-efficiency.
- » Promotion of the circular economy.
- » Decarbonisation of our activities.
- » Development of products and services that provide solutions for environmental problems.
- » The environment is a central issue throughout the Company, involving the areas of operations and management, as well as business and innovation.

Environmental strategy is the responsibility of the Board of Directors, which approves the environmental [Policy](#) and objectives, within the framework of our Global Responsible Business Plan. The most significant environmental objectives affect the remuneration of the managers responsible for operations and sustainability.

Telefónica has a global multidisciplinary team spread out across different countries that is responsible for carrying out this strategy at different levels of responsibility.



Environmental strategy

-Risks +Opportunities = +Efficiency +Income = +Resilience

We reduce our impact and provide solutions to the great environmental challenges through digitalisation.

Digitalisation ecosmart services

Business growth

- Connectivity
- Big Data
- Cloud
- IoT

Responsibility

Compliance

- Risk management
- ISO 14001 Environmental management
- Responsible network

Circular economy decarbonisation

Operational excellence

- Renewable energy
- Water
- Waste
- Emissions
- Adaptation to climate change



More information in our website "Global Environmental Policy".

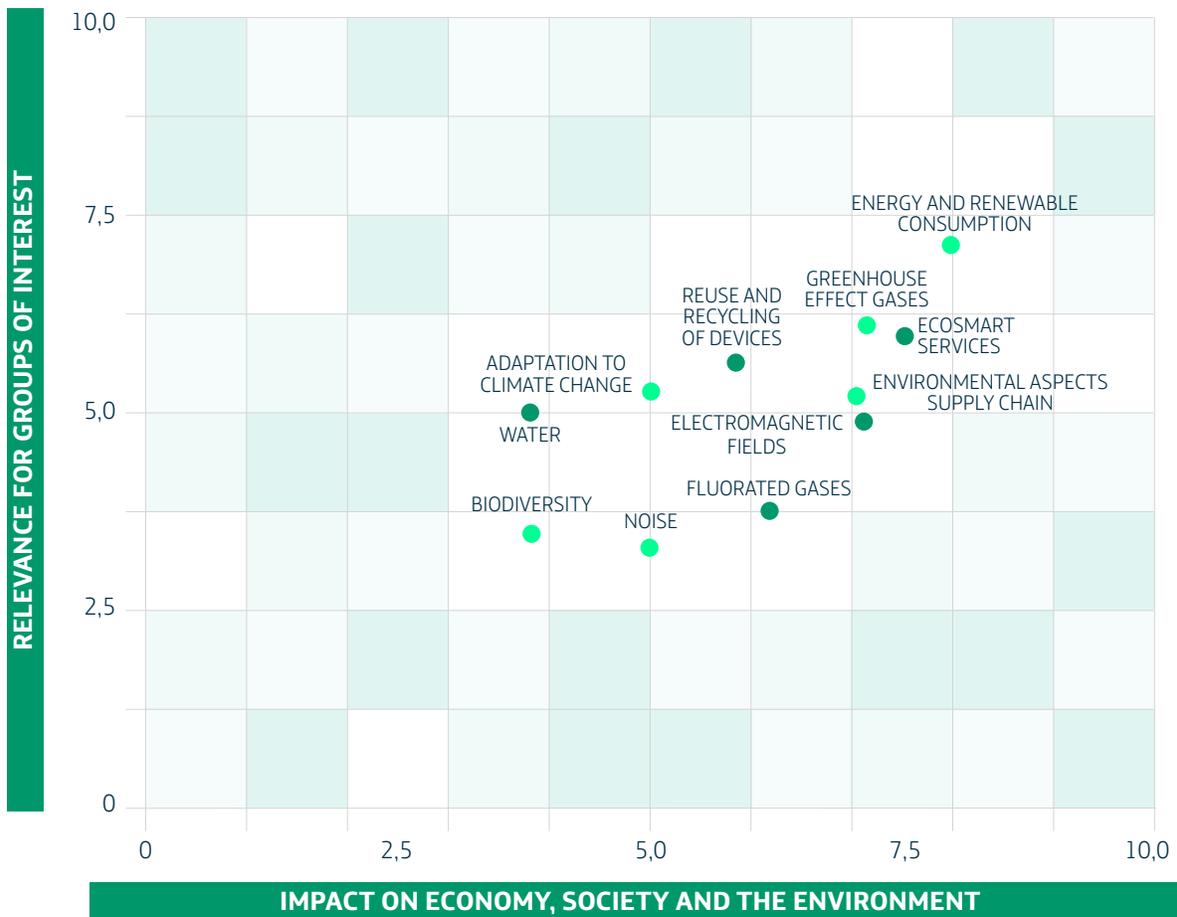
2.2.1.1. Materiality

We conduct analysis to determine our major environmental aspects based on our business strategy, the regulatory environment, impact and the demands of our stakeholders. In this way, we prioritise our efforts towards the most significant aspects: energy consumption and renewable energies,

ecosmart services, the responsible deployment of the network and greenhouse gas emissions.

However, we do not neglect other environmental aspects and manage all of them to progressively reduce our impact whilst increasing our resilience.

MATERIALITY MATRIX



We reduce our impact and facilitate solutions to major environmental challenges through digitalization.

2.2.1.2. Environmental risks and climate change

Telefónica's activities, like those of any other company, have an impact on the environment and can be affected by climate change. The Company's environmental and climate change risks are controlled and managed under the Telefónica Group's global risk management model, in accordance with the precautionary principle.

Our environmental aspects have their greatest risk focus on the high geographic dispersion of infrastructure, which is controlled through environmental management based on uniform processes and certified according to the ISO 14001 standard.

With regard to the guarantees and provisions arising from environmental risk, during the year 2018 the Group has maintained and maintains, both locally in the countries where it operates and globally, several insurance programs in order to mitigate the possible occurrence of an incident derived from the risks of environmental liability and/or natural disasters, to guarantee the continuity of its activity. We currently have fully comprehensive insurance and coverage for all risks, material damages and loss of profit, in order to cover any material losses, damage to assets and loss of income and/or customers, among other problems, as a consequence of natural events, and environmental liability insurance to cover the environmental liabilities required by the laws and rules applicable. Both coverages are based on insurance market standards in terms of limits, sub-limits and coverage.

Meanwhile, we specifically analyse the risks derived from climate change in accordance with the recommendations of the [Task Force on Climate - Related Financial Disclosures \(TCFD\)](#), with regard to both physical and transitional risks.

 More information, in the section "[2.2.4. Energy and climate change](#)" and chapter "[4. Risk](#)".

2.2.2. Environmental management

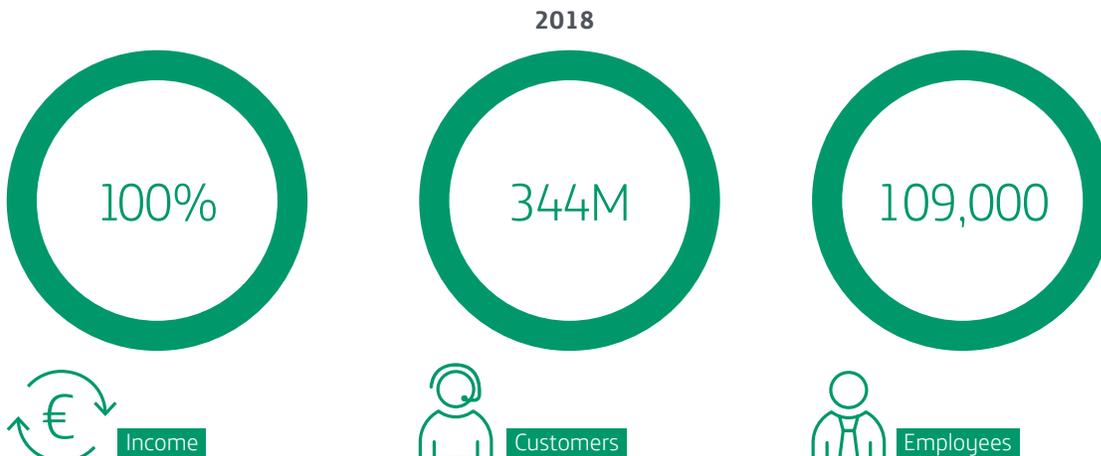
Environmental Management System (EMS) ISO 14001 is the model that we chose to ensure the protection of the environment. During 2018 we continued to improve our EMS and we currently have 99.4% of our operators certified under the new requirements of the 2015 version of this standard.

We have a full range of standards that incorporate the life cycle perspective, with which we also incorporate the aspects of our value chain and we pay particular attention to involving our suppliers in environmental management.

Having a certified EMS enables us to ensure the correct control and compliance with the environmental legislation applicable to each operation and the preventive model of compliance is associated with the Company's overall compliance process. **During 2018, we were not subject to any significant environmental penalties.**

ENVIRONMENTAL MANAGEMENT SYSTEMS

ISO14001 CERTIFICATES



(1) Uruguay in process of certification, Venezuela is excluded from the scope.

Furthermore, we continue to maintain the certification of the Energy Management Systems (ISO 50.001) for our operations in Spain and Germany (around 40% of our revenue) and we are working to extend this standard to other operations.



More information, in the sections "2.2.4. Energy and climate change" and "2.2.3. Circular economy".

An example of the responsible management of the network is the fact that 97% of our waste was recycled in 2018.

2.2.2.1. A responsible network

We ensure that there is an adequate control of risks and environmental impacts in the management of our network throughout its life cycle, which enables us to provide a high-quality service whilst looking after the environment. In 2018, we invested over 10 million euros with this objective.

In order to minimise the impact of network deployment we implement best practices, for example, noise insulation measures when necessary. The sharing of infrastructure significantly reduces the entire sector's impact on the environment. Therefore, whenever possible when installing our facilities, we share space with other operators. This makes it possible to keep the occupation of land, the visual impact, energy consumption and waste generation to a minimum.

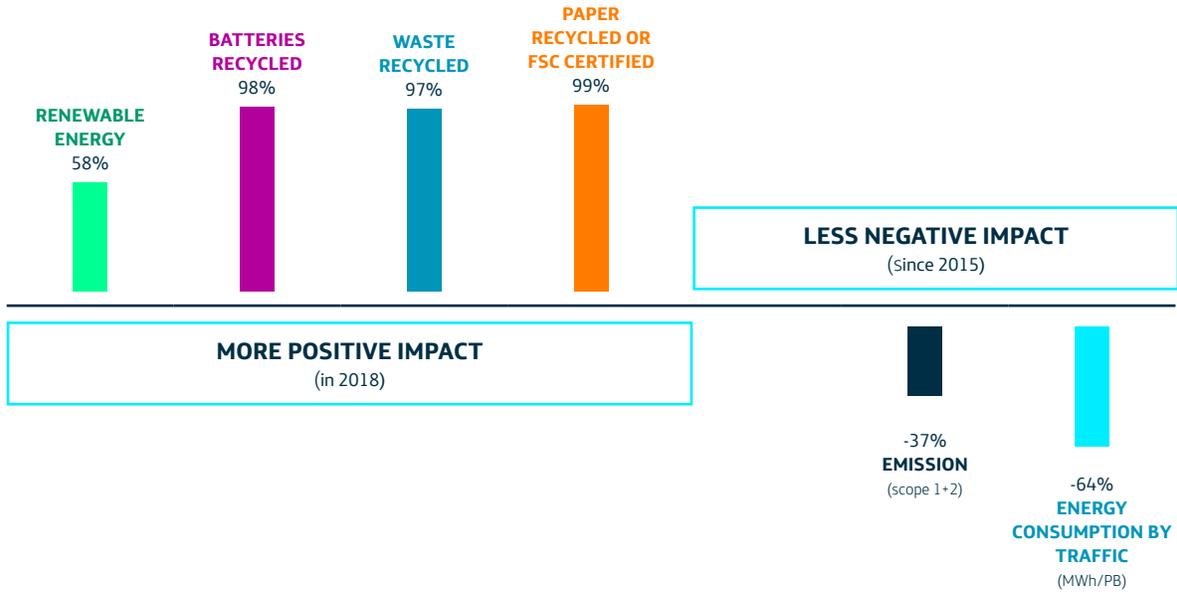
The main environmental aspects of the network are the consumption of energy and waste, although we manage all of our possible impacts such as noise and water consumption.

With regard to biodiversity, the impact of our facilities is limited, although we carry out environmental impact studies and implement corrective measures when necessary, such as in protected areas.

RESPONSIBLE MANAGEMENT OF NETWORK INFRASTRUCTURE



IMPROVING OUR NET IMPACT



2.2.3. Circular economy

The circular economy is a new way of understanding the economy, it focuses on improving efficiency in the use of resources, reducing dependence on raw materials and mitigating climate change. It is presented as an alternative full of opportunities, with the potential to meet environmental challenges whilst providing economic value and growth. This concept not only revolutionises conventional paradigms but also provides challenges and opportunities for digitalisation, as a hyperconnected society is necessary to achieve it.

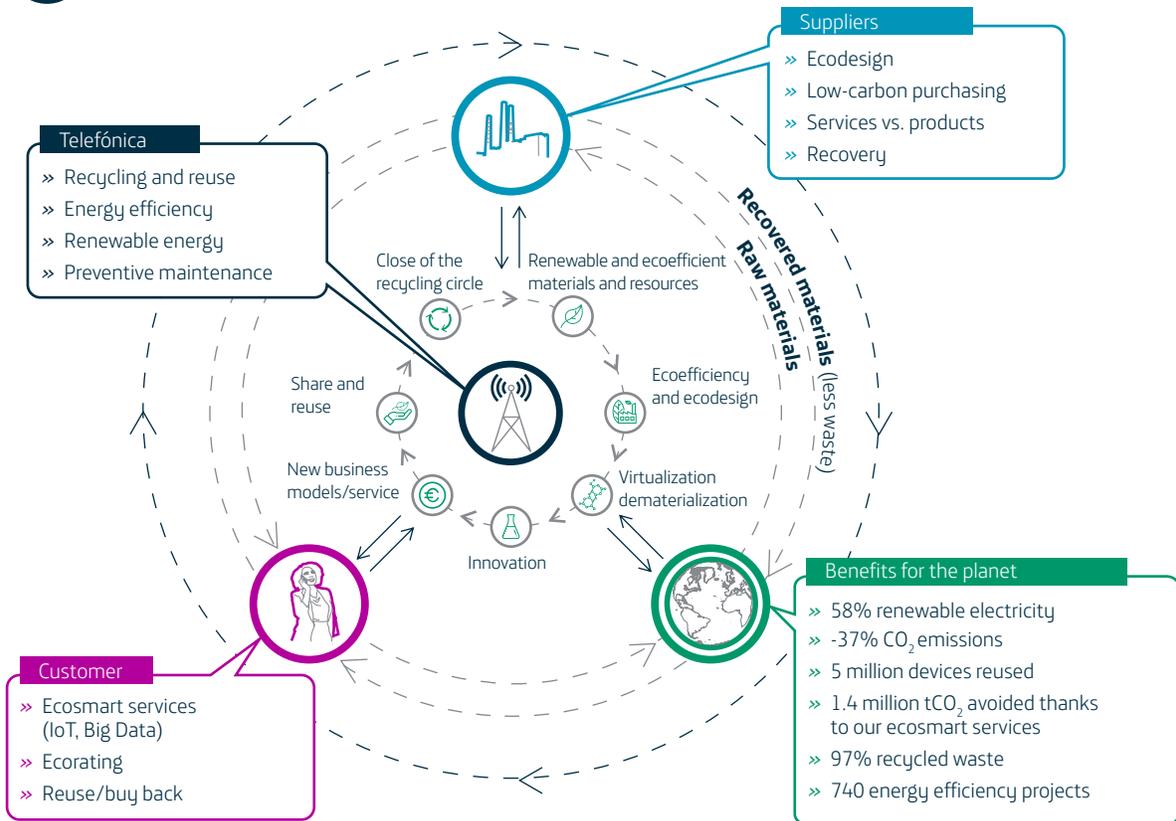
We integrate this philosophy throughout the life cycle of our company. We focus on optimising the consumption of resources and promoting the return of used goods to the productive cycle; to achieve this we mainly focus on our purchases, the efficient management of the network and provision of customer services for this purpose.



More information, in our website "Circular economy".



CIRCULAR ECONOMY AT TELEFÓNICA



We take measures for efficient water consumption, especially in countries with high water stress.

2.2.3.1. Our eco-efficiency

We minimise the impact of our services and operations on the environment thanks to eco-efficient measures such as preventive maintenance of infrastructure, the replacement of equipment with a lower consumption and the reuse of these internally.

Energy consumption has, due to its significance, its own specific chapter.



More information, in the section "2.2.4. Energy and climate change".

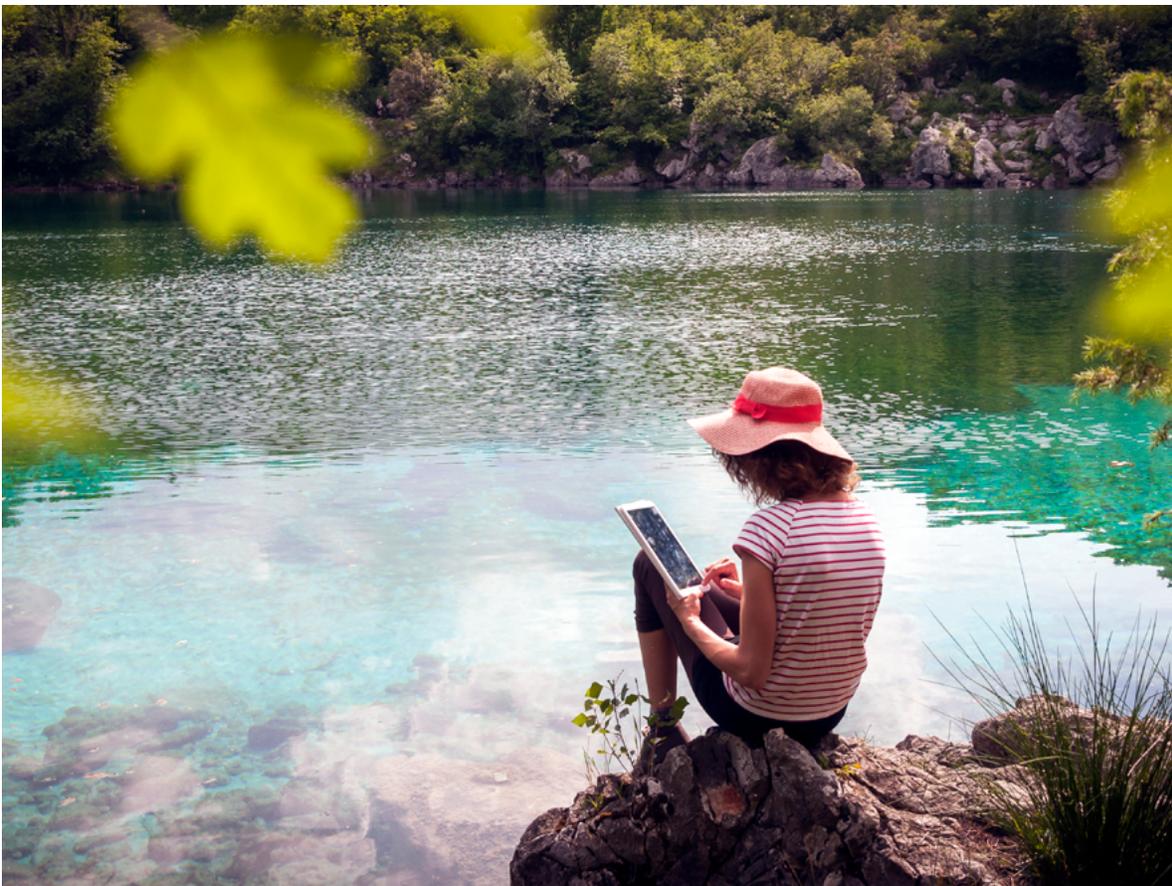
a) Water

Our water consumption is mainly due to sanitary use and, to a lesser extent, its use in air conditioning. Each of our operations carries out specific measures to achieve more efficient consumption, especially in areas where the water stress is greater and in accordance with local limitations.

During 2018, our global consumption was 4 Hm³.

Water consumption (Hm³)

2016	2017	2018
3.75	3.74	4.06



301-2
306-1
303-1
306-5

b) Paper

We have established common guidelines to reduce the impact of this material. Because of this, 99% of the paper that we consumed in our offices last year was of recycled or certified origin (FSC or PEFC).

Another example of eco-efficiency is the digitalisation of our customers' invoices. In 2018, 75 million customers chose paperless invoices. We generate more than 736 million electronic invoices, which have avoided the consumption of 3,600 tons of paper and the felling of approximately 63,000 trees.

By 2018, 99% of the paper we consume is of sustainable origin.

REUSE OF TELEFÓNICA EQUIPMENT

We back the circular economy by reconditioning equipment to give it a second life.



c) Closing the cycle: Waste and Non-Waste

Taking into account the principle of hierarchy of waste in the circular economy, our main commitment is to prevent and reduce their generation, mainly by supporting the reuse of used equipment and recycling. All of this enables us to be more competitive, reduce our expenses and increase our revenue, whilst reducing our footprint on the environment and complying with the applicable legal regulations.

The maintenance of network infrastructure is our main generator of waste, along with the administrative activities that we carry out at our offices and, to a lesser extent, commercial activities with our customers.

In 2018 we achieved the reuse of almost 5 million units of communications equipment that represent approximately more than 2,000 tons. When reuse is not an option, recycling is the best alternative for the treatment of waste.

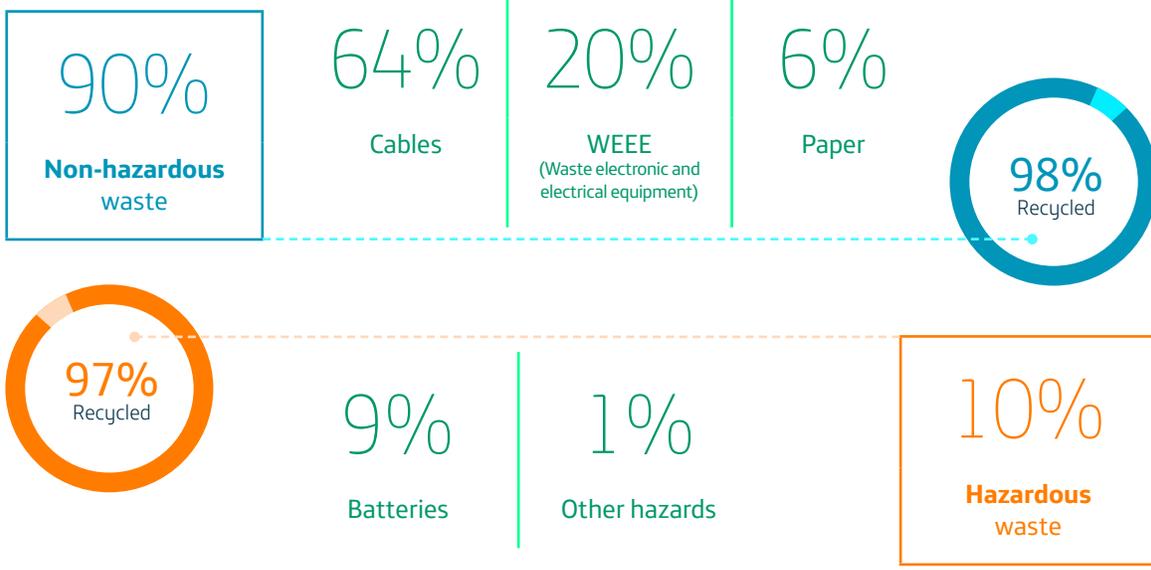
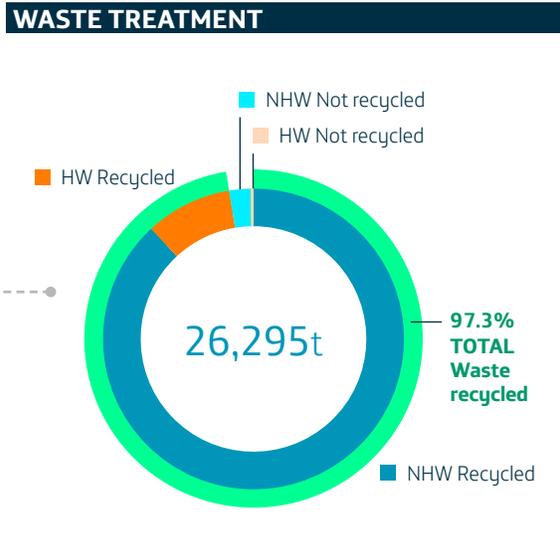
In this respect, in 2018 we generated 26,295 tons of waste, 4% less than the year before. We managed to recycle 97%.

About 64% of our waste is made up of cables that come from the process of transformation of our network, whilst we migrate from copper cables to fibre optics

More information, in the section "1.11. CASE STUDY FLAGSHIP: Migration of Copper to Fibre Optic at Telefónica Spain".

These cannot be reused but they can be recycled. In this way, we promote the circular economy by giving value to the materials that we remove so that they are re-introduced into the productive model. Thanks to the recovery of our waste (mainly cables) Telefónica had revenue of more than 32 million euros.

WASTE

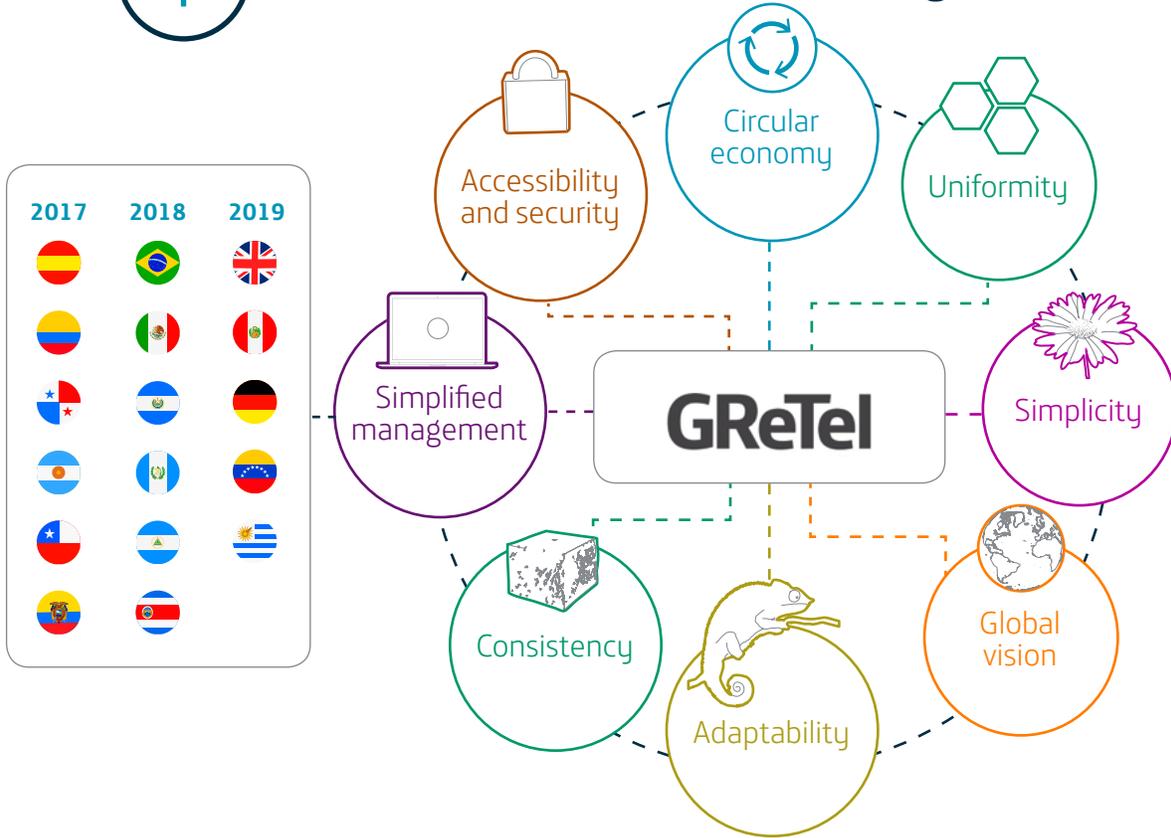


TELEFÓNICA'S WASTE	2016	2017	2018
Total waste generated (t)	23,507	27,536	26,295
Waste Recycled (%)	97%	97%	97%
Equipment reused (t)	1,408	1,242	2,220
Waste sent to landfill and incineration	665	816	694

In 2018 we generated 4% less waste and 97% was recycled.



GReTel: Telefónica's waste management



- » **GReTel:** It is Telefónica's digital platform for waste management, which we use to improve traceability and leverage all the opportunities linked to the circular economy. At the end of 2018, the tool had already been implemented in Spain, Colombia, Chile, Panama, Argentina, Ecuador, Brazil, Mexico, El Salvador, Guatemala, Nicaragua and Costa Rica.
- » **Used electronic equipment and its waste:** This waste is very significant with regard to Telefónica's activities. According to the United Nations, it is estimated that the generation of electronic waste or e-waste will exceed 50 million tons per year in 2021.

Electronic waste contains valuable minerals that can be recovered, but it also contains materials that can become pollutants if not processed properly. Therefore, we believe that finding the solution to this problem is a responsibility that must be shared by all of the players involved. In 2018, 69% of the devices used in our operations and by our customers were recycled and almost 30% were reused.

Telefónica's principles for promoting the circular economy in the management of electrical and electronic equipment

Promoting the development of an enabling regulatory framework and implementing reuse and recycling.

Guaranteeing proper processing with controls on our supply chain.

Offering our customers environmental information during their purchase (ecorating) and alternatives for the disposal of their used devices.

Promoting the best eco-design by manufacturers.

2.2.3.2. Customers and the circular economy

One of the Sustainable Development Goals that we would like to emphasise is the development of a model of sustainable consumption and production. That is why we are developing new products and initiatives that our customers can use to reduce their environmental impact and join the challenge of the circular economy.

a) Repurchase and refurbish of equipment

With our policies to extend the useful life of communication equipment, both belonging to customers and ourselves, we have managed to reduce the consumption of resources and energy by avoiding the manufacture of new equipment.

We offer our customers options for the repurchase and refurbishment of mobile phones. Through this initiative, our customers can hand in their mobile devices for a second life or recycling to avoid damaging the environment. In 2018, we collected more than 800,000 mobile phones thanks to these programs.

Furthermore, we facilitate the reuse of mobile phones through the leasing or sale of used handsets in some of our markets, such as in the United Kingdom with the [Q2 Refresh program](#).

We also retrieve the routers and decoders that we no longer need from our customers' homes. These are refurbished and reused again by Telefónica, avoiding the consumption of the materials and resources involved in the manufacture of new equipment. In 2018 we recovered about 4 million used devices.

Lastly, in some countries, such as Spain, we donated computer equipment, with a total of approximately 7,000 units donated.

Por último, en algunos países, como por ejemplo España, donamos equipos informáticos, siendo el total de dispositivos donados aproximadamente 7.000 unidades.

b) Ecorating

When acquiring a new telephone, our customers can check the [ecorating](#) of the different devices of the catalogue. It is a seal with a score between 1 and 5 that evaluates the degree of environmental sustainability of the device. The score is based on a methodology that

assesses the impact on the environment of the life cycle of the devices, including indicators such as global warming, the use of raw materials or their ease of recycling.

In 2018, we achieved that 71% of our portfolio has the ecorating seal and the average score is 3.2. To date, we inform about the ecorating of our terminals in 10 countries.

This initiative also allows us to work with our suppliers, since this information serves to encourage innovation and implementation of the most environmentally friendly practices throughout the production cycle.

2.2.3.3. The supply chain in the circular economy

We have integrated the philosophy of the circular economy into our relationship with our suppliers, who are essential allies in this transition. We focus on optimising the consumption of resources and stimulating the return of materials to the productive cycle.

Furthermore, we are promoting the reduction of GHG emissions by our suppliers and we are working with them on this challenge.



More information, in "(Scope 3). 2.2.4.3. Emissions section".

a) More eco-efficient purchases

We are aware of the opportunities during the acquisition of goods and services to minimise the impact that they could have on the environment. Therefore, within the framework of our [Global Supply Chain Sustainability Policy](#), we have incorporated environmental and circular economy criteria, such as, for example, the compulsory incorporation of preventive measures and life cycle analysis (LCA) when supplying products or services to Telefónica.

Another line of action is the low carbon purchase. For devices with high energy consumption, we incorporate the concept of Total Cost of Ownership (TCO) in the acquisition process, meaning that we consider the energy consumption that the equipment will have during its use and not only the cost of purchase. TCO enables us to reduce the company's energy consumption and the associated carbon emissions.

Furthermore, in this area we incorporate guidelines for reducing the impact of refrigerant gases on our carbon

footprint. For this purpose, the recharging of CFC or HCFC gases that deplete the ozone layer has been limited, ahead of the deadlines dictated by international agreements, giving preference to gases that have a lower global warming potential.

Within the framework of our global strategy to obtain 100% of our energy from renewable sources, the purchase of renewable energy plays a key role and it is implemented by means of the acquisition of Guarantees of Origin of Renewable Energy and by signing long-term contracts (Power Purchase Agreements - PPA). We encourage the signing of this type of contracts in the countries where the regulations allow it in order to reduce energy expenditure, reduce carbon emissions and to achieve the use of 100% renewable electricity throughout the group. Furthermore, we have technological partners that are helping us develop energy efficiency and renewable energy self-generation projects which substitute products with services, thereby achieving greater efficiency.

 More information, in the section "2.2.4. Energy and Climate Change".

Apart from energy, we also incorporate more eco-efficient purchasing practices. Examples are the FSC certified paper that we use in several countries and the ecorating that aims to encourage eco-design by our mobile phone suppliers.

 More information in the sections "2.5. Suppliers, our allies" and "2.2.4. Energy and climate change"

b) Promoting traceability in waste management

Thanks to the use of the GreTel platform, we can provide our waste management providers with reports with the necessary technical specifications for reporting to the public authorities in each country, as the tool adapts to the regulatory requirements where the waste is located; from the correct management of devices contaminated with polychlorinated biphenyls (PCB) to the reuse of electrical and electronic equipment (EEE). Thanks to these measures, we help our suppliers to improve their own waste management system in each country in which we operate.

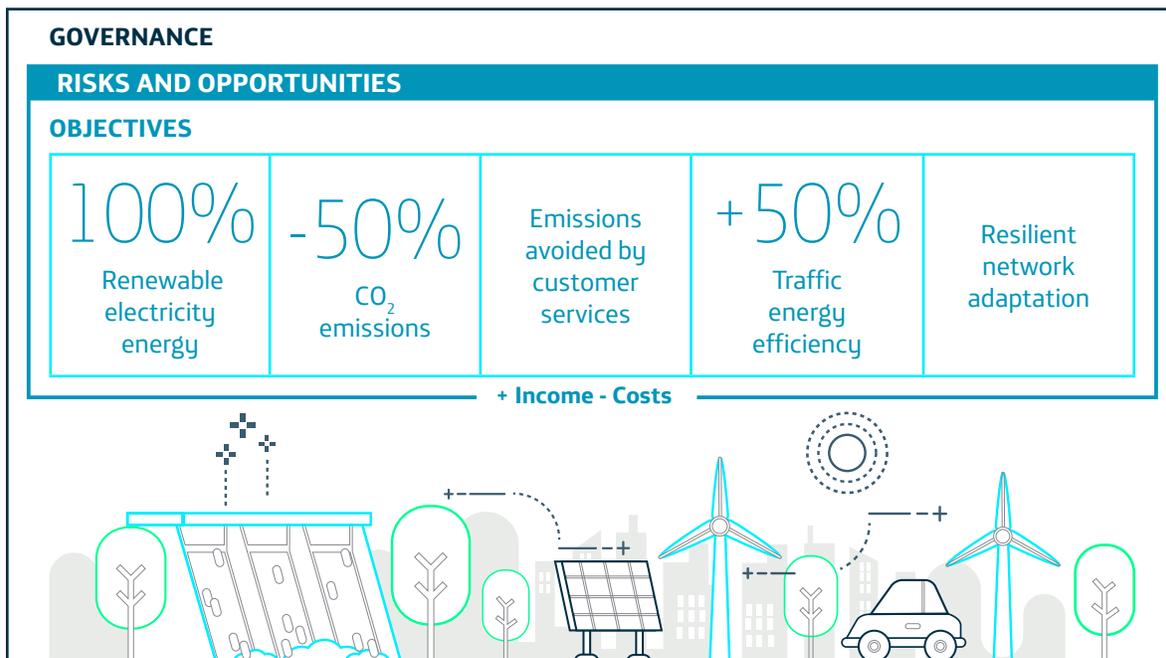


2.2.4. Energy and climate change

2.2.4.1. Integrated energy and climate change strategy

Telefónica has a strategy that integrates climate change and energy that is fully aligned with our business strategy. This enables us to cover every aspect of this global phenomenon: we take on mitigation, leverage opportunities and adapt to risk management. We are committed to reducing our own carbon footprint, but, secondly and more significantly, we offer solutions to reduce our customers' emissions.

CLIMATE CHANGE STRATEGY



Given its transversal and global nature, climate change is currently integrated in the management of the core aspects of the company, such as governance, risks and goals.

We implement the recommendations of the **Task Force on Climate Related Financial Disclosures (TCFD)**, to meet the demands of our main stakeholders and the transparency required in this area.

 More information, in our website "Energy and climate change".

Governance

The climate change and energy strategy are part of the Responsible Business Plan, headed by the Board of Directors.

For over 10 years we have had the Global Energy Efficiency and Climate Change Office, comprising global areas like Operations, the Environment and Purchasing, in charge of implementing the strategy.

Energy and climate change targets

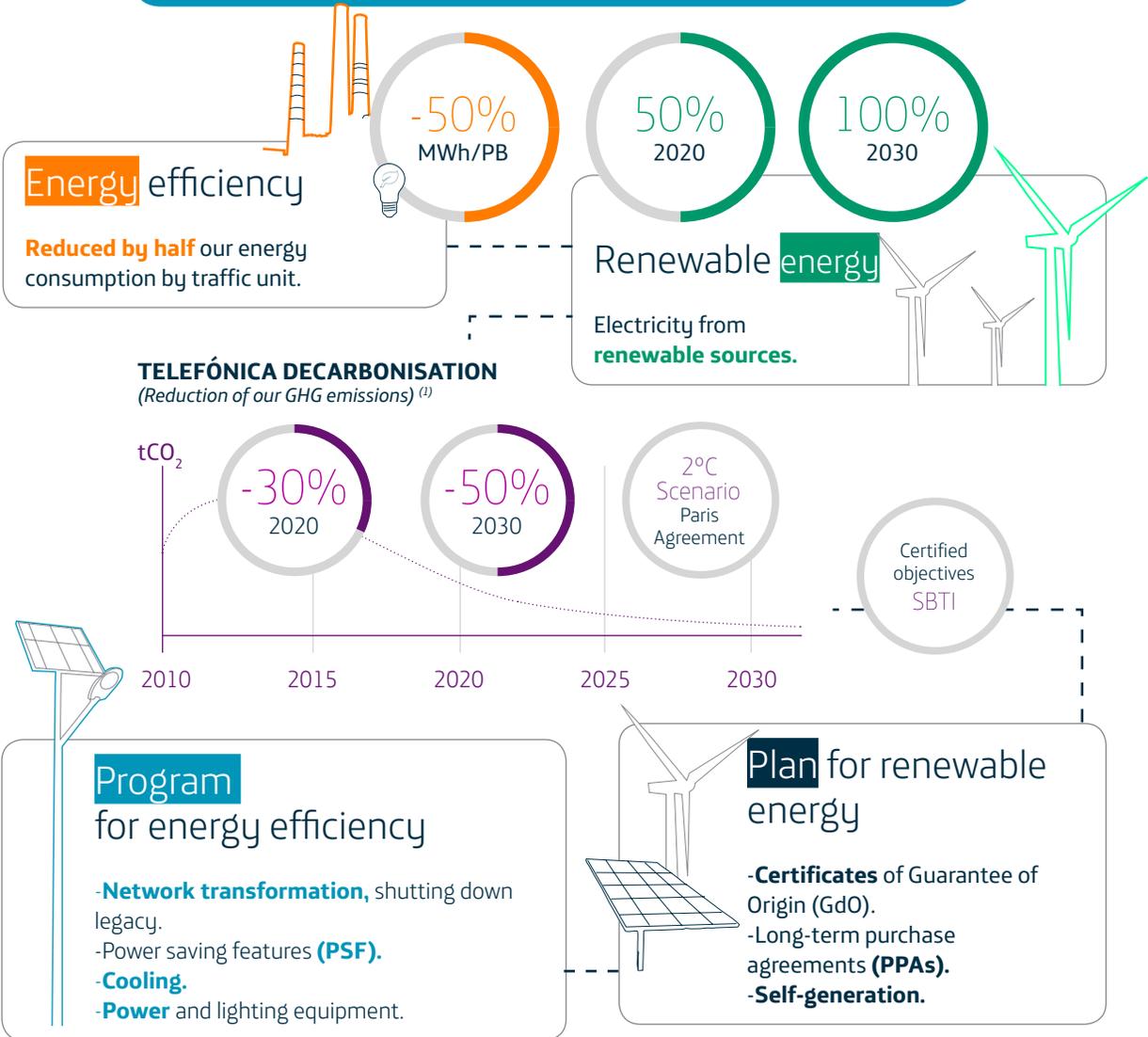
In 2016 we set Energy and climate change Targets for 2020 and 2030, aligned with the Paris Agreement and validated by [the Science Based Targets initiative \(SBTi\)](#). Part of the remuneration of the heads of the operations and environment areas is associated with achieving these targets.

These targets help us to leverage decarbonisation opportunities, to be more competitive and to offer our customers a clean network. We reduced our carbon emissions whilst reducing operating costs through efficiency and renewable energy.



Energy and climate change objectives 2015-2020/2030

We achieved our 2020 goals two years early



GLOBAL ENERGY AND EMISSIONS TARGETS (2015-2020)

KPI	REDUCTION GOAL 2020	VALUE BASE YEAR	VALUE 2018	
Power consumption by traffic	-50%	415 MWh/PB	150 MWh/PB	-64% energy/traffic
GHG emissions (scopes 1+2)	-30%	1.95MtCO ₂	1.22MtCO ₂	-37% GHG emissions
% Renewable energy consumption	50%	20%	58%	

(1) Reduction in absolute terms.

In 2018 we continue to make progress towards achieving these objectives, in 2019 new values will be defined as medium-term objectives. Compared to 2015, total power consumption per traffic unit fell by 64%. This was achieved by focusing on energy efficiency and our network transformation process. By migrating from copper to fibre optics we obtain 85% efficiency in customer access.

We achieved 100% in Europe, Brazil ⁽¹⁾, (since November 2018), and 58% globally, of the Company's electricity consumption comes from renewable sources.

All of this has led to a 37% reduction in our Scope 1 and 2 emissions compared to 2015.

Risks and opportunities

We specifically analyse the potential risks and opportunities arising from the impact of projected climate effects in different scenarios of CO₂ equivalent concentration in the atmosphere and over different periods, following the TCFD recommendations.

This analysis enables us to incorporate climate change into long-term business decisions, minimising risks and maximising opportunities for our business.

a) Risks

Climate change is one of the basic risks in our Risk Management Model.

 More information, in the chapter "4. Risk".

We analyse our business's exposure to physical risks and also to those arising from transitioning to a low carbon economy.

For physical risks we analyse the probability and impact that both gradual changes to the climate (temperature, rainfall, sea level) and extreme climate events can have on our infrastructures and operation. Regarding the global transition to a low carbon economy, we consider the risks that can arise from changes in regulation, technological innovation, and those associated to changes in current markets or reputational aspects. The most important are related to increased operating expenses of the cost of energy, for example in countries dependant on hydropower.

In order to manage these risks, we have lines of work that help increase our resilience to climate change. Thus, our strategy includes adaptation measures to both the physical changes and the changes arising from a low carbon economy. The main measures are the Business Continuity Plans for climate disasters and the Energy Efficiency and Renewable Energy Plans, which enable us to reduce power consumption, fossil fuel consumption and greenhouse gas emissions, and ready us for all the risks of transition: regulatory, technological, market and reputational.

CLIMATE CHANGE RISKS					
Transition				Physical	
					
Regulatory Increase in the price of certain products and services as a result of taxes or levies on sectors on which we are dependent (energy, transport, etc.).	Technological Need for early withdrawal of assets linked to HVAC or energy to transition to clean technology.	Market Increased energy OPEX, for example, in countries dependant on hydropower.	Reputational More information on this subject from major stakeholders (investors, analysts, customers, etc.)	Chronic Higher temperatures could imply greater cooling needs.	One-off More weather extreme events would increase the business continuity risk.
				The physical risks have been analysed in detail in a climate vulnerability study.	

(1) Telefónica Brazil 100% renewable electricity since November 2018.

b) Opportunities

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

The internal opportunities include the Renewable Energy Plan and the Energy Efficiency Plan, which enable us to reduce the Company's operating costs. In external opportunities we can identify an opportunity for business growth, for example the new IoT-based services necessary for transitioning to the decarbonisation of many economic sectors.

 More information, in the section "2.2.5. Digitalisation and ecosmart services".



In 2018 we were recognized, for the fifth consecutive year, with the highest "A" rating in the [CDP Climate Change](#). This list includes companies that meet the top criteria of the Carbon Disclosure Project in terms of strategy, targets, and actions related to the risk and opportunities of climate change. In addition, we were awarded for our transparency and commitment to customers on climate change, obtaining an "A" rating in the CDP Supply Chain Climate.



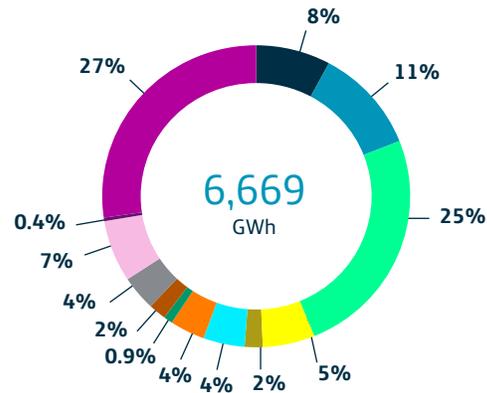
We can identify opportunities in a low carbon economy for both internal energy management and business growth, by selling products that reduce our customers' carbon emissions.

2.2.4.2. Energy

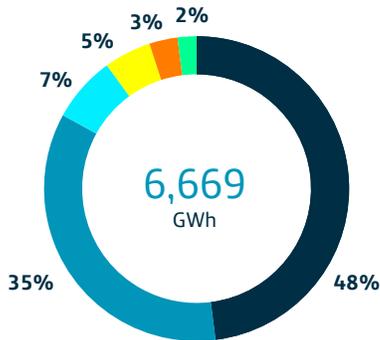
Energy is an essential resource of our activity, 95% of our consumption comes from operating our telecommunications network to service our customers. Since 2015, we have managed to stabilise energy consumption (-0.29€) despite the fact that the traffic managed by our networks has increased by 176%.

In 2018, energy consumption was 7,137 GWh, 93% of electricity and 7% of fuels. In addition, 86% is concentrated in just 7 countries, with Spain and Brazil being the most relevant (51% of the total).

ELECTRICITY CONSUMPTION BY COUNTRY (GWh)

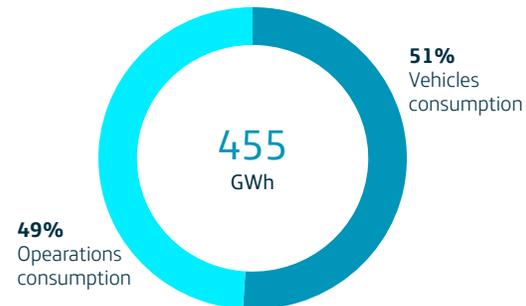


ELECTRICITY CONSUMPTION BY FACILITY (GWh)



- Base stations
- Fixed lines telephone exchanges
- Mobile lines telephone exchanges
- Data Centers
- Offices
- Other

FUEL CONSUMPTION (GWh)



ENERGY	2015	2016	2017	2018
Total power consumption (MWh)	7,157,309	6,993,722	7,042,619	7,136,772
Electricity (MWh)	6,724,081	6,493,117	6,581,361	6,668,881
Fuel and Urban Heating (MWh)	433,229	500,606	461,258	467,891
Energy from renewable sources (%)	20.45	45.99	46.93	57.98
Total annual traffic managed (Petabytes)	17,235	25,716	35,708	47,500

302-1
302-2
302-3
302-4



IX Global Energy and climate change Workshop:

In 2018 we held another edition of the annual meeting of our transformation and energy leaders and the main collaborating companies in these areas. The event was held in Argentina and brought together more than 200 in order to leverage the opportunities that currently exist in this area and promote innovation to reduce power consumption and our global carbon footprint. During these days, Telefónica's Energy Awards will also be presented.

Energy Efficiency Plan

To optimise the power consumption of our network, in 2010 we compiled the Energy Efficiency Plan. Since then, we have implemented 740 projects, with an annual growth rate of 7%, thanks to the Global Energy Center created in 2015 to accelerate efficiency, with managers responsible for encouraging energy efficiency projects in each country. In 9 years, we have saved more than 4,000 GWh, 553 million euros, and avoid 1.27 million tonnes of CO₂ eq emissions.

In 2018 we implemented 139 initiatives in our networks and offices. These initiatives have led to savings of 181 GWh and prevented over 73,145 tonnes of CO₂ eq emissions.

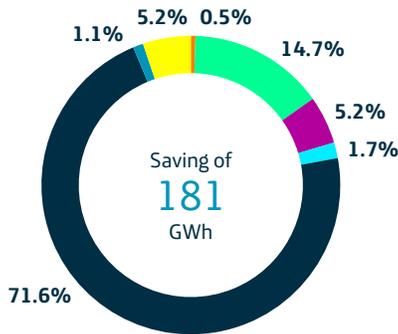
The global initiatives include modernising our network to increase its efficiency, for example by replacing copper by fibre optic; power plants and HVAC equipment renovation projects; using free cooling to cool with air directly from the outside; shutting down legacy networks; implementing power saving features in the access network; and reducing fuel consumption by implementing hybrid stations.

This effort is reflected in a 64% improvement in our energy intensity ratios (MWh/PB) compared to 2015 and we decoupled the growth of our services from power consumption.

ENERGY EFFICIENCY



ENERGY EFFICIENCY PROJECTS



- Lighting:** Replace florescent tubes with LED technology and install motion sensors.
- PSF (Power Saving Features):** Activate power saving features during off-peak periods.
- Cooling:** Upgrade technology of air conditioning units and install free cooling.
- Power:** Upgrade technology of motors and replace low efficiency rectifiers.
- Network transformation:** Switch off legacy machines, upgrade networks, and optimise sites.
- Renewable self-generation:** Implement renewable systems for self-consumption and reduce fuel consumption.
- Other:** Adjust the set point of cooling units, correct the output factor, etc.

Renewable Energy Plan

Decarbonising the Company demands not only maximum efficiency in energy usage but also it comes from renewable resources.

To do this, Telefónica has a Renewable Energy Plan, through which 100% of our electricity in Europe and 58% worldwide comes from zero emissions sources. By doing this we have met the target set for 2020 in advance.

Similarly, switching to clean energy also reduces our operating costs and makes us less dependent on fluctuations in fossil fuel prices. Our Renewable Energy plan projects a 6% savings on energy OPEX by 2020 and could reach 26% in 2030.

The Plan includes all types of solutions; self-generation, purchasing renewable energy with a guarantee of

origin and long-term agreements (Power Purchase Agreements - PPA) and non-conventional renewable energy takes priority.

The initiatives in 2018 included two power purchase projects; the acquisition of 100% renewable power in Brazil, and a solar plant that became operational under a PPA agreement for Telefónica Mexico.

Since November 100% of the power consumed by the operator in Brazil comes from renewable resources. This has been achieved through three strategies; contracting green energy from the incentivised free market; mid-term contracting of energy from small hydropower plants under a distributed generation agreement and finally, the acquisition of guarantees of renewable origin for the rest of the power consumption.



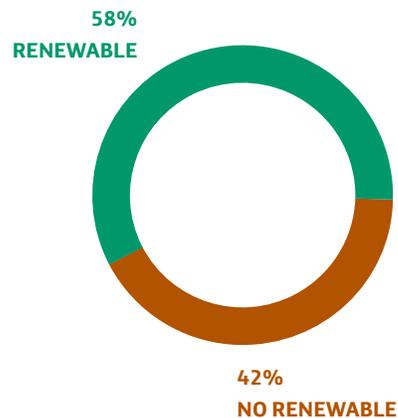
In 2018 the largest solar park in the country started supplying our operation in Mexico, thanks to a PPA signed between Telefónica and the solar power generation company. This solar park will supply 40% of the power consumed by Telefónica Mexico over the next 20 years.

Regarding self-generation, we are gradually increasing the mobile network base stations that are powered by renewable energy; we currently have more than 4,300. This also enables us to avoid using fuel-powered generators in remote areas. Self-generation is also gradually gaining presence in other types of facilities that consume more power, such as the MTSO in Managua (Nicaragua), where solar panels have been installed that generate 10% of its power consumption.

In total, 3,382 GWh come from renewable energy sources. This has enabled us to avoid the emissions by 1 million tonnes of CO₂. This demonstrates that renewable energy is key to decarbonising our activity and reducing our carbon footprint in absolute terms.

100% of electricity consumption in Europe and Brazil⁽¹⁾ already comes from renewable sources.

RENEWABLE ELECTRICITY



(1) Telefónica Brazil 100% renewable electricity since November 2018.



Telefónica's emissions without our renewable energy plan would have been 80% higher.

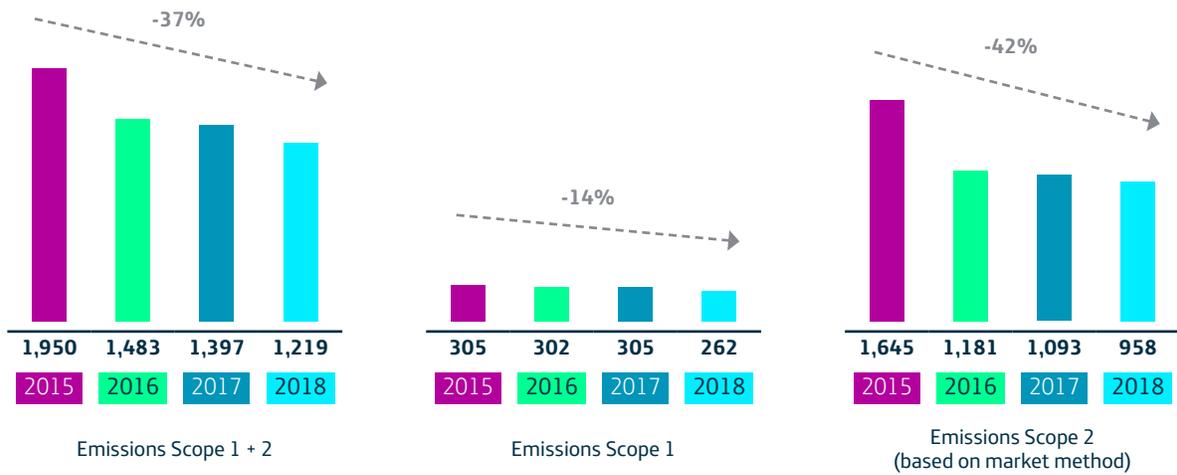
2.2.4.3. CO₂ Emissions

We calculate and reduce our carbon footprint every year, including direct emissions (Scope 1) from fuel consumption and fugitive emissions of refrigerant gases and indirect emissions from electricity consumption (Scope 2), and other indirect emissions related to our value chain (Scope 3). The Renewable Energy and the Energy Efficiency Plans are the main drivers for reducing emissions.

Our calculation method is based on the GHG Protocol and the ISO 14064 Standard.

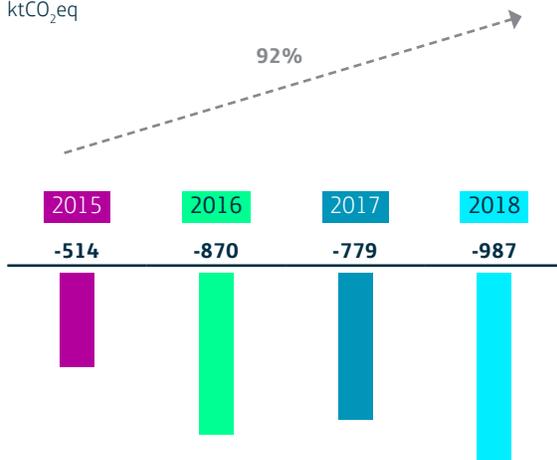
TELEFÓNICA EMISSIONS (SCOPES 1 + 2)

ktCO₂eq



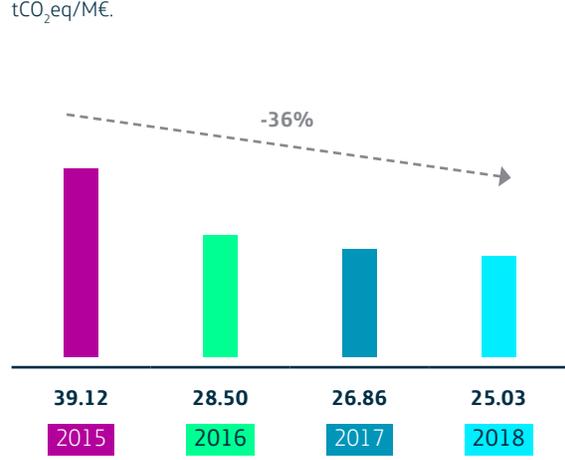
EMISSIONS AVOIDED BY CONSUMING RENEWABLE ENERGY

ktCO₂eq



EMISSIONS INTENSITY (SCOPE 1 + 2/REVENUE)

tCO₂eq/M€.

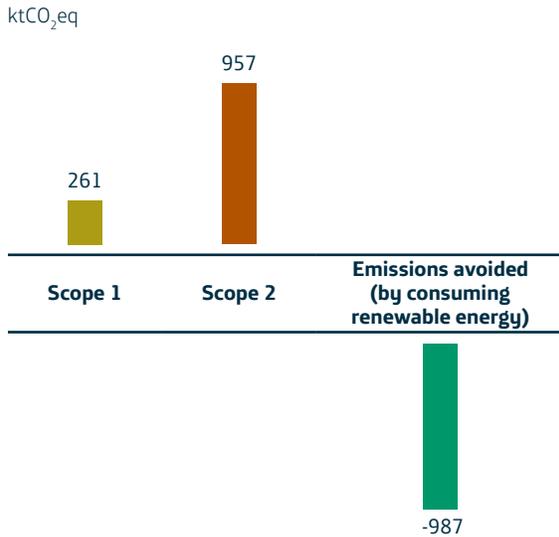


Scope 1: Our Scope 1 emissions come from two main sources; fuel consumption in our lines of business and fugitive emissions of refrigerant gases from air conditioning units. We reduce them through different initiatives, such as replacing fuel-powered generators with renewable self-generation or substituting cooling units with free cooling or with other units with refrigerant gases with lower warming potential. Through these measures we have reduced this scope by 14% compared to 2015, which represents a reduction of more than 43,500 tonnes of CO₂ eq emissions per year.

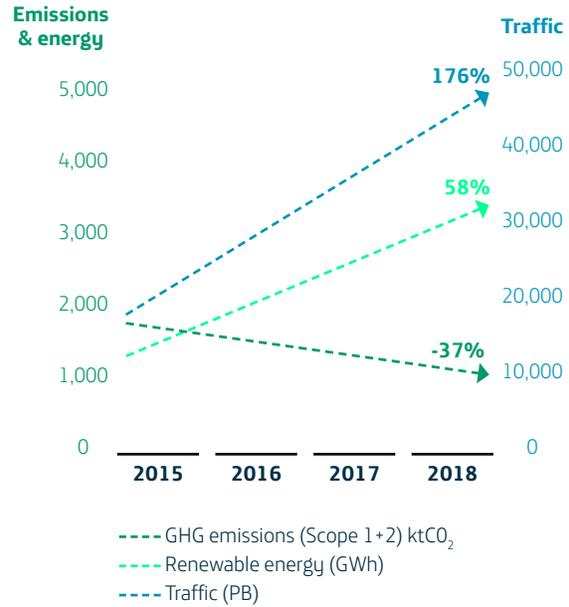
Scope 2: Scope 2 emissions, from power consumption, are the most significant in our activity. The actions we carry out to reduce them are based on implementing energy efficiency projects and on transitioning to consuming more renewable energy. Through these actions we reduced our Scope 2 emissions by 42% in 2018 compared to 2015, which represents a reduction of more than 687,000 tonnes of CO₂ eq emissions per year.

305-1
305-2
305-3
305-4

TELEFÓNICA EMISSIONS (SCOPE 1 + 2)



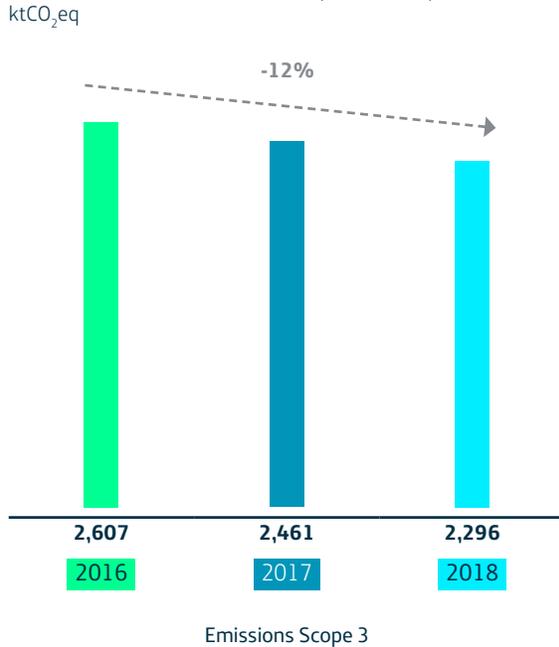
TELEFÓNICA DECARBONISATION



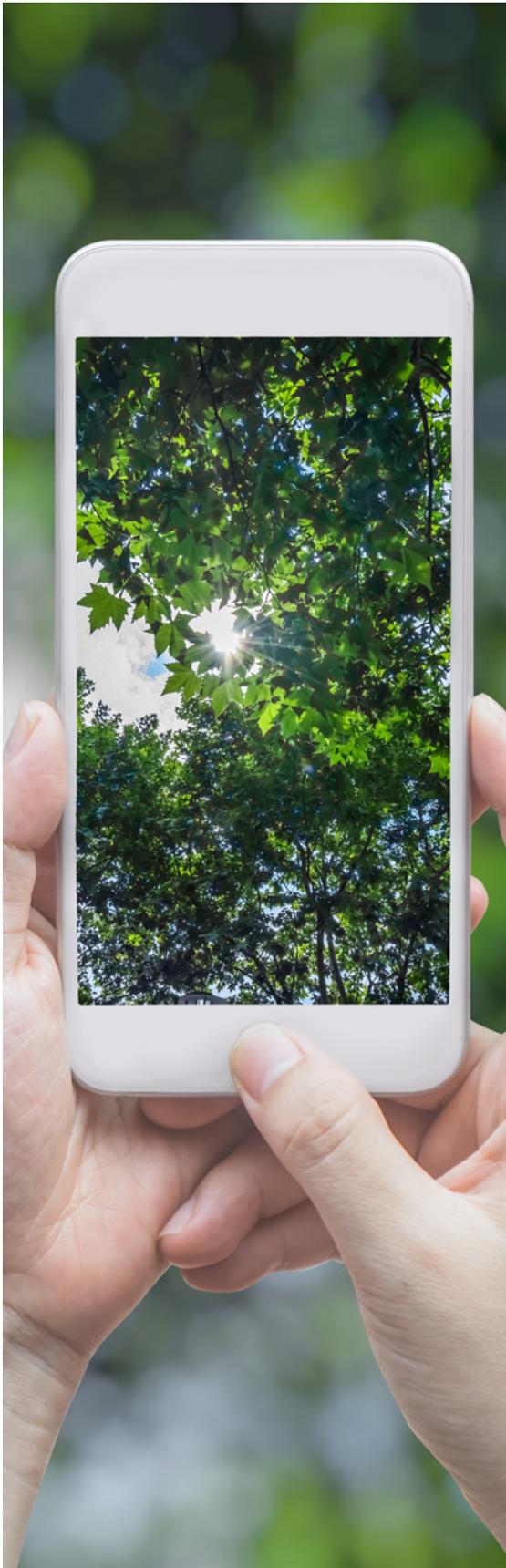
Scope 3: The main Scope 3 emissions of our value chain come from the categories related to purchases from our supply chain, and usage of the products and services we sell our customers. In 2018, these emissions were 2,296,042 tCO₂e, 12% less than in 2016. 68.5% comes from our supply chain; for the purchase of products and services, the acquisition of capital goods and the generation of energy.

Our objective is to reduce 30% emissions per unit of product purchased between 2016 and 2025 (categories 1 and 2 of Scope 3); and 25% emissions associated with the energy life cycle (category 3 of Scope 3).

TELEFÓNICA EMISSIONS (SCOPE 3)



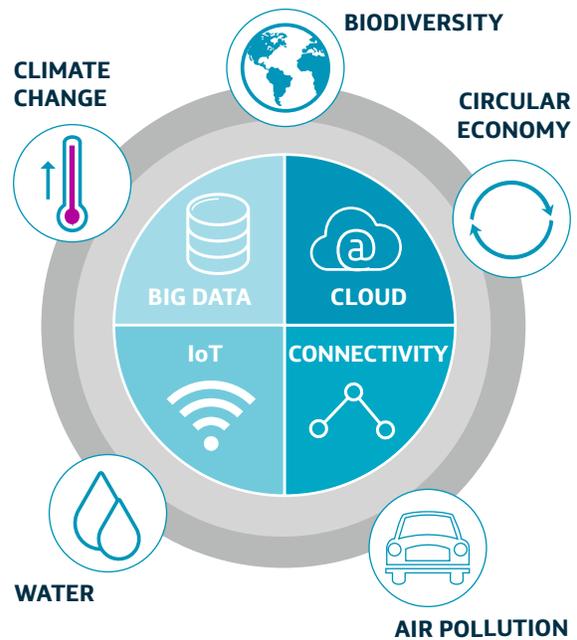
Our objective is to reduce emissions per unit of product purchased by 30% between 2016 and 2025 (Scope 3, categories 1 and 2).



2.2.5. Digitalisation and ecosmart services

Digitalisation and connectivity are the main instruments for dealing with the environmental challenges affecting society at large: climate change, water shortage, circular economy, pollution and loss of biodiversity. This new digital era is an opportunity for the process of transformation of the economy, business and society to be carried out while providing solutions to reduce the environmental impact. Many of our services now have this integrated approach.

DIGITAL SOLUTIONS TO ENVIRONMENTAL CHALLENGES



Our business strategy is committed to the digital revolution, which is why we provide services based on connectivity, the Internet of Things (IoT), Cloud or Big Data. In all of these we find environmental benefits; for example, with IoT services we make more efficient use of resources such as energy and water, with Big Data we are helping to improve traffic planning and air quality, and with drone-based services and connectivity we can improve fire response.

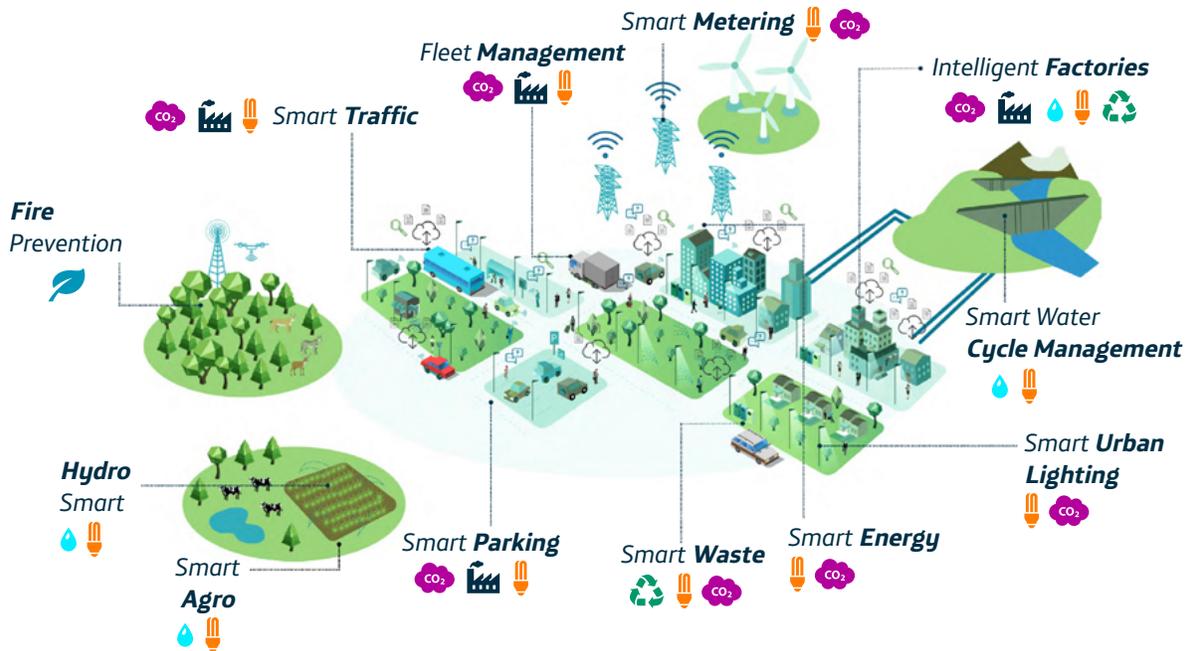


More information, in our website "Green TIC".



Ecosmart Services

We are creating a **more digital world** in every area: personal, home, transport, work, industry city...



Energy
CO₂ emissions
Water
Waste recycling
Air pollution
Biodiversity

2.2.5.1. Connectivity

Connectivity is the foundation on which our business is built, with products such as broadband, fibre-optics and audio/video conferences making new ways of working possible with less travel, which enables the reduction of energy consumption, carbon emissions and air pollution.

to change their configuration in real time so that they consume adequate power at any time.

This can be seen in services as:

2.2.5.2. Internet of Things (IoT)

The IoT is a lever for global growth, and as Telefónica is a leader in connectivity and digital services, the Internet of Things presents a great opportunity. This technology offers numerous possibilities, because by connecting objects in real time we obtain information on their state and behaviour and we can apply it in various scenarios. An example of this is energy efficiency, since by connecting energy-consuming goods it is possible

- » Smart energy meters for our customers, such as the case in the United Kingdom where Telefónica manages 22 million homes with 40 million gas and electricity meters connected.
- » Mobility optimisation solution, such as our fleet management solutions, field force management in mobility and asset tracking.
- » Energy efficient solutions for smart cities, based on the optimisation of the lighting or the means of urban mobility.
- » Energy optimisation solutions for companies, both at factory level and companies with a large

geographical dispersion of venues, such as hotels and supermarkets, among others.

- » Agricultural optimization solutions such as Smart Agro.
- » Networked car solutions for the major consumer, in order to optimise its use and for early detection of faults.

IoT is a commercial reality, and this is reflected in Telefónica's revenue from this source .

- » IoT growth of revenues year-on-year: +31.0%.
- » 19,483,000 lines connected: +20.7% year-on-year.

 More information, in the chapter "2.7. CASE STUDY FLAGSHIP. Energy efficiency and IoT".

2.2.5.3. Big Data

Through analysis of movement patterns traced by mobile phone use, combined with other open data or from IoT sensors, we are offering our customers services that apply to the environmental world, such as transport management in a city and improvements in the response to an environmental catastrophe.

LUCA is our Big Data specialized services unit. Its aim is to help customers with decision-making, in a more efficient management of the resources and, ultimately, in reverting the benefits of this flow of information to society as a whole.

In the market, we have launched various ecosmart services based on Big Data such as [LUCA Energy](#) and [LUCA Fleet](#). Both analyze the information collected by the IoT sensors and offer a top analytical and display layer of the data that have a direct impact on decision-making, improve planning and help reduce consumption of resources. Meanwhile, we highlight

IOT AND BIG DATA SERVICES



Agricultural optimization solutions such as Smart Agro.



More efficient street lighting in Smart Cities.



SEnergy efficiency solutions for companies.



Optimisation of mobility, thanks to solutions such as fleet management, field force management in mobility or asset tracking.



[LUCA Transit](#) as a product designed to optimize the planning of infrastructures and transport systems through greater knowledge of passengers, timetables and routes, applying Big Data techniques. The result is that our customers optimize planning of infrastructures and transport systems to make them suitable for the real needs of passengers with the maximum budgetary control.

In addition, our Big Data for Social Good unit is geared towards using the data to help with the development of society, providing value and thereby contributing to the Sustainable Development Goals. We can highlight two examples in this regard:

- » **Forecasting of pollution by nitrogen dioxide and estimation of emissions in cities thanks to mobility data:** The means of transport we use daily, particularly vehicles powered by a combustion engine contribute significantly to air pollution in cities. This is why the use of Big Data on mobility data generated by the mobile telephone network is an instrument that shows great potential in this regard. Additionally, with artificial intelligence techniques we can even predict future levels of pollution so that the authorities can draw up adequate contingency plans for the forecast. These data are also central to estimating gas emissions whose origin is population mobility. These initiatives have been piloted in cities like São Paulo (Brazil), Madrid (Spain) and various locations in Germany.
- » **Use of Big Data for reduction of emissions in the livestock sector:** Telefónica and the

[Food and Agriculture Organisation of the United Nations \(FAO\)](#) signed an agreement on the use of IoT and Big Data to promote the development of the rural populations of Latin America. In this context a partnership was developed around ["Climate-Smart Agriculture" in Ecuador](#). The project is designed to provide information and training to small and medium-sized cattle ranchers in ways to improve the production of their cattle while minimising the impact of the greenhouse gas emissions of their holdings. For that purpose, advanced mathematical and analytical models are being used to generate relevant and industrialised information to each cattle ranch.

2.2.5.4. Cloud

Thanks to our hosting services in Data Center, we contribute to dematerialisation, reducing energy consumption and maximising space utilisation. All of this significantly reduces the carbon footprint of our customers.

Nowadays, we have 11 Strategic Data Centers which allow us to cover our needs as efficiently as possible. The main ones are located in Spain, Brazil, Miami, Chile, Peru and Mexico. They all comply with the Green IT international standards of eco-efficiency and sustainability and have electrical and air conditioning principles which allow us to reduce the energy consumption of these infrastructures by 75%. The average PUE of the main Data Center was reduced, year-on-year, in 2018 by 1.72.

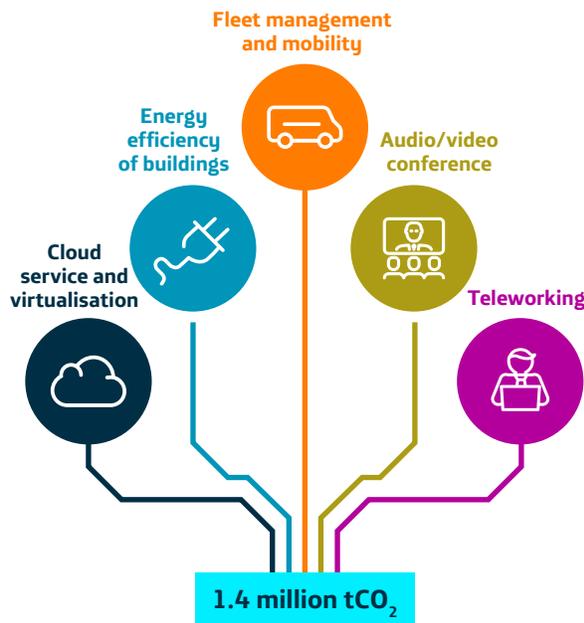
2.2.5.5. Emissions avoided by our services - Positive net impact

In conclusion, through our services, from the connectivity and the cloud, to the services of IoT and Big Data, we have the ability to reduce the carbon emissions from other sectors and increase the resilience to climate change in the societies in which we operate.

Thanks to the IoT fleet management services and energy building services, video/audio conferences, cloud and connectivity to promote teleworking, in 2018 we avoid the generation by our customers of 1.4 million of tons of CO₂.

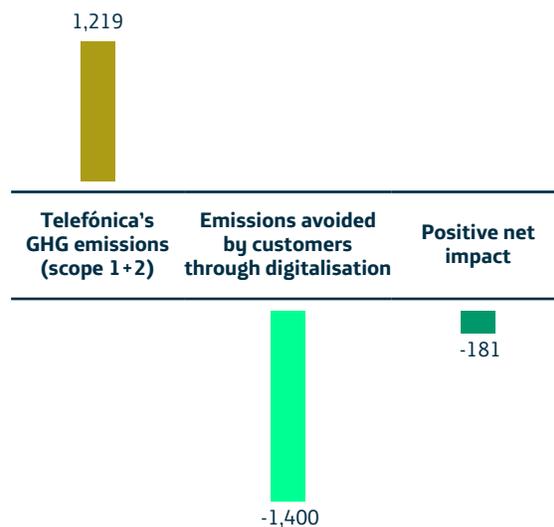
Our services avoided 1.2 times the emissions that we generated, that is, for each ton that Telefónica emits in its activity we are able to avoid 1.2 tons in our customers. We avoid more than 180 mil tons of CO₂, thus making possible a positive net impact on the planet.

EMISSIONS AVOIDED BY CUSTOMERS THROUGH DIGITALISATION



POSITIVE NET IMPACT

ktCO₂



Our objective is to generate a greater positive impact: in 2025, for each ton of CO₂ emitted by Telefónica, we will avoid 10 tons of CO₂ into the atmosphere through our services.



2.2.6. Milestones and challenges

Our main achievements in 2018 were:

- » We announced our Telefónica Sustainable Financing Framework.
- » 99.4% certified company under the new ISO standard 14001:2015.
- » We consume 100% renewable electricity in Europe, 58% at global level Brazil ⁽¹⁾.
- » We are 2 years ahead of meeting the energy and emissions targets for 2020.
- » We reduce our carbon emissions by 37% with respect to 2015.
- » With our services we avoid 1.4 million tCO₂, equivalent to 1.2 times our carbon footprint.
- » We reduce our energy consumption per traffic unit by 64% with regard to 2015.
- » We have been awarded the maximum "A" classification in CDP Climate Change.
- » We set objectives for reducing our Scope 3 emissions.
- » We signed a PPA in Mexico for 40% of the electricity consumed.
- » We generated 4% less waste and recycled 97%.

The most significant challenges we have ahead are:

- » Avoid 10 tons of CO₂ for each ton we emit by 2025.
- » Reduce CO₂ emissions in our supply chain to 30% per euro at 2025 compared to 2016.
- » 100% renewable electricity consumption in 2030.
- » Reduce our CO₂ emissions (scopes 1 + 2) by 50% in 2030.
- » Extend digitalisation of our waste management (GreTeL) of all operations.
- » Sign a PPA agreement in Spain and Argentina.
- » Drive development of technological solutions to promote the revolution towards the circular economy.

(1) We consume 100% renewable electricity in Europe and Brasil, 58% at global level.

2.2.7. Main key indicators

ENVIORNENTAL PERFORMANCE	2015	2016	2017	2018	2015-2018
Total waste generated (t)	25,896	23,507	27,536	26,295	1.5%
Waste Recycling (%)	97.0	97.0	97.0	97.0	0.0
Equipment reused (t)	289	1,408	1,242	2,220	668%
Water consumption (Hm3)	3.93	3.75	3.74	4.06	4%
Total energy consumption (MWh)	7,157,309	6,993,722	7,042,619	7,136,772	-0.3%
Electricity (MWh)	6,724,081	6,493,117	6,581,361	6,668,881	-0.8%
Energy from renewable sources (%)	20.5%	46.0%	46.9%	58.0%	n.a.
Total traffic managed per annum (PB)	17,235	25,716	35,708	47,500	176%
Energy efficiency (MWh/PB)	415	272	197	150	-64.0%
Scope of Emissions 1 (tCO ₂ e)	304,857	301,999	304,811	261,364	-14.0%
Scope 2 Emissions (market-based approach) (tCO ₂ e)	1,644,802	1,180,803	1,092,179	957,459	-42.0%
Scope 3 (tCO ₂ e)	n.a.	2,606,625	2,460,656	2,296,042	-12.0%
Emissions avoided due to renewable energy consumption (tCO ₂ e)	514,429	869,742	779,085	987,447	92%
Intensity of emissions (scope 1+2/ income) (tCO ₂ e/M€)	39.12	28.5	26.86	25.03	-36.0%





2.3. Committed to social well-being

In Telefónica, we believe in a world that is comprehensively sustainable: socially fair, environmentally secure, economically prosperous, inclusive and more predictable. Therefore we are fully involved in the social welfare of all the countries where we operate. Not only we do have a positive impact on GDP, employment, the environment and tax,



More information, in the chapter "1.4. Our impact on communities and tax information" and "2.2. Digitalisation and the environment".

but we also pursue an increasingly diverse, inclusive, and flexible environment for our human team.



More information, in the chapter "2.4. Our team set us apart".

Likewise, our allies are a key part of our business. We ensure that together we achieve high social and environmental standards, promoting the respect for human rights.



More information, in the chapter "2.5. Suppliers, our allies".

In addition, we are an active part of the social and cultural life of those who live in them. We are aware of the influence and responsibility that Telefónica has and must have regarding the promotion of knowledge, culture and solidarity in the communities in which we are present. For this reason, we are an active part of the social and cultural lives of the people that live in them.

2.3.1. Health and safety at work. Employee well-being

Health and safety at work is a concept which has grown and shifted along with society and now we understand health to be a state of complete physical, mental and social well-being in harmony with the environment.

At Telefónica we integrate the aforementioned concepts, assuming them as commitments to our employees, their families and the community, as laid down in [Telefónica's Responsible Business Principles](#) and contained in the "[Global Policy on the Health, Safety and Well-being of our employees, our supply chain and our partners](#)" approved in 2018. Furthermore, all the collective bargaining agreements contained clauses on health and safety at work adapted to local legislation.

2.3.1.1. Prevention of work-related incidents and occupational illnesses

We lay down procedures to identify the dangers and assess the risks in order to prevent work-related incidents and occupational illnesses. We ensure compliance with the legal requirements in force in each country, as well as adopting, in a complementary manner and in accordance with the principle of prevention, other requirements based on local regulations or international standards. To this end, we foster the implementation of a **Health, Safety and Well-being Management System** at all our operations. Of Telefónica's operators, 85% contemplate a Health, Safety and Well-being management system based on the new ISO 45001 standard. We have certified this system in over 50% of the countries where we are working and our work plan covers the implementation of this management system in the rest of the operators.

Among the professional activities carried out within the Company, there is no special incidence or risk of suffering professional illnesses. During 2018 there were two fatal accidents, one in Argentina and the other in Brazil.

Health and safety training have been strengthened through the global online tool SuccessFactors, which





offers training in several languages according to the risk associated with your job.



More information, in the section "2.4.6. Key indicators" in the table "Occupational Health and Safety Indicators".

2.3.1.2. Representativeness and worker participation

We promote worker and other stakeholder information, consultation and participation to ensure healthy and safe workplaces. Worker representation on joint health and safety committees is the established model in the different countries where we are present. These local committees enable us to put into practice and consolidate the objectives set regarding health and safety through continual analysis and monitoring of the scheduled preventive activity.

In 2018 we had **approximately 222 committees, which represented more than 87% of the**

Company's employees. Our global target in 2019 is to achieve the figure of 100% of employees represented.

2.3.1.3. A culture which watches over mental health

We are committed to promoting well-being and the psycho-social environment in the workplace to reduce emotional or mental stress. Resulting from this commitment, Telefónica introduced a **Healthy Business Excellence System**, backed by the Spanish National Institute of Workplace Health and Safety. In this system, the psycho-social component has been gaining increasing importance as it has helped us identify the degree of stress faced by employees in their workplaces.

During 2018, the methodology used to assess risk was improved by introducing collaboration with external psychologists who, in addition to providing professional support in evaluating the results of the



risk assessment, helped to develop practical solutions to tackle the issues of work-related stress.

We also established ways to support employees, which included access to medical experts as well as creating mechanisms for asking for help. Workers have access to different training programmes to support employees, which deal with topics such as time management, handling stress, style of leadership and decision making.

The 'Healthy Business Excellence System' is audited internally each year and the results are submitted to the Health and Safety Committee.

To back up Telefónica's commitment to promoting a healthy working environment, every two years an external company is hired to audit progress made in implementing this system and certify that the model is being followed. The psycho-social working environment is one of the performance indicators that Telefónica has publicly committed to addressing. The certificate for this system was renewed in 2018.

2.3.1.4. Culture of Well-being - 'Feel Good'

We define strategies that foster a culture of well-being with initiatives at all levels of the organisation. We have a corporate well-being programme, known as 'Feel Good', which seeks to have a positive impact on employee well-being and motivation.

Since 2015, **we have had more than 100 annual initiatives at the Company around the four cornerstones of the programme: physical activity, nutrition, health and the person** (emotional well-being). The main objectives of Feel Good are to create healthy eating habits and provide tools for making better decisions with regard to diet, activating movement as a source of well-being, from small exercises or walks to big sporting challenges. It also includes programmes focused on emotional well-being and personal leadership, and encouraging prevention of illnesses and early detection, conferences and practical tips.

2.3.1.5. Disconnect to Reconnect

At Telefónica, we believe that are the people who give meaning to technology and not vice versa. We have confidence in in the enormous potential that technology offers to people, to companies and to society. But also, we are aware that this digital revolution brings with it uncertainties that make us wonder about the role of technology in our lives. That's why we want to promote quality and secure connections, that make us more open and in control, making us owners of our decisions and digital life.

For that reason, we have defined a global strategy based on the promotion of responsible and intelligent use of the Internet and connected devices in all areas of our lives, but with special emphasis on protecting the most vulnerable groups and the right disconnection.

Also, we understand that employment relationships are based on seeking common well-being; this is why we deem it essential to look around us and work out the ways in which we can improve our workers' lives.

In this search, we understand that although technology improves our lives in many aspects, it also exposes us to certain not insignificant risks. Consequently, we consider it necessary for our workers to be able to disconnect and create healthy habits, providing them with tools to develop their own digital well-being. Telefónica's commitment to its professionals disconnecting at a digital level has materialised in an agreement entered by the Chairman and the major trade union organisations in Spain (UGT and CCOO).

By this agreement, we undertake to encourage measures to foster respect for workers' rest times, once the working day has ended, recognising the right to disconnect at a digital level as a fundamental aspect of successfully organising working time better in order to respect employees' private and family lives and, in short, their quality of life and health.

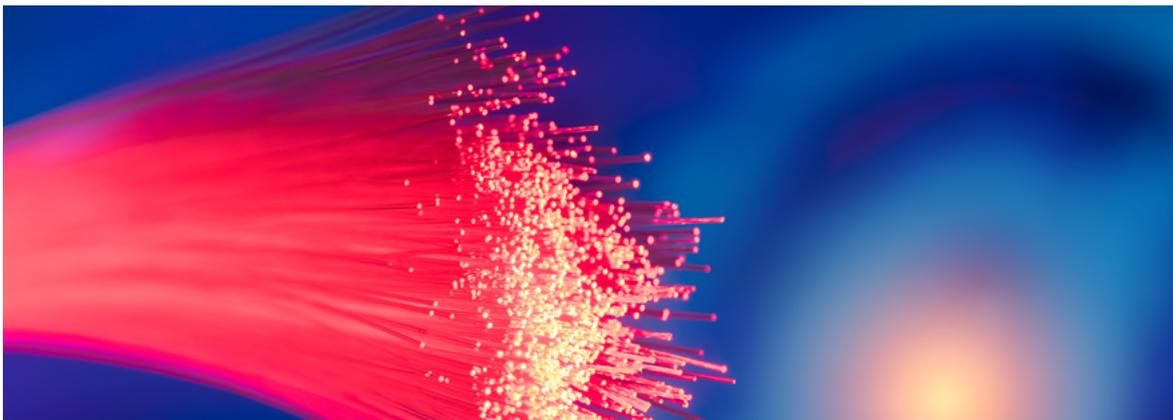
The commitment to disconnecting from the digital world will be extended to all the countries where Telefónica operates. In 2019, this commitment will be included as an annex to the International Framework Agreement we signed with the [UNI](#), a declaration of principles in favour of disconnecting digitally which aims to reinforce even more the importance of this issue at global level. In addition, a policy is to be implemented for each of the Telefónica companies in Spain which will serve as a guide for other countries where the Group is present who would like to adopt it in the future.

2.3.1.6. Our products and services are safe

Telefónica carries out painstaking work to guarantee the security, smooth functioning (with its implications for safety), accessibility and traceability of its products.

We apply the required protocols to ensure that 100% of the services and products which are commercialised comply with international standards and the legislation in each country. These certificates affect safety in one way or another and always affect quality and our customers' user experience.

No breaches of these regulations occurred in 2018.



2.3.1.7. Our associates and partners

We foster best practices regarding health, safety and well-being at work in our supply chain and with our partners.

Proof of this is the 'Proyecto Aliados' initiative whereby occupational health and safety audits are performed that are complemented by meetings with contractors. The audits involve monitoring and analysis of their prevention results.

Additionally, the "Coordination of Business Activities Procedure" was implemented in Spain during 2018; this organises the coordination of preventive activities both for collaborating companies and for Telefónica's own companies. This improvement helps careful planning of coordination, thus preventing mistakes and improvised solutions. It makes it possible to expedite and ensure awareness and compliance for all the activities which must be performed under the regulations, and to guarantee the preventive measures necessary for all workers.

2.3.1.8. Electromagnetic fields

a) We comply with the recognised international limits

During 2018, all measurements that we took at our base stations were performed under the standards recognised by the leading organisations for standardisation and normalisation of the world such as the [ITU \(International Telecommunication Union\)](#), the [ICNIRP \(International Commission on Non-Ionizing Radiation Protection\)](#) among others.

In the majority of countries in which we operate these measures are audited and are available to the public.

Furthermore, all our terminals and equipment that provide our service comply with the international standards established in the SAR parameter (Specific Absorption Rate), a parameter established by the regulatory bodies and different health agencies duly authorised for this purpose.

At Telefónica we monitor all the scientific results in all the fields and in all the population groups, especially in children, pregnant persons, and more susceptible groups. It is one of our challenges to embark on fifth generation technology and ensure that it is secure.

Telefónica actively collaborates with its expertise, with the public and, in general, with society to promote the maximum guarantees of safety and the most scientific perception and objective possible on the knowledge surrounding electromagnetic fields.

b) We cooperate with research: we increase our knowledge

The scientific research in this field is a priority area for the World Health Organisation in our research agenda. Similarly, the research programme of the European Union contemplates different projects in this area with the aim of responding to the possible health effects of the electromagnetic fields. At Telefónica we follow these projects closely and we collaborate directly with some of them: [Gerónimo](#), [COSMOS](#), [Arimmora](#).



c) We dialogue with the Communities

At Telefónica we have a Manual of Good Practices that lists all those initiatives carried out within the group in the different countries in which we operate with the aim of serving our teams as a guide. All these practices have a common interest in establishing a proper relationship with those communities we intend to serve, most of the time through our institutional partners. In the Manual we have grouped together our success stories in the following sections: we chat with the communities, we collaborate with the Institutions, we cooperate with the research, we commit to other groups and raise awareness of our employees. It is a document that can be consulted on [Telefónica's website](#).



At Telefónica Ecuador, we have 100% effectiveness over the last two years in resolving conflicts. This project has served as a guide in other operations, such as Telefónica Mexico. This operation has developed and implemented an internal procedure that establishes the different steps to follow for optimum coordination in responding to the Communities.

d) Raising awareness of our employees

Every year we have held our workshop on electromagnetic fields and health. This year we have enjoyed the cooperation, once again, of the [ICNIRP \(International Commission on Non-Ionizing Radiation Protection\)](#), and we have focused on the new technological standard, the renowned 5G.

We believe that reporting is fundamental for society to overcome the myths related to electromagnetic fields and understand how telecommunications works. Thus, we put at your disposal some [useful links](#), [information from experts](#) on this matter and [frequently asked questions](#) which we update regularly.

All the employees at Telefónica have access, through the online SSFF training tool, to the **'Mobile Telecommunications and Society'** course in Spanish, Portuguese and German. The course includes four modules in which the technical basics of mobile phone technology are explained, how the exposure limits are established and how we comply with the different regulations, and what the latest developments are regarding electromagnetic fields. This course is part of the welcome package in the majority of the OBs.

2.3.2. Education

The speed of the change generated by technology is creating new challenges but it also offers new opportunities. In this respect, education is a tool that is widely available and it is key to reducing the digital divide. Digital education should cover all of the stages of learning and be incorporated into day-to-day life because in this new society it is vital to never stop learning.

At [Telefónica Digital Education](#) we promote digital education as an engine of development through several initiatives that have already been implemented, promoting barrier-free quality training for everyone. For this purpose, we have established several different programs:

MiríadaX, the first Ibero-American platform for MOOCs: It has a library of more than 1,000 courses from over 100 Ibero-American universities and institutions and a faculty of more than 2,000 teachers, with more than 5,690,000 registered students.



Scolartic, online educational community for teachers: Its objective is to empower schools and teachers as the drivers of the change needed for the transformation of 21st century education. It has 706,624 teachers, educators and parents who have provided 3,232,557 hours of training on the latest international educational trends.

Stembyme, a gaming and learning environment for Ibero-American children and young people from 14 to 18 years old, whose objective is to promote the development of their scientific competences through digital education, experimentation and support. At the end of 2018 it had a total of 439,406 users who participated in 1,432,648 hours of training.

Instituto Tecnológico Telefónica: Created in 2017, its objective is to promote official online professional training and to boost the new digital professions. It has two Higher Vocational Training vocational training courses and its own degrees taught in the classroom.

2.3.3. Social action

Most of our social action is carried out by [Fundación Telefónica](#), [ATAM](#) or [Fundación Profuturo](#), as well as through different social sponsorships by the Company.

2.3.3.1. Fundación Telefónica

This is a group of permanent and non-profit private foundations, constituted in most of the countries in which we are present. Telefónica Foundation performs out its social action with the aim of contributing to the development of the societies in which we operate.

In accordance with Telefónica's irrevocable commitment, undertaken in 2015, to pay a 325 million euros donation to [Fundación Telefónica](#), in 2018 cash payments have been made in an amount of 94 million euros and in-kind contributions amounting to 2 million euros. The outstanding amount of this item as of December 31, 2018 totals 49 million euros⁽¹⁾.

Fundación Telefónica is working to become **a major player in the development of the social field of digital transformation**. For 20 years, it has contributed to creating a more compassionate digital world and it aims to improve people's development opportunities through educational, social and cultural projects.

Digital inclusion projects such as ProFuturo, present in Latin America, Asia and Africa, and educational innovation projects, such as [Enlighted](#), are a good example of the efforts made by this institution in the field of education.



Employability is another area of action of the Fundación Telefónica. 2018 was the year of consolidation of the **Conecta Empleo** program in Spain, which uses Artificial Intelligence to help young people find the most popular job opportunities in the technological field in real-time and to get training for these positions. It also offers free courses, both online and in the classroom and, through a virtual career counsellor, it provides advice to users that are looking for digital work.

The dissemination of culture is another cornerstone of the foundation's activities, with the **Espacio Fundación Telefónica** [Telefónica Foundation Arena] being the main venue, although it is not the only one. Madrid, Buenos Aires, Lima, Santiago de Chile and Quito all have branches of this venue for debates, exchange of ideas, training, art and technology. Almost a million people passed through the venue in Madrid in 2018. This activity is complemented by workshops for the whole family and events that address all kinds of issues. The Foundation also has a publishing arm for publications and research in communications and the digital society, including the TELOS magazine and the *Informe de la Sociedad Digital en España* [Report on the Digital Society in Spain] (sdiE).

In the fields of employability, volunteering, education and culture, Fundación Telefónica implements digital projects, global projects, inclusive projects and projects for everyone.

2.3.3.2. Fundación Profuturo

Reducing inequalities around the world is one of our main corporate objectives. At Telefónica, we believe that education is the most powerful instrument for reducing inequality and building the foundations for sustainable growth worldwide. To achieve this, in 2016 we joined forces with the [Fundación Bancaria "la Caixa"](#) to create the [Fundación Profuturo](#).

This new digital education plan seeks to contribute to closing the educational gap by providing quality digital education for boys and girls, as well as teacher training, in vulnerable environments in Africa, Latin America and Asia. By doing this, it aims to help ten million children by 2020. It thereby aspires to become a leader in the field of educational transformation and innovation, using data analytics to improve teaching and learning.

ProFuturo offers a comprehensive education solution that enables teachers to continue to make progress in their professional work and to manage their classrooms, whilst improving learning. Furthermore, we adapt to the context and the profile of the teachers and the environment, regardless of whether or not there is connectivity.

2.3.3.3. Volunteering⁽¹⁾

Technology consolidated its position in 2018 as the perfect ally for the growth of the [Telefónica volunteering programme](#), **increasing the number of beneficiaries to more than 485,000; which represents an increase of more than 52% compared to the previous year**. The importance of digital volunteering is also reflected in the fact that it represented 47% of the programme overall.

In total, 1,080 activities were conducted in areas such as education and children, social inclusion, the digital gap, care for people with disabilities, care for the environment, supporting those affected by natural disasters, employability and entrepreneurship.

The first edition of the 'Fundación Telefónica Volunteering Awards' was held; it won external recognition from 'Actualidad Económica' (El Mundo) and 'Expansión' for Telefónica's digital volunteering, deemed 'one of the 100 best ideas of the year'. Although there were more volunteer participants in 2018, amounting to 41,800 in 31 countries, there was

above all an increase in the ratio of beneficiaries per volunteer, the result of a clear.

2.3.3.4. ATAM

[Atam](#) is an association created by Telefónica whose objective is to support people with disabilities. With an annual investment of almost 8 million Euros in 2018, it is a mutual and collaborative support organization that provides solutions to people that require support.

It is a non-profit entity that was incorporated more than 40 years ago and has been declared a Public Utility. It is organised as a Social Protection System for people suffering from disabilities and/or dependency.

Its main mission is to promote the empowerment of people in their daily life, based on the principles of mutual support, equal opportunities and universal accessibility. It also helps to provide solutions to families in difficult circumstances arising from disability and dependency.



(1) The Volunteering data is in the process of external verification.

Collaboration with other associations:

The main associations and other organizations with which Telefónica collaborates, impacting on the sector and stakeholders, are the following:

	AECEA , an organisation that issues generally accepted accounting principles and standards and studies on good business practices.
	AENOR , a Spanish organisation that carries out standardisation and certification activities (S+C) to improve quality in companies and the wellbeing of society.
	Asociación Española para las Relaciones con Inversores , [Spanish Association for Investor Relations]. Its objective is the promotion of the investor relations of listed companies.
	ASIET , an association formed by the main telecommunications operators in Latin America.
	Broadband Forum , is a non-profit industrial organization focused on improving broadband networks to make them faster and smarter.
	Business Europe is a European employers' organisation created by national organisations which currently represents 40 organisations from 34 countries.
	CDP is a non-profit organisation that manages the global disclosure system for investors, companies, cities, states and regions in order to manage their impact on the environment.
	CEOE , is the institution that represents the Spanish business community.
	Comisión Europea (CE) . The European Commission is the institution that embodies the executive branch of EU power.
	CAF , is a development bank made up of 19 countries and 14 private banks in the region.
	Confederación Estatal de Personas Sordas (CNSE) , [National Confederation of Deaf People] defends the interests of people with hearing disabilities and their families.
	Corporate Excellence . An important group of the main Spanish corporations, Corporate Excellence aspires to become a technical leader in sustainability.
	ERT , is an informal forum that brings together up to 50 chief executives and chairmen of the main multinational companies of European parentage.
	ETNO , is the association of the main European telecommunications network operators.
	ETSI , the European Telecommunications Standards Institute.
	FAO , a specialised agency of the UN that manages international activities aimed at eradicating hunger.
	Red Global de Aprendizaje (GAN) . The Global Learning Network (GAN) is a business alliance that has the general objective of promoting and linking business initiatives with skills and employment opportunities for young people.
	Pacto Mundial de Naciones Unidas (Global Compact) . The United Nations Global Compact (Global Compact) is an international initiative that promotes the implementation of ten universally accepted principles in the areas of Human Rights, Labour Standards, the Environment and the Fight against Corruption.
	Global Network Initiative (GNI) , is a non-governmental organisation for preventing Internet censorship by authoritarian governments and promoting the protection of privacy on the Internet and the rights of individuals.
	Global Reporting Initiative (GRI) , is an organisation whose purpose is to promote the drawing up of sustainability reports in all types of organisations.



Grupo español de crecimiento verde. Association that aims to address environmental challenges through public/private collaboration.



GSMA. represents the interests of mobile operators worldwide.



ICT Coalition, works for the development of products and services that address the challenge of child safety in the online world.



Banco Interamericano de Desarrollo (IDB), supports the efforts of Latin America and the Caribbean to reduce poverty and inequality.



Internet Watch Foundation. NGO that locates and reports images of child sexual abuse globally.



UIT (Unión Internacional de Telecomunicaciones). The ITU (International Telecommunication Union) is the specialised agency of the United Nations for Information and Communication Technologies (ICT).



OCDE. The mission of the OECD is to promote policies that improve the economic and social well-being of people around the world.



Fundación ONCE. Organisation dedicated to the social and labour inclusion of people with disabilities.



UN Women, is the United Nations organisation dedicated to promoting gender equality and the empowerment of women.



UN United Nations. is an international organisation founded by 51 countries that is committed to maintaining international peace and security and promoting social progress, the improvement of living standards and human rights.



RE100, is a global initiative to involve, support and highlight the big companies that have committed to using 100% renewable energy, giving an example of leadership in the fight against climate change and the development of a low-carbon economy.



Red Peruana contra la Pornografía Infantil (RCPI) [Peruvian Network for Combatting Child Pornography] is formed to fight against the sexual exploitation of children, especially on the Internet.



Spainsif, Spainsif is a non-profit association made up of all types of entities interested in the promotion of sustainable economic activity.



Telecommunications Industry Dialogue. An organisation that brings together operators to promote freedom of expression and respect for privacy in the telecommunications sector.



World Bank. The World Bank is a vital resource that provides financial and technical assistance to developing countries around the world.



UNICEF. Agency of the UN that works to defend the rights of children.



Responsible Business Alliance. Biggest industrial coalition in the world dedicated to the social responsibility of companies in global supply chains.



Public Private Alliance for Responsible Minerals Trade. Multi-sector initiative to look for solutions in the supply chain for the challenges of conflict minerals in the Democratic Republic of the Congo (DRC) and the Great Lakes Region (GLR) of Central Africa.



Federación de Asociaciones de Personas Sordociegas de España (FASOCIDE). Federation of Deafblind Associations of Spain, which carries out the representation and defence of the rights and interests of deaf and blind people before the authorities and other public and private institutions.



PNUD. (United Nations Development Program) working to eradicate poverty and reduce inequality and exclusion.



2.4. Our team set us apart



2.4.1. Context

The use of technologies has given rise to a great social, cultural and economic transformation and is irreversibly transforming companies' relationships with all their stakeholders, including their employees.

This far-reaching digital transformation offers great opportunities, but also presents challenges about managing people in the company. Increasingly, we need highly-qualified professionals with specialised profiles; young generations who are part of today's digital economy assert that a good balance between working and personal life is key when choosing which company to work for and demand jobs in which they

feel personally satisfied. The changing population pyramid makes it possible to foresee a labour market which is growing older and will require new methods to take advantage of all the experience and talent.

We, the companies, have to face a deep-rooted cultural shift which will enable us to anticipate the changes. There is a need to move forward towards a new concept of work, to offer more cross-cutting, flexible ways of working which respect employees' free time. This will improve both performance and employee satisfaction.

Telefónica has anticipated these changes by becoming a platform-based company, digitizing its networks and systems and being committed to cybersecurity,

connectivity services and artificial intelligence to capture new sources of sustainable growth.

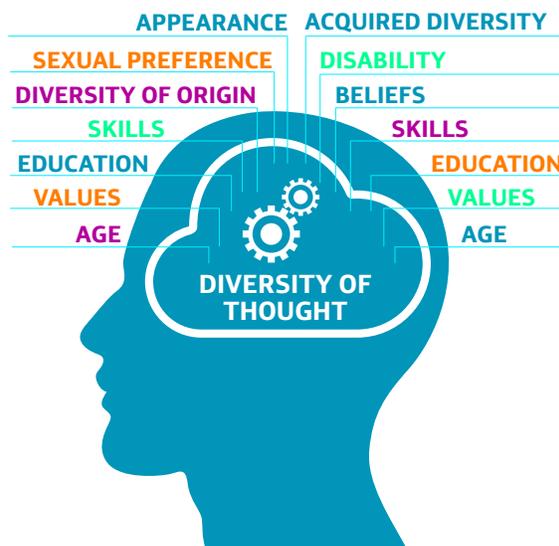
To boost the growth, we are seeking as a company, the strategy in the people management area is based on one hand on galvanising the environment and new ways of working, to encourage the capacity for management and autonomy of teams and, on the other, on fostering a growth mentality in each of Telefónica's professionals, through on-going learning and self-development.

Diversity and multiculturalism are part of our identity as a company. As regards gender diversity, in 2018 37.7% of our professionals were women. The percentage of female executives in 2018 was 23.3%.

2.4.2. Talent and diversity management

2.4.2.1. Diversity and inclusion: our starting point

DIVERSITY



At Telefónica, we incorporate diversity as a key element and we do this because we firmly believe effective management of diversity offers considerable advantages for the business and is consistent with principles of social justice. In this respect, we approach our diversity strategy

from the point of view of four main stakeholders: employees, society, customers and suppliers. Keeping all the stakeholders in mind enables us to extend the scope of our actions while creating an inclusive environment, in which employees find a space where they can develop.

At Telefónica, we seek the 'value of difference' being:

- » **Distinctive:** Based on the concept that each of our employees is a unique, unrepeatable individual capable of contributing value, we promote a workplace environment in which all people feel free to be themselves.
- » **A reflection of reality:** We want our organisation to be representative of the diversity present in all the communities where we operate. It is only in this way that we will manage to empathise with our customers and successfully consolidate our digitalisation.
- » **A driver of change:** We are aware of our potential, as a telecoms supplier, for achieving a more equal, diverse and inclusive world. We want to be the driving force for these values in the societies where we operate, leveraging the value of technology to achieve it.
- » **A model for our agents and partners:** We therefore encourage our suppliers to incorporate good diversity management.

More information, in our website "Diversity".

a) Policies and bodies

We ensure the cross-cutting nature of our diversity and inclusion strategy through:

- » **The Global Diversity Council:** Composed of top-level managers, its objective is to promote and monitor the diversity strategy inside the Company. In addition, the role of Chief Diversity Officer has been created to support the council, as well as the roles of Diversity Champions, who act as internal agents of change in all areas of the company.

- » **Appointments and Departures of Executives Policy:** It guarantees transparency and meritocracy in recruiting and promoting executive talent. At the same time, our procedures guarantee that the appointment and re-election of members of the Board of Directors is based on an objective analysis of needs, favouring diversity and ensuring non-discrimination.
- » **Corrective measures to deal with inequality in the specific area of gender diversity.** Among these measures, it must be highlighted that we ensure the presence of both genders in final shortlists of candidates for internal recruitment processes. To make sure this measure is complied with, a Transparency Committee was set up in June 2018 consisting of the Chairman and four top-level executives.
- » In addition, our **Supply Chain Sustainability Policy** lays down the supplier's obligation not to discriminate against any sort of group in its hiring, training and promoting policies.

The aforementioned policies, bodies and actions, aimed at fostering diversity and equality among all the demographic groups within the company, are included under the umbrella of our **Global Diversity and Inclusion Policy**. This was approved in 2017 by the Board of Directors and seeks to ensure management that is free of any prejudice associated with differences.

Finally, from 2019 we will include our global gender diversity objective in the variable remuneration scheme for the Company's executives.

b) The challenge of equality

Through the **Global Diversity and Inclusion Policy** we guarantee equal opportunities and non-discriminatory, fair and impartial treatment of the people in all the areas of our Company, without bias as regards gender, nationality, ethnic origin, religion, sexual orientation and identity, civil status, age, family responsibility or disability.

As regards people with disabilities, through this policy we undertake to continue progressing in effective labour integration by implementing the technical help and support to reduce and eliminate barriers for employees with disabilities, to ensure they can participate in a work environment on equal terms.

We promote equality of treatment and opportunities between men and women, as well as between all the demographic groups present in the Company. In Spain, we also have an Equality Plan and Protocol for Action in cases of workplace harassment. Through this plan, we ensure that activities relating to recruiting and hiring personnel are based on clear criteria of ability, skill and professional merit, and, of course, on equal opportunities. To this end, and even though recruitment processes regulated in this agreement include participation by worker representatives, we carry out a range of actions relating to recruitment, promotion, training and professional development, which are supported out of a determined commitment to make it easier for our employees to find a balance between their working and private lives.

c) Recruitment process

In addition to strengthening the presence of women in recruitment processes, we encourage the hiring of any groups at risk of exclusion. This is the case of Brazil where the project 'Inclusive Vacancies', which seeks to hire people with disabilities in all areas of the company, has helped to increase the number of people with disabilities joining the company. In addition, in that country a requirement has been introduced making it obligatory to have at least one female interviewer in the recruitment processes, and the 'blind curriculum' method has been applied to recruit external candidates for management and more senior positions.

d) Sensitisation and raising awareness

We believe that education and sensitisation are the path to follow to become a more diverse and inclusive company every day, in which all the employees are committed to the value of difference and become aware of their unconscious bias. We therefore organise workshops, conferences and courses at all our operations around this topic.

One highlight is the online course 'Managing diversity', available for all our employees at global level, which has reached around 15,000 people throughout the Company. This course is complemented by specific training at the different operations.

We also offer on-site workshops about unconscious bias for employees and executives, focusing

particularly on appraisal teams and staff recruitment committees, who have to be especially sensitive and self-aware.

In 2018, as a new initiative, we organised several day sessions and events at thirteen operations in Europe and Latin America on the occasion of International Women's Day, the International Sexual Diversity Day and the International Day of Persons with Disabilities.

We also launched one-off sensitisation campaigns through the Company's internal channels. This is the case of Brazil, where over 2018 we launched four sensitisation campaigns covering disability, sexual diversity and ethnic diversity and against gender-based violence.

In addition, Telefónica has an association for the care of employees and family members of employees with disabilities, which works to put technological advances at the service of disability (ATAM).

In 2018, its Board approved a new vision of the future, based on a humanist and comprehensive view of disability. As part of this vision, and with the aim of becoming a platform of technological solutions for health care, ATAM develops innovation projects based on applying technologies such as IoT, cloud computing, artificial intelligence and Big Data. These new tools were also supported by an ecosystem of scientific, social and technological innovation, with participation of experts from different fields.

e) Internal programmes and action

To support our talent management policies, at Telefónica we develop varied actions, plans and programmes which deal with specific issues and contribute to making everyone feel included.

This is the case of the global career acceleration programmes, the "Young Leaders Programme" for young people and "[Women in Leadership](#)", for professional women.



More information, in the section "2.4.2. Talent Management".

The latter programme is complementary to other actions at local level for attracting female talent and improving women's prospects of promotion: this is the case of "Women & Leaders" in Colombia;

"Talentia", in Spain; "Female Talent", in Mexico; and "Woman Network", in Peru.

In 2018 female Telefónica professionals in the UK who interrupted their careers for two or more years were able to take part in the third edition of "Career Returners". This programme, lasting 14 weeks, prepares the women for reincorporation at the company.

Additionally, we held "Women who lead", a programme started in 2017 through which, working with [Universitas on the Road](#) and the Talent and Development teams, we focus on studying the social, cultural and personal barriers faced by women and how to overcome them. This programme has already reached more than 600 women in nine countries.

Female professionals at the Company can also reinforce their network of contacts through the [Global Women Network](#), an employee network on which more than 1,500 people have registered. LGBT employees and those from ethnic minorities can also do so in the local networks of different operations, as is the case of the UK and Brazil.

Other internal actions do not directly affect the employees but do affect their families or close relationships. In the area of health, in 2018 in Peru, Telefónica became the first operator in the country with an insurance policy for the partners of LGBT employees, replicating the same measure taken previously in Brazil. These measures are in addition, in the case of Colombia, to other benefits such as homoparental leave or school leave for adoptive parents and same-sex couples.

f) Society

Likewise, and in view of our responsibility as a large multinational in the markets in which we operate, we support a variety of actions which favour the integration, equality and well-being of all the people in the jobs market, beyond the limits of our Company.

As regards disability, we support training initiatives such as educational grants for students with intellectual disabilities from the "Family and Disability Chair" from [Universidad de Comillas](#). These young people later joined Telefónica as trainees.



Another line of action involved fostering female entrepreneurship. The Women's Age initiative from Telefónica Open Future encourages young women to become entrepreneurs. Thus, in 2018 we invested more than one million euros in startups led by women.

Additionally, in view of the very limited presence of women in science, technology, engineering and maths (STEM) careers and professions, and with the objective of changing this situation, we sought to foster the integration of girls and women in the technological sector through a number of programmes:

- » [STEM Talent Girl](#): A project to mentor young people of secondary school age in Spain.
- » Step into STEM!: A programme for mentoring teenagers at the O2 headquarters in London, to awaken their interest in STEM-type careers.
- » ["Se buscan ingenieras, físicas y tecnólogas"](#): a report on the causes of the digital gap in STEM careers in Spain.
- » 'Girls Inspire Tech': A programme aimed at the daughters of employees in different operations, including Spain, Colombia and Peru, to inspire

their interest in careers associated with technology.

Regarding gender-based violence, a noteworthy development was the ["LIBRES"](#) mobile app, which offers tools and information to help to eliminate situations of gender violence.



More information on the section "2.1.5. Responsible use of technology".

g) Pacts and agreements

As part of our commitment regarding diversity, and in order to boost advances in this field, we have joined different global initiatives which seek to promote the economic and social empowerment of diverse demographic groups, in particular in the employment sphere. This global commitment is in addition to the pacts signed by various operations of the Group, which demonstrate the cross-cutting nature of our commitment:

- » In Brazil, Argentina and Colombia we joined the [women's empowerment principles](#) initiative "Women's Empowerment Principles", prepared by [UN Women](#) and the [United Nations Global Compact](#).

- » In Colombia, we signed an agreement with the [United Nations Development Programme \(UNDP\)](#), with the goal of contributing to improving the employability, entrepreneurship and economic situation of the women in the country.
- » Telefónica Chile joined the gender equality initiative "[Iniciativa de Paridad de Género](#)", promoted by the [Inter-American Development Bank \(IADB\)](#) and the [World Economic Forum \(WEF\)](#).
- » Telefónica Argentina signed an institutional cooperation agreement with the [INAM \(National Institute of Women\)](#), with the goal of promoting equal opportunities and reducing the gender gap.
- » Telefónica Brazil joined the [Social Inclusion Business Network \(Rede Empresarial de Inclusão Social, REIS\)](#), which brings together more than 50 large companies which work towards accessibility in the business environment.
- » Also in Brazil, we joined the Business Coalition for Racial and Gender Equality, an initiative from [Ethos Institute](#), from [the Center of Work Relationship and Inequalities Studies \(CEERT\)](#) and the [Institute for Human Rights and Communication \(IHRB\)](#).
- » Telefónica backed the [United Nations' Standards of Conduct for Business to protect the rights of LGBTI people](#), thus becoming one of the first telecommunications companies in the world to sign.
- » We are members of the Pride Connection in several countries, including [Peru](#) and [Colombia](#). This network of organisations promotes inclusive working environments for the LGBT community.
- » In Colombia, we are also part of the [LGBT Chamber of Traders](#).
- » Brazil also supports the commitments of [the LGBT Business and Directors Forum](#).
- » We are a leading member of the [network of Companies Committed to Diversity and Equality \(ECDI\)](#), made up of Spanish enterprises and institutions who join forces and share knowledge to foster these principles.

2.4.2.2. The challenge of attracting and developing talent

a) Our training policies

In a changing environment, marked by dynamism and digital transformation, attracting and retaining talent is one of the key issues for the profitability and sustainability of the business. At Telefónica, we firmly believe that employees are our most important asset and, therefore, we work every day to promote the development of their skills, since we understand that only by obtaining the maximum potential from our employees can we fulfil our commitments to our customers.

We currently have a talent model that accompanies employees in the development of their careers, identifying the key skills and abilities that will help them to face our transformation process, aligned with the strategy and with the Company's programme.

b) Universitas Telefónica

At [Universitas Telefónica](#) we train Telefónica employees and employees of other companies, to convert them into leading digital Transformers, which will enable them to take on the challenges of the digital revolution in which we are living. We have top-level external teaching staff. Universitas welcomes lecturers from the [IESE business school](#), the [Oxford Leadership Academy](#) and [Singularity University](#), among others. We also have internal teaching staff who give us a comprehensive view of the sector and of Telefónica. They are the leaders of the company who will guide us where the company is heading. At Universitas, we have developed a total commitment model, which develops the main human dimensions – Intellectual, Physical, Emotional and Spiritual – that contribute to promoting an integral leading force. The courses offered by Universitas include two types of programmes that help us develop the talent during the current technological transition and transformation process:

- » **On Campus:** these are our flagship programmes which are given at the Universitas campus.
- » **On the Road:** These are courses which are especially adapted to be given anywhere in the world.

In 2018, in both editions nearly 4,000 leaders at the Company were trained in leadership skills, global business strategy and, new this year, new and agile ways of working.

c) Developing digital skills

We need to count on digital skills and abilities, the so-called e-skills, which are becoming more sophisticated every day. To this end, we have global training programmes which are complemented by many different initiatives at our operations:

- » **O2 Campus (UK)** is a platform for the professional and personal development of all our employees (more than 7,000). Through it, they can all access flexible, exciting, personalised learning with a purpose that backs up their experience as an employee.
- » **Big Data (Telefónica Spain)** is a training programme which promotes, boosts and supports the company's strategy in its path to becoming a data-oriented company. Through the role of the in-house teacher, training was given to introduce Big Data to all Telefónica Spain employees. Signing up is voluntary and over 30% of employees have already had the training.
- » **Summit 2018 "Be Different, Be Digital" (Telefónica Chile):** A week devoted to high impact learning experiences, such as a technological fair with the first display of 5G in Latin America and a wide range of workshops, talks and courses. There were noteworthy high levels of commitment from executives, who were part of the 90% of the internal exhibitors that made it possible to achieve coverage of 75% of those attending, who valued this moment to share and update their knowledge, understanding that the core of our digital transformation depends on people.
- » **"Humanly Digital" Workshop (Telefónica Argentina):** The workshop was designed and implemented in-house by two executives from the organisation, and was aimed at middle management. During the year, 7 editions of the workshop were given, in which a total of 300 managers participated.

d) The key to success: lifelong learning

To ensure the competitiveness and employability of our teams, we foster a new global learning model based on the flexibility, agility and ongoing learning of all the employees.

Through the global **SuccessFactors** tool and the platforms we have at the Telefónica Group ([Data Academy](#), [Learn4Sales](#) and [Espacio Telefónica in MiriadaX](#)) we place a wide range of courses at the disposal of our employees, from languages to technical and business skills (Big Data, Digital Security, Privacy, eWork), as well as compulsory courses (Responsible Business Principles, GDPR, Anti-Corruption).

- » During 2018, 95% of the workforce did some kind of training course.
- » More than half of the workforce at the Company participate in the knowledge communities, with more than 500,000 visits to their content recorded in 2018.
- » Nearly 28,000 employees registered in 2018 on the Data Academy platform, which offers different online training courses on BigData. This represents a 116% increase compared to the previous year.
- » On Learn4Sales, the global platform for training and certification in marketing and sales of digital services for the B2B segment, around 26,000 employees registered, doing close to 7,500 courses.
- » Espacio Telefónica in MiriadaX has a lower number of employees registered, around 6,000; although it is the platform where most hours of training have been given, with over 45,000 hours.

In addition to these platforms, we provide additional training resources such as conferences, blogs and articles. These notably include the [eKISS](#) knowledge platform, with articles, news and reports from both internal experts and the market's most prestigious analysts, which has more than 30,000 active users. Additionally, we promote "on the job" talks from external experts or experts from other areas to activate the exchange of knowledge throughout the Company.

e) Attracting the best talent: the only way to ensure the future

The technology sector has a major challenge in attracting talent. That is why we are committed to new channels to ensure the right profiles join us in a global, digital and efficient manner. In addition to the traditional mechanisms, we are using new means of recruiting (e.g. hackathons, gamers jam, search algorithms) and automating our recruitment tools.

Some of the initiatives we have rolled out to attract talent are:

- » **"Talent Hunters"**. Through this programme, we share certain vacancies open to external candidates with our employees, either because they involve a special challenge or because the profiles are in very high demand or limited in the market. Through the programme, we ask our employees to encourage talented people who fit the position to apply for the job. And if the person gets the job, the employee who referred that candidate receives a financial reward.
- » In different operators and business areas of Telefónica, we are promoting hackathons as a way to attract and recruit talent. The participants are organised in groups and each one has projects and challenges to achieve, so that they share and complement the knowledge and experience of each person. We have organised hackathons, among other events, at [Open Future](#), at [Fundación Telefónica](#) and through [Talentum](#).

Telefónica has assessed risks associated to talent management and culture. The Group's staff and culture are considered to be key drivers of its growth and long-term sustainability. Therefore, Telefónica is working to adapt its culture and the capabilities of its employees and to broaden the skills profile and experience among its professionals, as a key lever for the digital transformation of the Group.

As a result of these efforts, Telefónica does not consider attraction or retention challenges bigger than those of our sector and the Group is taking the necessary actions to avoid brain drain and foster attraction of new profiles. As a matter of fact, turnover in Telefónica is below the market and we are being able to capture critical skills in areas such as Security, Big Data, Cloud or IoT.



2.4.3. Pay gap and average remuneration

2.4.3.1. How to assess effort: remuneration policy

The Company's remuneration policy is based on the following principles:

- » **Total remuneration:** The remuneration package offered by Telefónica can be made up of fixed components, short- and long-term variable components, remuneration in kind and other fringe benefits. The amounts and the relative weight of the remuneration elements adapt to the local practices in the markets where we operate.
- » **"Equal pay":** No discrimination on the grounds of gender, age, culture, religion or race is ensured when applying remuneration practices and policies. Remuneration is coherent with responsibility, leadership and performance, favouring retention of key professionals and attracting the best talent.
- » **Meritocracy and "pay for performance":** A significant part of the total remuneration for our employees is on a variable basis and it is linked to their performance evaluation. This evaluation was done to 85% of the total employees during the first quarter of 2018. Also, a significant part of the total remuneration for executives is on a variable basis and payment is linked to achieving financial, business, value creation and sustainability targets. These predetermined targets, which are specific and quantifiable, are in line with Telefónica's strategic plan.
- » **Balance between global strategy and local practices:** The remuneration policy is

aligned with Telefónica's strategic plan and, in turn, respects the peculiarities of the different markets where we are present.

- » **Attracting** the best talent, **motivating** a culture of high performance and retaining critical talent.

As part of the total remuneration principle, the **Share Plans** for employees enable us to align the goals of all the employees with those of the shareholders. In addition, it makes the skin-in-the-game experience something tangible, and boosts the feeling of belonging and entrepreneurial spirit. At the General Shareholders' Meeting of Telefónica, S.A. held on 8 June 2018, approval was given to the implementation of a new edition of the incentive-based voluntary share purchase plan for Telefónica, S.A. which will launch in 2019.

2.4.3.2. Pay gap and average remuneration

We are committed with equality and diversity. This is why we publish and track the pay gap evolution and salaries splitted by gender, category and age



More information in the section "2.4.6. Key indicators" in "Remuneration and pay gap indicators".

The most precise way to measure the gender pay gap is to compare male and female employees in a similar situation. This is what we call **the adjusted pay gap**⁽¹⁾. In addition to gender, this comparison takes into account some key inherent factors to remuneration such as the professional category, the functional area in which each employee works, their seniority and different age ranges. The adjusted pay gap of the **Telefónica Group**, considering these factors, is **3.4%**.

Our commitment to reducing the pay gap is part of our Responsible Business Principles. Therefore, we have a Global Remuneration Policy that aligns the different practices within the Telefónica Group. The Board of Directors Nominating, Compensation and Corporate Governance Committee guarantees compliance with the Principles of Equality and Equal Pay.

COUNTRY	EMPLOYEES	% Men	% Women	Adjusted Pay GAP (%) ⁽¹⁾
GLOBAL⁽²⁾	116,014	63%	37%	3.4%
SPAIN	30,057	65%	35%	4.5%
SPAIN A	25,256	66%	34%	3.6%
SPAIN B	4,801	62%	38%	7.9%
BRAZIL	33,533	58%	42%	0.2%
ARGENTINA	14,883	68%	32%	3.9%
GERMANY ⁽³⁾	8,343	62%	38%	9.0%
UNITED KINGDOM	7,102	61%	39%	1.6%
PERU	6,346	66%	34%	3.6%
COLOMBIA	5,666	52%	48%	3.8%
CHILE	4,295	69%	31%	14.2%
MEXICO	1,990	67%	33%	0.6%
CAM	1,435	67%	33%	1.4%
ECUADOR	1,295	61%	39%	3.7%
URUGUAY	660	51%	49%	0.7%
OTHER	409	64%	36%	—%

Spain A: Spain and subsidiaries.

Spain B: Áreas globales y filiales.

(1) The adjusted gender pay gap is calculated using a mathematical regression model that relates employee pay to personal characteristics such as job responsibility and specialization and personal and professional experience.

(2) The information represents the 97% of the total employees.

(3) Applying German local factors of regression, as Collective Agreement and Region, the adjusted gender for Germany reduces to 4.6%

The **gross gender pay gap** is the difference between the average salary of men in an organization and the average salary of women. This calculation does not take into consideration key comparable factors such as professional category, the functional area in which each employee works, skills, knowledge, seniority and different age range. The Telefónica Group gross gender pay gap is 21.36%

More information in the section "2.4.6. Key indicators" in "Remuneration and pay gap indicators".

Our commitment to reducing the salary gap is part of our [Responsible Business Principles](#). Therefore, we have a Global Remuneration Policy that aligns the different practices within the Telefónica Group. The Board of Directors Nominating, Compensation and Corporate Governance Committee guarantees compliance with the Principles of Equality and Equal Pay.

What are the factors that contribute to these outcomes?

These data represent more than a figure. Analysing the information in depth reveals challenges and opportunities for the industry in general and Telefónica as a business. The analysis demonstrates the structural character and relates to factors which are not solely due to the internal logic of the labour market.

Some of the factors which affect the pay gap are:

- » Greater proportion of men occupying senior positions in our business. In this respect, we have set ourselves the target of achieving a level of 30% of women in executive positions by 2020. At 2018 year end, 23.3% of our senior management were women, a figure which has been growing since 2015 when it was 19%.

- » There are different patterns between men and women when we talk about measures to balance personal and professional lives and flexible working measures. At Telefónica, we have numerous measures in this respect, and 10% of the workforce benefits from reduced working hours. However, we have to continue boosting and fostering the expansion of these flexible working systems among employees of both genders, as currently for every 10 employees of the Company who have a reduced timetable, 7 are women and 3 are men.
- » As other companies in our sector, at Telefónica we face the challenge of the limited number of women who study STEM subjects or embark on careers in technology. Women are the majority in Spanish universities (54%), but they only represent 25% of the students of the Engineering and Architecture branch, according to the latest data from the Ministry of Education in Spain.
- » As explained in the section on Gender Diversity, Society, we have put in place different initiatives to encourage increased access by women and young people to STEM careers.

Analysing our data, we can observe **that pay gap is narrowing in the new generations**. However, we cannot wait and we have to speed up.

At Telefónica, we take our gender pay gap results as a call to action. While we are proud of how far we have come, we know we have work ahead of us. Tackling the gender pay gap will continue to be a priority for us until it no longer exists.

Understanding the reasons behind the data allows us to focus our efforts on addressing issues of diversity and gender inclusion in organizations. We will continue working on initiatives to address structural variables.

 More information in the section "2.4.2. Diversity Management".

We will continue to opt for measures that:

- » Foster sensitisation and awareness.
- » Ensure equal opportunities through fair recruitment processes and remuneration criteria.

- » Develop and increase the visibility of the pool of talent.
- » Drive a flexible working culture.

2.4.3.3. Social dialogue as a bridge between workers and businesses

At Telefónica we respect the fundamental standards of the International Labour Organization (ILO), referring mainly to the freedom of association and the right to collective bargaining in all the countries and jurisdictions where we operate. We ensure that worker representatives receive fair treatment that is free of discrimination and that they have all the facilities to be able to perform their representative duties.

As a company, we reaffirm the important role played by trade unions in defending the interests of workers and we recognised the [UNI](#) and the [European Works Council](#) as key partners in worldwide labour management.

In the same way, at local level, we understand that management of **Works Councils** is guided through policies and rules established by their legal entity and therefore the procedures to report, consult and negotiate have different meanings, but are always in line with Telefónica's guiding principles.

Maintaining a neutral position with regard to trade union activity is essential to ensure a free, open environment which allows the rights to association to be exercised. If workers wish to become members of a trade union, Telefónica will recognise trade unions which meet the conditions regarding organisation under ILO Convention 87, and always in accordance with local legislation. In addition, we ensure that worker representatives receive fair treatment that is free of discrimination and will have, in turn, all the facilities to be able to perform their representative duties. Furthermore, all the collective bargaining agreements contained clauses on health and safety at work adapted to local legislation.



We highlight the following local agreements with trade unions::

Spain

In 2018, the extension of the 'First Collective Bargaining Agreement of Related Companies' (ICEV), entered into on 15 December 2016, unanimously with the UGT and CCOO trade unions and valid until 31 December 2018, ended.

The extension meant a guarantee of continuity for all the achievements made in the ICEV for the three companies included in it. It has been evaluated positively, meeting all the strategic objectives set in it:

- » Improvement in **employee remuneration**, through a 1.5% pay increase and the payment of a productivity bonus in October 2018 of €250.
- » Renewal of the voluntary redundancy scheme (**Plan de Salidas Incentivadas, PSI**) so that those employees who wished to do so and met the requirements could join the scheme under the same conditions.
- » Extension of the **guarantees regarding employment, no compulsory interprovincial mobility and no compulsory affiliation in the case of the spin-off of activities** for the whole of 2018.

Brazil

Negotiation of the 'Collective Bargaining Agreement with Trade Unions': despite the political and trade union turbulence, resulting from the approval of the Reform in Labour Legislation.

Local agreements with workers:

 Argentina	10 agreements in force
 Brazil	28 agreements in force, 3 new signed in 2018
 Chile	12 agreements in force, 3 new signed in 2018
 Spain	the extension of the agreement has been signed
 Peru	9 agreements in force, 5 new signed in 2018
 United Kingdom	6 agreements in force

2.4.3.4. Work-life balance

The enthusiasm and commitment of our employees is key to achieving our mission; so we are concerned both about their health and safety at work and about their personal well-being.

Achieving a balance between working and personal life is a considerable challenge given the great demands placed upon us in the current situation. However, we have launched certain measures to improve this balance, thereby gaining happier, more committed employees.

Telefónica understands that balance is key to attracting and retaining talent, especially talent from the new generations. It must be highlighted that flexibility goes hand in hand with the confidence we deliver.

In 2018, the Company made great strides in successfully implementing working hour organisation models in operations where this culture did not exist. For 2019 we have to reinforce the model and make progress as regards other elements which, through flexibility, can foster work-life balance and productivity.

Example of local work-life balance measures:

Brazil:

- » Remote working: Implemented for more than 7,000 people at the operator.
- » Assistance for associates through cognitive intelligence, via chat, allowing greater autonomy and speed for employees.

Chile:

- » Framework agreement for implementation of remote working, built in conjunction with trade union organisations, in which the parties acknowledge remote working as a means to modernise how work is organised and work-life balance for the worker. At Telefónica Chile, approximately 20% of the workforce (900 associates) work remotely.

2.4.4. A committed team: employee experience

At Telefónica we want to increase the commitment and motivation of our teams. As a result, we have launched various initiatives designed to promote a more collaborative and efficient way of working, favour work-life balance and recognise our professionals and healthy habits in the workplace.

2.4.4.1. New ways of working

To adapt to the changing context, we are promoting a deep-rooted cultural change at the Company, a new vision of working which enables us to be open to more cross-cutting and flexible ways of working which are more respectful of employees' free time and make it possible to improve both performance and job satisfaction. We are talking, in short, of what is known as 'smart working'.

There are more and more areas and departments at Telefónica which are adopting differing 'Agile' methodologies. These are being driven as part of the new strategic plan in all the countries. In addition, an 'Agile Bluebook' has been created to make it easier for existing methodologies to adapt homogeneously to the needs of the different areas.

This new way of managing human capital is based on two basic pillars:

- » **Leadership style:** implementation of new ways of working cannot be made effective without the collaboration and commitment of the teams' managers, who are the direct superiors of the workers. We need leaders to boost the autonomy of their employees, generate collaborative environments and positively value innovative thought.

To move forward in this change of leadership model, programmes have been launched such as 'Agile Ways of Working', which was given to more than 1,000 team leaders in 2018.

- » **Results-oriented:** the smart working culture opts to focus on measuring workers'

performance, regardless of the place or time when they have decided to work, thereby leveraging technology's potential for increasing job flexibility.

Based on the foregoing, and looking at the day-to-day business of the organisation, promoting a new working culture requires a variety of tools to bring the new ways of working closer to employees.

Therefore, we accelerated the use of new working spaces and open plan premises without individual offices, which feature areas that foster collaboration and the exchange of knowledge. In addition, the Digital Exponential space (DEX) in Spain was created at our headquarters in Madrid, our incubator for agile initiatives, where in 2018 over 20 initiatives were launched for different areas in the Company.

In 2018, we adopted [Workplace](#) from Facebook as a tool for corporate communication at Telefónica. The use of Workplace makes us a more approachable company for our employees and facilitates a customer-oriented approach. In the two months since its global introduction at the group, more than half of our employees have become members of different groups on Workplace.

2.4.4.2. Climate and commitment survey

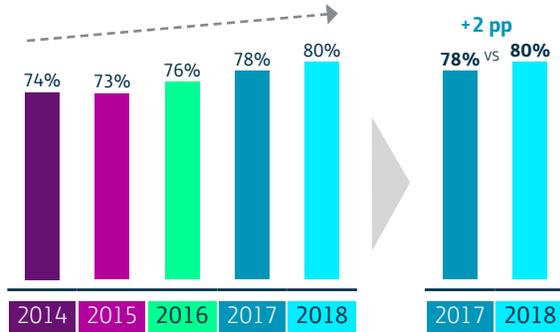
The annual climate survey is a key tool for identifying performance and the fulfilment of objectives regarding the motivation, commitment and resources of our professionals. In addition, it allows us to identify significant aspects of how our company programme is evolving.

A crucial aspect for attracting and retaining talent at Telefónica is that of fostering a good working environment and a culture which is aligned with the Company's strategy. Aligning expectations and understanding the areas for improvement of our teams is essential to motivating and earning the commitment of our professionals, which results in excellent services for our customers.

SCOPE

34 COUNTRIES
114,076 GUESTS TO PARTICIPATE

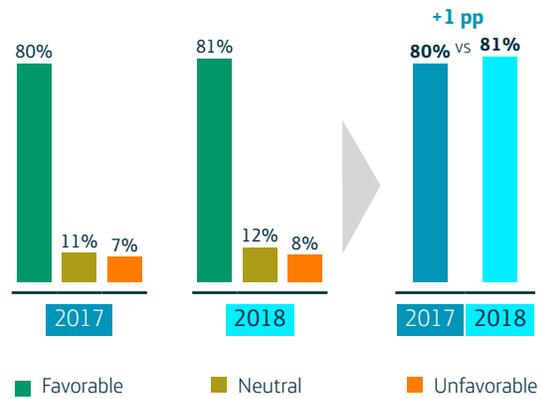
80% participation rate



PARTICIPANTS

91,260 PEOPLE CONDUCTED THE STUDY

81% commitment index (CI)



In 2019 we intend to implement the eNPS (employee Net Promoter Score from [Bain&Company](#)), which measures employees' willingness to be ambassadors for their company, by recommending it as a good place to work to family members, friends and those close to them.

2.4.4.3. Recommendation programme – Valuable People

For the third consecutive year, we have launched the 'Valuable People' programme, our global initiative to recognise Telefónica professionals, giving visibility to non-management personnel who stand out due to their distinctive contribution to the business and their behaviour, which is in line with our values, plus unreserved accolades from colleagues in their daily working lives. In coordination with the Fundación Telefónica, we also include the most outstanding volunteers at global level in the programme, together with the Volunteer of the Year.





2.4.5. Milestones and challenges

MILESTONES 2018:

- » 23.3% of women directors.
- » 95% of the workforce took part in a training activity.
- » 4,000 team leaders trained through Universitas.
- » 28,000 employees in the global platform for courses, the Big Data Data Academy, and 26,000 in Learn4Sales digital skills.
- » Agreement on disconnecting digitally in Spain.
- » Nearly 1,000 team leaders underwent training through the Agile Ways of Working programmes.
- » We improved our rating on the commitment index by 1 pp (81% vs 80%).
- » Around 78K accolades between colleagues were collected over 2018 as part of our Success Factors tool, based on day-to-day business activities and honouring the three values of the Company.
- » First international business marathon (Global E-Health Challenge) which involved participation by approximately 800 people from the entire Telefónica Group in different types of physical activity.
- » The number of beneficiaries of our volunteering programme increased by 52%, rising to more than 485,000 people.

CHALLENGES 2019:

- » Achieving the figure of 30% of managerial positions occupied by women in 2020.
- » Promoting activities for sensitisation and raising awareness of unconscious bias for the entire workforce.
- » Incorporating 25,000 young people up until 2021.
- » Bloomberg gender equality index 2020.
- » Improving employees' experience of the e-learning platforms.
- » Fostering a culture of ongoing learning, where the employees play an active part and are responsible for their development.
- » Extending the implementation of the digital disconnection agreement to 50% of the Group's operators.
- » Quadrupling the audience for the programmes on new ways of working.
- » The second global E-Health Challenge between companies worldwide, beating the participant numbers for the previous year.
- » Fostering digital volunteering, which currently represents 47% of the programme.

2.4.6. Key indicators

STAFF INDICATORS

STRUCTURE OF STAFF BY CATEGORIES AND GENDER at 31 December

	Total Physical Staff	% of women in the workforce	Managers	% women in management	Middle Management	% women in middle management	Rest of Staff	% women in the rest of the workforce
Germany	8,406	38%	66	18%	842	22%	7,498	40%
Argentina	14,894	32%	45	20%	1,549	24%	13,300	33%
Brazil	34,448	42%	123	19%	3,573	30%	30,752	43%
Central America	1,437	33%	17	12%	190	27%	1,230	34%
Chile	4,299	31%	21	24%	520	23%	3,758	32%
Colombia	5,405	48%	39	21%	597	42%	4,769	49%
Ecuador	1,293	39%	11	18%	261	34%	1,021	41%
Spain	30,611	35%	415	25%	3,195	33%	27,001	35%
Mexico	2,450	33%	24	21%	436	28%	1,990	35%
Peru	6,702	34%	36	31%	567	28%	6,099	35%
United Kingdom	7,275	40%	53	30%	1,651	33%	5,571	42%
Uruguay	628	50%	8	13%	97	44%	523	51%
Venezuela	1,807	52%	26	39%	379	50%	1,402	53%
Other	483	31%	7	57%	34	21%	442	31%
TOTAL GROUP	120,138	38%	891	23%	13,891	31%	105,356	39%

STAFFING STRUCTURE BY TYPE OF CONTRACT AND GENDER at 31 December

	Indefinite Hired	% of women on indefinite contract	Temporary Hires	% of women on temporary contract	Contracts with reduction of working hours	% of women in reduction of working hours
Germany	7,505	38%	901	41%	1,512	77%
Argentina	14,894	32%	0	ns	8	100%
Brazil	34,440	42%	8	75%	7,166	65%
Central America	1,041	30%	0	ns	0	ns
Chile	4,279	31%	20	45%	2	100%
Colombia	5,290	48%	115	55%	2	50%
Ecuador	1,253	39%	40	30%	0	ns
Spain	29,696	35%	915	50%	1,296	88%
Mexico	2,351	33%	99	37%	0	ns
Peru	6,107	35%	595	30%	0	ns
United Kingdom	7,123	39%	152	55%	1,718	59%
Uruguay	596	49%	32	72%	126	75%
Venezuela	1,765	52%	42	57%	0	ns
Other	877	35%	2	50%	2	100%
TOTAL GROUP	117,217	38%	2,921	43%	11,832	68%

102-8
405-1
401-1
405-2
103
202-1
403-2
404-1

Average workforce indicators for the period

Average templates by gender

	Men	Women	Total
Indefinite contracts	74,076	44,921	118,996
Temporary contracts	1,640	1,217	2,857
Reduction of the working day	3,905	8,336	12,241
TOTAL	75,716	46,138	121,853

Average workforce by age group

	> 55 years-old	from 45 to 54 years-old	from 35 to 44 years-old	from 30 to 34 years-old	< 30 years-old
Indefinite contracts	8,145	32,955	38,027	19,309	20,561
Temporary contracts	59	228	590	627	1,353
Reduction of the working day	360	1,972	4,002	1,557	4,350
TOTAL	8,205	33,183	38,616	19,936	21,914

Average workforce by professional classification

	Managers	Middle Management	Rest of Workforce
Indefinite contracts	899	14,047	104,050
Temporary contracts	8	27	2,823
Reduction of the working day	7	147	12,088
TOTAL	907	14,074	106,872



Staff structure by age, gender and job category

More than 55 years-old

	Persons	% women	Managers	% women managers	Non-managers	% non-executive women
Germany	658	44%	6	—%	652	45%
Argentina	2,565	12%	10	—%	2,555	12%
Brazil	716	25%	14	14%	702	25%
Central America	36	31%	4	25%	32	31%
Chile	705	15%	4	25%	701	15%
Colombia	126	25%	6	50%	120	24%
Ecuador	15	33%	3	—%	12	42%
Spain	1,778	24%	34	21%	1,744	24%
Mexico	47	21%	4	25%	43	21%
Peru	1,341	20%	5	20%	1,336	20%
United Kingdom	454	32%	5	20%	449	33%
Uruguay	26	31%	2	—%	24	33%
Venezuela	105	37%	7	14%	98	39%
Other	34	15%	0	—%	34	15%
TOTAL GROUP	8,606	21%	104	17%	8,502	21%

From 45 to 54 years-old

	Persons	% women	Managers	% women managers	Non-managers	% non-executive women
Germany	2,242	32%	37	14%	2,205	32%
Argentina	3,612	24%	25	28%	3,587	23%
Brazil	3,549	29%	38	26%	3,511	29%
Central America	232	28%	10	30%	222	28%
Chile	1,368	28%	10	30%	1,358	28%
Colombia	751	39%	23	9%	728	40%
Ecuador	134	32%	7	29%	127	32%
Spain	17,357	30%	289	24%	17,068	31%
Mexico	328	22%	16	13%	312	23%
Peru	1,175	30%	23	35%	1,152	30%
United Kingdom	1,334	33%	30	30%	1,304	34%
Uruguay	111	50%	4	25%	107	51%
Venezuela	404	46%	14	57%	390	45%
Other	165	24%	7	0%	158	25%
TOTAL GROUP	32,762	30%	533	24%	32,229	30%

From 35 to 44 years-old

	Persons	% women	Managers	% women managers	Non-managers	% non-executive women
Germany	2,961	39%	22	27%	2,939	39%
Argentina	5,013	44%	9	11%	5,004	44%
Brazil	11,584	38%	71	16%	11,513	38%
Central America	611	31%	7	14%	604	31%
Chile	1,347	41%	7	14%	1,340	41%
Colombia	2,034	46%	10	30%	2,024	46%
Ecuador	520	35%	1	0%	519	35%
Spain	7,413	45%	91	31%	7,322	45%
Mexico	1,060	33%	4	50%	1,056	33%
Peru	2,238	41%	8	25%	2,230	41%
United Kingdom	1,958	41%	18	39%	1,940	41%
Uruguay	190	44%	2	0%	188	44%
Venezuela	584	54%	4	25%	580	54%
Other	199	37%	1	100%	198	36%
TOTAL GROUP	37,712	41%	255	25%	37,457	41%

From 30 to 34 years-old

	Persons	% women	Managers	% women managers	Non-managers	% non-executive women
Germany	1,376	41%	0	0%	1,376	41%
Argentina	2,356	42%	0	0%	2,356	42%
Brazil	8,001	45%	0	0%	8,001	45%
Central America	355	39%	0	0%	355	39%
Chile	540	34%	0	0%	540	34%
Colombia	1,291	53%	0	0%	1,291	53%
Ecuador	354	44%	0	0%	354	44%
Spain	2,602	43%	0	0%	2,602	43%
Mexico	566	38%	0	0%	566	38%
Peru	887	35%	0	0%	887	35%
United Kingdom	983	41%	0	0%	983	41%
Uruguay	125	46%	0	0%	125	46%
Venezuela	295	57%	1	0%	294	57%
Other	69	35%	0	0%	69	35%
TOTAL GROUP	19,800	43%	1	0%	19,799	43%

Less than 30 years-old

	Persons	% women	Managers	% women managers	Non-managers	% non-executive women
Germany	1,169	41%	0	0%	1,169	41%
Argentina	1,348	33%	0	0%	1,348	33%
Brazil	10,598	49%	0	0%	10,598	49%
Central America	192	36%	0	0%	192	36%
Chile	339	35%	0	0%	339	35%
Colombia	1,203	56%	0	0%	1,203	56%
Ecuador	270	45%	0	0%	270	45%
Spain	1,461	39%	0	0%	1,461	39%
Mexico	449	39%	0	0%	449	39%
Peru	1,061	42%	0	0%	1,061	42%
United Kingdom	2,546	42%	0	0%	2,546	42%
Uruguay	176	63%	0	0%	176	63%
Venezuela	419	56%	0	0%	419	56%
Other	27	33%	0	0%	27	33%
TOTAL GROUP	21,258	46%	0	0%	21,258	46%



Diversity indicators

		2016	2017	2018
Women on staff	(%)	38%	38%	38%
Women in management positions	(%)	21%	22%	23%
Women on the Board of Directors	(%)	11%	18%	18%
Women in Intermediate Positions	(%)	n.a.	30.7%	30.7%
People with disabilities on staff	(People)	855	842	780
Under 30 years of age	(%)	19%	18%	18%
Women hired under 30 years of age	(%)	48%	47%	46%

Indicators of forced leaves

	Forced leaves by gender									
	Men	Women	> 55 years-old	from 45 to 54 years- old	from 35 to 44 years- old	from 30 to 34 years- old	< 30 years-old	Managers	Middle management	Rest of staff
Germany	267	157	31	89	149	72	83	2	18	404
Argentina	228	172	163	55	113	52	17	7	42	351
Brazil	3,163	2,910	174	526	1,550	1,348	2,475	14	470	5,589
Central America	98	59	6	30	61	40	20	0	41	116
Chile	335	183	91	134	203	58	32	1	64	453
Colombia	113	101	6	20	73	51	64	4	13	197
Ecuador	157	113	6	24	94	72	74	2	28	240
Spain	1,343	684	48	1,642	138	151	48	17	21	1,989
Mexico	215	93	5	60	143	62	38	6	74	228
Peru	188	55	182	22	22	10	7	4	19	220
United Kingdom	238	92	42	81	95	38	74	7	59	264
Uruguay	19	0	2	2	5	4	6	0	3	16
Venezuela	33	47	2	9	20	14	35	0	13	67
Other	111	19	13	46	32	21	18	3	36	35
TOTAL GROUP	6,508	4,685	771	2,740	2,698	1,993	2,991	67	901	10,169

Work climate indicators

	Employees under collective bargain	Turnover ⁽¹⁾		Work Climate Index ⁽¹⁾		
	% over workforce	Volunteer	Total	Men	Women	Total staff
Germany	85.7%	15.3%	20.2%	73	77	74
Argentina	75.4%	1.8%	4.7%	83	76	81
Brazil	91.9%	5.9%	23.5%	84	86	85
Central America	0.0%	5.4%	20.3%	86	87	86
Chile	85.1%	2.4%	12.8%	87	86	86
Colombia	0.0%	10.4%	14.6%	93	91	92
Ecuador	0.0%	0.0%	21.8%	89	88	88
Spain	69.3%	6.1%	14.8%	72	73	72
Mexico	19.5%	20.1%	32.9%	85	84	85
Peru	42.4%	6.2%	10.9%	80	79	80
United Kingdom	67.6%	17.4%	21.6%	78	81	79
Uruguay	0.0%	8.1%	11.6%	93	93	93
Venezuela	0.0%	37.1%	41.7%	91	92	91
TOTAL GROUP	69.8%	7.9%	21.4%	81	81	81

(1) Telefónica's telecommunications services companies

Training indicators

	Total staff	Total training hours					
		Management		Middle management		Rest of staff	
		Men	Women	Men	Women	Men	Women
Germany	160,128	554	158	15,902	4,684	81,189	57,642
Argentina	440,645	1,062	44	44,082	18,658	254,336	122,464
Brazil	1,147,295	1,620	595	67,356	21,844	560,290	495,590
Central America	35,515	537	82	4,636	2,203	17,291	10,767
Chile	53,675	83	158	8,788	2,798	27,806	14,043
Colombia	389,911	1,098	347	20,275	20,749	154,317	193,126
Ecuador	31,065	316	32	6,177	2,824	12,937	8,779
Spain	844,059	1,580	723	75,385	34,619	499,767	231,985
Mexico	45,860	408	126	6,324	3,598	22,496	12,909
Peru	45,717	1,001	293	4,923	2,054	25,123	12,323
United Kingdom	54,290	24	0	6,030	2,406	26,574	19,257
Uruguay	10,744	235	6	1,079	880	4,547	3,997
Venezuela	25,313	448	217	2,110	2,057	10,936	9,547
Rest of countries and all global units	117,419	2,077	1,322	12,166	6,433	58,324	37,097
TOTAL GROUP	3,401,635	11,041	4,102	275,231	125,805	1,755,930	1,229,526

	Total staff	Hours of training per employee					
		Management		Middle management		Rest of staff	
		Men	Women	Men	Women	Men	Women
Germany	19	10	7	25	26	18	19
Argentina	30	30	6	39	52	29	28
Brazil	34	17	26	28	21	33	38
Central America	25	36	41	33	44	22	26
Chile	13	5	32	22	24	12	12
Colombia	73	35	43	59	82	65	84
Ecuador	25	35	16	36	33	22	22
Spain	35	17	31	49	58	34	31
Mexico	24	21	25	23	32	28	19
Peru	8	44	33	13	15	8	7
United Kingdom	8	1	0	5	5	8	8
Uruguay	17	34	6	20	20	18	15
Venezuela	14	28	22	11	11	16	13
Rest of countries and all global units	11	9	18	14	12	10	12
TOTAL GROUP	28	16	20	29	30	27	30



Occupational Health and Safety Indicators ⁽¹⁾

	GERMANY		BRAZIL		SPAIN	
	2017	2018	2017	2018	2017	2018
Accident rate (Frequency) Men	0.89	0.39	0.82	0.77	0.53	0.62
Accident rate (Frequency) Women	0.74	0.60	0.18	0.24	0.70	0.58
Accident rate (Frequency) TOTAL	0.83	0.47	0.56	0.55	0.58	0.61
Occupational disease rate Men	0.00	0.00	0.00	0.00	0.00	0.00
Occupational disease rate Women	0.00	0.00	0.00	0.00	0.00	0.00
Rate of occupational diseases TOTAL	0.00	0.00	0.00	0.00	0.00	0.00
Lost days rate (severity) Men	12.28	3.99	53.44	15.31	28.10	18.64
Lost days rate (severity) Women	5.24	8.80	19.23	3.85	30.05	17.32
Lost days rate (severity) TOTAL	9.56	5.82	39.28	10.55	28.69	18.24
Absenteeism rate Men	0.05	0.06	0.03	0.02	0.03	0.04
Absenteeism rate Women	0.07	0.10	0.05	0.04	0.05	0.06
Absenteeism rate TOTAL	0.06	0.08	0.04	0.03	0.04	0.05
No. of absence hours Men	504,848	643,200	1,203,784	961,248	1,021,800	1,225,408
No. of absence hours Women	499,712	644,256	1,301,544	1,028,440	660,608	795,520
NO. OF ABSENCE HOURS TOTAL	1,004,560	1,287,456	2,505,328	1,989,688	1,682,408	2,020,928

(1) To facilitate transparency and comparison with other companies in our sector, the rates only include the core businesses of Telefónica: fixed and mobile telecommunications in the countries where we operate, which cover over 95% of the total number of Group employees.

Accident rate (Frequency) (IR): total number of accidents in the workplace with leave / total number of hours worked in the period*200,000

Occupational diseases rate: total number of occupational diseases / hours worked per year x 200,000

Lost day rate (Severity) (LDR): total number of days lost due to accidents in the workplace and illness leading to absenteeism / hours worked per year)*200,000

Absenteeism rate (AR): total number of days lost due to absence for the period / total days worked in the period



	LATIN AMERICA		UNITED KINGDOM ⁽²⁾	
	2017	2018	2017	2018
Accident rate (Frequency) Men	1.86	2.19	0.39	0.20
Accident rate (Frequency) Women	0.50	0.92	0.43	0.23
Accident rate (Frequency) TOTAL	1.36	1.72	0.40	0.21
Occupational disease rate Men	0.00	0.06	2.03	2.50
Occupational disease rate Women	0.02	0.17	5.08	4.11
Rate of occupational diseases TOTAL	0.01	0.10	3.20	3.13
Lost days rate (severity) Men	66.79	62.97	90.53	116.17
Lost days rate (severity) Women	14.00	19.22	259.20	218.05
Lost days rate (severity) TOTAL	47.60	46.81	155.30	155.85
Absenteeism rate Men	0.02	0.02	0.03	0.03
Absenteeism rate Women	0.03	0.04	0.07	0.06
Absenteeism rate TOTAL	0.02	0.03	0.04	0.04
No. of absence hours Men	882,368	1,035,132	231,048	269,720
No. of absence hours Women	862,832	1,026,224	338,096	303,976
NO. OF ABSENCE HOURS TOTAL	1,739,896	2,061,356	569,144	573,696

(2) United Kingdom labour laws include a larger number of occupational diseases than the other regions where Telefónica operates.
 Accident rate (Frequency) (IR): total number of accidents in the workplace with leave / total number of hours worked in the period*200,000
 Occupational diseases rate: total number of occupational diseases / hours worked per year x 200,000
 Lost day rate (Severity) (LDR): total number of days lost due to accidents in the workplace and illness leading to absenteeism / hours worked per year)*200,000
 Absenteeism rate (AR): total number of days lost due to absence for the period / total days worked in the period

Remuneration and pay gap indicators

Minimum wage ratio paid in TEF / local AIS

	Men	Women
Germany	1.0	1.1
Argentina	2.3	2.8
Brazil	1.2	1.1
Chile	1.0	1.0
Colombia	1.2	1.2
Ecuador	1.2	1.2

Minimum wage ratio paid in TEF / local AIS

	Men	Women
Spain	1.4	1.4
Mexico	4.1	5.0
Peru	1.5	2.3
United Kingdom	1.0	1.1
Uruguay	3.8	3.5

COUNTRY	Employees	% Men	% Women	Adjusted Pay GAP(%)(1)	Gross Pay Gap (%)
GLOBAL(2)	116,014	62%	38%	3.4%	21.4%
SPAIN	30,057	65%	35%	4.5%	15.2%
SPAIN A	25,256	66%	34%	3.6%	15.2%
SPAIN B	4,801	62%	38%	7.9%	17.5%
BRAZIL	33,533	58%	42%	0.2%	23.3%
ARGENTINA	14,883	68%	32%	3.9%	10.8%
GERMANY(3)	8,343	62%	38%	9.0%	24.6%
UNITED KINGDOM	7,102	61%	39%	1.6%	16.2%
PERU	6,346	66%	34%	3.6%	10.8%
COLOMBIA	5,666	52%	49%	3.8%	30.6%
CHILE	4,295	69%	31%	14.2%	21.1%
MEXICO	1,990	67%	33%	0.6%	15.0%
CAM	1,435	67%	33%	1.4%	19.1%
ECUADOR	1,295	61%	39%	3.7%	27.2%
URUGUAY	660	51%	49%	0.7%	38.1%
OTHERS	409	64%	36%	0.0%	32.9%

Spain A: Spain and subsidiaries

Spain B: Global areas and subsidiaries

(1) The adjusted gender pay gap is calculated using a mathematical regression model that relates employee pay to personal characteristics such as job responsibility and specialization and personal and professional experience.

(2) The information refers to 95% of the total workforce

(3) Applying German local factors of regression, as Collective Agreement and Region, the adjusted gender for Germany reduces to 4.6%

Calculating the pay gap

To calculate this gap, the following remuneration items were taken into account. These items coincide with the total wage and non-wage payments received by each of the employees of the Group:

- >> Annualised total basic salary at 31 December 2018
- >> Bonuses, commissions, sales incentives and other variable remuneration items paid during 2018
- >> Payments in kind, including fringe benefits, accumulated in 2018
- >> Long-term incentives paid in 2018

Average remunerations

	Age group	Total average remuneration Women	Total average remuneration Men	Gross gap (Base salary)	Gross gap (Total remuneration)
TELEFONICA GRUP					
	> 50	32,261	41,022	20.8%	21.4%
DIRECTORS AND EXECUTIVES	> 50	143,563	172,826	11.5%	16.9%
	35-50	94,516	110,597	11.1%	14.5%
	< 35	50,984	55,671	4.1%	8.4%
MIDDLE MANAGEMENT	> 50	64,226	63,514	(-2.3)%	(-1.1)%
	35-50	51,978	52,416	(-1.7)%	0.8%
	< 35	37,395	36,659	(-4.3)%	(-2.0)%
OTHER PROFESSIONALS	> 50	44,547	48,388	7.6%	7.9%
	35-50	29,436	32,764	8.4%	10.2%
	< 35	16,405	18,763	14.6%	12.6%

(1) In order to report the total average remuneration of all the employees of the Group, all the executive positions of the Company have been joined up under the same category, including directors and managers, given that the design of the remuneration mix (fixed remuneration, annual variable remuneration, eligibility to the long-term incentive plan and other items) is aligned with the Global Compensation Policy of the Telefónica Group and whose main objective is to promote the achievement of financial, business, value creation, sustainability and financial objectives.

(2) The Average Total Remuneration includes: total base salary, bonuses, commissions and commercial incentives paid during 2018, long-term incentives paid in 2018 and benefits in kind, including social benefits, accumulated in 2018





2.5. Suppliers, our allies

2.5.1. A sustainable purchasing model

Indicators	2017	2018
% of purchases awarded locally	83%	81%
No. of audits or evaluations carried out on high-risk suppliers	19,507	19,113
High-risk suppliers with improvement plans	659	811

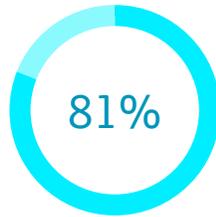
Telefónica, while taking care of its employees, works together with its suppliers to achieve high standards of social and environmental management, promoting and monitoring respect for human rights.

We have a procurement management model for the entire Company which is characterised by the global purchasing management from [Telefónica Global Services](#), in coordination with the local purchasing teams in each country. That model is aligned with our Responsible Business Principles, based on transparency, equality of opportunities, objectivity in decisions and sustainable management of our supply chain.



Impact of our activity on society

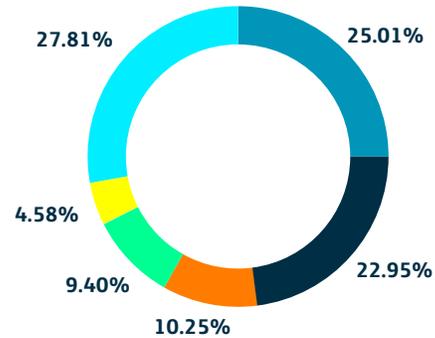
25,805€M⁽¹⁾
awarded to: **10,552 suppliers.**



of purchases awarded to **local suppliers.**

VOLUME OF PURCHASES AWARDED

%/Total



- Mobility
- Network
- Services and Works
- Information Systems
- B2B / B2C Solutions
- Advertising and Marketing

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

<p>25,484€M⁽²⁾ negotiated electronically.</p>	<p>1,522 contracts signed digitally.</p>	<p>4,674 letters of award signed digitally.</p>
<p>+1.4 M of the invoices received were issued electronically (+10% compared to 2017).</p>	<p>5,263 suppliers trained in managing negotiations, orders and invoices electronically.</p>	<p>+172,000 orders managed by connecting the systems of group companies with those of our suppliers.</p>

(1) Agreements with impact in 2018.

(2) Includes negotiations over several years.

The commitment to sustainability is present throughout the process of relations with our suppliers. We pay particular attention to those issues associated with the supply chain with high social impacts and which are relevant for both the sector and the Company's strategy, highlighting: privacy and protection of data, waste management (see the chapter on '[2.2 Digitalization and the environment](#)'), the eradication of child labour and minerals from conflict zones. The last two, together with the elimination of forced labour and non-discrimination in relations with suppliers, are the aspects identified in the new evaluation of the impact on human rights carried out in 2018.

 More information, see the chapter on '[2.6 A management framework for business sustainability](#)', section '[2.6.3 Respect for human rights](#)'.

That evaluation highlights the high standards outlined in our [Policy on sustainability in the supply chain](#), which respects the conventions of

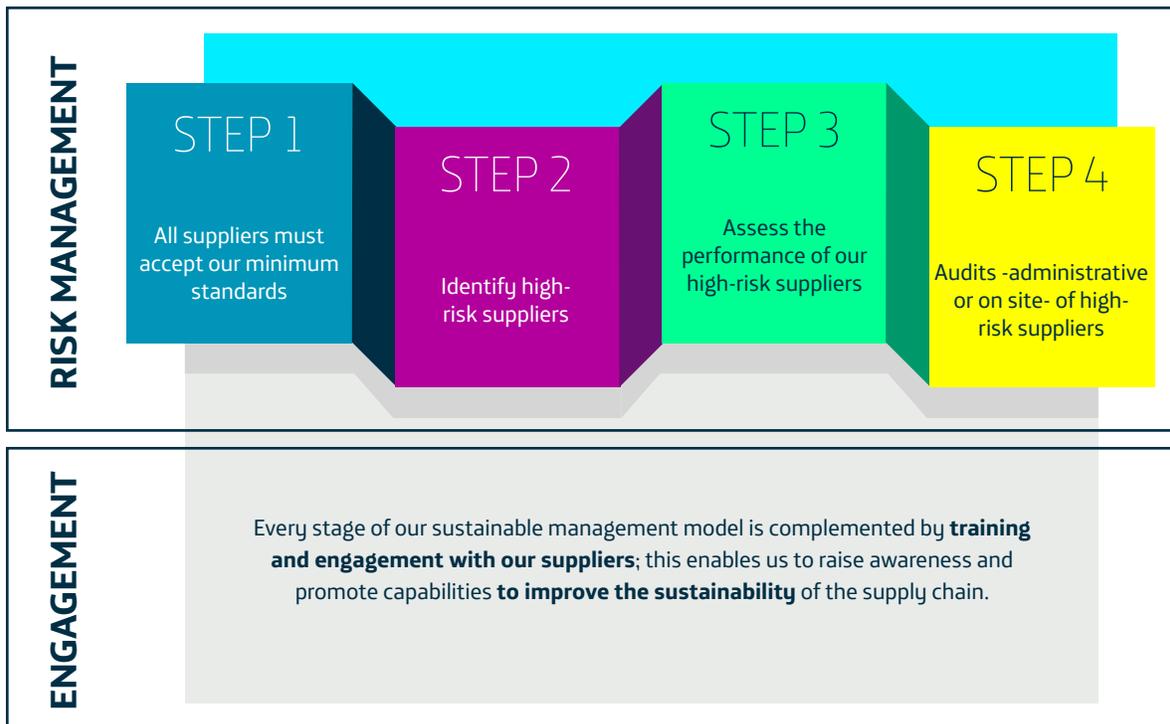
the International Labour Organization. That is complemented by specific actions at local level, depending on the situation and requirements of each country. For example, in the United Kingdom, we have published a [Modern slavery statement](#).

We establish collaborative relations with our suppliers and partners, converting them into allies in the achievement of our objectives. One example of that is the management of our collaborating companies and third parties through the "Allies Programme". That way of understanding relations has enabled us to foster a culture of sustainability over the last ten years, raising awareness among suppliers with regard to the fulfilment of our standards, while at the same time establishing mechanisms for the early detection and prevention of possible risks in our contractors and subcontractors.

Our sustainable management model is based on the mitigation of risks and engagement with our suppliers:

OUR APPROACH: SUSTAINABLE SUPPLY CHAIN MANAGEMENT

Minimization of risks and engagement



2.5.2. We proactively manage risks

Step 1.

Minimum standards to be fulfilled

We require 100% of our suppliers to undertake their activities applying similar ethical standards to ours, which ensure **the fulfilment of fundamental human and labour rights**, as well as the **protection of the environment**.

Among the social standards included in our policy, we could highlight our efforts to promote gender equality, thus requiring all our suppliers to adopt a policy of equality and non-discrimination in hiring, remuneration, access to training, promotion, dismissal and retirement.

Thus, all Telefonica suppliers must agree to their adherence to and/or renewal of the following:

- » [Policy of sustainability in the supply chain.](#)
- » [General conditions for the supply of goods and services.](#)
- » Anti-corruption policy (certified).

If a supplier does not reach the required level or is not able to provide the information requested, we require their commitment to implementing the improvement plans to ensure compliance with our standards.

In extreme cases, when that is not feasible, based on the agreement initially signed by the two parties, relations with the supplier are suspended until it can demonstrate that it has remedied the situation. At the time of close of this report, 19 suppliers were blocked in our database due to compliance issues (0.18% of those awarded contracts).

SUMMARY OF OUR RESPONSIBLE BUSINESS CRITERIA



308-1
414-1
414-2



Step 2. Identification of high-risk suppliers

We have **311 business groups and 1,072 suppliers** which supply us with products or services identified as of **possible high risk** in the sphere of **sustainability**.

We focus on the most significant suppliers due to their level of risk and their impact on our business, given the volume of purchases.

In accordance with our risk analysis methodology, we undertake the following process:

- » An initial evaluation of the possible risk level, based on **five general aspects**, as well as the corresponding sustainability aspects outlined in our [Minimum Responsible Business Criteria](#).

General aspects:

- » Nature of the activity.
- » Geographical location.
- » Association with the brand.
- » Visibility for customers.
- » Visibility for other external stakeholders.

Risk aspects:

- » Working conditions.
 - » Health and safety.
 - » Environmental.
 - » Human rights (child/forced labour).
 - » Minerals from conflict zones.
 - » Privacy and data protection.
 - » Customer promise.
- » Then, an analysis of the possible risk is carried out, taking into account the **origin** and the **reputational impact** on Telefónica if that risk were to materialise.

If a supplier does not reach the required level or is not able to provide the requested information, we require his commitment to implement the improvement plans to ensure compliance with our standards.

Step 3. Evaluation of supplier performance

We analyse the possible risks - financial and non-financial - associated with our critical suppliers identified in the initial analysis. Our basis for that verification is two external tools integrated into the procurement platform, which permit the online consultation of information provided by our buyers in the different countries. Those tools are:

» Dow Jones Risk & Compliance Service:

We identify possible **ethical and corruption risks** in our accreditation or registration process **of 100% of our suppliers.**

We check our supplier database against 'Factiva', the database drawn up by Dow Jones Risk & Compliance. That check is carried out in both the supplier accreditation or registration process and in the annual renewal of already-existing suppliers. Thanks to that tool, we can identify the possible risks related to ethical behaviour and corruption, thus reinforcing the processes already established in order to comply with the Anti-corruption Policy.

» EcoVadis:

We have **910 critical suppliers evaluated** in regard of **Sustainability** aspects (including the different subsidiaries associated with the evaluations with Group-level scope).

We evaluate the general sustainability performance of our main high-risk suppliers, using as our basis the [EcoVadis](#) self-assessment platform, which provides a 360° evaluation based on 21 sustainability criteria which encompass ethical, social and environmental aspects and aspects related to management of the supply chain, including minerals from conflict zones. At close of

2018, we had completed 338 evaluations of critical suppliers or groups (48% updated their evaluations last year).

Key indicators of our evaluations:

- » **28%** showed some kind of weakness - **medium risk** - in their responsible management.
- » **86 suppliers/groups** with **improvement plans** in operation, with a total of 1,024 corrective actions - 74% of them completed at the time of publication of this report.
- » **80%** have **anti-corruption and anti-bribery policies.**
- » **64%** report **health and safety indicators.**
- » **58%** have **ISO 14001 environmental management certification.**
- » **70% report energy use or Greenhouse Gas Emissions.**

Step 4. Audits of high-risk suppliers

19,113 administrative or on-site **audits** and **811 suppliers** with **improvement plans** - 8% of those awarded contracts.

The performance evaluations are complemented by our annual audits plan, developed and focused on verifying the fulfilment of the critical aspects identified according to: (i) the type of supplier, (ii) the service and product supplied, and (iii) the risks of each region or country.

As shown in the table below, our audits consider the aspects identified in the new evaluation of impact on human rights.

SUPPLIER TYPE	REGION/COUNTRY	AUDITS AND IMPROVEMENT PLANS	RISKS ASPECTS AUDITED								
			Ethics	Labour	Health and Safety	Environment	Supply chain management	Security, Privacy and DP	Human rights —child and forced labour—	Minerals from conflict zones	
ALLIES PROGRAMME Labour-intensive collaborator companies.	9 Countries in Latin America ⁽¹⁾ and Spain	LOCAL » 8,764 administrative audits. » 9,452 on-site audits. » 451 suppliers with improvement plans.		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/>	
		CORPORATE » 131 on-site audits. » 145 suppliers with improvement plans.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>							
JAC INITIATIVE Manufacturing centers in the IT sector.	19 Countries in Asia, Latin America and Eastern Europe.	» 79 on-site audits —67% on TIER 2, 3 or 4 suppliers—. » 79 suppliers with improvement plans.	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>					
TELEFÓNICA UNITED KINGDOM Network Providers, Services and Works.	In different countries.	» 2 on-site audits			<input checked="" type="checkbox"/>						
		» 11 on-site audits » 7 suppliers with improvement plans.					<input checked="" type="checkbox"/>				
		» 3 on-site audits » 3 suppliers with improvement plans.	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>						
TELEFÓNICA BRAZIL ⁽²⁾ for risk associated with the product or service	Brazil	» 198 administrative audits. » 2 on-site audits » 68 suppliers with improvement plans.				<input checked="" type="checkbox"/>					
		» 244 on-site audits			<input checked="" type="checkbox"/>						
		» 64 on-site audits » 57 suppliers with improvement plans.					<input checked="" type="checkbox"/>				
		» 1 on-site audit » 1 supplier with improvement plans.				<input checked="" type="checkbox"/>					
TELEFÓNICA ECUADOR for risk associated with the product or service	Ecuador	» 1 on-site audit » 1 supplier with improvement plans.				<input checked="" type="checkbox"/>					

407-1
103
409-1
408-1

(1) Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Peru and Venezuela.

(2) Further to the Brazilian audits performed under the Allies programme.



» **Details of corporate audits**

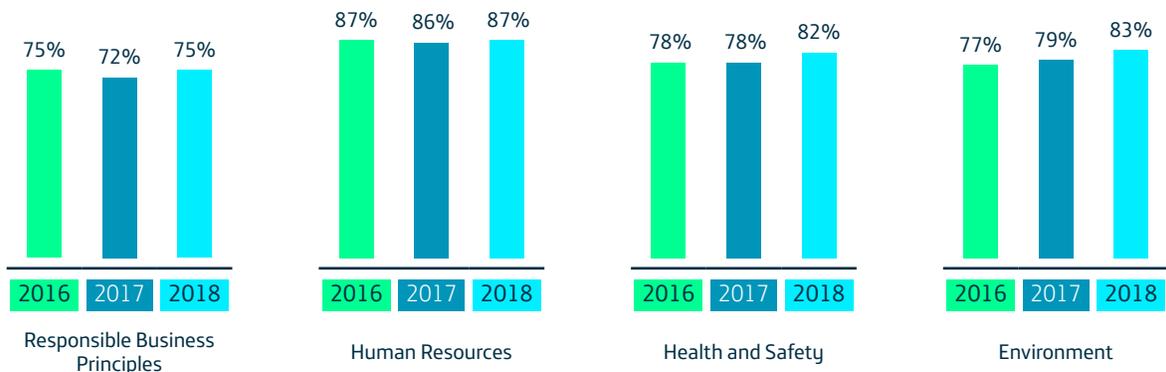
We increased the demands of our standards and incorporated more suppliers into our audit process. We achieved a general level of compliance of 81% (+1% compared to 2017), detecting slight improvements in all disciplines. That evolution is the result of the active participation of our Allies in the search for constant improvement in the different spheres and with particular focus on the labour and occupational health and safety aspects, given the type of service - labour intensive - they provide to us.

The distribution of the risks detected is very similar to that of 2017, with the Health and Safety section presenting the most risks.

Some of the most common risks were detected in:

- » The induction, training and labour climate process, as well as the engagement and administration of staff.
- » With regard to the health and safety aspects, we concentrated on the industrial health and safety, implementation and operation, and verification sections.
- » In the environmental processes, the focus was on waste management and the environmental management system.

AUDIT RESULTS



407-1
409-1
308-1
103

We remain committed to key supply chain aspects of high social impact, such as child labour and conflict minerals, framed within our respect for human rights.

2.5.3. We promote collaboration and engagement

14,308 face-to-face courses and **154,551 online courses** with over **366,242 participants** from the Allied Companies in Latin America.

Telefónica is firmly committed to an open, collaborative relationship with its suppliers. Our commitment to them is based on establishing relations which enable us to jointly have a positive impact on our surroundings, through close collaboration and the sharing of good practices, fostered thanks to different initiatives or meetings with our suppliers.

We work on the management of emissions in the supply chain, both globally and at local level. In the UK, in our main procurement contracts, the reduction of carbon is one more aspect in the evaluation of offers. In them, we ask our suppliers for contractually-agreed carbon reduction programmes or plans to establish them. In 2018, our efforts resulted in 48 completed or ongoing programmes (contractually agreed) and 3 under development



More information, see the chapter on '[2.2. Digitalization and the environment](#)' section '[2.2.4. Energy and climate change](#)'.

We participate in sectoral activities to raise awareness and promote capabilities to improve the sustainability of our suppliers. Likewise, we establish communication channels, we organise face-to-face debate forums and we offer training.

In that way, we maintain our commitment to key aspects in the supply chain with high social impact, such as child labour and conflict minerals, within the framework of our respect for human rights.

2.5.3.1. Joint Audit Cooperation (JAC)

We participate in the [Joint Audit Cooperation](#) sectoral initiative, together with another 15 telecommunications operators. We combine efforts in order to verify, evaluate and develop the implementation of sustainability standards (with a focus on labour and environmental conditions and ethical principles) in factories of common suppliers, mainly in risk areas, such as Asia, Latin America and Eastern Europe.

By participating in that initiative, we reinforce our annual audits plan and our commitment to society, promoting long-term sustainability in the different levels of our supply chain.

Some of the most notable specific projects we took part in during 2018 were the following:

- » **JAC Academy.** In collaboration with Orange, Vodafone and Deutsche Telekom, our goal is to reinforce the application of the agreed, defined standards through a programme for the training of employees of 5 common suppliers. We teach them how to audit sustainability requirements in their own supply chains, thereby extending our influence throughout our value chain. In 2018, our suppliers carried out 25 audits considering the criteria applied in JAC.
- » **Direct feedback of our suppliers' employees.** With the collaboration of '[Good World Solutions](#)', we invited the employees of 5 common suppliers in China to take part in an anonymous survey via their own mobile phones. In that way, we evaluated issues related to labour conditions, especially those related to the number of hours worked, rest periods, overtime, the handling of chemical materials, etc. During 2018, surveys were carried out in 18 factories, obtaining responses from over 2,800 employees of those suppliers.

2.5.3.2. Minerals from conflict zones

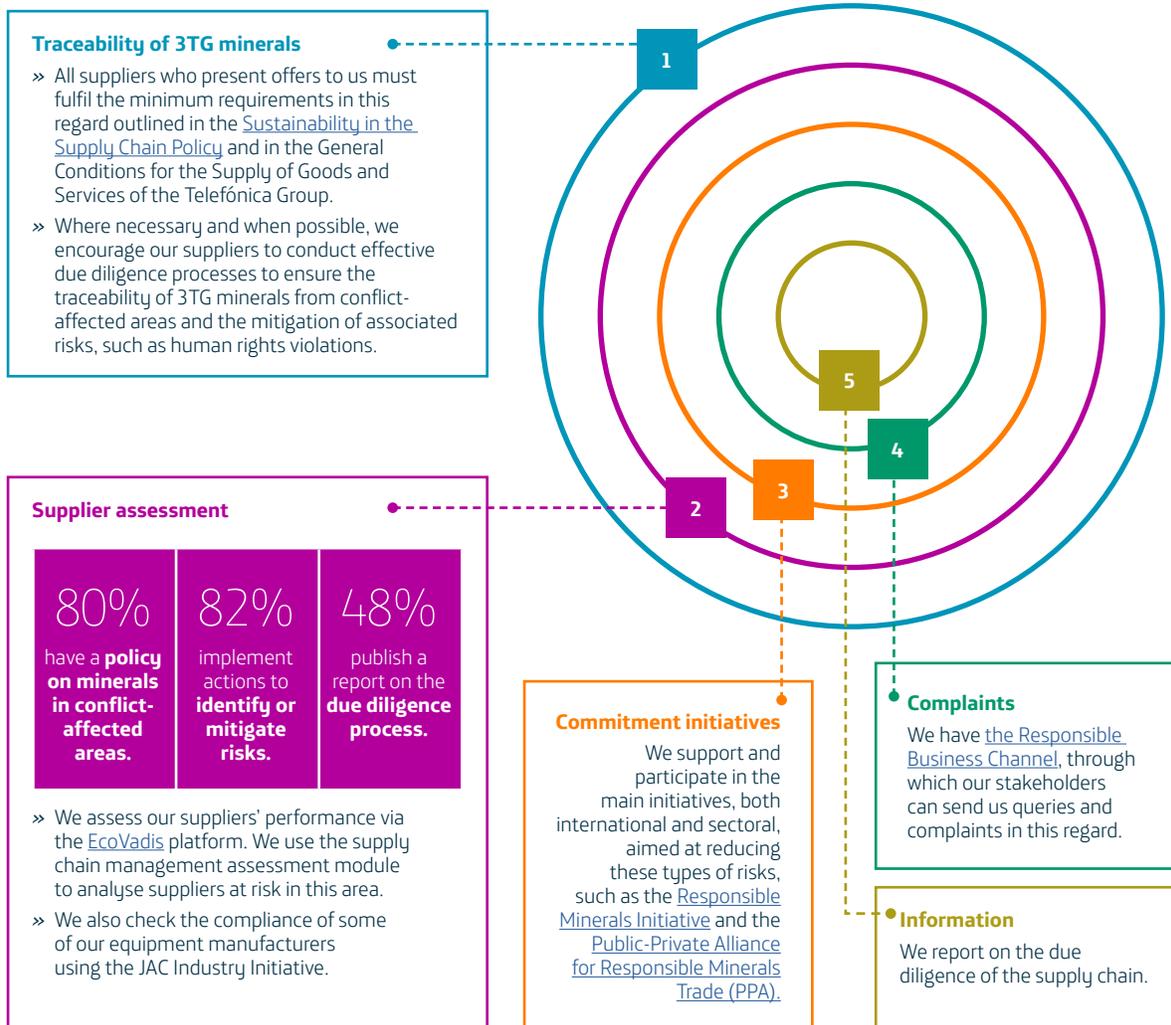
Though we do not have direct commercial relations with smelters or refiners, we actively work to reinforce the control of the use of these types of minerals in our entire value chain.

We adopt a [company policy](#), based on the guidelines given in the OECD report entitled '[Due Diligence](#)

[Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#)'. In that policy, we contemplate the five steps of the Guidance and we transfer them to our suppliers.

In addition, as a company listed on the New York Stock Exchange, we duly comply with Section 1.502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

MINERALS FROM CONFLICT ZONES



2.5.3.3. Training and Communication

During the past year, we maintained the face-to-face training or online training (SuccessFactors, Academia Movistar, ICampus, etc.) of our internal managers and suppliers, attending to the specific needs in each country.

That awareness-raising is even more relevant in our customer service providers, where we specifically train those who have direct contact with our customers (call centers, installation and maintenance in homes, etc.).

In addition, we promote constant communication as a key lever to boost their motivation through different channels, such as our quarterly newsletter to Allies (Colombia, Ecuador and Mexico), the Allies Portal, eMarketplace and the [Supplier Portal](#). On that portal, they can find all our global policies, as well as the specific requirements at local level. It also includes a [confidential channel](#), for questions or reports associated with the fulfilment of our minimum Responsible Business criteria.

We also organise face-to-face events (global and local) with suppliers, such as:

- » The **'New Telefónica Platform, GReTel (Management of Telefónica Waste)' forum**, held in Madrid. There, we shared our Responsible Business Model with 26 of the main collaborating companies in Spain, with a particular focus on our environmental management and waste management through the GReTel platform.
- » Seminar on **Labour Problems Related to the Consumption of Marihuana**, in Chile, from the perspective of the prevention of occupational and road traffic hazards in companies.
- » **Workshop for Allies in Colombia**, which dealt with aspects such as human rights, harassment in the workplace and sexual harassment due to gender reasons, and information security in the digital environment.
- » We invited our **SMEs in Mexico to take part in the Business Integrity Programme** - of the United Nations Office on Drugs and Crime - with

the aim of consolidating the business integrity policy in the country, by means of the design and implementation of a Model Code of Ethics for SMEs, as well as an introduction to tools for the prevention of corruption in the private sector.

- » **Dialogue Forum with Transparencia por Colombia** and the **SMEs** which form part of the supply chain of Telefónica Colombia, with the aim of hearing their views on the problem of corruption in the country, especially how it is affecting small and medium-sized companies in their initiatives, business environments and relations with the public sphere.
- » The **Sustainability Forum in Brazil** with logistics suppliers, which, among other issues, discussed the sexual exploitation of minors on the country's roads and greenhouse gas emissions, both of them aspects of local relevance and given the type of service contracted.
- » **9th Global Energy and Climate Change Workshop** (held in Buenos Aires, Argentina), where, together with our main suppliers, we analysed initiatives to promote energy efficiency and reduce our CO₂ emissions. This year, over 200 people attended, including representatives of the Company from all the countries in which we operate and 32 technological partners who form part of our supply chain



More information, see the section on '2.2.4. Energy and Climate Change'.

- » The **Forum on the Prevention of Occupational Hazards**, with the participation of Telefónica Spain, suppliers, trade unions and ADEMI - association of the telecommunication installation companies' sector. The forum highlighted the importance of the management of the aspects of occupational hazard prevention, as one of the basic pillars underpinning our activity. All of them with the shared goal of working to achieve zero accidents (*#cerosiniestralidad*).

2.5.3.4. Satisfaction survey

We strive to ascertain the opinions and priorities of our suppliers. In 2018, we carried out a survey among the leading suppliers in order to gauge their level of satisfaction and to identify which aspects are positively rated and in which ones there is room for improvement.

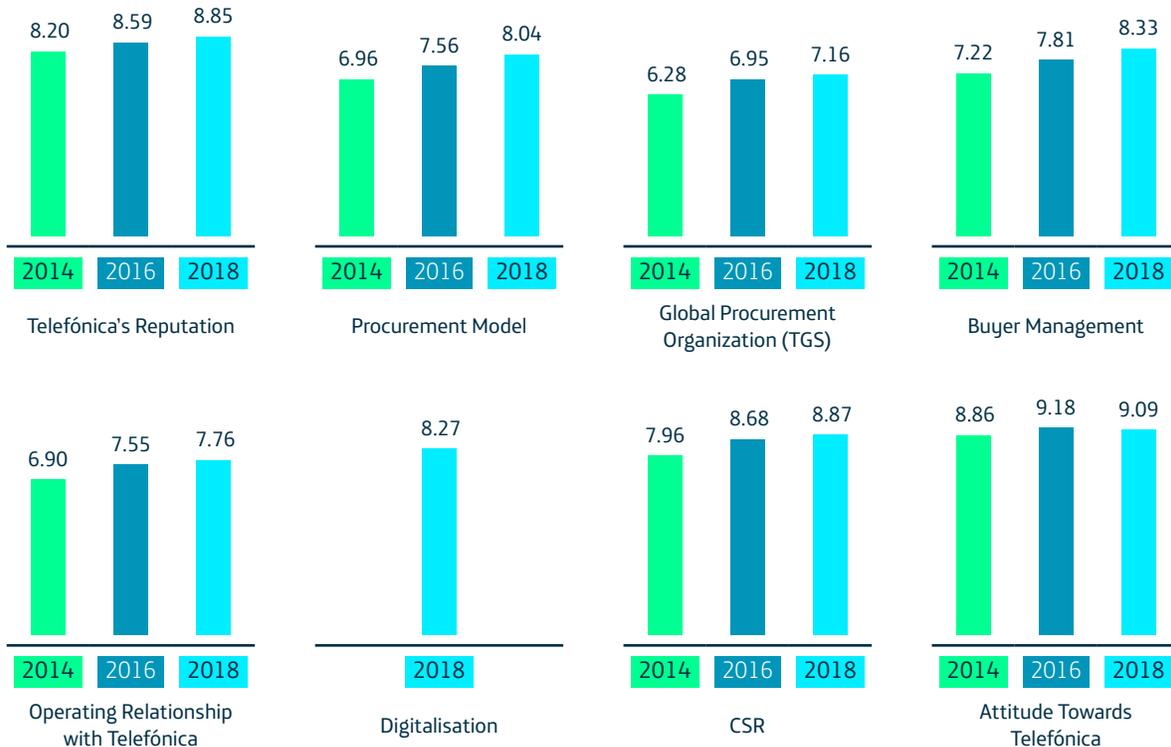
- » We launched a survey aimed at over 9,300 users (belonging to approximately 4,400 suppliers), with a participation level of 21%.
- » The scores have improved with respect to surveys carried out in previous years, reaching an average rating of 8.22 in 2018 with respect to 8.01 in 2016, and 7.42 in 2014 (on a scale of 0 to 10). Once again, the highest-rated matters were those

of corporate responsibility and attitude towards Telefónica.

The best-rated aspects among our suppliers include: Telefónica's leadership and reputation in the telecommunications sector; the honesty and transparency of buyers; the incorporation of digitalisation into the procurements process; and, above all, that Telefónica promotes respect for human rights and is applying a commitment to sustainability in the supply chain.

The suppliers identified other aspects which could be improved, such as the established payment conditions compared to those of other companies.

EVOLUTION OF THE RESULTS OF THE SUPPLIER SATISFACTION SURVEY



The satisfaction of our suppliers has improved over previous years, reaching an average score of 8.22 in 2018. Our commitment to sustainability is one of the best-considered aspects.



2.5.4. Milestones and challenges

MILESTONES 2018: Last year we achieved 100% compliance in the goals set:

- » Expansion of the scope of the EcoVadis evaluation process, including over 910 main high-risk suppliers (including the different subsidiaries associated with the evaluations with Group-level scope).
- » Implementation of sustainability standards in the supply chains of our equipment manufacturers, through the participation of 5 of our suppliers in the "JAC Academy" initiative.
- » Development of the audit monitoring module in our management tool and reporting of indicators associated with the Responsible Business Plan.
- » Approval of the internal instruction on the management of security risks (privacy and protection of data) associated with suppliers.
- » Sharing good practices with our suppliers in the sphere of sustainable management, through different events, workshops and/or specific training.
- » On our procurement's platform, we automated the available information about the financial risk of our suppliers, thereby improving the management of risk in each one of the countries.

CHALLENGES 2019:

- » To continue to expand the scope of the EcoVadis evaluation process, including 1,000 suppliers.
- » Work with our risk suppliers to define targets for key safety, health and welfare indicators.
- » Reduce CO₂ emissions in our supply chain by 30% per euro purchased by 2025 compared to 2016.
- » Contribute to JAC being able to carry out 90-110 supplier audits and train internal auditors of our suppliers.
- » Raise awareness among those responsible for internal contracts regarding the management of third parties by promoting compliance with the legislation in force at local level in each country.

2.6. A management framework for business sustainability

2.6.1. Main aspects of corporate governance

The corporate governance system in Telefónica allows our Company to develop its actions in defence of all interest groups, and in particular, its shareholders and investors. As previously mentioned, the Board of Directors of the Company is configured to be its supervisory and management body, counting on the support of the Delegated Committee and consulting or monitoring Commissions. Likewise, Telefónica has a large body of rules, controls and processes designed to guarantee appropriate management.

The Annual Corporate Governance Report corresponding to the financial year 2018 (Chapter 5 of this report), provides complete and reasoned information on Telefónica's governance structure

and practices, as well as the degree of fulfilment of the recommendations of the Code of Good Governance of Listed Companies in Spain. In this section, we present information relating to:

2.6.1.1. Governing Bodies

The Board of Directors of Telefónica is composed of 17 Directors, and it is the body charged with the supervision and control of the Company's activity, with exclusive powers over matters such as the general corporate governance, corporate social responsibility, compensation of Directors and Senior Management, and payments to shareholders, as well as strategic investments.

Shown below is the composition of the Board of Directors along with each of its Commissions. More complete information can be found in chapter 5 of this Report ([Corporate Governance Annual Report](#)).

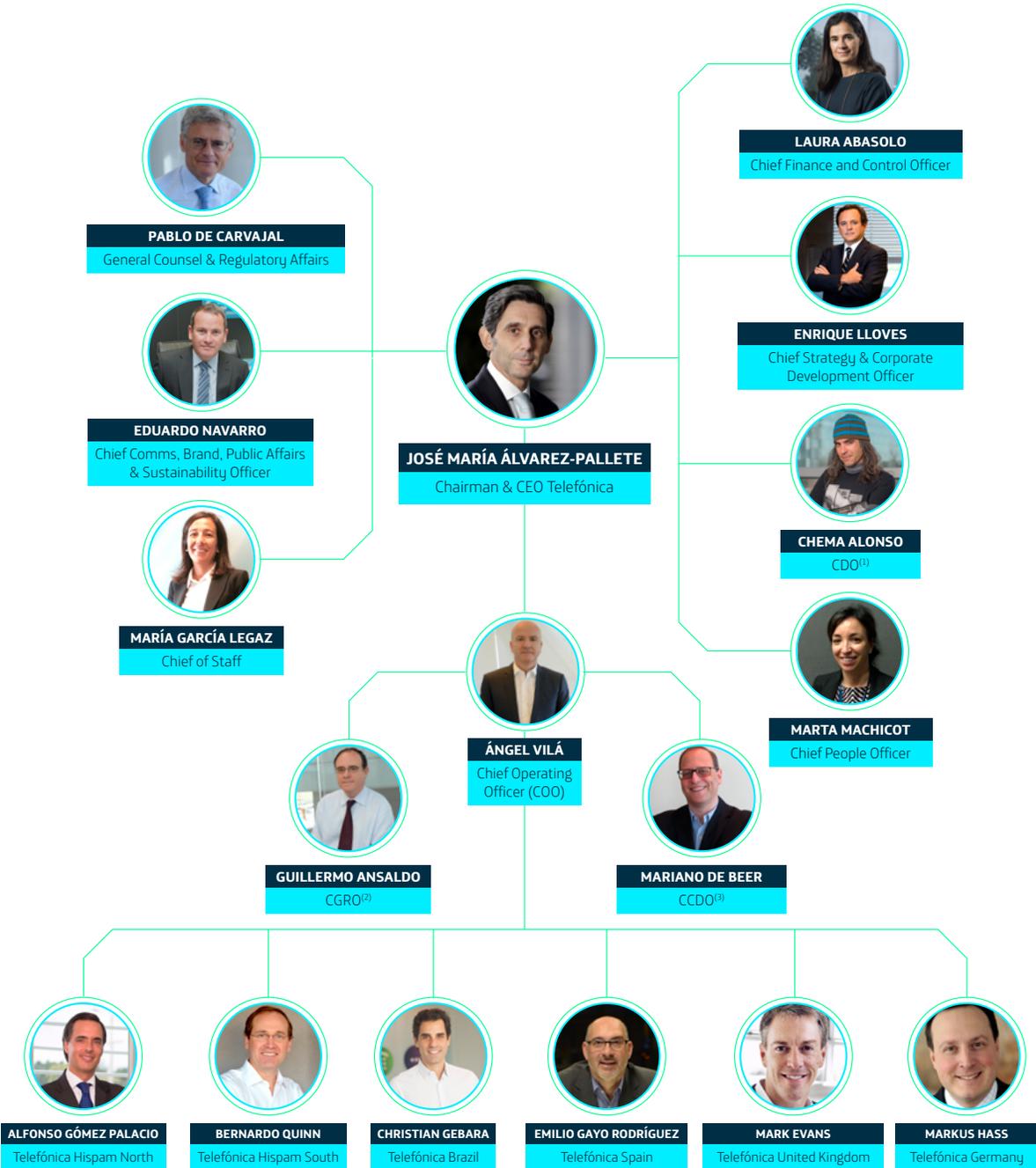


102-19
102-18
102-22

POST	BOARD OF DIRECTORS				BOARD COMMITTEE							SHARE-HOLDINGS IN THE CAPITAL STOCK	OTHER INFORMATION	
	Executive	Proprietary	Independent	Other External	Executive Committee	Audit and Control	Appointments, Remunerations, and Good Governance	Service Quality and Customer Service	Regulations and Institutional Affairs	Strategy and Innovation	% Direct and Indirect Capital	Date of first appointment	Nationality	
Mr. José María Álvarez-Pallete López	Chairman	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/> (1)						0.034	07/26/2006	Spanish
Mr. Isidro Fainé Casas	Vice Chairman		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>						0.012	01/26/1994	Spanish
Mr. José María Abril Pérez	Vice Chairman		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>		0.009	07/25/2007	Spanish
Mr. Ángel Vilá Boix	Chief Operating Officer	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>						0.013	07/26/2017	Spanish
Mr. Juan Ignacio Cirac Sasturain	Director		<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>		0	04/08/2016	Spanish
Mr. José Javier Echenique Landiribar	Director		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/> (1)	<input checked="" type="checkbox"/>					0.002	04/08/2016	Spanish
Mr Peter Erskine	Director			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/> (1)		0.001	01/25/2006	English
Ms. Sabina Fluxà Thienemann	Director		<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>					0	04/08/2016	Spanish
Mr. Luiz Fernando Furlán	Director		<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>					0.001	01/23/2008	Brazilian
Ms. Carmen García de Andrés	Director		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>				0	05/04/2017	Spanish
Ms. María Luisa García Blanco	Director		<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			0	04/25/2018	Spanish
Mr. Jordi Gual Solé	Director	<input checked="" type="checkbox"/>							<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		0	01/31/2018	Spanish
Mr. Peter Löscher	Director		<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/> (1)		<input checked="" type="checkbox"/>		0.003	04/08/2016	Austrian
Mr. Ignacio Moreno Martínez	Director	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> (1)			0	12/14/2011	Spanish
Mr. Francisco Javier de Paz Mancho	Director and Lead Director		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> (1)		<input checked="" type="checkbox"/>		0.001	12/19/2007	Spanish
Mr. Francisco José Riberas Mera	Director		<input checked="" type="checkbox"/>									0.049	05/04/2017	Spanish
Mr. Wang Xiaochu	Director	<input checked="" type="checkbox"/>										0	09/30/2015	Chinese

(1) President of the Commission.

EXECUTIVE TEAM OF TELEFÓNICA

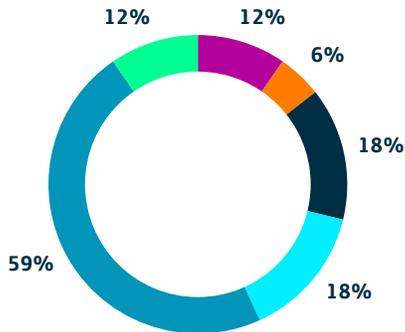


(1) Chief Data Officer
 (2) Chief Global Resources Officer
 (3) Chief Commercial Digital Officer

2.6.1.2. Diversity of the Board

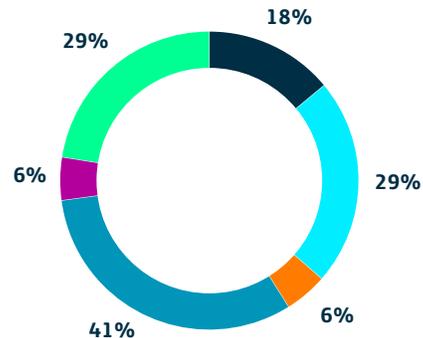
In December 2017, the Board of Directors of Telefonica, S.A. approved the update of its "Diversity Policy regarding the Board of Directors of Telefonica, S.A. and the Selection of Directors", the full version of which can be consulted at the Telefonica web site.

KNOWLEDGE AND SKILLS



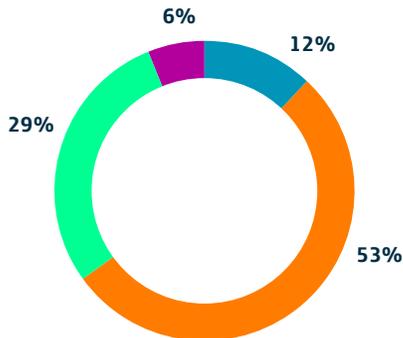
- Economics-Finance
- Innovation and Technology
- Humanities
- Legal
- Engineering
- Risks

PROFESSIONAL EXPERIENCE



- Public Administration
- Industry
- Academics
- NGO/Foundations
- Banking
- Services

BOARD INDEPENDENCE



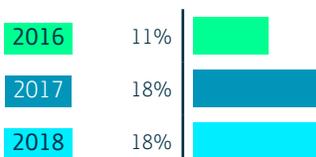
- Proprietary
- Executive
- External
- Independent

INTERNATIONAL EXPERIENCE

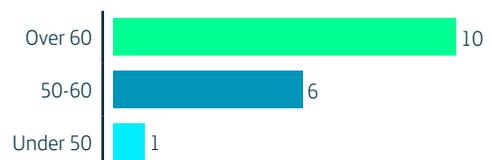


WOMEN ON THE BOARD

(%)



BOARD DIVERSITY BY AGE



2.6.1.3. Compensation of the Directors

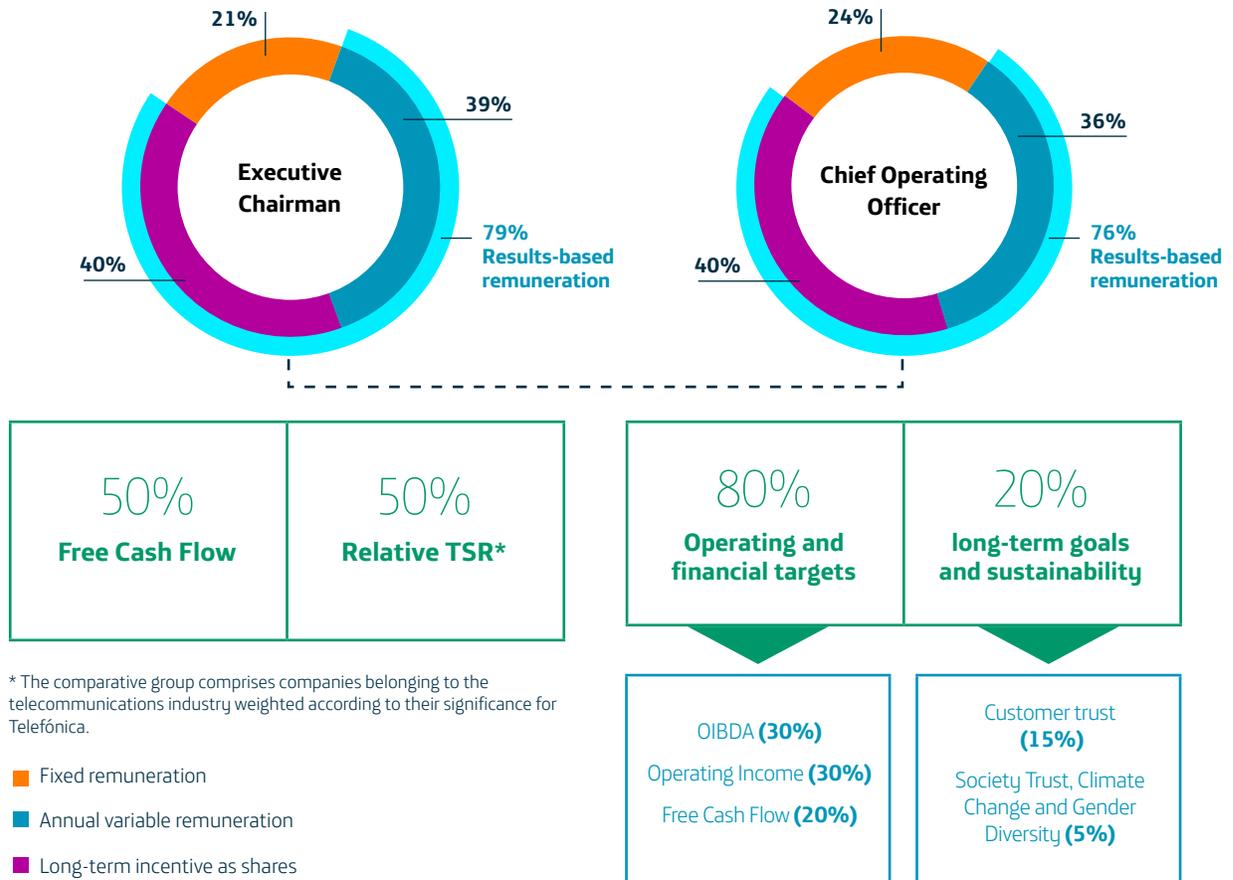
Executive Directors

The compensation system of the Executive Directors of Telefonica is characterised by its competitiveness and rigorous standards. The variable compensation is designed to incentivise achievement of short-and long-term company objectives and constitutes one of the main pillars of this system. The perception of the Annual Variable Compensation is linked to the achievement of financial and business objectives as well as objectives regarding customer satisfaction and sustainability. Likewise, the long-term variable compensation is linked to value creation in the Telefonica Group in the medium and long term, from measuring the return on investment for the shareholder, and the economic and financial objectives.

All of the objectives are predetermined, specific, quantifiable, and aligned with the strategic objectives of Telefonica, and are strictly set out and evaluated by the Nominating, Compensation and Corporate Governance Commission, which also monitors these objectives, such that the alignment with the social interests of Telefonica is guaranteed. The Executive Directors have a fully flexible and variable compensation system that prevents them from receiving any amount for this reason in the case that they do not achieve their minimum thresholds. The percentage of variable compensation in the short and long term can be relevant in the case of maximum achievement of objectives. In all cases, this percentage of the total compensation (taking into account for these purposes the sum of Fixed Remuneration, Annual Variable Compensation and the annualised long-term incentive) would not exceed 85%. Below is shown the compensation mix of the Telefonica Executive Directors assuming a scenario of fulfilment of target objectives:

EXECUTIVE DIRECTOR REMUNERATION STRUCTURE 2019

At Telefonica results-based remuneration has a significant weighting in the total remuneration (remuneration structure for meeting **100% of targets or target-level**).



Directors in their capacity as such

The compensation corresponding to the Directors in their capacity as such is structured within the legal and statutory framework, based on the criteria and remuneration items indicated below, within the maximum limit for this purpose as set out in the General Shareholders Meeting, in accordance with the provisions of article 35 of the Company Bylaws.

Based on the foregoing, the Ordinary General Shareholders Meeting that took place on 11 April 2003 set the maximum gross annual amount of compensation to be received by the Directors as members of the Board of Directors at 6 million euros.

In all cases, this compensation is the maximum, where the Board of Directors will propose the distribution of its amount amongst the different items and different Directors, taking into account the functions and responsibilities attributed to each Director, the relevance of the Commissions within the Board of Directors, and other objective circumstances that it considers relevant.

Regarding the 2019 financial year, based on the results obtained in the external competitiveness analysis of the compensation package of the Directors, the Commission has proposed to the Board to refrain from increasing the fixed compensation of the Directors, in their capacity as such as well as in the performance of their executive functions during the financial year 2019:



	Board of directors	Executive commission	Control or consultant commissions ⁽¹⁾
President ⁽²⁾	240,000€	80,000€	22,400€
Vice President	200,000€	80,000€	—
Vocal Independent external Directors	120,000€	80,000€	11,200€
Vocal Independent	120,000€	80,000€	11,200€
Other external directors	120,000	80,000	11,200

(1) Additionally, the amount of the diet for attendance at each of the meetings of the Consultative or Control Commissions is 1,000 euros.

(2) In this regard, the Executive President has waived the collection of the aforementioned amounts (that is, 240,000 euros as Chairman of the Board of Directors, and 80,000 euros as Chairman of the Executive Committee).

The Executive Directors may waive the reception of these amounts.

In addition, the non-Executive Directors receive the compensation to which they are entitled for being part of certain administrative bodies of some affiliates participated in by Telefónica.

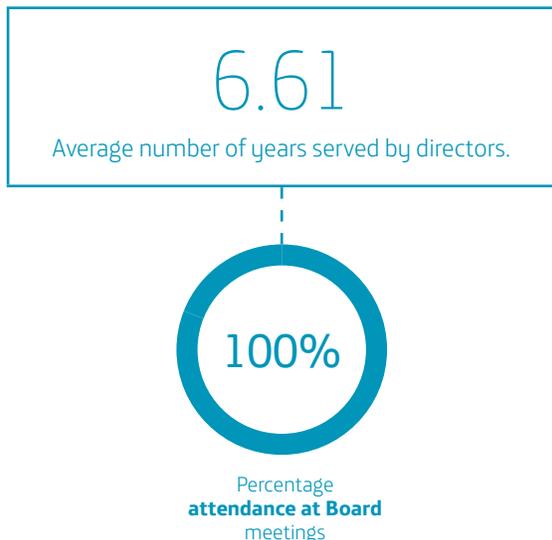
The average compensation of the Directors are shown in the following table, which includes the compensation received by the Chairman and the Managing Director, amongst the Executive Directors.

	Average total remuneration	
	Men	Women
Board members	772,320	161,905

More complete and detailed information can be found in the [Annual Report of Compensation of Directors of Telefónica, S.A.](#) on the Telefónica web site.

2.6.1.4. Effectiveness of the Board

In Telefónica, we apply specific procedures and practices aimed at ensuring the responsibility of the Board and alignment with shareholders' interests. In that regard, Telefónica measures specific parameters to monitor the efficiency of our governing body. In 2018, the Board held 12 sessions, with an average duration of 3 hours and 30 minutes per meeting.



Evaluation of the work of the directors:

For the evaluation of the Board of Directors for financial year 2018, the Nominating, Compensation and Corporate Governance Commission, in its meeting held on 19 February 2019, reviewed and analysed the results of the evaluation of the Board for said financial year, carried out by the Directors of Telefónica, S.A. regarding the functioning of the Board of Directors, its Commissions and the General Shareholders Meeting of the Company. Generally, it was concluded that the Directors had shown a high level of satisfaction with the organisation and activities of said governing bodies.

Likewise, as a result of said evaluation, certain areas for improvement were identified. Based on these areas, and after an examination and detailed analysis of the results, the Board of Directors, upon the request by the Nominating, Compensation and Corporate Governance Commission, approved the proposals for improvement to optimising the functioning of the Governing Bodies of the Company. These proposals for improvement are as follows:

- i) Continue with the implementation of methods and actions that allow for optimal execution of the General Shareholders Meeting.
- ii) Continue with the process of analysis of the composition of the Board regarding succession plans and the application of the Diversity Policy.
- iii) Value and include in the Agenda of the Shareholders Meeting and Delegated Committee more presentations related to the strategy, which may be up for debate.

Relevant issued taken up in the:

- » Financing transactions of the Telefónica Group.
- » Evolution of the business in the different countries where the Telefónica group operates.
- » The regulatory situation of the telecommunications sector (e.g. regulatory changes and spectrum auctions).
- » Company Ethics and Responsible Business.
- » Other topics related to the business such as our digitalization process, technological evolution of our networks, digital services (IoT, Big Data, etc.).
- » Corporate operations.

2.6.2. Ethical pillars, corruption and bribery

2.6.2.1. Values, principles and standards of conduct

Ethical and responsible conduct is key to ensuring the trust of our stakeholders and the sustainability of the business. This is why the [Principles of Responsible Business](#), our code of ethics based on integrity, commitment and transparency, are a basic pillar of Telefónica's strategy and culture. They include, among others, non-discrimination and zero tolerance of corruption.

To ensure that the Responsible Business Principles are a guiding thread in everything we do, we

incorporate sustainability into our governance structure and strategy by developing policies and procedures, strategic indicators and targets associated with key functions in the Company. All these actions make up our Responsible Business Plan.

The Responsible Business Plan and the Company's non-financial indicators are monitored through the Responsible Business Office, which brings together the top managers of different areas; these either assume commitments or identify and incorporate sustainability opportunities into their value proposals. The Office, present in our main operators, meets 4 times a year.

This Office reports directly to the Board of Directors via the Regulation and Institutional Affairs Commission, which meets monthly.

2.6.2.2. Responsible Business governance and management

<p>In addition to the responsibility taken on by the Board of Directors, the operator and group executive committees take on responsibility for implementing the Responsible Business Plans at country level.</p>	<p>The Responsible Business Office brings together the heads of Compliance, Audit, Legal Services, Human Resources, Public Affairs, Corporate Ethics and Sustainability, Procurement, Operations, Marketing, Security and Big Data.</p>
--	--



102-16
 103
 205-3
 102-33
 102-20
 102-26
 102-27
 102-29
 102-30
 102-31

2.6.2.3. Internal rules

Senior decision-makers of Telefonica had highlighted the relevance of the sustainability in numerous internal and external forums. In 2018, the Board and the Executive Committee of Telefónica approved or updated the following internal rules that develop our Principles of Responsible Business:

- » New version of the [Global Privacy Policy](#).
- » New version of the [Global Environmental Policy](#).
- » Regulation of [Health, Safety and Welfare at Work](#).
- » [Global Regulation of Responsible Communication](#).
- » Artificial Intelligence [Principles](#).
- » [Regulation of the Telefónica Group engagement with Public Entities](#).

Telefónica already has global policies approved in previous years in terms of anti-corruption, security, diversity, etc., and this internal framework has been reinforced with these new internal rules.

All policies and regulations are detailed in the different sections of this report; except the Regulations Global Responsible Communication. Therefore, we clarify that this regulation defines the general guidelines of action when we communicate towards clients and through advertising, towards other interest groups, through of Social Networks, when we generate content and when we broadcast third-party advertising. It also affects the Reputational Crisis Committee if there's a possible negative reputational impact.

2.6.2.4. Our responsible business culture

All Company employees must be aware of and comply with the Business Principles. In order to disseminate them and reinforce our internal commitment, we have launched a global internal communication campaign, which is renewed every year, dealing with different issues: conflicts of interest, gifts and invitations, responsible purchasing, the environment, etc.

a) Training

All employees must complete the Responsible Business Principles course. A new course, assigned to all employees, was launched in 2018. At 31 December 2018, 90.4% of the workforce had completed the course, that is, 101,431 employees⁽¹⁾.

In training, in addition to that included in the course on the Business Principles, it is worth highlighting, firstly, the training on anti-corruption, specifically on the risks of international public corruption (Foreign Corrupt Practices Act), which began in 2017 and is being implemented (in different phases) throughout the Telefónica Group. The training is aimed at certain areas of the organisation, namely those with potential material exposure to the risk of corruption ('Target Areas'). In 2018, the training was delivered in operations in Uruguay, Argentina, Panama, Guatemala, Nicaragua, El Salvador, Costa Rica, Colombia, Peru, Chile and Ecuador. Specifically, the number of employees to whom training has been assigned, whether they are managers or not, has exceeded 54,000 since 2017. Training is presented in two formats: first, face-to-face training for management committees, executives and certain pre-executives of Target Areas; second, online training (available in Spanish, English and Portuguese) aimed at the other employees of Target Areas.

With respect to criminal liability, notable are the training courses that have been defined or are being defined and/or implemented in different companies and/or countries with the Telefónica Group's footprint, such as Mexico or Peru, all in accordance with applicable local legislation.

b) Compliance

The Company's commitment to the fight against corruption and bribery, which, without prejudice to the activities previously carried out by other areas of the organisation, had its most significant organisational reflection in the creation of the independent Compliance area and the appointment of the Chief Compliance Officer, continued to be strengthened even further throughout 2018.

This year saw the consolidation of the local compliance areas that had been created throughout the years 2016 and 2017. We currently have a total of 18 local compliance units, in addition to the global Compliance area. Its creation and consolidation have significantly helped to boost compliance culture in countries and business units.

The Compliance area ensures compliance in integrity, which primarily includes the fight against corruption and bribery, both publicly and privately. In 2018, the existing controls were maintained and strengthened, thanks to the continuous improvement model implemented at Compliance level and which is the basis for the policy of zero tolerance of corruption and bribery.

Control elements include the existence of specific regulations (for example, the Anti-Corruption Policy approved in 2015 and, in its implementation, the Regulation on Relations with Public Entities and Officials/Employees approved in 2018), third party assessment protocols, criminal prevention models, risk assessment procedures (incorporated into the global risk management map), criminal prevention models, risk assessment procedure, protocols for evaluating suppliers and business partners, consultation tools on internal regulations, initiatives in training and communication to reinforce the compliance culture, as well as complaint channels and tools for reporting potential conflicts of interest.

The number of queries and communications ⁽¹⁾ sent by Telefónica employees to the Compliance area, in relation to internal regulations and mainly to the Anti-Corruption Policy, has risen sharply compared to the previous year. Specifically, and by way of illustration, the number of queries and communications managed by the global Compliance area, which includes the queries and communications made by the employees of Telefónica, S.A. and other corporate companies, amounts to 515.

The Compliance area also focuses its efforts on matters other than integrity that are considered especially sensitive from the point of view of regulatory compliance. Some of the actions carried out in this area are highlighted below:

- » **Privacy**, where the activity has focused on the General Regulation on Data Protection, approved by the European Union.

- » **Competition**, where specific efforts have been made to maintain and create new elements of control, efforts that will continue in 2019. These controls include training and awareness-raising activities, as well as the development of internal regulations and protocols.
- » **Money laundering**: With regard to compliance with regulations in this area, the Company has general and specific payment controls (including due diligence procedures on suppliers and business partners defined from a compliance point of view, including comparison with third-party databases with lists of sanctioned individuals and entities sanctioned), which are supplemented by compliance with the requirements established in each country's legislation in a specific manner and/or as a regulated entity in this area.

c) Complaint and remedy mechanisms. Complaint and query channels

In the case of the complaint and query channels, Telefónica employees have at their disposal different channels through which they can make queries, seek advice or lodge complaints in relation to the Business Principles and applicable regulations.

In 2018, a new Complaints Channel Management Policy was approved, unifying the management regulations for the Company's employees, executives, directors and other stakeholders. Through it, they may communicate any information of which they become aware, by any means - formal or otherwise - about the existence of a possible irregularity, act contrary to law or internal regulations; including also possible irregularities relating to accounting matters, audit issues and/or aspects related to internal control over financial reporting, in compliance with section 301 of the Sarbanes-Oxley Act of the United States and other requirements in this regard. Communications through the Complaints Channel may be made anonymously if desired. In the management of the Complaints Channel, the principles of confidentiality of the data provided and of the statements made, respect and basis govern.

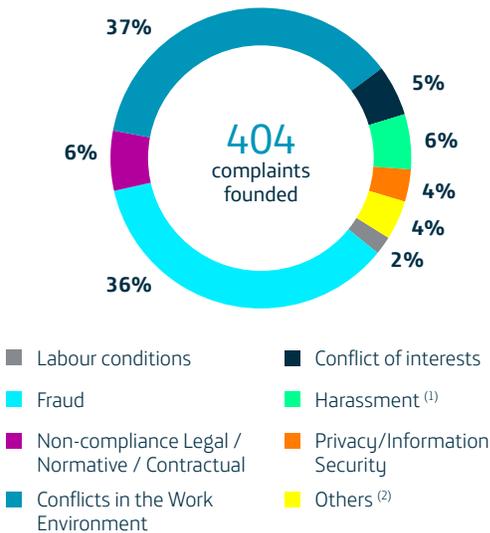
Through the Whistleblowing Channel and other internal reporting channels, we received a total of 912 complaints. As a result of the investigations during that exercise, 404 complaints resulted founded. Among the measures adopted because of the well-founded complaints, there were 167



extinctions of the work contract. From the closed investigations, it can be concluded that there was a case of corruption and a case by discrimination.

NATURE OF COMPLAINTS RESULTED FOUNDED

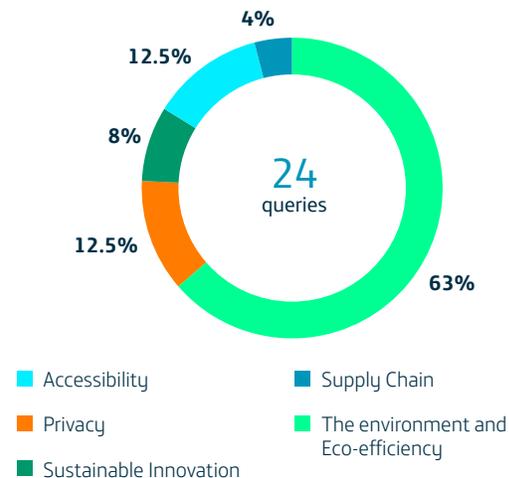
(% of total complaints resulted founded)



Additionally, we have a [Responsible Business Channel](#) through which all our stakeholders can consult, communicate or report, anonymously or personally, queries, requests or claims on any aspect related to the Principles of Responsible Business.

In 2018 we received 24 queries, of which 24 have been resolved and closed:

QUERIES RECEIVED IN 2018(3)



(1) The harassment category includes one case of discrimination.

(2) The Others category includes a case of corruption.

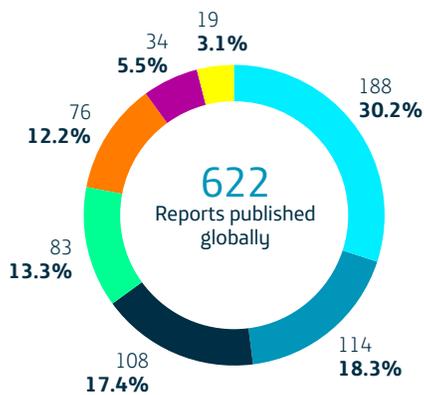
(3) The rest of the issues have not received any communication (Human Rights, Freedom of Expression, Integrity, Diversity and Talent Management).

d) Internal control

The internal control of the Company is based on the Internal Audit activity and the risk management systems. Within the activities entrusted to Internal Audit is the supervision of the key controls of the process of the cash out in Telefonica, under the supervision of the Audit and Control Committee of the Board of Directors.

During 2018, Internal Audit issued 622 global reports, divided into the following categories:

REPORTS PUBLISHED BY INTERNAL AUDIT



- Financial or information systems audits mainly aimed to the internal control review over financial processes.
- Review of the revenue cycle.
- Supervision of the main technological risks and compliance with legal provisions that affect service networks, and those that affect information systems.
- Reports aimed to verify the correct fulfilment of other legal obligations.
- Total or partial analysis of the processes related to the spending and investment cycle.
- Fraud / corruption prevention, review of personal actions.
- Other works.

2.6.2.5. Collaboration with sectoral organisations and lobbying

Telefonica remains neutral at the political level. At any time, we do not take a position, directly or indirectly, for or against, of any political party and therefore we do not make donations to them. This does not prevent us from making our points of view on issues that may affect management and sustainability of the Company through lobbying activities.

Our expenditure on contributions to sectoral entities and organizations or persons that carry out activities of representation for Telefonica was 4 million euros in 2018, of which more than 95% was dedicated to sectoral entities.

We are registered as a lobbyist in the voluntary transparency register of the European Union and in the register interest groups of the CNMC (Spanish Commission of Markets and Competition).

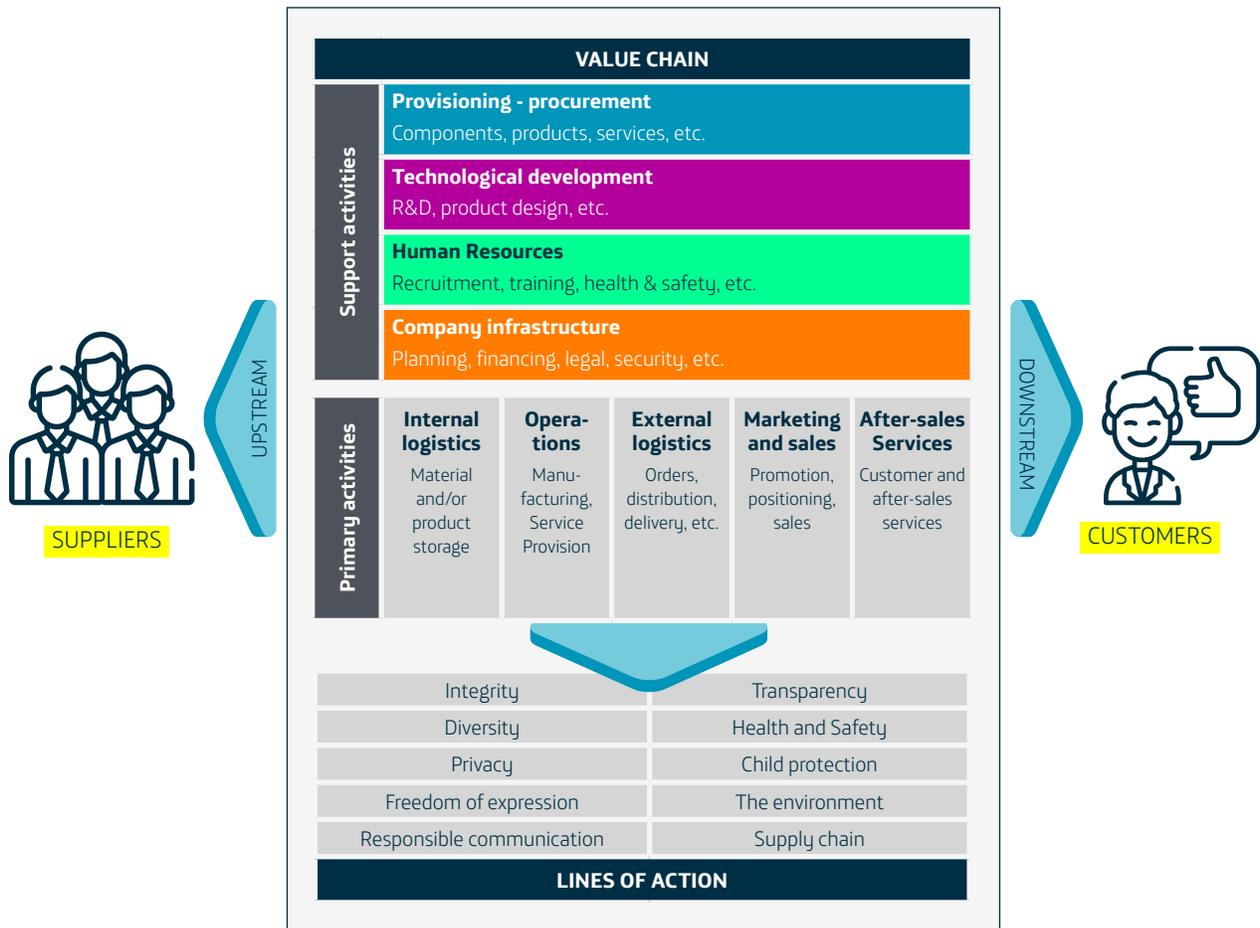
2.6.3. Respect for human rights

DEFINITION	DATA
Number of human rights complaints/queries received	0
% operators evaluated in 2013	100%
Global impact assessment update 2017-2018	100%
% of operators that have updated their local impact assessment 2018	29%
Number of on-site Human Rights audits on risk suppliers	9,989

The new digital services make it possible for us to provide a better customer service or more appropriate services in our business and society in health, education and environmental protection. However, technologies based on a growing use of data also generate certain ethical and social concerns that have not yet been resolved. For this reason, in 2018 we updated our priority matrix and our human rights impact assessment.

At Telefonica, human rights are part of our policies and procedures. We also extend these standards to the entire value chain, thus increasing our sphere of influence and impact from suppliers to customers.

205-1
408-1
406-1
407-1



In this report we highlight the relevant indicators and procedures for the respect of human rights in different key areas such as digital trust, sustainable supply chain management, environmental strategy and talent and diversity management, etc.

2.6.3.1 Governance

The protection of human rights is supervised by the Board of Directors through the Commission on Regulation and Institutional Affairs. It is responsible for promoting and monitoring the implementation of our global Responsible Business plan, which includes specific objectives in this area.

In collaboration with the corporate areas involved, the General Secretary and Secretary of the Council,

Public Affairs and Regulation, which sits on the Executive Committee, oversees the implementation of policies, commitments and due diligence in all human rights affairs. The Corporate Ethics and Sustainability Department coordinates the identification, assessment and management of risks and opportunities related to human rights and fosters dialogue with all stakeholders.

2.6.3.2. Our due diligence in human rights

Based on the '[Guiding Principles for Business and Human Rights](#)' of the United Nations (UN), our due diligence process is shown below:



Due diligence process	Roadmap	Activities
Policy	<ul style="list-style-type: none"> » Approved in 2013 » Updated in 2018 » Approved in 2019 	<ul style="list-style-type: none"> » Respect for human rights is included in our principles of Responsible Business and takes the form of policies, rules and procedures. » Available at sustainability website. » Prepared by external human rights experts: 2013 (BSR) 2018 (BHR), following the United Nations (UN) "Guiding Principles for Business and Human Rights". » In 2018 we updated our commitment, incorporating stakeholders' expectations through the Responsible Business Advisory Panel and feedback from our operators. » In 2019 it will be approved at the highest level.
Impact assessment	<ul style="list-style-type: none"> » 2013: 1st Global and local assessment (17 countries) » 2018: 2nd Global and local assessment (5 countries) » 2019: 2nd Local assessment other countries 	<ul style="list-style-type: none"> » Support from external experts (BSR:2013 and BHR:2018). » Identification of priority issues for Telefónica and our stakeholders. » Prioritization of risks and opportunities according to the context in which we operate, Company strategy and stakeholders, especially vulnerable groups (children, indigenous peoples and people with disabilities). » Assessment of global impact and all our operations.
Integration of results in policies and processes	2013-2019	<ul style="list-style-type: none"> » Identification of global and local areas able to integrate results (Human Resources; Legal; Security; Marketing, Communication, Operations, etc.). » Training in human rights through the course on Responsible Business principles. By December 2018, 90.4% of the workforce⁽¹⁾ had completed the new course launched in this period, equivalent to 101,431 employees. » Modification, updating and new internal regulations to integrate the findings in the impact assessments given on the sustainability website. » Including the basic human rights risk in the Company's risk map.

(1) The employees of Germany carried out this training in its previous version and on 31 December its percentage of compliance is 82.5%. The reason why they are excluded from the scope of the information reported above is because the new course of Principles of Responsible Business needed the approval of the Employee Council of Telefónica Germany.



Due diligence process

Roadmap

Activities

Monitoring and reporting of progress and challenges

2013-2019

- » Each issue identified is analysed for possible causes, potential impacts and main rights affected and the cover given in the Company's risk map, the due diligence performed by Telefónica, voids and recommendations.
- » Monitoring of results through periodic impact assessment updates (every 4 years) and by setting up indicators - The different chapters of this integrated report cover the issues identified in the assessments.
- » Participation in different multi-stakeholder working groups, organizations and forums to find trends and expectations in human rights related to our sector or the countries where we operate (GNI; Spanish Global Compact Network; United Nations, etc.).
- » Presentation of the results of our impact assessment to Telefónica's Responsible Business Panel.
- » Annual report in the integrated report.

Complaints and Remedy Mechanisms

2013-2019

Even with best current policies and practices, the Company can have or be part of adverse impacts on human rights. At present, queries and facts relating to its business can be raised through the [Responsible Business channel](#). We have a procedure to ensure that the channel works correctly and that all relevant communications are passed on to global or local areas, as applicable, to find a solution/remedy and/or respond to the applicant in a maximum of 6 months.

We also have a local human rights complaints channel in Colombia. This channel has been published as a case study in the multi-stakeholder initiative '[Guías Colombia en Empresas, DDHH y DIH](#)'.

In 2018, no specific impact complaint was received on this matter. Furthermore, no human rights impact complaints were found in the 215 received and analysed on civil engineering works that could have had a potential impact in this area.

In 2019 we will work on specific projects to improve the management of the issues identified in our 'Impact Report'. Examples include:

» **Self-assessment of reputational risks and impact on human rights in Telefónica's value proposals (products and services).**

We have a self-assessment tool to identify issues that have a possible impact on reputation or human rights within our value proposals. One example of the application of this concept is the project carried out in the global area of financial services as a pilot to test the effectiveness of the tool and gradually incorporate it into the creation

and marketing of the Company's global products and services. Impacts are assessed on:

- » The client: On all 3 areas of our relationship: simplicity, transparency and integrity.
- » The environment: Consideration is given to waste, eco-design, recycling, energy-saving and positive environmental impacts.
- » Society: Assessing aspects of diversity, vulnerable groups, privacy, freedom of expression and other issues that may have a negative impact when the product and/or service involves artificial intelligence.

ASSESSMENT IMPACT REPUTATION

STEP 1 Self-assessment	STEP 2 Project assessment	STEP 3 Monitoring and response
<p>The product manager carries out a self-assessment of the risks that the new product or service could pose. It is assessed in 3 areas:</p> <ul style="list-style-type: none"> » Impact on the customer » Environmental impact » Social impact 	<p>If the self-assessment detects a potential risk to the local reputation in the project, a detailed product analysis will be conducted.</p> <p>This assessment will be based on the reputational impact assessment set out in the risk management model (Probability, visibility, impact).</p>	<p>After analysing and presenting the suggestions for reducing/mitigating the risk, the product or service will be monitored to detect any additional risk or diversion from the assessment conducted.</p>
<p>Model for assessing the potential risk of the product or service to Telefónica's reputation</p>		

At Telefónica, human rights are integrated into our policies and procedures. In addition, we extend these standards to the entire value chain, thus increasing our sphere of influence and impact, from suppliers to customers.

» **Analysis, identification and evaluation of potential and actual human rights impacts associated with network deployment**

The aim is to identify key indicators to help strengthen our commitment to human rights. This work began in 2018 and provides relevant information to maximize positive impacts and minimize/avoid negative impacts by integrating certain aspects in network deployment procedures and processes.

» **Internal evaluation of the impact on the rights of children and adolescents**

Based on the [UNICEF Rights of the Child and Business Principles](#), in 2018 we performed the evaluation using the tool provided by the Spanish Committee of UNICEF, called [MOCRIA \(Mobile Operator Child Rights Self-Impact Assessment\)](#). This tool highlights the policies and processes that could be improved to develop the corresponding action plan. In 2019 we will collaborate with UNICEF in the process to implement and promote the study and provide comments and guidance on the documents and milestones of the process, including: identification of business areas, results of the impact evaluation and action plans developed accordingly.

2.6.3.3. Freedom of expression

As members of the [GNI \(Global Network Initiative\)](#), we include its principles in our Responsible Business plan, more specifically in the digital trust project that includes privacy, freedom of expression, security and minors, as well as in our human rights initiative. They are also included in the corresponding policies and procedures.

Our commitment and the process we apply to respond to enquiries from authorities in the countries where we operate are set out in the update of the Global Privacy Policy and the Global Requirements Procedure. Thus:

- » We guarantee a balance between legal compliance and respect for people's fundamental rights.
- » We ensure participation in the process by the General Secretary's Office or similar areas with legal powers.
- » We reject all requests that do not come through this regulatory channel.

We have published our third [Transparency in Communications Report](#) with details on the 17 countries in which we operate. We collect information on the legal framework that gives authorities the power to make such requests and the number and type of requests we receive. Each country's specific legal framework is occasionally a limiting factor when it comes to providing information on the requirements Telefónica receives. When we do not provide data, we explain why not.

In an environment in which companies have more and more data about customers and there is growing concern about their use, it is important to ensure information privacy and security, while showing the positive impact the correct use thereof can have on society and people. The [Digital Rights Index](#) shows the commitment and transparency of Internet and Telecommunications companies in this area and seeks to encourage companies to comply with international principles and standards that protect Privacy and Freedom of Expression.

In 2018, Telefónica ranked third among the 10 telecommunications companies evaluated, increasing its score by 8 points. According to the report, Telefónica showed a strong commitment to protecting users' freedom of expression and privacy. Throughout 2018, we have been working on the areas of improvement identified in the Report.

In Spain, the report ['Who's Defending Your Data?' published by the Eticas Foundation and the Electronic Frontier Foundation \(EFF\)](#) in January 2018, names Movistar España as leader in the ranking of companies analysed in this first edition, obtaining 6 stars and a total score of 12 across 10 criteria.



2.6.4. Milestones and challenges

MILESTONES 2018:

- » The new Responsible Business Principles course reached 90.4% of the active workforce⁽¹⁾.
- » Approval of the Global Regulation on Responsible Communication.
- » Updating of the Company's global impact assessment.
- » Local impact assessment in 5 countries.
- » Approval of privacy, responsible communication and health and safety policies, with direct impact on human rights.
- » Approval of Telefónica's Artificial Intelligence principles.

CHALLENGES 2019:

- » Implementation of the Global Regulation on Responsible Communication in all the Company's operations in all countries.
- » New global human rights policy.
- » Analysis, identification and evaluation of potential and real impacts on human rights in the network deployment processes.
- » Evaluation of the impact on the rights of children and adolescents.
- » Preparation of Telefónica's progress report on human rights.
- » Beginning of the implementation of the assessment of reputational risks and impact on human rights in the processes of creation and marketing of our products and services, which is expected to end in 2021.

(1) The employees of Germany carried out this training in its previous version and on 31 December its percentage of compliance is 82.5%. The reason why they are excluded from the scope of the information reported above is because the new course of Principles of Responsible Business needed the approval of the Employee Council of Telefónica Germany.

2.6.5. Key indicators



Corporate governance

% of independent members of the Board	52.9%
% of women in the Board	17.6%



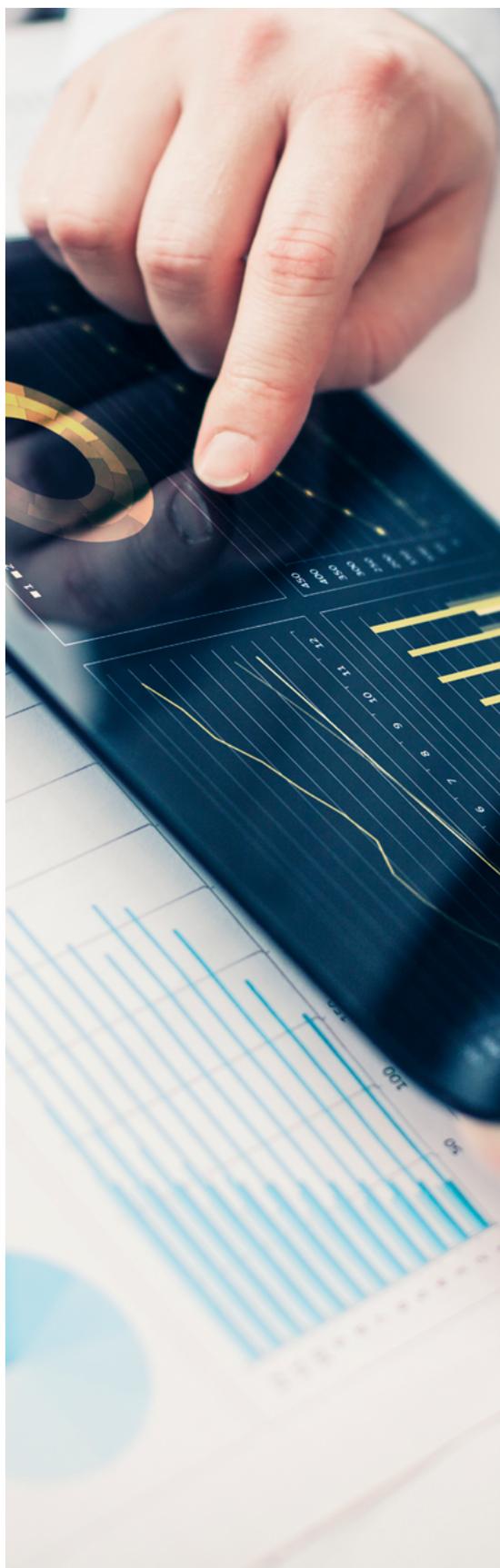
Ethics and corruption

Total number of complaints registered	912
Identifications found to be justified	404
Measures to terminate the employment contract taken as a result of the complaints received	167
Corruption confirmed cases	1
Measures taken in relation to employees in the workplace as a result of confirmed cases of corruption	1
Discrimination confirmed cases	1
Measures taken in relation to employees in the workplace as a result of confirmed cases of discrimination	1



Human rights

Number of human rights complaints/queries received	0
Number of on-site Human Rights audits on risk suppliers	9,989





2.7. CASE STUDY FLAGSHIP: Internet of Things: key to energy efficiency



What is it...

IoT allows you to connect what was not connected before, including meters, motors, air conditioning equipment or cars, making them more efficient. The real time data coming out of the devices gives us information about their status, consumption and usage rates. **To ensure its effectiveness it is necessary to have the best connectivity to transmit the data** to an unique platform. The IoT platform enable the analysis and implementation of the right actions to achieve efficiency improvements.

In Telefónica we offer different energy efficiency solutions for all our customers.



Why is it important...

Climate change is one of the most important challenges in society. This is why the *World Economic Forum* identifies it as one of the greatest global risk factors. One of the main reasons is the intensive use of energy in the current economic model since it means more than two thirds of the total global emissions. To limit the global temperature increase to a maximum of 2°C **is necessary to make an energy transition based on efficiency and renewable energy.**



What is our objective...

Digitalization is one of the main keys to face the climate change challenge. This is why our objective is to offer new digital services based on Internet of Things (IoT). These services allow our customers to improve their energy efficiency. We are ready to capture the business opportunities that may arise in this space with our IoT energy efficiency services.

World Economic Forum Annual Meeting 2019, <https://www.flickr.com/photos/worldeconomicforum/albums/72157705901279485>

What have we achieved...

Some IoT solutions offered by Telefonica

SMIP: Smart Energy in UK



What is it?

Within the framework of the Smart Metering Implementation Program (SMIP), Telefonica is responsible for providing part of these meters.



Why is it important?

The project will provide consumers with real-time information on their energy consumption to help them to control and manage their energy use, save money and reduce their carbon emissions.



Objectives.

The goal of the British government is to implement approximately 53 million smart meters of electricity and gas in homes and non-domestic locations by 2020. The net economic benefit expected for the country with the implementation of this project is 6.2 billion pounds until 2030.

Digitalization is one of the main levers to achieve the energy transition. Our goal is to offer IoT services that support our clients in this challenge, helping them reduce their operating costs.



What have we achieved?

Telefonica is currently managing meters in the most populated regions of the UK, representing 22 million buildings and 40 million meters.



Fleet management



What is it?

Telemetry fleet of vehicles and management through our IoT platform, provides instant information to drivers allowing to improve their driving and route planning.



Why is it important?

This leads to several efficiencies: it reduces fuel consumption, optimizes the routes and therefore the kilometers traveled and the times of delivery. The impact for example in logistics companies is double, reducing their operating costs and their environmental impact as they produce less CO₂ emissions.



Objectives.

Telefónica expects to double its installed mobility park in the next 3 years.



What have we achieved?

In 2018 we offer our Fleet and Workforce Management services in 12 countries, managing more than 207 thousand vehicles, allowing our customers to save about 90 million liters of fuel. In addition, we provide the connectivity for another 320 thousand vehicles.

These services, in addition to reducing the operational costs of our customers, have prevented the emission into the atmosphere of 250 thousand tons of carbon, equivalent to the carbon absorbed by 4 million trees.



2.8. CASE STUDY FLAGSHIP: Blockchain in the supply chain

What is it...

This project is part of Telefónica's strategy to transform its supply chain from a cost center to a business differentiator, based on **three main** concepts:



1
Omni-channel logistics services to shorten delivery times, broadening the options and enhancing the customer experience.



2
Promote the circular economy, optimising the recovery capabilities of mobile and customer-premises equipment.



3
Apply **Blockchain and other technologies** to one of our 3 supply chains -customer-premises equipment- gaining visibility in real-time and traceability extended to our Tier I and Tier II manufacturers (components) and field technicians.

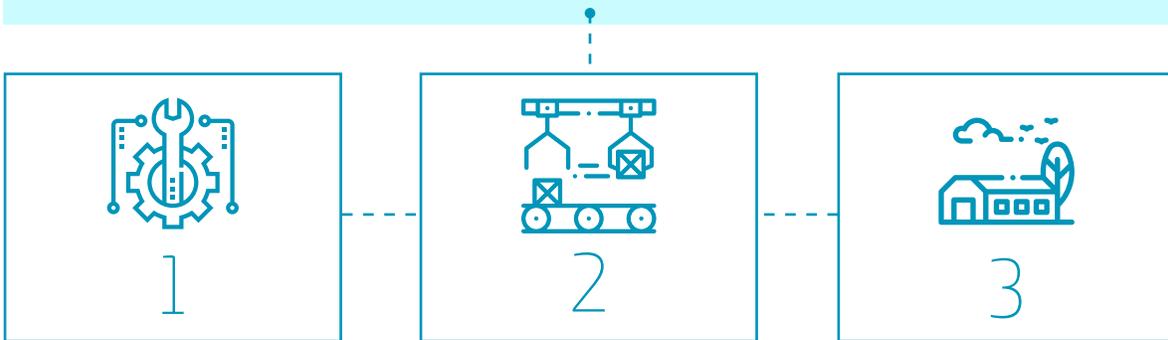
As regards the third concept, through our transformation programme, using blockchain coupled with the IoT and other technologies, we are achieving unprecedented levels of visibility and traceability throughout the customer-premises equipment (CPE) supply chain in Brazil, the largest market.

- » Millions of seriated devices in Brazil each year.
- » Tens of contractors and thousands of fieldwork technicians.



Why it is important...

Home-premises equipment (STBs, routers, etc.) are an essential part of the connectivity services we offer. Specifically, this initiative represents:



A new relationship model with our Tier I (device manufacturers) and Tier II manufacturers (component manufacturers), building relationships of trust and making the business more flexible by:

- » Improving provisioning time flexibility.
- » Possibility of load balancing at source between operations.

Greater control of material and operating efficiency (logistics and field):

- » Real-time stock control in every layer of the supply chain; from the component manufacturer to the customer.
- » Increase stock management efficiency, in the field and warehouse.
- » Reduce safety stock throughout the supply chain.
- » Improve effectiveness in the field by reducing NFF (No Fault Found) rates.

Promote a sustainable supply chain:

- » Maximum reuse of CPE, extending their life cycle and increasing collection efficiency.
- » Possibility to block any item at any point of the supply chain if quality or compliance problems are detected (corporate social responsibility policies).
- » Reduce logistics efforts - impact on carbon footprint.



Our goals...

In line with our global targets, **this transformation project seeks to achieve maximum business and environmental efficiency in provisioning**, installation and recovery of customer-premises equipment. To do this we have set the following challenges:



Fully roll-out the project in **Brazil in 2019**, achieving.



Launch the project in the **rest of the group's operations** up to 2021.

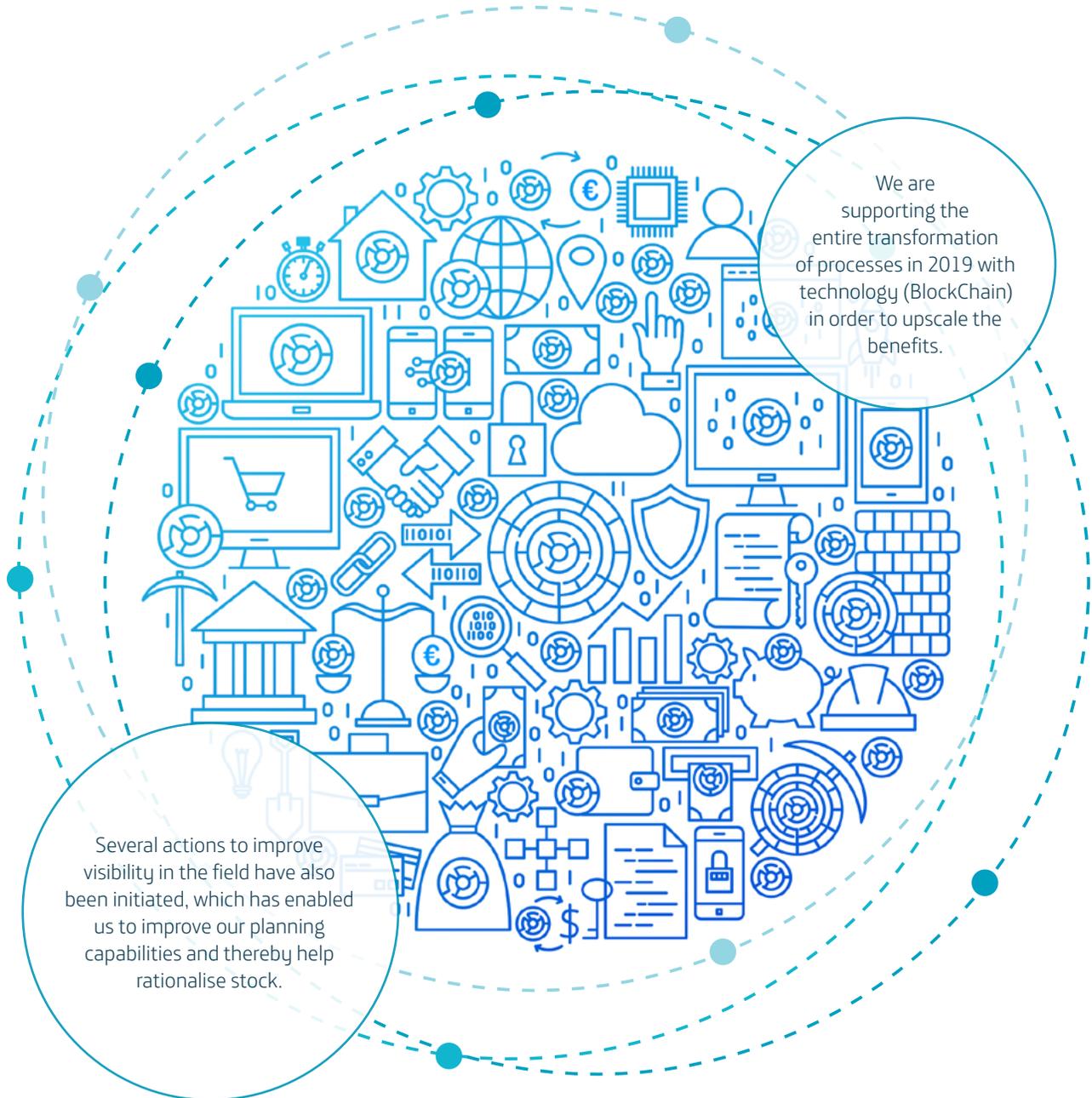


Extend to the other **two Telefónica supply chains** (Network Rollout and Retail - mobile devices and accessories).

- » Flexibility in provisioning times
- » Reduce the need for safety stock
- » Improve recovery efficiency

What we have achieved so far...

The project was launched in Brazil in 2018, starting with the transformation of the provisioning process and signing agreements with our Tier I manufacturers. This has enabled us to increase the flexibility of our provisioning, giving the business the capability necessary to comply with its business plan.



We are supporting the entire transformation of processes in 2019 with technology (BlockChain) in order to upscale the benefits.

Several actions to improve visibility in the field have also been initiated, which has enabled us to improve our planning capabilities and thereby help rationalise stock.

2.9. Appendix

2.9.1. Discover Telefónica's stakeholders

Telefónica offers people and entities accessible, secure networks and services to express themselves, share, collaborate and enjoy... Based on a common model of relations, we distinguish 7 key stakeholders:

	Customers	Customers of all our commercial brands, both the general public and businesses, as well as the organisations that represent customers.
	Employees	Our own current and former employees, associations and trade unions that represent workers' interests.
	Strategic partners and suppliers	Key companies for the development and provision of our services, as well as suppliers and the organisations and associations that represent the interests of the supply chain.
	Shareholders, investors and analysts	Investors, analysts and entities that work for the sustainability of enterprise.
	Governmental and regulatory bodies	Local, national and international organisations.
	Opinion leaders, media and communication services	Influencers, the press, communication, brand and advertising agencies.
	Society (including communities, NGOs, organisations for the promotion of sustainability, business and consultancy associations)	Communities involved at local, national and regional level, as well as special groups, non-governmental organisations, companies, thinktanks, business schools and universities.



2.9.2. Types of engagement and relations with our stakeholders

TYPE	DESCRIPTION	AIM - MEDIUM	DEMONSTRATES
 Inform and announce	Mainly one-way communication from the Company to stakeholders about practices or new developments by which they may be affected. Sharing information can influence the parties involved, creating trust and demonstrating transparency and a willingness to engage.	To keep them regularly informed on time: newsletters, letters, information bulletins, reports, presentations, talks, videos, interviews, open days...	Transparency.
 Consult	Telefónica asks stakeholders their opinions to identify trends, evaluate impacts, ascertain risks and take decisions. The main information flow is one-way but has often led to more in-depth conversations.	To measure and assess: surveys, focus groups, evaluations, public hearings, workshops, discussion forums, direct lines.	Transparency and listening: taking on board stakeholders' comments and points of view.
 Participation and dialogue	A two-way and/or multi-party conversation in which the stakeholders play a more important role in decision-making. The conclusions are implemented and/or referred up through the Company's hierarchy.	In-depth debate: Consultancy Board, established work groups, interviews, research and analysis.	Transparency Listening Collaboration Debate on a common goal.
 Collaboration	Collaboration between two or more parties in an area of mutual interest. The company and its stakeholders achieve synergies and reduce risks by combining resources and areas of specialisation.	Active collaboration: Establishment of joint committees, joint ventures with stakeholders, alliances, collective bargaining.	Transparency Listening Commitment Positive relations based on a common goal.
 Involve and empower	Stakeholders have a formal channel to influence the Group's corporate governance and decision-making processes.	To share responsibilities: representation of stakeholders on the Board of Directors, specific channel to report the non-fulfilment of policies, the existence of warranties.	Effective engagement: sharing goals and responsibilities.

102-43
102-44

 More information, see the section on '2.1.8. Stakeholder engagement'.

2.9.3. Structure and scope of consolidation of the non-financial information section

The origin of information comprising non-financial information

Corporate Governance and shareholders

This comes from the same sources that draw up the information included in the [2018 Annual Corporate Governance Report](#), a full version of which is included in the Management Report.

Economic and financial information

This comes from the same sources that draw up the information included in whole of this report, audited by PwC.

Innovation

This is consolidated through the corporate areas of Innovation in R&D and open innovation. The source data in these chapters come from the purchasing systems and are consolidated without proportionality criteria.

Customers

This comes from the management control systems of Telefónica S.A. and from operations in the countries. The number of the Company's total accesses does not have to coincide with their partial sum, country by country, since, the Corporate Management Control area uses homogenisation criteria to standardise certain access accounting criteria.

Employees

The figure comes from Corporate Human Resources management systems and local management areas. This Report uses the concept of person rather than employee. In cases where consolidated information is given, the number of persons is used as a factor of proportionality. The corresponding section includes the entire economic perimeter of the Telefónica Group, except for the chapter on Health, Safety and Wellbeing at Work, in which the rates reported correspond only to the Group's

telecommunications businesses. This is so that they can be more easily compared with other companies in the sector, since specific sector circumstances and legislation are considered in their preparation (e.g. classification of occupational diseases). These account for 92.41% of the total number of employees.

Environment and climate change

The information comes from online questionnaires and other IT media from the Environment and Global Operations areas and each country. Environmental and energy data are consolidated by simple sum and, in the case of climate change, they are calculated by multiplying the business data by the emission factor, then added by simple sum. The sources of the emission factors are of recognised prestige (GHG Protocol, DEFRA, Ministries, etc.) and have been validated by an independent third party ([AENOR](#)).

Suppliers

This comes from the system for awarding contracts through the purchasing areas. The information is consolidated without applying any criteria as a factor of proportionality and it is shown according to country. The chapter dedicated to this information covers the entire economic perimeter of the Telefónica Group. It is important to highlight the difference between the purchasing data in the consolidated accounts of the financial statements (on an accrual basis and within the Telefónica Group's accounting consolidation perimeter) and the award criteria used in different sections of this Report, which refer to purchases approved in the period, regardless of their criteria for accounting and accrual as an expense.

Digital inclusion

This information comes from the systems of the local country operators and from [Fundación Telefónica](#).

Social welfare

The information processed comes from the information systems of Fundación Telefónica and [ATAM](#). This information will be subsequently verified and published on the websites of said organizations.

Other information

The complete list of all the companies that make up the Telefónica Group is published in Annex I: '[Scope of Consolidation](#)' of the Consolidated Financial Statements Report that accompanies this Report.

All the information in this Report is given in euros unless stated otherwise. The exchange rates applied correspond to those used in all the financial statements published by the Company (balance sheet, consolidated and individual income statements) to enable an integral relationship between financial and non-financial variables.

2.9.4. Principles for the preparation of the non-financial information section

This statement of non-financial information forms part of Telefónica's Management Report 2018 and includes the progress made at the Company during the year in economic, social and environmental matters and across its value chain, together with its strategic, development and market positioning so that readers can better understand the sustainability of our business model and its materiality, its capacity to generate value in terms of capital and the interaction with stakeholders.

This report has been evaluated and approved by the Board of Directors as part of Telefónica's Management Report 2018.

Telefónica provides all its stakeholders with all its public information in order to provide reliable, material, concise and comparable information on the Company's performance, its business model, its value levers and its strategies for the coming years. All this information is accessible in different formats:

Non-financial and sustainability information: prepared in accordance with the recommendations of the [IIRC \(International Integrated Reporting Council\)](#) and under the general principles of the [Global Reporting Initiative](#) option of Full Conformity to GRI Standards. It responds to Law 11/2018 of

28 December, which amends the Commercial Code, the revised text of the Corporations Act approved by Royal Legislative Decree 1/2010 of 2 July and Law 22/2015 of 20 July on Accounts Auditing and non-financial information and diversity. Both compliance with the law and the GRI option have subsequently been subject to external verification by PwC.

Annual Accounts Report: prepared in accordance with international financial reporting standards and audited externally by PwC.

Corporate Governance Report: this forms part of the Management Report and is prepared according to the model of the Spanish National Securities Market Commission.

Report on Directors' Remuneration: prepared according to the model of the Spanish National Securities Market Commission.

The following is a description of how we have applied the reporting standards, together with a list of those that determine content and quality, to ensure a balanced and reasonable presentation of the organization's performance. This entire process has taken into account Telefónica's experience and purpose and its usefulness for its stakeholders.

The review by PwC has also been made under the principles defined by the AA1000AS Standard with values that seek to "guarantee the quality of the organization's Sustainability Report and that of the processes, systems and competencies that stand as the basis for application by the entire organization". Both the principles dictated by the Global Reporting Initiative (GRI) and those defined by the AA1000AS standard are the most tried-and-tested and widely used standards for sustainability and corporate social responsibility reports.

The point of contact for matters related to this report is the Global Corporate Ethics and Responsible Business Department.

In this document, Telefónica provides information about its commitment to the following International Regulations:

» [United Nations Universal Declaration of Human Rights](#).

- » [United Nations Sustainable Development Goals \(UNSD\).](#)
- » [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 Persons with Disabilities.](#)
- » [Conventions of the International Labour Organization.](#)
- » [Basel Convention \(hazardous waste\).](#)
- » [Sabarnes Oxley Law \(USA\).](#)
- » [ISO standard.](#)
- » [International Guidelines \(ICNIRP\).](#)
- » [Montreal Protocol.](#)

Information is also given in reference to the voluntary standards to which Telefónica has subscribed:

- » [United Nations Global Compact.](#)
- » [GRI Standards.](#)
- » [OECD Guidelines for Multinational Enterprises.](#)
- » [Conthe Code.](#)
- » [Task Force on Climate-Related Financial Disclosures \(TCFD\).](#)
- » [UN Principle of Responsible Investment \(UNPRI\).](#)
- » [Global Network Initiative \(GNI\).](#)
- » [Due Diligence Guide for Responsible Supply Chains for Minerals from Conflict-Affected and High-Risk Areas.](#)
- » [GHG Protocol.](#)
- » [Code of Good Advertising Practices, 'Autocontrol'.](#)

Principles for the preparation of the Report and defining content

Inclusion of stakeholders

The chapter on 'Interaction with our stakeholders' identifies these groups and explains how, within reason, Telefónica has responded to their expectations and interests.

Context of sustainability

Telefónica contributes to the progress of the communities in which it operates and their social and environmental sustainability throughout its value chain and at local, regional, national and international levels: from working with our suppliers to respect for consumers' rights, including the marketing of sustainable products and services.

Materiality

This addresses issues that reflect the Company's significant economic, environmental and social effects and substantially influence our stakeholders' assessments and decisions. Accordingly, a dual materiality analysis has been formed at corporate, local and regional level: importance for our stakeholders and impact on communities.

Completeness

We indicate the material aspects and their coverage, scope and time to show their significant economic, environmental and social effects. This makes it possible for stakeholders to examine Telefónica's performance in the period under analysis.

Impact

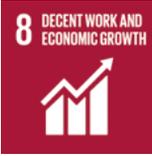
We show the Company's impacts on society and the environment of the communities in which we operate.

2.9.5. Commitment to the United Nations Global Compact

Telefónica, through the President, is a signatory of the [United Nations Global Compact \(UNGC\)](#) since 2002. The UNGC is a voluntary framework for companies to align their operations and strategies with the 10 principles on human rights, work, environment and the fight against corruption.

		Principles	Report Section
Human rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed Human Rights.	2.6.3. A management framework for business sustainability: Respect for human rights
	Principle 2	Businesses should make sure that they are not complicit in Human Rights abuses.	2.6.3. A management framework for business sustainability: Respect for human rights
Labour	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	2.4.3. Our team sets us apart
	Principle 4	Businesses should support the elimination of all forms of forced and compulsory labour.	2.6.3. A management framework for business sustainability: Respect for human rights
	Principle 5	Businesses should support the eradication of child labour.	2.6.3. A management framework for business sustainability: Respect for human rights
	Principio 6	Businesses should support the elimination of discrimination in respect of employment and occupation.	2.4.3. Our team sets us apart
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges.	2.2. Digitalization and the environment
	Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.	2.2. Digitalization and the environment
	Principle 9	Businesses should encourage the development and diffusion of environment friendly technologies.	2.2. Digitalization and the environment
Anti-corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	2.6.3. A management framework for business sustainability: Ethical pillars

2.9.6. Sustainable Development Goals

	UN Goal	KPI	2018
	4.1	Children benefited from Profuturo's programs	>8,000,000
		Countries of performance of the Profuturo program	28
	4.2	Students enrolled in MOOCs	5,690,000
	4.4	People trained in employability ⁽¹⁾	505,168
	4.C	Profuturo professors (estimated)	300,000
Training programmes for SclarTIC		706,624	
	5.1	Total average women/men	21.40%
		5.2	Cases of discrimination detected/measures taken
	5.5	Women on the Board of Directors	17.6%
		Women in management	23.3%
		Women on the payroll	37.7%
	7.2	Consumption of renewable energy	58%
		7.3	CO ₂ emissions avoided by energy efficiency services
	8.2	Employee training hours	3,401
		% of trained employees	95%
	8.3	Total tax contribution (Million €)	10,118
		Taxes paid per 100 euros revenue (€)	20.8
		Purchases from local providers	81.4%
	8.5	Impact of direct employment (employees)	120,138
		Impact of indirect employment (employees)	805,129
		Audits of providers	19,113
8.8	Providers with improvement plans	811	
	8.8	Incident rate (Total number of accidents / total hours worked) x 200.000)	0.96



More information, on the website 'United Nations Development Programme'.

(1) People participating in face-to-face training (89,143) + Persons benefiting from the training of educators (10,764) + Beneficiaries digital employability programs (405,261).

The information of this table is in the process of external verification.

	UN Goal	KPI	2018
	9.1	Investment Telefónica Group (€ Millions)	8,119
		Fixed broadband penetration (broadband / fixed line)	61.9%
		Smartphone penetration	67.5%
	9.5	R + D Investment (€ Millions)	947
		Total patents granted ⁽¹⁾	601
	9.C	Universal Service investment (€ Millions)	246
		4G/LTE mobile coverage	0.75
		FTTX/Cable	82,7M cabled property units
		11.5	Innovation projects in resilience and management of natural disasters ⁽²⁾
Service responses to disasters ⁽³⁾			2
11.6		Emissions avoided through ecosmart services (tCO ₂)	>1,400,000
	12.2	Electrical consumption (MWh)	6,668,880.90
		Total energy consumption (MWh)	7,136,772.26
		Waste generation (t)	26,295
	12.5	Recycled waste (%)	97%
	13.2	Direct emissions (Scope 1) (tCO ₂)	261,363.51
		Indirect emissions (market-based approach) (Scope 2) (tCO ₂)	957,459.5
		Other indirect emissions (Scope 3) (tCO ₂)	2,296,042



(1) 22 new registered patents 2018

(2) Traffic Drones / Producing Right / Big Data 4Social Good (epidemics, disaster preparedness) / Fenix / Firefighting Drones / Pigram

(3) Volcán Guatemala (Jun. 18) and floods Málaga (Oct.18)

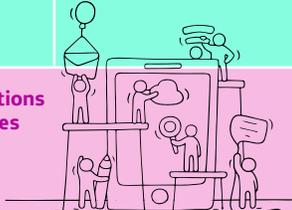
2.9.7. Our commitment with the human rights

Respect for Human Rights is one of the pillars of our Principles of Responsible Business and is reflected in our explicit commitment published in 2013 in accordance with the Guiding Principles of Human Rights and Businesses of the United Nations.

Our approach is based on five basic components that cover our sphere of influence: our people, our technology, our suppliers, our role in communities and our role for change through participation and partnership with our interest groups.

Identification of priority issues for the company and our stakeholders

ISSUES AND HUMAN RIGHTS MATTERS

Direct action	Network Deployment	Terms of goods/services	New technologies, and developments related to Artificial Intelligence	Working conditions	
	<ul style="list-style-type: none"> » Property » Health and Safety » Environment » Information » Indigenous population 	<ul style="list-style-type: none"> » Equality and non discrimination » Freedom of opinion and expression » Responsible communication » Privacy » Health and Safety » Vulnerable groups » Intellectual and industrial property and copyright 	<ul style="list-style-type: none"> » Privacy » Security » Equality and non discrimination » Other rights that may be affected 	<ul style="list-style-type: none"> » Equality and non discrimination » Health and Safety » Equal and decent working conditions » Freedom of association, social dialogue and trade union rights » Forced labour and other modern forms of slavery » Child labour and the protection of young people at work 	
Indirect action	Supply Chain		Mergers and acquisitions and strategic alliances		
	<ul style="list-style-type: none"> » Labour rights » Equality and non discrimination » Rights associated with minerals from conflict zones 				
Contributes to	Environmental impact	Anti-competitive practices	Financial responsibility	Digital divide	Corruption and bribery

2.9.8. ESG analysts and rankings

Recognition in external sustainability indexes and assessments

		
DJSI	Dow Jones Sustainability Indexes	Member of DJSI Europe, 81 points
FTSE4Good	FTSE4Good	Listed, 4.4 out of 5
Carbon Disclosure Leadership		A
CDP-Supply Chain 2017		A
MSCI Global Sustainability Index Series	MSCI 	ESG Rating AA
Ethibel Sustainability Index	ETHIBEL	Excellence IR Global Member
Green Ranking 2017-2018	GREEN RANKINGS	Listed, Global Top 500
Stoxx Global ESG Leaders	STOXX	Member
Bloomberg gender-equality index	Bloomberg	Included, 67.6 out of 100
Oekom 2017	ISS-oekom	Status Prime
Ecovadis		CSR Rating 68/100
Ecoact-Carbon Clear	ecoact	Rank 1, 86%
Sustainalytics	 SUSTAINALYTICS	83 out of 100
Index Americas BID	INDEX Americas	Ranked among the top 100 most sustainable companies in Latin America and the Caribbean
Fortune 500	FORTUNE 500	3 rd most admired operator in the world, 1 st in Europe

2.9.9. GRI and Spanish Law 11/ 2018, December 28th compliance

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
Business model					
Description of the business model, environment, organisation and structure		102-1	Name of the organisation	Direct answer: Telefónica S.A.	
		102-2	Activities, brands, products and services	1.1.4 Our brands	
Markets in which it operates		102-3	Location of headquarters	Direct answer: Madrid, Spain	
		102-4	Location of operations	1.1.3 Advancing towards a more sustainable world/we contribute to developing the communities in which we operate	
		102-5	Ownership and legal form	1.1. Telefónica at a glance	
		102-6	Markets served	1.1. Telefónica at a glance	
		102-7	Scale of the organisation	1.1. Telefónica at a glance	
Objectives and strategies		102-14	Statement from senior decision-makers	2.6.2 Ethics, corruption and bribery / 2.6.2.3 Internal regulations	
Main factors and trends which could affect its future evolution.		102-15	Key impacts, risks and opportunities	1.2 A context of change	
Policies and their results					
A description of the policies which the group applies with regard to those issues, which will include: 1.) the due diligence procedures applied for the identification, evaluation, prevention and mitigation of risks and significant impacts 2.) the verification and control procedures, including which measures have been adopted.		103	Management Approach of each area		
Main non financial risks					
The main risks associated with these matters in relation to the group's activities, including, where relevant and proportionate, its commercial relations, products or services which could have negative effects in those areas, and * how the group manages those risks, * explaining the procedures used to detect them and evaluate them in accordance with the national, European and international reference frameworks for each issue. * It must include information about the impacts which have been identified, giving a breakdown of them, in particular the main risks in the short, medium and long term.		102-15	Key impacts, risks and opportunities	2.4.2.2. The challenge of attracting and developing talent(e) Attracting the best talent: the only way to ensure the future 4. Risks	
		413-1	Operations with local community engagement, impact assessments, and development programmes	1.1.3 Advancing towards a more sustainable world / we contribute to developing the communities in which we operate	
		407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers /Audits result	
		408-1	Operations and suppliers at significant risk for incidents of child labour	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers /Audits result	
		409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers /Audits result	

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
Environmental issues					
Global environment					
	1.) Detailed information about the current and foreseeable effects of the company's activities on the environment and, where applicable, health and safety, the environmental evaluation or certification procedures;	103	Management Approach of each area	2.2.1.Our strategy and materiality 2.2.2.Environmental management 2.2.3.Circular economy 2.2.4. Energy and climate change	
		102-11	Precautionary principle or approach	/2.2.1.Our strategy and materiality	
	2.) The resources dedicated to the prevention of environmental risks;	308-1	New suppliers that were screened using environmental criteria	2.5.2 We manage risks proactively	
	3.) The application of the precautionary principle, the quantity of provisions and guarantees for environmental risks. (E.g. deriving from the environmental responsibility law)	308-2	Negative environmental impacts in the supply chain and actions taken	2.2.3.Circular economy	
Pollution					
	1.) Measures to prevent, reduce or repair carbon emissions which seriously affect the environment	103	Management Approach to Emissions/Biodiversity	2.2.1.Our strategy and materiality 2.2.2.Environmental management 2.2.3.Circular economy 2.2.4. Energy and climate change	
		305-5	Reduction of GHG emissions	2.2.4. Energy and climate change/ Energy and climate change goals	
	2.) Taking into account any form of specific atmospheric pollution of an activity, including noise and light pollution.	305-6	Emissions of ozone-depleting substances (ODS)	46t	
		305-7	Nitrogen oxides (NOX), sulphur oxides (SOX) and other significant air emissions		This indicator is not considered to be relevant as the emissions of this type of pollutants are not a significant part of our activity
Circular economy, prevention and management of waste					
	Circular economy	103	Management Approach to Effluents and waste	2.2.1.Our strategy and materiality 2.2.2.Environmental management 2.2.3.Circular economy 2.2.4. Energy and climate change	
		301-2	Recycled input materials used	2.2.3. Circular economy/Closing the Cycle: Waste and Non-Waste	This indicator is not considered applicable as the products and services offered by Telefónica are not directly related to manufacturing products
		301-3	Reclaimed products and their packaging materials	2.2.3. Circular economy/Closing the Cycle: Waste and Non-Waste	
	Waste: Prevention, recycling and reuse measures, other forms of recovery and elimination of waste	103	Management Approach to Effluents and waste	2.2.1.Our strategy and materiality 2.2.2.Environmental management 2.2.3.Circular economy 2.2.4. Energy and climate change	
		306-1	Water discharge by quality and destination.	2.2.3.Circular economy/Our eco-efficiency Direct answer: All water discharge at Telefónica is sanitary and is discharged to the municipal sanitation systems.	
		306-2	Waste by type and disposal method	2.2.3.Circular economy/Closing the Cycle: Waste and Non-Waste	

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
		306-3	Significant spills	<p>Direct answer: In 2018, a spill occurred which was deemed significant. A spill is understood to be significant when subsequent remedial measures are required in the area with a cost exceeding 10,000 euros.</p> <p>The spill occurred at Pedro Aguirre Cerda N° 8159, Región Metropolitana (Chile), with an approximate volume of 3.5 m3 resulting from the theft of a pipeline handling diesel fuel. The spill did not occur directly on the earth but on asphalt or patio slabs. All the necessary measures to contain, clean and remedy the situation were implemented to prevent any impact on the land. Preventive measures were also taken to prevent possible future occurrences.</p>	
		306-4	Transport of hazardous waste	<p>Direct answer: Telefónica does not directly transport, import or export hazardous waste included in the Basel Convention in any of the countries where it operates.</p>	
Actions to combat food waste.		103	Management Approach to Effluents and waste	<p>2.2.1. Our strategy and materiality</p> <p>2.2.2. Environmental management</p> <p>2.2.3. Circular economy</p> <p>2.2.4. Energy and climate change</p>	<p>This indicator is not considered applicable as the products and services offered by Telefónica are not directly related to food consumption.</p>
Sustainable use of resources					
The consumption of water and the supply of water in accordance with local limitations.		303-1	Extraction of water by sources	<p>2.2.3. Circular economy/Our eco-efficiency</p> <p>Direct answer: Telefónica's water consumption comes from the municipal supply networks in the locations where we operate.</p>	
		103	Management Approach to Materials	<p>2.2.1. Our strategy and materiality</p> <p>2.2.2. Environmental management</p> <p>2.2.3. Circular economy</p> <p>2.2.4. Energy and climate change</p>	
Consumption of raw materials and the measures adopted to improve efficiency in their use.		301-1	Materials used by weight or volume		<p>As it is a service company, this indicator does not apply. Consumption of materials does not occur for direct generation of products but for the telecommunications network of the company for the services required by our customers. The processes to reduce consumption of materials and reuse them make our network more efficient also from this perspective. In our administrative activities, the material most used is paper.</p> <p>At Telefónica, efficient use is encouraged through digitalisation of processes. In the chapter on the environment, more details have been given about managing Telefónica's consumption</p>
		301-2	Recycled input materials used	2.2.3.1 Our eco-efficiency	

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
		301-3	Reclaimed products and their packaging materials	2.2.3. Circular economy/Closing the Cycle: Waste and Non-Waste	
	Direct and indirect consumption of energy, measures taken to improve energy efficiency and the use of renewable energies.	103	Management Approach to Energy	2.2.1.Our strategy and materiality 2.2.2.Environmental management 2.2.3.Circular economy 2.2.4. Energy and climate change	
		302-1	Energy consumption within the organisation	2.2.4.Energy and climate change/ Energy Direct answer: Energy consumption reported includes both that used at Telefónica facilities and at external facilities, such as those of other operators or telecommunications tower companies. Energy consumption in self-owned facilities 22,683,803 GJ	
		302-2	Energy consumption outside of the organisation	2.2.4.Energy and climate change/ Energy Direct answer: Energy consumption reported includes both that used at Telefónica facilities and at external facilities, such as those of other operators or telecommunications tower companies. Energy consumption in third-party facilities 3,008,577 GJ	
		302-3	Energy intensity	2.2.4.2Energy Efficiency Plan Direct answer: In the last year, energy intensity was reduced -169.13 GJ/PB	
		302-4	Reduction of energy consumption	2.2.4.Energy and climate change/ Energy Direct answer: Energy consumption increased in absolute terms by 1% compared to the previous year, although it dropped by 0.29% compared to 2015 (-73,933 GJ). In addition, last year energy intensity had fallen by 64% since 2015.	
	Direct and indirect consumption of energy, measures taken to improve energy efficiency and the use of renewable energies.	302-5	Reductions in energy requirements of products and services		This indicator is not considered applicable as the products and services offered by Telefónica are not directly related to our customers' energy consumption. The nature of the products and services offered by Telefónica is mostly related to mobile and fixed connectivity, as well as digital and data services.

Climate Change

The important elements of the greenhouse gas emissions generated as a result of the company's activities, including the use of the goods and services it produces	103	Management Approach to Emissions	2.2.1.Our strategy and materiality 2.2.2.Environmental management 2.2.3.Circular economy 2.2.4. Energy and climate change
	305-1	Direct (Scope 1) GHG emissions	2.2.4.Energy and climate change/ CO ₂ emissions
	305-2	Energy indirect (Scope 2) GHG emissions	2.2.4.Energy and climate change/ CO ₂ emissions
	305-3	Other indirect (Scope 3) GHG emissions	2.2.4.Energy and climate change/ CO ₂ emissions

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
		305-4	GHG emissions intensity	2.2.4. Energy and climate change/ CO ₂ emissions	
		305-5	Reduction of GHG emissions	2.2.4. Energy and climate change/ CO ₂ emissions	
	The measures adopted in order to adapt to the consequences of climate change	103	Management Approach to Emissions	2.2.1. Our strategy and materiality 2.2.2. Environmental management 2.2.3. Circular economy 2.2.4. Energy and climate change	
	The reduction targets voluntarily established in the medium and long term to reduce GHG emissions and the measures implemented to that end.	103	Management Approach to Emissions	2.2.1. Our strategy and materiality 2.2.2. Environmental management 2.2.3. Circular economy 2.2.4. Energy and climate change	
		305-5	Reduction of GHG emissions	2.2.4. Energy and climate change/ Energy and climate change goals	
Protection of biodiversity					
	Measures taken to preserve or restore biodiversity	103	Management Approach to Biodiversity	2.2.1. Our strategy and materiality 2.2.2. Environmental management 2.2.3. Circular economy 2.2.4. Energy and climate change	
		306-5	Water bodies affected by water discharges and/or runoff	2.2.3.1 Our eco-efficiency Direct answer: All water discharges at Telefonica are sanitary and are discharged to the municipal sanitation system, therefore no water bodies or related habitats are affected	
	Impacts caused by the activities or operations in protected areas.	103	Management Approach to Biodiversity	2.2.1. Our strategy and materiality 2.2.2. Environmental management 2.2.3. Circular economy 2.2.4. Energy and climate change	
Social and personnel-related matters					
Employment					
	Total number and distribution of employees by sex, age, country and professional classification	103	Management Approach to Employment	2.4 Our team sets us apart/ 2.4.1 Context	
		102-8	Information on employees and other workers	2.4.6 Main indicators - workforce indicators	The information included in the Report includes only internal employees hired by Telefonica
		202-2	Proportion of senior management hired from the local community	Direct answer: 73.3% of the CEOs and Chairmen are local	
		405-1	Diversity of governance bodies and employees	2.4.6 Main indicators - diversity indicators	
	Total number and distribution of types of employment contracts	102-8	Information on employees and other workers	2.4.6 Main indicators - workforce indicators	The information included in the Report includes only internal employees hired by Telefonica
	Annual average of permanent contracts, temporary contracts and part-time contracts by sex, age and professional classification	102-8	Information on employees and other workers	2.4.6 Main indicators - workforce indicators	The information included in the Report includes only internal employees hired by Telefonica
		405-1	Diversity of governance bodies and employees	2.4.6 Main indicators - workforce indicators	
	Number of dismissals by sex, age, country and professional classification	401-1	New employee hires and employee turnover	2.4.6 Main indicators - social climate indicators	
	Average remunerations and their evolution, with a breakdown by sex, age and professional classification or equal value	405-2	Ratio of basic salary and remuneration of women to men	2.4.6 Main indicators - remuneration indicators	

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
	Wage gap, the remuneration of jobs of equal value or the average of the company	103	Employment + Diversity and equality of opportunities	2.4.6 Main indicators - remuneration indicators	
		405-2	Ratio of basic salary and remuneration of women to men	2.4.6 Main indicators - remuneration indicators	
	The average remuneration of directors and managers, including variable remuneration, allowances, compensation, payments into long-term savings plans and any other payment, with a breakdown by sexes	103	Management Approach to Diversity and Equality - giving average remuneration values of Directors by gender	2.6.1.3 Remunerations and long-term incentives to directors	
		102-35	Governance: Remuneration policies	2.4.3.1 How to assess effort: remuneration policy	
		102-36	Governance: Processes for determining remuneration	2.4.3.1 How to assess effort: remuneration policy	
		102-38	Governance: Annual total compensation ratio		The information relating to this indicator is not published on specific confidentiality grounds.
		102-39	Governance: Percentage increase in annual total compensation ratio		The information relating to this indicator is not published on specific confidentiality grounds.
	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	2.4.6 Main indicators - remuneration indicators		
	Implementation of end of employment police	103	Management Approach to Employment	2.3.1.5. Disconnect to Reconnect	
	Employees with disabilities	405-1	Diversity of governance bodies and employees	2.4.2.1 Diversity and inclusion / b) The challenge of equality 2.4.6 Main indicators - diversity indicators	

Organisation of work

	Organisation of working time	103	Management Approach to Employment	2.4.3.4 Work-life balance	
	Number of hours of absenteeism	403-2	Types of accidents and rates of frequency of accidents, occupational diseases, days lost, absenteeism and number of deaths per accident at work or occupational disease	2.4.6 Main indicators - workplace health and safety indicators	The information included in the Report includes only internal employees hired by Telefónica
	Measures aimed at facilitating the life-work balance and promoting the co-responsibility of both parents	103	Management Approach to Employment	2.4.3.4 Work-life balance	

Health and safety

	Health and safety conditions at work	103	Management Approach to Health and safety conditions at work	2.3.1 Health and safety at work	
		403-1	Worker representation on formal worker-company health and safety committees	2.3.1.2 Representativeness and worker participation	
	Types of accidents and rates of frequency of accidents, occupational diseases, days lost, absenteeism and number of deaths per accident at work or occupational disease	403-2	Types of accidents and rates of frequency of accidents, occupational diseases, days lost, absenteeism and number of deaths per accident at work or occupational disease	2.4.7 Main indicators - workplace health and safety indicators	
		403-3	Workers with a high incidence or high risk of diseases related to their activities	2.4.4.1 Prevention of work-related incidents and occupational illnesses	

Social relations

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
	Organisation of social dialogue, including procedures to inform and consult employees and negotiate with them	103	Management Approach to Worker-Company Relations	2.4.3.3 Social dialogue as a bridge between workers and businesses	
		407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers	
	Percentage of employees covered by collective bargaining agreements, by countries	102-41	Collective bargaining agreements	2.4.3.3 Social dialogue as a bridge between workers and businesses	
	The outcome of collective agreements, particularly in the sphere of occupational health and safety	403-4	Worker participation, consultation, and communication on occupational health and safety	2.4.3.3 Social dialogue as a bridge between workers and businesses	

Training

The policies implemented in the field of training	103	Management Approach to Training and Education	2.4.2.2 The challenge of attracting and developing talent/ a) training policies	
	404-2	Programmes for upgrading employee skills and transition assistance programmes	2.4.2.2 The challenge of attracting and developing talent/ d) The key to success: on-going learning	Currently, the Report does not report information on the transition assistance programs for the final management of professional careers due to retirement or dismissal. However, related information is presented in this Report with the different training programs that Telefonica offers its employees
	404-3	Percentage of employees receiving regular performance and career development reviews	2.4.3.1 How to assess effort: remuneration policy	Currently, Telefonica's information systems do not break down information about evaluations of performance by sex or labor category. We are adapting the systems to be able to provide this information
The total number of hours of training by professional categories	404-1	Average hours of training per year per employee	2.4.6 Main indicators - training indicators	
Universal accessibility of people with disabilities	103	Management Approach to Diversity, Equality of Opportunities and Non-Discrimination	2.4.2.1 Diversity and inclusion / b) The challenge of equality	

Equality

Measures adopted to promote equality of treatment and opportunities of men and women	103	Management Approach to Diversity, Equality of Opportunities and Non-Discrimination	2.4.2.1 Diversity and inclusion / b) The challenge of equality	
Equality Plans (Chapter III of Organic Law 3/2007, of 22 March, for the effective equality of women and men), measures adopted to promote employment, protocols against sexual harassment and gender-related harassment, the integration and universal accessibility of people with disabilities	103	Management Approach to Diversity, Equality of Opportunities and Non-Discrimination	2.4.2.1 Diversity and inclusion / b) The challenge of equality	
The policy against all types of discrimination and, where appropriate, the management of diversity	103	Management Approach to Diversity, Equality of Opportunities and Non-Discrimination	2.4.2.1 Diversity and inclusion / b) The challenge of equality	

Human Rights

Prevention of the risks of violation of human rights and, where applicable, measures to mitigate, manage and repair possible abuses committed	103	Management Approach to the Evaluation of Human Rights + Freedom of Association and Collective Bargaining + Child Labour + Forced or Compulsory Labour	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers	
---	-----	---	--	--

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
		102-16	Values, principles, standards, and norms of behaviour	2.6.2.1 Values, principles and standards of behaviour	
		102-17	Mechanisms for advice and concerns about ethics	2.6.2.4 Our responsible business culture / b) Compliance	
		412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	2.6.3.2 Our due diligence in human rights	
		412-2	Employee training on human rights policies or procedures	2.6.3.2 Our due diligence in human rights	Telefónica currently reports the percentage and number of employees trained in the course of Principles of Responsible Business. It is expected to report the number of training hours in future years
		410-1	Security personnel trained in human rights policies or procedures	Direct answer: physical security has not emerged as a priority issue in the impact assessment analysis at Telefónica	
		412-1	Operations that have been subject to human rights reviews or impact assessments	2.6.3.2 Our due diligence in human rights	
	Reports of cases of violation of human right	406-1	Incidents of discrimination and corrective actions taken	2.6.2.4 Our responsible business culture / c) Complaint and remedy mechanisms. 2.6.3 Respect to Human Rights.	
	Promotion and fulfilment of the provisions of the fundamental conventions of the International Labour Organization related to respect for freedom of association and the right to collective bargaining	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	2.6.3 Respect to Human Rights./ table 2.4.3.3 social dialogue as a bridge between employees and company	
	The elimination of discrimination in employment and occupation	103	Management Approach to Non-Discrimination	2.6.2.1 Values, principles and standards of behaviour	
		406-1	Incidents of discrimination and corrective actions taken	2.6.2.4 Our responsible business culture / c) Complaint and remedy mechanisms.	
	The elimination of discrimination in employment and occupation	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers	
	The effective abolition of child labour.	408-1	Operations and suppliers at significant risk for incidents of child labour	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers	
Corruption and bribery					
	Measures adopted to prevent corruption and bribery	103	Management Approach to Anti-Corruption	2.6.2.1 Values, principles and standards of behaviour	
		102-16	Values, principles, standards, and norms of behaviour	2.6.2.1 Values, principles and standards of behaviour	
		102-17	Mechanisms for advice and concerns about ethics	2.6.2.4 Our responsible business culture / c) Complaint and remedy	
		205-1	Operations assessed for risks related to corruption	2.6.2.4 Our responsible business culture / d) Internal control	
		205-2	Communication and training about anti-corruption policies and procedures	2.6.2.4 Our responsible business culture / a) Training	
		205-3	Confirmed incidents of corruption and actions taken	2.6.2.1 Values, principles and standards of behaviour	
	Measures to combat money laundering	205-2	Communication and training about anti-corruption policies and procedures	2.6.2.4 Our responsible business culture / a) Training	
	Contributions to foundations and non-profit organizations.	413-1	Operations with local community engagement, impact assessments, and development programmes	2.3.1.8 Electromagnetic fields c) we dialogue with Communities 2.3.3 Social action	

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
Society					
Commitments of the company to sustainable development					
	The impact of the company's activity on local employment and development	103	Management Approach to Local Communities + indirect economic impacts	1.4.1 Contribution to progress	
		203-1	Infrastructure investments and services supported	1.1.3 Advancing towards a more sustainable world / we contribute to developing the communities in which we operate	
		203-2	Significant indirect economic impacts	1.4.2 Impact on GDP 1.4.3 Impact on employment	
		413-1	Operations with local community engagement, impact assessments, and development programmes	2.3.1.8 Electromagnetic fields c) we dialogue with Communities	
	The impact of the company's activity on the local populations and the territory	103	Management approach to local communities engagement	2.3.1.8 Electromagnetic fields	
		203-1	Infrastructure investments and services supported	1.1.3 Advancing towards a more sustainable world / we contribute to developing the communities in which we operate	
		203-2	Significant indirect economic impacts	1.4.2 Impact on GDP 1.4.3 Impact on employment	
	Las relaciones mantenidas con los actores de las comunidades locales y las modalidades del diálogo con estos;	103	Management approach to local communities engagement	2.3.1.8 Electromagnetic fields/ c) We dialogue with the communities	
		102-4.3	Approach to stakeholder engagement	1.7 Our relations with stakeholders	
	Association or sponsorship action	102-12	External initiatives	2.9.4 Principles for preparing the non-financial information statement /voluntary standards	
		102-13	Membership of associations	2.3.3 Collaborations with other associations	
Subcontracting and suppliers					
	* The inclusion in the procurements policy of social, gender equality and environmental issues;	102-9	Supply chain	2.5.1 A sustainable purchasing model	
	* Consideration in relations with suppliers and subcontractors of their social and environmental responsibility	102-10	Significant changes to the organization and its supply chain	2.9.3 Structure and perimeter of the section on non-financial information	
		103	Supplier environmental assessment + Supplier social assessment + acquisition practices	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers / Audits result	
		308-1	Supplier environmental assessment	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers / Audits result	
		204-1	Proportion of spending on local suppliers	1.1.3 Advancing towards a more sustainable world / we contribute to developing the communities in which we operate	
		414-1	Supplier social assessment	2.5.2 Proactive risk management / Step 4 Audits on high-risk suppliers / Audits result	
	Supervision and audit systems and their results	103	Management approach to acquisition practices	2.5.1 A sustainable purchasing model	
		414-1	New suppliers that were screened using social criteria	2.5.2 Proactive risk management / Step 1 Minimum standards to be fulfilled	
		414-2	Negative social impacts in the supply chain and actions taken	2.5.2 Proactive risk management / Step 1 Minimum standards to be fulfilled	

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
Consumers					
	Measures for the health and safety of consumers	103	Management Approach to Health and Safety of customers + Marketing and labelling + Customer privacy	2.1.1 Strategy: creating trust 2.3.1.8 Electromagnetic fields a) we comply with the recognised international limits	
		416-1	Assessment of the health and safety impacts of product and service categories	2.3.6.1 We comply with the recognised international limits 2.3.1.8 Electromagnetic fields a) we comply with the recognised international limits 2.3.1.6 Our products and services are safe	
	Complaint systems, complaints received and their resolution	103	Management Approach to Health and Safety of customers + Marketing and labelling + Customer privacy	2.3.1.8 Electromagnetic fields a) we comply with the recognised international limits 1.6.5.2. complains system and customer defense service	
		416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	2.3.1.8 Electromagnetic fields/ a) We comply with the recognised international limits	
		418-1	Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data	2.1.1 Strategy: creating trust	
Tax information					
	Profit obtained country by country Taxes on profits paid	103	Management Approach to economic performance + quantitative data of taxes and profits	1.4.5 Contribution to local tax revenue / taxes in 2018	
	Public subsidies received	201-4	Financial assistance received from government	1.4.5 Contribution to local tax revenue / taxes in 2018	
Other general contents					
	Other general contents	102-18	Governance structure	2.6.1.1 Main aspects of Corporate Governance	
		102-19	Delegating authority	2.6.1 Main aspects of Corporate Governance	
		102-20	Executive-level responsibility for economic, environmental, and social issues	2.6.2.2 Governance and responsible business management	
		102-21	Consulting stakeholders on economic, environmental, and social issues	1.7 Our relations with stakeholders / table	
		102-22	Composition of the highest governance body and its committees	2.6.1.1 Main aspects of Corporate Governance	
		102-23	Chair of the highest governance body	Direct answer: José María Álvarez Pallete	
		102-24	Nominating and selecting the highest governance body	5 Annual Corporate Governance Report / C 1.16	
		102-25	Conflicts of interest	5 Annual Corporate Governance Report / D 6	
		102-26	Role of highest governance body in setting purpose, values, and strategy	2.6.2.2 Governance and responsible business management	
		102-27	Collective knowledge of highest governance body	2.6.2.2 Governance and responsible business management	

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
		102-28	Evaluating the highest governance body's performance	5 Annual Corporate Governance Report / C 1.17	
		102-29	Identifying and managing economic, environmental, and social impacts	2.6.2.2 Governance and responsible business management	
		102-30	Effectiveness of risk management processes	2.6.2.2 Governance and responsible business management	
		102-31	Review of economic, environmental, and social issues	2.6.2.2 Governance and responsible business management	
		102-32	Highest governance body's role in sustainability reporting	2.9.4 Principles for preparing the non-financial information statement	
		102-33	Communicating critical concerns to the highest governance body	2.6.2.1 Values, principles and standards of behaviour	
		102-34	Nature and total number of critical concerns	1.7.1 Central Responsible Business Panel / a, b, c	
		102-37	Stakeholders' involvement in remuneration	5 Annual Corporate Governance Report / G Degree of compliance with corporate governance recommendations / 48	
		102-40	List of stakeholder groups	2.9.1 Telefónica's stakeholders	
		102-42	Identifying and selecting stakeholders	1.6.1.5 Customer satisfaction indicators 2.9.1 Telefónica's stakeholders	
		102-43 102-44	Approach to stakeholder engagement / Key topics and concerns raised	2.9 Appendices / 2.9.2 Types of engagement and relations with our stakeholders	
		102-44	Key topics and concerns raised	1.7.1 Central Responsible Business Panel / a, b, c	
		102-45	Entities included in the consolidated financial statements	2.9.3 Structure and consolidation perimeter of non-financial information	
		102-46	Defining report content and topic Boundaries	2.9.4 Principles for preparing the non-financial information statement	
		102-47	List of material topics	1.8 Material aspects of our business	
		102-48	Restatements of information	2.9.3 Structure and consolidation perimeter of non-financial information	
		102-49	Changes in reporting	2.9.3 Structure and consolidation perimeter of non-financial information	
		102-50	Reporting period	Direct answer: the year 2018	
		102-51	Date of most recent report	Direct answer: April 2018	
		102-52	Reporting cycle	Direct answer: annual	
		102-53	Contact point for questions regarding the report	Direct answer: Global Corporate Ethics and Responsible Business Department at Telefónica	

Areas	Contents	Reporting criteria	Optional GRI description	Reference/Location	GRI omissions
		102-55	GRI content index	2.9.9 GRI and Law 11/2018 compliance tables	
		102-56	External assurance	Direct answer: external verification by PricewaterhouseCoopers Auditores, S.L.	

All GRI indicators are considered as material for the Company, with the exception of 202-1, 202-2, 301-2, 301-3, 303-1



evolution

3



Evolution of our business

- » 3.1. 2018 Highlights
- » 3.2. 2018/2017 Consolidated results
- » 3.3. 2018/2017 Segment results
- » 3.4. 2017 Highlights
- » 3.5. 2017/2016 Consolidated results
- » 3.6. 2017/2016 Segment results

3.1. 2018 Highlights

2018 was characterized by positive growth in OIBDA Margin and operating cash flow (OIBDA-CapEx excluding acquisitions of spectrum), up by 0.9 percentage points and by 3.6% respectively year-on-year in reported terms. Furthermore, the Company continued its transformation process with 50.5 million premises passed ready to use FTTx. Additionally, the LTE coverage reached 76.0% as of December 31, 2018 (+3.6 percentage points year-on-year). The capex over revenues ratio reached 16.7%. The Company closed the year with a total of 356.2 million accesses (down 0.5% year-on-year), mainly as a result of the decrease in prepay and fixed voice. In line with our strategic focus to grow in high-value customers, post-pay customers grew by 6.8% year-on-year, reaching 123.8 million customers, while UBB customers reached 13.2 million customers at December 31, 2018, representing a 20.5% increase year-on-year.

In 2018, **revenues** totaled 48,693 million euros, down 6.4% compared to 2017 in reported terms (+2.4% in organic terms). **OIBDA** totaled 15,571 million euros in 2018, down 3.8% in reported terms as compared to 2017. In organic terms, OIBDA was up 3.5%, mainly due to the positive evolution in Telefónica Brazil, Telefónica United Kingdom and Telefónica Hispam Sur, which offset the lower OIBDA in Telefónica Spain, Telefónica Hispam Norte and Telefónica Germany. In 2018, operating income was 6,522 million euros, down by 4.0% as compared to 2017 in reported terms (+6.3% in organic terms), which included depreciation and amortization of 9,049 million euros, down by 3.7% as compared to 2017 in reported terms. See “Adjustments made to calculate organic variations” for an explanation on how organic variations are calculated.

Telefónica’s total accesses reached 356.2 million as of December 31, 2018, decreasing by 0.5% year-on-year, mainly as a result of the reduction of the prepay base in Telefónica Brazil (-14.2% year-on-year) and Telefónica Hispam Sur (-7.5% year-on-year) due to the strong market competition and, to a lesser extent, in Telefónica Germany (-6.1% year-on-year), as a result of the adoption of the requirement that identification be provided by customers for pre-paid SIM cards since July 2017. During 2018, the relative weight of high value services continued to increase, as reflected in the sustained growth of post-pay (smartphones and LTE), fiber and Pay TV accesses.

The below table shows the evolution of accesses over the past two years as of December 31 of such years:

ACCESSES

Thousands of accesses	2017	2018	%Reported YoY
Fixed telephony accesses (1)	36,898.6	34,941.4	(5.3%)
Internet and data accesses (2)	21,864.6	22,087.5	1.0%
Broadband (3)	21,417.5	21,645.2	1.1%
FTTx/Cable	10,961.6	13,213.1	20.5%
Mobile accesses	271,766.9	270,814.9	(0.4%)
Prepay	155,868.5	147,062.0	(5.6%)
Contract	115,898.4	123,752.9	6.8%
M2M	16,137.2	19,483.0	20.7%
Pay TV	8,467.7	8,875.4	4.8%
Final Clients Accesses	338,997.9	336,719.3	(0.7%)
Wholesale Accesses	19,124.9	19,520.0	2.1%
Fixed wholesale accesses	4,460.2	3,951.5	(11.4%)
Mobile wholesale accesses (4)	14,664.7	15,568.5	6.2%
Total Accesses	358,122.8	356,239.4	(0.5%)

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

(3) Includes DSL, satellite, optic fiber, cable modem and broadband circuits.

(4) Mobile wholesale accesses information has been included in total accesses since the first quarter 2018. 2017 figures have been revised accordingly for comparative purposes.

The below table shows the evolution of accesses by segment:

Accesses 2018	YoY variation	% Over Total Accesses	
		2017	2018
Telefónica Spain	1.4%	11.4%	11.7%
Telefónica United Kingdom	1.5%	9.1%	9.3%
Telefónica Germany	(1.1%)	13.3%	13.2%
Telefónica Brazil	(2.7%)	27.3%	26.8%
Telefónica Hispam Norte	1.4%	20.3%	20.6%
Telefónica Hispam Sur	(2.6%)	16.3%	16.0%
Other companies	8.8%	2.3%	2.5%

Mobile accesses totaled 270.8 million at December 31, 2018, down 0.4% compared to December 31, 2017. Lower prepay accesses (-5.6% year-on-year) more than offset the increase in mobile contract accesses, which grew by 6.8% year-on-year and continued increasing their weight over total mobile accesses reaching 45.7% (+3.1 percentage points year-on-year).

Smartphone accesses grew by 5.7% year-on-year, totaling 167.7 million accesses and representing 67.5% of total mobile accesses (+4.5 percentage points year-on-year), reflecting the Company's strategic focus on its data services growth.

Fixed broadband accesses stood at 21.6 million at December 31, 2018, up 1.1% year-on-year. Fiber accesses stood at 13.2 million at December 31, 2018 compared to 11.0 million in 2017, growing 20.5% year-on-year.

Pay TV accesses totaled 8.9 million at December 31, 2018, growing 4.8% year-on-year, due to the growth in Telefónica Spain (6.3% year-on-year) and Telefónica Peru (+11.8% year-on-year).

The table below shows the evolution of our estimated access market share for mobile and fixed broadband for the past two years.

Competitive Position Evolution

Telefónica	Mobile Market Share ⁽¹⁾	
	2017	2018
Spain	29.3 %	29.7 %
United Kingdom	26.3 %	26.3 %
Germany	36.9 %	36.7 %
Brazil	31.7 %	31.9 %
Argentina	32.8 %	31.4 %
Chile	32.2 %	29.7 %
Peru	36.8 %	34.6 %
Colombia	24.4 %	24.6 %
Venezuela	39.1 %	40.9 %
Mexico	22.0 %	21.6 %
Central America	28.4 %	26.7 %
Ecuador	30.0 %	29.8 %
Uruguay	34.2 %	35.9 %

⁽¹⁾ Internal estimates in both years.

Telefónica	FBB Market Share ⁽¹⁾	
	2017	2018
Spain	40.6%	40.4%
Brazil	26.5%	24.4%
Argentina	24.1%	22.0%
Chile	34.6%	32.9%
Peru	73.9%	71.6%
Colombia	15.3%	18.2%

⁽¹⁾ Internal estimates in both years

3.2. 2018/2017 Consolidated results

In this section, we discuss changes in the Group's consolidated income statements for the years ended December 31, 2018 and 2017. Changes in the Group's consolidated income statements for the years ended December 31, 2017 and 2016 are discussed in a separate section further below.

Consolidated Results	Year ended December 31				Variation	
	2017		2018		2018 vs 2017	
Millions of euros	Total	% of revenues	Total	% of revenues	Total	%
Revenues	52,008	100.0%	48,693	100.0%	(3,315)	(6.4%)
Other income	1,489	2.9%	1,622	3.3%	133	8.9%
Supplies	(15,022)	(28.9%)	(14,013)	(28.8%)	1,009	(6.7%)
Personnel expenses	(6,862)	(13.2%)	(6,332)	(13.0%)	530	(7.7%)
Other expenses	(15,426)	(29.7%)	(14,399)	(29.6%)	1,027	(6.7%)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	16,187	31.1%	15,571	32.0%	(616)	(3.8%)
OIBDA Margin	31.1 %		32.0 %			0.9 p.p.
Depreciation and amortization	(9,396)	(18.1%)	(9,049)	(18.6%)	347	(3.7%)
OPERATING INCOME	6,791	13.1%	6,522	13.4%	(269)	(4.0%)
Share of (loss) income of investments accounted for by the equity method	5	0.0%	4	0.0%	(1)	(10.4%)
Net financial expense	(2,199)	(4.2%)	(955)	(2.0%)	1,244	(56.6%)
PROFIT BEFORE TAX	4,597	8.8%	5,571	11.4%	974	21.2%
Corporate income tax	(1,219)	(2.3%)	(1,621)	(3.3%)	(402)	33.0%
PROFIT FOR THE YEAR	3,378	6.5%	3,950	8.1%	572	17.0%
Attributable to equity holders of the Parent	3,132	6.0%	3,331	6.8%	199	6.4%
Attributable to non-controlling interests	246	0.5%	619	1.3%	373	n.m.

n.m.: not meaningful

Adjustments made to calculate organic variations

Year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis, by considering a constant perimeter of consolidation and constant average foreign exchange rates and by making certain other adjustments which are described herein. "Organic" variations should not be viewed in isolation or as an alternative to reported variations.

For purposes of this report, 2018/2017 "organic" variation is defined as the reported variation as adjusted to exclude the impacts detailed below:

- **Foreign exchange effects and hyperinflation adjustments in Argentina:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year (using average foreign exchange rates of 2017 for both years), except for Venezuela (in respect of which 2017 and 2018 results were converted at the closing synthetic exchange rate for each period).

Foreign exchange rates had a negative impact on our reported 2018 results, mainly due to the depreciation versus the euro of various Latin American currencies (in particular the Brazilian real and the Argentine peso).

The impact of hyperinflation adjustments in Argentina has been excluded by reversing such adjustments.

Foreign exchange effects and hyperinflation in Argentina decreased revenue growth by 8.8 percentage points and OIBDA growth by 10.3 percentage points in 2018 as compared with 2017.

- **Changes in the scope of consolidation:** we have excluded the impact of changes in our consolidation perimeter in 2018 and 2017. The main changes in our consolidation perimeter in such years related to the inclusion of the Colombian companies Telebucaramanga, Metrotel and Optecom in our consolidation perimeter since October 2017. No significant changes took place in the scope of consolidation of the Group in 2018.

To exclude the impact of the mentioned perimeter changes in the calculation of organic variations, the 2017 comparative figures include the results of Telebucaramanga, Metrotel and Optecom for the whole year.

- **Restructuring costs:** we have excluded the impact in 2018 and 2017 of restructuring costs, mainly those related to the first Collective Agreement of Related Companies in Spain (Individual Suspension Plan), restructuring processes relating to Telefónica Germany, Telefónica Brazil, Telefónica Hispam Norte and Telefónica Hispam Sur, and the Group's simplification program in global areas.

The distribution by segment of the restructuring costs, in terms of their impact on OIBDA, is as follows:

Millions of euros	2017	2018
Telefónica Spain	165	297
Telefónica Brazil	—	46
Telefónica Germany	82	84
Telefónica Hispam Norte	24	18
Telefónica Hispam Sur	79	50
Other companies	(10)	(34)
Total restructuring costs	340	461

- **Results of tower sales:** the results attributable to the sale of towers in 2018 and 2017 have been excluded.

In 2018, the impact on OIBDA from the sale of towers totaled 51 million euros, which was related mainly to Telefónica Hispam Norte.

In 2017, the impact on OIBDA from the sale of towers totaled 7 million euros and the sales were also related mainly to Telefónica Hispam Norte.

- **Spectrum acquisition:** we have excluded from Capex the impact of spectrum acquisitions in 2018 and 2017.

In 2018, these acquisitions totaled 868 million euros, 588 million euros corresponding to Telefónica United Kingdom, 135 million euros corresponding to Telefónica México, 122 million euros corresponding to Telefónica Spain, 21 million euros corresponding to Telefónica Hispam Sur and 2 million euros corresponding to Telefónica Brazil.

In 2017, these acquisitions totaled 538 million euros, 470 million euros corresponding to Telefónica Colombia, 4 million euros corresponding to Telefónica México, 36 million euros corresponding to Telefónica Central America (21 million euros in Costa Rica and 15 million euros in El Salvador), 27 million euros corresponding to Telefónica Uruguay and 1 million euros corresponding to Telefónica Germany.

- **Gains or losses on the sale of companies:** the gains obtained or losses incurred from the sale of companies have been excluded from calculations of organic variations.

In 2018, the 21 million euros in profit obtained from the sale of Telefónica Digital Ltd. and the loss of 3 million euros incurred in the sale of Centro de Asistencia Telefónica, S.A. have been excluded. In 2017 no results have been recorded related to sales of companies.

- **Impairment of goodwill:** the impairment losses on goodwill are excluded from calculations of organic variations.

In 2018, the impairment of the goodwill allocated to Telefónica Móviles México, amounting to 350 million euros has been excluded. In 2017, no goodwill impairments were recorded.

- **Judicial decision related to the exclusion of ICMS from the tax basis of PIS/COFINS:** the organic variations exclude the positive impact of the judicial decisions of the Brazilian Supreme Court recognizing the right to deduct the state tax on goods and services (ICMS) from the calculation of the basis of the Social Integration Program-PIS (Programa de Integração Social) and the Financing of Social Security-COFINS (Contribuição para Financiamento da Seguridade Social). Telefónica Brasil has presented the tax authorities a refund request for the payments of PIS/COFINS affected by the decisions, together with the corresponding default interest. The positive impact in 2018 (789 million euros in the OIBDA of Telefónica Brazil) has been excluded from the calculation of organic variations.

- **IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") impact:** the organic variations exclude the impact of the adoption of IFRS 15 in 2018, which had a negative impact in revenues amounting to 35 million euros and a positive impact in OIBDA amounting to 76 million euros.

- **Other adjustments:** in 2018, the impact of the provision relating to certain labor and tax contingencies in Telefónica Brazil (amounting to 215 million euros) has been excluded. In 2017, the impact of the provision relating to certain regulatory contingencies in Telefónica Brazil (amounting to 50 million euros) and in other Group companies (amounting to 57 million euros), as well as the provisions recorded in Telefónica Spain to optimize the distribution network (in the amount of 13 million euros) have been excluded. In addition, the positive impact of tariff increases in Telefónica Venezuela in the last quarter of 2017 has been excluded (6 million euros in revenues and 2 million euros in OIBDA).

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the consolidated income statement and capital expenditures ("CapEx") and OIBDA-CapEx:

TELEFÓNICA 2018	YoY variation	
	% Reported YoY	% Organic YoY
	(6.4%)	2.4%
Other income	8.9%	11.7%
Supplies	(6.7%)	4.7%
Personnel expenses	(7.7%)	0.7%
Other expenses	(6.7%)	0.7%
OIBDA	(3.8%)	3.5%
Operating income	(4.0%)	6.3%
CapEx	(6.6%)	(1.3%)
OpCF (OIBDA-CapEx)	(0.5%)	8.0%

The table below shows the contribution to reported growth of each item considered to calculate the organic variations, as explained above. For each line item, the contribution to reported growth, expressed in percentage points, is the result of dividing the amount of each impact (on a net basis when the impact affects both years) by the consolidated reported figure for the previous year.

TELEFÓNICA 2018	Contribution to reported growth (percentage points)									
	Exchange rate effect and hyperinflation	Perimeter change	Restructuring costs	Towers sales	Spectrum acquisition	Capital gains/losses on sale of companies	Impairments	Judicial decision PIS/COFINs	IFRS 15 impact	Other adjustments
Revenues	(8.8)	0.1	—	—	—	—	—	—	(0.1)	(0.0)
Other income	(7.2)	0.2	—	3.2	—	1.4	—	—	(0.4)	—
Supplies	(5.8)	(0.0)	—	—	—	—	—	—	(5.6)	—
Personnel expenses	(10.3)	0.1	1.6	—	—	—	—	—	(0.0)	0.2
Other expenses	(9.3)	0.1	0.2	0.0	—	—	2.3	(6.1)	4.7	0.8
OIBDA	(10.3)	0.1	(0.9)	0.3	—	0.1	(2.2)	5.8	0.5	(0.9)
Operating income	(17.3)	(0.0)	(2.1)	0.7	—	0.3	(5.2)	13.9	1.1	(2.0)
CapEx	(9.8)	0.2	—	—	4.1	—	—	—	—	—
OpCF (OIBDA-CapEx)	(10.8)	(0.0)	(1.9)	0.6	(4.8)	0.2	(4.7)	12.6	1.0	(1.9)

Results discussion

Revenues totaled 48,693 million euros in 2018, decreasing 6.4% as compared to 2017 in reported terms, impacted by the negative evolution in foreign exchange rates and hyperinflation in Argentina (-8.8 percentage points). In organic terms (for additional information on organic variations, see "—Adjustments made to calculate organic variations" above), revenues increased by 2.4% driven by the higher service revenues (+1.0% year-on-year) and the good performance of handset revenues (+18.8% year-on-year). The structure of revenues reflects Telefónica's business diversification. The segment with the largest contribution to our revenues is Telefónica Spain, representing 26.1% (+1.8 percentage points compared to 2017), followed by Telefónica Brazil representing 20.8% (down 2.3 percentage points compared to 2017), Telefónica Germany representing 15.0% (+1.0 percentage points compared to 2017), Telefónica United Kingdom representing 13.9% (+1.4 percentage points compared to 2017), Telefónica Hispam Sur representing 13.7% (-2.1 percentage points compared to 2017) and Telefónica Hispam Norte representing 8.4% (stable year-on-year).

Mobile business revenues totaled 30,792 million euros in 2018 (of which 25,684 million euros corresponded to service revenues and 5,108 million euros corresponded to handset revenues), down 6.2% year-on-year in reported terms. This decrease was mainly due to the impact of changes in foreign exchange rates and hyperinflation in Argentina (-9.1 percentage points). The adoption of IFRS 15 had a negative impact of 0.1 percentage points. In organic terms, revenues from the mobile business grew by 3.9% due to higher revenues in Telefónica Hispam Sur, Telefónica Spain, Telefónica United Kingdom and Telefónica Brazil despite the adverse impact of regulatory restrictions in some operators of the group, mainly those related to MTRs.

Mobile service revenues, which include mobile data revenues, totaled 25,684 million euros in 2018, down 10.4% year-on-year in reported terms mainly due to the impact of changes in foreign exchange rates and hyperinflation in Argentina (which contributed 9.2 percentage points to the decrease) and the adoption of IFRS 15 (which contributed 2.0 percentage points to the decrease). Excluding these impacts, mobile service revenues grew by 1.7% as a result of higher data consumption.

Fixed revenues totaled 16,734 million euros in 2018, down 8.7% year-on-year in reported terms mainly due to the impact of changes in foreign exchange rates and hyperinflation in Argentina (which contributed 8.6 percentage points to the decrease). Excluding this impact and the impact of the adoption of IFRS 15 (+0.2 percentage points), fixed revenues decreased by 0.8%, affected mainly by the evolution of Telefónica Brazil where the increase in fiber revenues did not fully offset the decrease in revenues in the traditional business.

Other income totaled 1,622 million euros in 2018, up 8.9% year-on-year in reported terms, and mainly included own work capitalized in our fixed assets, profit from the sale of other assets (in particular, the profit from the sale of Telefónica Digital Ltd amounting to 21 million euros in 2018 and the profit from the sales of towers, which amounted to 51 million euros in 2018, compared to 7 million euros in 2017).

Total expenses, which include supply costs, personnel costs and other expenses (principally external services and taxes) but do not include amortization and depreciation expenses, were 34,744 million euros in 2018, down 6.9% year-on-year in reported terms. This decrease was mainly attributable to the impact of changes in foreign exchange rates and hyperinflation in Argentina (-8.1 percentage points). In organic terms, total expenses increased by 2.3% due to higher supplies. These costs are explained in greater detail below:

- **Supplies** amounted to 14,013 million euros in 2018, down 6.7% year-on-year in reported terms mainly as a result of the impact of foreign exchange rates and hyperinflation in Argentina (-5.8 percentage points) and the impact of the adoption of IFRS 15 (-5.6 percentage points). In organic terms, supplies expenses increased by 4.7% year-on-year, mainly due to the intense competition in the European markets, where the Group incurred higher handset costs and the impact of RLaH (Roaming Like at Home) regulation in Europe (which is in effect since June 15, 2017), which resulted in higher traffic. These higher costs more than offset the reduction in interconnection costs in several countries in Latin America.
- **Personnel expenses** amounted to 6,332 million euros in 2018, down 7.7% year-on-year in reported terms mainly as a result of the impact of changes in foreign exchange rates and hyperinflation in Argentina (-10.3 percentage points). In organic terms, personnel costs were in line with 2017 (+0.7% year-on-year), as savings in Telefónica Spain and Telefónica Germany were offset by the increase in personnel expenses in some countries in Latin America as a result of inflation.

The **average headcount** was 121,853 employees in 2018, down 2.8% as compared to 2017.

- **Other expenses** amounted to 14,399 million euros in 2018, down 6.7% year-on-year in reported terms. This decrease was mainly attributable to the impact of foreign exchange rates and hyperinflation in Argentina (-9.3 percentage points) and to the impact of the judicial decision related to the exclusion of ICMS from the tax basis of PIS/COFINS (-6.1 percentage points), offset in part by the increase in expenses resulting from the adoption of IFRS 15, the impairment of goodwill in Telefónica Hispam Norte (relating to Telefónica Móviles México) and higher provisions for labor and tax contingencies in Brazil. In organic terms, other expenses increased by 0.7% year-on-year.

OIBDA was 15,571 million euros in 2018, down 3.8% in reported terms, mainly due to the negative impact of foreign exchange rates and hyperinflation in Argentina (-10.3 percentage points), the impairment in 2018 of the goodwill allocated to Telefónica Móviles México amounting to 350 million euros (-2.2 percentage points), the higher restructuring costs incurred in 2018 compared to 2017 (-0.9 percentage points) and certain provisions relating to labor and tax contingencies in Brazil totaling 215 million euros (-0.9 percentage points), which more than offset the positive impact of the judicial decision of the Brazilian Supreme Court that the ICMS should not be included on the tax basis of the PIS/COFINS (+5.8 percentage points) and the increased sale of towers (+0.3 percentage points).

In organic terms, OIBDA grew by 3.5% mainly due to the positive evolution of revenues and the continuous effort to contain costs.

OIBDA margin stood at 32.0% in 2018, up 0.9 percentage points compared to 2017 in reported terms.

By segments, the main contributors to the Group's OIBDA were: Telefónica Spain with 30.6% (in line with 2017) and Telefónica Brazil with 27.7% (+1.8 percentage points compared to 2017), followed by Telefónica United Kingdom with 12.0% (+1.9 percentage points compared to 2017), Telefónica Germany with 11.8% (+0.5 percentage points compared to 2017), Telefónica Hispam Sur with 11.0% (-3.0 percentage points compared to 2017 due to the evolution in Peru and Argentina), and Telefónica Hispam Norte with 5.1% (-2.7 percentage points compared to 2017).

Depreciation and amortization amounted to 9,049 million euros in 2018, down 3.7% year-on-year in reported terms, mainly due to the impact of foreign exchange rates and hyperinflation in Argentina (-5.1 percentage points) and higher amortization in Telefónica Germany and Telefónica Brazil.

Operating income (OI) in 2018 totaled 6,522 million euros, down 4.0% in reported terms (up 6.3% in organic terms) as compared to 2017.

The **share of income (loss) of investments accounted for by the equity method** for 2018 was a gain of 4 million euros (compared to a gain of 5 million euros in 2017).

Net financial results amounted to 955 million euros in 2018, 1,244 million lower than the previous year, mainly due to the non-recurring effect of interests associated with favorable rulings in court in Brazil and, to a lesser extent, savings due to the reduction of the debt and its cost.

Corporate income tax amounted to 1,621 million euros in 2018. Considering a profit before taxes of 5,571 million euros, the effective tax rate stood at 29.1%, compared to an effective tax rate of 26.5% in 2017. This increase was mainly the result of the cancellation of tax credits in Mexico in 2018 and the higher proportion of deferred taxes in 2017.

As a result, **profit for the year attributable to equity holders of the parent** for 2018 was 3,331 million euros (3,132 million euros in 2017).

Profit attributable to non-controlling interest was 619 million euros, 373 million euros higher than in 2017, mainly due to the increase in the profit attributable to minority interests at Telefónica Brazil, Telefónica Germany, and at Telxius (after the sale of 40% of the share capital of such company in the last quarter of 2017 and a further 9.99% sale in the third quarter of 2018).

3.3. 2018/2017 Segment results

TELEFÓNICA SPAIN

The below table shows the evolution of accesses in Telefónica Spain over the past two years as of December 31 of such years:

ACCESSES

Thousands of accesses	2017	2018	%Reported YoY
Fixed telephony accesses (1)	9,304.7	9,029.1	(3.0%)
Internet and data accesses (2)	6,039.6	6,129.6	1.5%
Broadband	6,020.3	6,113.5	1.5%
FTTH	3,423.7	3,940.6	15.1%
Mobile accesses	17,576.5	18,384.4	4.6%
Prepay	1,793.4	1,440.1	(19.7%)
Contract	15,783.1	16,944.3	7.4%
M2M	2,015.6	2,333.2	15.8%
Pay TV	3,847.6	4,091.3	6.3%
Final Clients Accesses	36,768.5	37,634.4	2.4%
Wholesale Accesses	4,221.1	3,912.9	(7.3%)
Total Accesses	40,989.6	41,547.3	1.4%

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

In 2018, commercial activity continued to leverage on the differentiated assets of the Company, principally through the convergent offer (which means the offer of more than a single service for a single price) "Movistar Fusión+" and through the "Más por Más" strategy. The Company continued to modify the above mentioned offer and to adapt it to incremental customer demand, mainly through: i) an increase in data to all mobile lines offered in "Movistar Fusión"; and ii) the doubling of fiber speed, from 50 Mb to 100 Mb in low speed bundles, and from 300 Mb to 600 Mb in high speed bundles. In addition, in June 2018, a new operator of the Group was created in Spain, O2, to respond to a customer segment that demands only voice services and which requires a simple offer with a premium service. The new operator targets this premium service segment with a simple offer which consists of two tariffs: mobile and fiber-mobile. Additionally, in late October 2018, Telefónica launched a new "Movistar Fusión" portfolio, which seeks, on one hand, to simplify and reduce the number of offers available to customers, which decreased from ten to six, and, on the other hand, to facilitate access to what is among the most requested content by our customers, namely, football (soccer). Finally, in December 2018, the Company added Netflix to its offer, and created new packages with more GBs and an additional mobile line.

Telefónica Spain had 41.5 million accesses as of December 31, 2018 (+1.4% compared to December 31, 2017), changing the downward trend of previous years, mainly as a result of the increase in higher value accesses: mobile contract accesses, fiber accesses and TV accesses.

The consumer convergent offer had a customer base of 4.6 million customers with 4.7 million additional wireless lines associated with such customer base as of December 31, 2018, increasing by 4.2% and 27.0%

year-on-year, respectively, and contributing 87.6% of the fixed retail broadband customer base (+2.1 percentage points year-on-year) and 83.9% of the wireless contract customer base (+4.5 percentage points year-on-year). There was significant growth in the penetration of the high value services of the convergent offer, with 39.5% of the customer base already using 600 Mb ultra-fast broadband (+1.1 percentage points year-on-year) and 80.4% of the customer base having Pay TV as of December 31, 2018 (+4.8 percentage points year-on-year), as well as growth in mobile lines (each main Fusión package had 2.0 mobile lines on average compared to 1.8 in 2017). In 2018, the consumer "Movistar Fusión" convergent offer churn stood at 1.5%, the same as last year despite the high commercial competition in the market during the year.

Fixed accesses decreased 3.0% year-on-year, with a net loss of 276 thousand accesses in 2018.

Retail broadband accesses increased by 93.2 thousand accesses in 2018, totaling 6.1 million accesses (+1.5% year-on-year) due to the increase in gross adds (+13.8% year-on-year) and churn stability (1.7%, +0.02 percentage points year-on-year).

Fiber accesses showed a good evolution in terms of net adds, reaching 3.9 million customers at December 31, 2018 (up 15.1% compared to December 31, 2017), representing 64.5% of broad band accesses (+7.6 percentage points year-on-year), with 516.9 thousand new accesses in 2018. Ultra-speed fiber accesses with 600 Mb (with higher ARPU) reached 2.4 million accesses (60.2% of total fiber accesses). At December 31, 2018 the fiber deployment reached 21.3 million premises, 2.1 million more than at December 31, 2017, and continues to be the largest in Europe.

Total **mobile accesses** stood at 18.4 million as of December 31, 2018, increasing by 4.6% compared to December 31, 2017, as a result of the increase in contract accesses, which more than offset the decrease in prepay accesses (-19.7% year-on-year), reflecting the success of the convergent offer and the positive evolution of the prepay to postpay migration in the third and fourth quarters of 2018. The contract access base accelerated its growth during 2018, growing by 7.4% year-on-year. Smartphone penetration as of December 31, 2018 stood at 80.5% of the mobile voice base (+4.1 percentage points year-on-year) and significantly boosted data traffic growth to 68.1% year-on-year due to the higher number of customers with superior data packages.

LTE network rollout continued to progress well, and coverage reached approximately 97.7% of the population (based on the calculation criteria used by competitors (pursuant to which all inhabitants of the cities that have some LTE coverage are considered)) at December 31, 2018, increasing by 0.7 percentage points compared to 2017. The LTE customer base reached 8.8 million customers as of December 31, 2018, +15.1% compared to December 31, 2017 with penetration of 55.1% (+5.7 percentage points year-on-year) over the total mobile base.

Pay TV accesses reached 4.1 million at the end of 2018, growing by 6.3% compared to December 31, 2017 driven by the inclusion of TV services in all "Fusión" portfolio convergent packages since July 2017 and the good performance of such packages in 2018.

Wholesale accesses stood at 3.9 million at the end of 2018, decreasing by 7.3% year-on-year. However, the net adds of NEBA (New Ethernet Broad Band Service for Wholesale) and fiber accesses increased to 1.5 million accesses, representing 38.9% of the total wholesale accesses (+18.8 percentage points year-on-year), reflecting the positive evolution of the network due to the use of superior technologies.

The table below shows Telefónica Spain's results over the past two years:

Millions of euros				
TELEFÓNICA SPAIN	2017	2018	% Reported YoY	% Organic YoY (3)
Revenues	12,653	12,706	0.4%	0.4%
Consumer (1)	6,602	6,689	1.3%	1.3%
Fusion	4,470	4,795	7.3%	7.3%
Out of Fusion	2,132	1,894	(11.2%)	(11.2%)
Corporate	3,401	3,462	1.8%	1.8%
Communications	2,631	2,602	(1.1%)	(1.1%)
IT	770	860	11.6%	11.6%
Others (2)	2,271	2,169	(4.5%)	(4.6%)
Other income	410	389	(5.2%)	(5.2%)
Supplies	(3,481)	(3,663)	5.2%	5.2%
Personnel expenses	(2,212)	(2,248)	1.6%	(4.7%)
Other expenses	(2,418)	(2,421)	0.1%	0.6%
OIBDA	4,952	4,763	(3.8%)	(1.3%)
OIBDA margin	39.1%	37.5%	(1.6 p.p.)	(0.7 p.p.)
Depreciation and amortization	(1,688)	(1,650)	(2.3%)	(2.3%)
Operating income (OI)	3,264	3,113	(4.6%)	(0.8%)
CapEx	1,683	1,719	2.1%	(5.1%)
OpCF (OIBDA-CapEx)	3,269	3,044	(6.9)%	0.6 %

(1) Consumer revenues also include freelance revenues.

(2) Other includes wholesale, subsidiaries and other revenues.

(3) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Spain, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

- **Restructuring costs:** the impact of certain restructuring costs related to the Individual Suspension Plan amounting to 297 million euros and 165 million euros in 2018 and 2017, respectively, have been excluded.
- **Spectrum acquisition:** we have excluded the impact of spectrum acquisitions in 2018, which totaled 122 million euros. During 2017 no acquisitions were made.
- **Optimization of the distribution network:** the impact of the provisions recorded totaling 13 million euros in 2017 was excluded.
- **IFRS 15 impact:** the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

- **Gains or losses on the sale of companies:** the loss of 3 million euros incurred on the sale of Centro de Asistencia Telefónica, S.A. in 2018 has been excluded.

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA SPAIN 2018	YoY variation		Contribution to reported growth (percentage points)				
	% Reported YoY	% Organic YoY	Restructuring costs	Spectrum acquisition	Spain distribution network	IFRS 15 impact	Capital gains/losses on sale of companies
Revenues	0.4%	0.4%	—	—	—	(0.0)	—
Other income	(5.2%)	(5.2%)	—	—	—	—	—
Supplies	5.2%	5.2%	—	—	—	—	—
Personnel expenses	1.6%	(4.7%)	6.0	—	—	—	—
Other expenses	0.1%	0.6%	—	—	(0.5)	(0.1)	0.1
OIBDA	(3.8%)	(1.3%)	(2.7)	—	0.3	(0.0)	(0.1)
CapEx	2.1%	(5.1%)	—	7.2	—	—	—
OpCF (OIBDA-CapEx)	(6.9%)	0.6%	(4.0)	(3.7)	0.4	(0.0)	(0.1)

Results discussion

Revenues in Telefónica Spain in 2018 were 12,706 million euros, growing by 0.4% year-on-year in reported terms mainly as a result of the increase in service revenues (+0.4% year-on-year, or +0.3% excluding the impact of the adoption of IFRS 15) and handset revenues (+1.8% year-on-year, or +3.4% excluding the impact of the adoption of IFRS 15).

Given the high penetration level of convergent offers (i.e., a bundled offer of several services for a single price), the revenue breakdown by service is considered to be increasingly less relevant. For this reason, Telefónica Spain has established the below revenue breakdown that management believes is more meaningful.

- Consumer revenues (6,689 million euros in 2018) grew by 1.3% year-on-year in reported terms mainly driven by the growth in ARPU and in the number of customers, as well as a significant improvement in the customers' mix. There was significant growth in the revenues relating to convergent offers during 2018 (which totaled 4,795 million euros, +7.3% year-on-year in reported terms) which more than offset the drop in revenues not relating to convergent offers.
- Corporate revenues (3,462 million euros in 2018) increased by 1.8% year-on-year in reported terms, changing the trend from prior years mainly due to the good evolution of IT revenues, which grew by 11.6% year-on-year in reported terms and more than offset the decrease in communications revenues (-1.1% year-on-year).
- Other revenues, which include wholesale, subsidiaries and other revenues (2,169 million euros in 2018) decreased by 4.5% year-on-year in reported terms, due mainly to the decrease in wholesale revenues from MVNOs (as a result of the migration of Yoigo/Pepephone from Telefónica's network to Orange's network) and to the effect of price regulatory changes applicable throughout 2018, mainly the decrease of mobile interconnection rates.

Convergent ARPU rose to 88.7 euros in 2018, up 4.3% year-on-year in reported terms, boosted by the demand of higher value packages and tariff revisions (as a result of the implementation of the "Más por Más" strategy, pursuant to which there was an increase in contract tariffs in exchange for more data), as well as the improvement in the customers' mix stimulated by the renovation of our portfolio including additional mobile lines, additional contents as well as an improvement in functionalities in the convergent offers.

OIBDA amounted to 4,763 million euros in 2018, down 3.8% year-on-year in reported terms. In 2018, OIBDA was negatively affected by the provision of 297 million euros recorded in connection with the 'Individual Suspension Plan' implemented by the Group in 2016, and subsequently extended to 2017 and 2018, and our payment commitments thereunder. The related impact on OIBDA in 2017 was 165 million euros.

In organic terms, OIBDA decreased 1.3% year-on-year, mainly due to the lower wholesale revenues and the higher supply costs, partially offset by the decrease in personnel expenses and the increase in consumer and business revenues. The increase in supplies (+5.2% year-on-year in both organic and reported terms) was mainly attributable to the higher content costs and IT equipment purchases. Personnel expenses decreased by 4.7% year-on-year in organic terms driven by the savings generated by the 'Individual Suspension Plan' (118 million euros).

OIBDA margin was 37.5% in 2018 in reported terms, down by 1.6 percentage points in reported terms as compared to 2017.

TELEFÓNICA UNITED KINGDOM

The table below shows the evolution of accesses in Telefónica United Kingdom over the past two years as of December 31 of such years:

ACCESSES

Thousands of accesses	2017	2018	%Reported YoY
Fixed telephony accesses (1)	283.9	306.9	8.1%
Internet and data accesses (2)	25.3	28.1	11.2%
Broadband	25.3	28.1	11.2%
Mobile accesses	25,003.9	25,044.1	0.2%
Prepay	9,203.7	8,742.6	(5.0%)
Contract (3)	15,800.2	16,301.4	3.2%
M2M	3,358.9	3,578.0	6.5%
Final Clients Accesses	25,313.1	25,379.1	0.3%
Wholesale Accesses	7,162.0	7,599.2	6.1%
Mobile wholesale accesses (4)	7,162.0	7,599.2	6.1%
Total Accesses	32,475.1	32,978.3	1.5%

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

(3) Includes the disconnection of 228 thousand inactive contract accesses in the first quarter 2017.

(4) Mobile wholesale accesses information has been included in total accesses since the first quarter 2018. 2017 figures have been revised accordingly for comparative purposes.

In 2018, despite the competitive environment, Telefónica United Kingdom remained as the main telecommunications operator in United Kingdom, a position underpinned by the strength of the O2 brand, custom loyalty and successful commercial propositions such as the “Custom Plan”, which provides customers with flexibility and choice by allowing them to customize their plans by choosing the contract terms (up to 36 months), the amount of payment upfront and the data plan. Such propositions have allowed the Company to achieve continuous customer growth in a competitive market.

Total accesses grew by 1.5% year-on-year, standing at 33.0 million by the end of December 2018.

Mobile net additions reached 40 thousand accesses in 2018, driven by **contract mobile accesses**, which grew by 3.2% year-on-year to 16.3 million and increased their proportion over the total mobile accesses to 65.1%. **Prepay accesses** decreased by 5.0% year-on-year to 8.7 million by the end of December 2018 due to disconnections of inactive customer accesses and market dynamics, including prepay to postpay migration. Smartphone penetration over the total mobile base rose 2.4 percentage points year-on-year up to 79.0%. The base of LTE customers base reached 13.5 million at the end of 2018 with a 4.7% year-on-year growth and 62.9% penetration over the mobile base.

The table below shows the evolution of Telefónica United Kingdom's results over the past two years:

Millions of euros				
TELEFÓNICA UNITED KINGDOM	2017	2018	% Reported YoY	% Organic YoY (1)
Revenues	6,540	6,790	3.8%	5.4%
Mobile service revenues	5,050	4,837	(4.2%)	2.8%
Other income	135	158	16.7%	17.9%
Supplies	(3,125)	(2,359)	(24.5%)	3.5%
Personnel expenses	(442)	(445)	0.6%	1.7%
Other expenses	(1,469)	(2,279)	55.2%	4.8%
OIBDA	1,639	1,865	13.8%	11.8%
OIBDA margin	25.1%	27.5%	2.4 p.p.	1.5 p.p.
Depreciation and amortization	(1,047)	(943)	(9.9%)	(9.0%)
Operating income (OI)	592	922	55.7%	48.4%
CapEx	827	1,464	77.2%	7.1%
OpCF (OIBDA-CapEx)	812	400	(50.7%)	16.5%

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica United Kingdom, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

- **Exchange rate effect:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rate of 2017 for both years.

- **Restructuring costs:** we have excluded the impact in 2018 and 2017 of restructuring costs, amounting to 48 thousand euros and 314 thousand euros, respectively.
- **IFRS 15 impact:** the organic variations exclude the impact of the adoption of IFRS 15 in 2018.
- **Spectrum acquisition:** we have excluded the impact of spectrum acquisitions in 2018, which totaled 588 million euros. During 2017 no acquisitions were made.

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

	YoY variation		Contribution to reported growth (percentage points)			
	% Reported YoY	% Organic YoY	Exchange rate effect	Restructuring costs	IFRS 15 impact	Spectrum acquisition
TELEFÓNICA UNITED KINGDOM 2018						
Revenues	3.8%	5.4%	(1.0)	—	(0.6)	—
Other income	16.7%	17.9%	(1.2)	—	—	—
Supplies	(24.5%)	3.5%	(1.0)	—	(27.0)	—
Personnel expenses	0.6%	1.7%	(1.0)	(0.1)	—	—
Other expenses	55.2%	4.8%	(1.0)	—	51.5	—
OIBDA	13.8%	11.8%	(1.1)	(0.0)	3.1	—
CapEx	77.2%	7.1%	(1.1)	—	—	71.1
OpCF (OIBDA-CapEx)	(50.7%)	16.5%	(1.1)	0.0	6.3	(72.4)

Results discussion

Total **revenues** increased by 3.8% year-on-year in reported terms to 6,790 million euros in 2018, in spite of the depreciation of the pound sterling (which detracted 1.0 percentage points from the increase) and the impact of the adoption of IFRS15 (which detracted 0.6 percentage points from the increase). In organic terms, total revenues grew by 5.4% driven by higher handset revenues (driven by the higher value smartphone sales) and higher mobile service revenues and M2M program revenues.

- **Mobile service revenues** totaled 4,837 million euros in 2018, decreasing by 4.2% in reported terms mainly due to the adoption of IFRS 15 (which detracted 6.1 percentage points from the year-on-year variation) and the depreciation of the pound sterling (which detracted 1.0 percentage points from the year-on-year variation). Excluding these impacts, mobile service revenues increased by 2.8% driven by the growth of in-bundle tariffs which are indexed to inflation.

Mobile **ARPU** fell by 5.4% year-on-year in reported terms mainly due to the adoption of IFRS 15 and the depreciation of the pound sterling. In organic terms, ARPU increased by 2.0% as a consequence of the positive commercial strategies, such as the offering of flexible tariffs through “custom plans” and the effect of inflation on airtime rates since April 2018.

TELEFÓNICA UNITED KINGDOM	2017	2018	%YoY	%Organic YoY
Voice Traffic (millions of minutes)	94,723	93,772	(1.0%)	(1.0%)
ARPU (EUR)	15.9	15.1	(5.4%)	2.0%
Prepay	6.9	7.1	2.7%	3.8%
Contract (1)	26.8	24.6	(8.3%)	0.3%
Data ARPU (EUR)	9.7	9.2	(4.8%)	2.3%
% non-SMS over data revenues	65.5%	66.6%	1.1 p.p.	1.2 p.p.

(1) Excludes M2M.

OIBDA totaled 1,865 million euros in 2018, increasing by 13.8% in reported terms, despite the depreciation of the pound sterling (which detracted 1.1 percentage points from the increase). The adoption of IFRS 15 contributed 3.1 percentage points of the year-on-year growth. In organic terms, OIBDA increased 11.8% year-on-year mainly driven by the higher mobile service revenues and savings in the cost base.

OIBDA margin stood at 27.5% in 2018, growing 2.4 percentage points in reported terms compared to 2017.

TELEFÓNICA GERMANY

The below table shows the evolution of accesses in Telefónica Germany over the past two years as of December 31 of such years:

ACCESSES			
Thousands of accesses	2017	2018	%Reported YoY
Fixed telephony accesses (1)	1,979.6	1,996.0	0.8%
Internet and data accesses (2)	2,281.5	2,274.7	(0.3%)
Broadband	2,072.2	2,079.8	0.4%
VDSL	1,151.6	1,441.3	25.2%
Mobile accesses	43,154.7	42,818.8	(0.8%)
Prepay	21,880.9	20,542.9	(6.1%)
Contract	21,273.8	22,275.9	4.7%
M2M	1,027.0	1,187.9	15.7%
Final Clients Accesses	47,415.8	47,089.5	(0.7%)
Wholesale Accesses	188.1	0.0	(100.0%)
Total Accesses	47,603.9	47,089.5	(1.1%)

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

Telefónica Germany continued to show a strong operational momentum. In a dynamic market environment, the company remained focused on profitable growth by stimulating data usage, leveraging the well-received O₂ Free tariff portfolio and the unique O₂ Connect option to share high-speed data volumes on up to 10 devices. During 2018 Telefónica Germany largely finalized its network integration, with significant quality improvements, delivering the first milestone of its "Mobile Customer and Digital Champion" strategy.

The **total access** base fell 1.1% year-on-year and stood at 47.1 million at the end of 2018, mainly driven by the decrease in the prepaid mobile base.

The **contract mobile access** base grew 4.7% year-on-year and reached 22.3 million accesses, increasing the share over the total mobile base up to 52.0%. Net adds reached 1.0 million accesses on the back of the O₂ Free tariff portfolio and solid contribution of partners (second brands), which represented 60% of gross adds in 2018. Smartphone penetration reached 66.0% of the total mobile access base, up 5.1 percentage points year-on-year driven by the continued growth of LTE customers (+17.0% year-on-year reaching 18.4 million customers at the end of 2018). LTE penetration reached 44.3% of the total mobile access base.

The **prepaid mobile access** base decreased 6.1% year-on-year to 20.5 million due to the lower demand after the implementation of certain regulatory changes introduced in 2017 (mainly the need for a legitimization check in connection with SIM cards). Prepaid posted a net loss of 1.3 million accesses in 2018.

The **retail broadband access base** increased by 7.6 thousand accesses in 2018, experiencing strong demand for VDSL, with net adds of 289.7 thousand accesses in 2018 (accesses went up 25.2% year-on-year). The planned wholesale DSL customer migration (which was required for the planned shutdown of Telefónica Germany's legacy infrastructure) was completed at the end of September 2018. This migration is the result of Telefónica Germany's decision, in 2013, to stop investing in its own ADSL-based infrastructure and enter into a wholesale partnership (Kontingentmodell) with Deutsche Telekom AG.

The table below shows the evolution of Telefónica Germany's results over the past two years:

Millions of euros				
TELEFÓNICA GERMANY	2017	2018	% Reported YoY	% Organic YoY (1)
Revenues	7,296	7,320	0.3%	(0.1%)
Mobile Business	6,415	6,539	1.9%	1.5%
Mobile service revenues	5,287	5,267	(0.4%)	(0.8%)
Fixed Business	862	767	(11.0%)	(12.4%)
Other income	159	177	11.0%	11.0%
Supplies	(2,396)	(2,459)	2.7%	2.7%
Personnel expenses	(642)	(610)	(5.0%)	(1.1%)
Other expenses	(2,596)	(2,594)	(0.1%)	(1.0%)
OIBDA	1,821	1,834	0.7%	(1.0%)
OIBDA margin	25.0%	25.1%	0.1 p.p.	(0.2 p.p.)
Depreciation and amortization	(1,954)	(2,071)	6.0%	6.0%
Operating income (OI)	(133)	(237)	79.0%	n.m.
CapEx	951	966	1.6%	1.7%
OpCF (OIBDA-CapEx)	870	868	(0.3%)	(3.7%)

n.m.: not meaningful.

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Germany, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

- **Restructuring costs:** we have excluded the impact of restructuring costs associated with simplification processes implemented in Germany. Restructuring costs totaled 84 million euros and 82 million euros in 2018 and 2017, respectively.
- **Spectrum acquisition:** the organic variations exclude the impact of spectrum acquisitions, which in 2017 amounted to 1 million euros. During 2018, no acquisitions were made.
- **IFRS 15 impact:** the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement measures and CapEX and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA GERMANY 2018	YoY variation		Contribution to reported growth (percentage points)		
	% Reported YoY	% Organic YoY	Restructuring costs	Spectrum acquisition	IFRS 15
Revenues	0.3%	(0.1%)	—	—	0.4
Other income	11.0%	11.0%	—	—	—
Supplies	2.7%	2.7%	—	—	—
Personnel expenses	(5.0%)	(1.1%)	(4.0)	—	—
Other expenses	(0.1%)	(1.0%)	1.1	—	(0.2)
OIBDA	0.7%	(1.0%)	(0.1)	—	1.9
CapEx	1.6%	1.7%	—	(0.1)	—
OpCF (OIBDA-CapEx)	(0.3%)	(3.7%)	(0.3)	0.1	4.0

Results discussion

Total **revenues** were 7,320 million euros in 2018, increasing 0.3% year-on-year in reported terms mainly as a result of the adoption of IFRS 15. In organic terms, total revenues decreased by 0.1% due mainly to the lower service revenues.

Mobile service revenues totaled 5,267 million euros in 2018, decreasing 0.4% year-on-year in reported terms despite the positive impact of IFRS 15 (which contributed +0.4 percentage points in the year-on-year evolution). Excluding this impact, mobile service revenues decreased by 0.8% reflecting the impact of RLaH (Roaming Like at Home) regulation in Europe (which is in effect since June 15, 2017), the ongoing customer base rotation, as well as the increasing contribution of partners (second brands, with lower ARPU) to the detriment of our own brands. Data revenues decreased by 2.1% year-on-year in reported terms and accounted for 55.5% of mobile service revenues in 2018. Non-P2P SMS data revenues amounted to 2,482 million euros (increasing 3.5% year-on-year), and accounted for 84.9% of the total data revenues (+4.6 percentage points year-on-year).

Fixed revenues were 767 million euros in 2018, down 11.0% year-on-year in reported terms despite the positive impact of IFRS 15 (which contributed +1.4 percentage points in the year-on-year evolution). Excluding this impact, fixed revenues decreased by 12.4% mainly as a result of the completion of the wholesale DSL

customer migration (in connection with the ADSL infrastructure dismantling) referred to above, while the retail business performed positively in the period.

Mobile ARPU was 10.0 euros in 2018 (+3.1% year-on-year), while contract ARPU stood at 14.9 euros (-4.0% year-on-year), as a result of the higher share of second brands, which have a lower ARPU. Data ARPU was 5.7 euros (+2.0% year-on-year).

TELEFÓNICA GERMANY	2017	2018	%YoY
Voice Traffic (millions of minutes)	98,084	96,905	(1.2%)
ARPU (EUR)	9.7	10.0	3.1%
Prepay	5.2	5.8	11.1%
Contract (1)	15.5	14.9	(4.0%)
Data ARPU (EUR)	5.6	5.7	2.0%
% non-SMS over data revenues	80.3%	84.9%	4.6 p.p.

(1) Excludes M2M.

OIBDA totaled 1,834 million euros in 2018 (+0.7% year-on-year in reported terms), and was positively affected by the adoption of IFRS 15 (which contributed +1.9 percentage points in the year-on-year evolution). In organic terms, OIBDA decreased 1.0% year-on-year mainly due to the lower integration synergies (as a consequence of the integration of activities after the acquisition of E-Plus in 2014) than those recorded in 2017 and the adverse impact of changes in regulation (mainly European roaming regulation).

The **OIBDA margin** stood at 25.1% in reported terms in 2018, up 0.1 percentage points compared to 2017.

TELEFÓNICA BRAZIL

The below table shows the evolution of accesses in Telefónica Brazil over the past two years as of December 31 of such years:

ACCESSES			
Thousands of accesses	2017	2018	%Reported YoY
Fixed telephony accesses (1)	13,837.3	13,004.6	(6.0%)
Internet and data accesses (2)	7,534.5	7,564.7	0.4%
Broadband	7,466.1	7,485.2	0.3%
FTTx/Cable	4,541.0	4,991.1	9.9%
Mobile accesses	74,931.3	73,151.3	(2.4%)
Prepay	38,168.1	32,754.4	(14.2%)
Contract	36,763.2	40,396.9	9.9%
M2M	6,312.5	8,203.3	30.0%
Pay TV	1,587.7	1,566.6	(1.3%)
Final Clients Accesses	97,890.8	95,287.2	(2.7%)
Wholesale Accesses	14.3	14.8	4.2%
Total Accesses	97,905.1	95,302.0	(2.7%)

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

In 2018, Telefónica Brazil maintained its leadership in the higher value mobile segment, which permitted the operator to capture consistent revenue growth in that segment. In the fixed business, there was continued focus on fiber, which allowed the operator to capture high-value clients in the Pay TV business. This allowed Telefónica Brazil to offset in part the downturn in the traditional fixed business.

Revenues decreased year-on-year due to the exchange rates effect. Excluding such impact, revenues were positively supported by the expansion of value offers mainly due to the acceleration of mobile data consumption and the good evolution of fiber and IPTV customers. Additionally, OIBDA evolution was positively affected by the adoption of cost control measures and gains resulting from the digitalization process undertaken by Telefónica Brazil, which allowed the Group to offset the negative impact of the complex political situation throughout the year, which resulted in adverse macroeconomic circumstances, and the deterioration of the traditional fixed business.

Telefónica Brazil reached 95.3 million **accesses** as of December 31, 2018, down 2.7% as compared to December 31, 2017, mainly as a result of the decrease in the prepay customer base (which was adversely affected by political uncertainty and macroeconomic deterioration) and in the fixed telephony accesses base (which continued to be adversely affected by the migration to mobile, which was further supported by the existence of multiple voice offers in the market). However, there was an improvement in the high-value customer mix, supported by the higher weight of postpaid, UBB and IPTV products.

In the **mobile business**, the strategic focus remained on gaining and retaining high-value customers, having a market share of 40.5% in the contract segment as of December 31, 2018 (source: ANATEL). Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 31.9% as of December 31, 2018 (source: ANATEL). The growth in the contract accesses (+9.9% year-on-year) substantially compensated the decrease in prepay accesses (-14.2% year-on-year). Commercial offers focused on data plans allow data to be accumulated, shared or duplicated, and such plans are focused on the use of social networks and music and video apps. These plans also offer value-added services (as opposed to voice services), with unlimited off-net minutes plans and international roaming plans. High-value offers also focus on family plans comprising OTT services (such as Netflix and VIVO Music).

In the **fixed business**, Telefónica Brazil maintained its strategic focus on fiber deployment, with 19.8 million premises passed with FTTx at December 31, 2018 and 5.0 million homes connected, growing by 9.9% year-on-year. This growth helped to offset the negative evolution of ADSL accesses. Retail broadband customers totaled 7.5 million customers in 2018, up 0.3% year-on-year. Fixed telephony accesses decreased by 6.0% year-on-year due to the fixed-mobile migration. Pay TV customers stood at 1.6 million, decreasing 1.3% year-on-year due to a more selective commercial activity directed to capture IPTV clients, which increased 52.1% year-on-year, representing 37% of the total Pay TV accesses.

The table below shows the evolution of Telefónica Brazil's results over the past two years:

Millions of euros

TELEFÓNICA BRAZIL	2017	2018	% Reported YoY	% Organic YoY (1)
Revenues	12,019	10,126	(15.8%)	0.3%
Mobile Business	7,360	6,372	(13.4%)	3.3%
Mobile service revenues	7,062	5,924	(16.1%)	1.1%
Fixed Business	4,659	3,754	(19.4%)	(4.5%)
Other income	358	312	(13.0%)	3.9%
Supplies	(2,268)	(2,039)	(10.1%)	7.0%
Personnel expenses	(1,196)	(1,080)	(9.7%)	1.8%
Other expenses	(4,722)	(3,008)	(36.3%)	(8.0%)
OIBDA	4,191	4,311	2.9%	5.6%
OIBDA margin	34.9%	42.6%	7.7 p.p.	1.9 p.p.
Depreciation and amortization	(2,228)	(1,990)	(10.6%)	6.7%
Operating income (OI)	1,963	2,321	18.2%	4.4%
CapEx	2,225	1,910	(14.1%)	2.4%
OpCF (OIBDA-CapEx)	1,966	2,401	22.1%	9.1%

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Brazil, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

- **Exchange rate effect:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rate of 2017 for both years.
- **Changes in the scope of consolidation:** Terra Networks Brasil was included in the consolidation perimeter of Telefónica Brazil in July 2017. To exclude the impact of this perimeter change in the calculation of organic variations, the 2017 comparative figures include the results of Terra Networks Brasil for the whole year, with an impact on OIBDA of 14 million euros.
- **Restructuring costs:** we have excluded the impact of restructuring costs associated with the simplification processes implemented in Telefónica Brazil. In 2018, these restructuring costs totaled 46 million euros. There were no such restructuring costs during 2017.
- **Contingencies:** the impact of the provisions relating to certain contingencies recorded in 2018 and 2017 has been excluded in Telefónica Brazil (215 and 50 million euros, respectively).
- **Results of tower sales:** the results attributable to the sale of towers have been excluded (89 thousand euros in 2018 and 107 thousand euros in 2017).
- **Judicial decision related to the exclusion of ICMS from the tax basis of PIS/COFINS:** the organic variations exclude the positive impact in 2018 (789 million euros in the OIBDA of Telefónica Brazil) of

the judicial decision of the Brazilian Supreme Court that the ICMS (an indirect tax) should not be included on the tax basis of the PIS/COFINS tax.

- **Spectrum acquisition:** the impact of spectrum acquisitions has been excluded (2 million euros in 2018). During 2017 no acquisitions were made.
- **IFRS 15 impact:** the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA BRAZIL 2018	YoY variation		Contribution to reported growth (percentage points)							
	% Reported YoY	% Organic YoY	Exchange rate effect	Perimeter change	Restructu- ring costs	Contin- gencies	Towers Sales	Judicial decision PIS/COFI	Spectrum acquisition	IFRS 15 impact
Revenues	(15.8%)	0.3%	(16.3)	0.3	—	—	—	—	—	0.0
Other income	(13.0%)	3.9%	16.9	0.0	—	—	0.0	—	—	—
Supplies	(10.1%)	7.0%	(17.4)	0.3	—	—	—	—	—	—
Personnel expenses	(9.7%)	1.8%	(17.6)	0.7	4.6	0.9	—	—	—	(0.2)
Other expenses	(36.3%)	(8.0%)	(12.4)	0.1	—	4.2	—	(19.9)	—	(0.3)
OIBDA	2.9%	5.6%	(19.9)	0.3	(1.3)	(4.9)	(0.0)	22.5	—	0.5
CapEx	(14.1%)	2.4%	(16.7)	—	—	—	—	—	0.1	—
OpCF (OIBDA-CapEx)	22.1%	9.1%	(23.5)	0.7	(2.8)	(10.5)	(0.0)	47.9	(0.1)	1.0

Results discussion

Revenues totaled 10,126 million euros in 2018, down by 15.8% in reported terms, mainly due to the depreciation of the Brazilian real (negatively impacting the evolution by 16.3 percentage points). The consolidation of Terra Networks Brasil for the whole year (compared to six months, since July 2017, in 2017) in Telefónica Brazil's results contributed 0.3 percentage points to the year-on-year variation. In organic terms, revenues grew by 0.3% year-on-year, principally due to the good evolution of the mobile business (+3.3% year-on-year), despite the interconnection tariff reductions required to be implemented by law since February 25, 2018, in the mobile business tariff (-45.0%), fixed-mobile tariff (-13.1%), fixed-local tariff (-31.7%) and fixed-interurban tariff (-50.6%). Fixed revenues were also adversely impacted by regulatory restrictions and decreased by 4.5% in organic terms.

- **Revenues from the mobile business** totaled 6,372 million euros in 2018, down by 13.4% in reported terms due mainly to the depreciation of the Brazilian real (which negatively impacted the evolution by 16.7 percentage points). Excluding this impact, revenues from the mobile business increased by 3.3% due to the positive evolution of service revenues (+1.1% year-on-year in organic terms) mainly as a result of the bigger contract customer base and the higher data and connectivity revenues penetration, which offset the decrease in interconnection tariffs and the fall in prepay revenues resulting from the drop in accesses due to the macroeconomic deterioration. Handset revenues were up by 50.3% in reported terms, due to a boost in this business line and increased demand for accessories associated with higher value customers, especially smartphones.

- **Fixed telephony revenues** totaled 3,754 million euros in 2018, down by 19.4% in reported terms due mainly to the depreciation of the Brazilian real (which negatively impacted the evolution by 15.6 percentage points). The consolidation of Terra Networks Brasil for the whole year (compared to six months, since July 2017, in 2017) in Telefónica Brazil's results contributed 0.8 percentage points to the year-on-year variation. Excluding these effects, fixed telephony revenues decreased by 4.5% mainly as a result of the fall in voice traffic, due to the ongoing mobile-fixed migration, and the reduction of the fixed-mobile and fixed-fixed tariffs required to be implemented by law since February 25, 2018. The resulting decrease in revenues more than offset the increase in broadband and new services revenues, which were up by 5.8% year-on-year in organic terms supported by the increase in fiber revenues.

The mobile **ARPU** decreased by 16.7% year-on-year in reported terms due mainly to the depreciation of the Brazilian real. In organic terms, the mobile ARPU increased by 0.4% year-on-year as a consequence of the higher data ARPU which offset the negative impact of the interconnection tariff reduction.

TELEFÓNICA BRAZIL	2017	2018	%YoY	%Local Currency YoY
Voice Traffic (millions of minutes)	333,752	300,087	(10.1%)	(10.1%)
ARPU (EUR)	7.7	6.4	(16.7%)	0.4%
Prepay	3.7	2.8	(24.1%)	(9.4%)
Contract (1)	14.4	11.9	(17.3%)	(0.1%)
Data ARPU (EUR)	5.4	4.9	(10.4%)	8.4%
% non-SMS over data revenues	92.2%	94.2%	2.0 p.p.	2.0 p.p.

(1) Excludes M2M.

OIBDA stood at 4,311 million euros in 2018, increasing 2.9% in reported terms as compared to 2017. OIBDA was significantly affected by the judicial decision of the Brazilian Supreme Court that the ICMS should not be included on the tax basis of the PIS/COFINS tax (which resulted in a contribution of 789 million euros to OIBDA and 22.5 percentage points of the year-on-year variation), which more than offset the impact of the depreciation of the Brazilian real (which detracted 19.9 percentage points from the year-on-year variation), the provisions recorded in connection with certain tax and labor contingencies (-4.9 percentage points) and the personnel restructuring plan (-1.3 percentage points). OIBDA was also positively affected by the consolidation of Terra Networks Brasil (+0.3 percentage points).

In organic terms, OIBDA increased 5.6% year-on-year due to postpaid, fiber and IPTV revenues' growth, the adoption of cost control measures, gains resulting from the digitalization process undertaken by Telefónica Brazil, and the lower call center costs. Personnel expenses totaled 1,080 million euros in 2018, down by 9.7% in reported terms mainly as a result of the depreciation of the Brazilian real. In organic terms, personnel expenses increased by 1.8% year-on-year, below inflation, due to the collective agreement signed in 2017. Supply costs totaled 2,039 million euros in 2018, decreasing 10.1% in reported terms mainly due to the depreciation of the Brazilian real. In organic terms, supply costs increased by 7.0% due to higher equipment and handset costs which more than offset the positive impact of the reduction in interconnection rates, lower content costs and lower top ups. Other expenses totaled 3,008 million euros in 2018, down by 36.3% in reported terms (down by 8.0% in organic terms) as compared to 2017.

The **OIBDA margin** stood at 42.6% in reported terms in 2018, up 7.7 percentage points compared to 2017.

TELEFÓNICA HISPAM NORTE

The below table shows the evolution of accesses in Telefónica Hispam Norte over the past two years as of December 31 of such years:

ACCESSES

Thousands of accesses	2017 (*)	2018	%Reported YoY
Fixed telephony accesses (1)	3,554.7	3,169.8	(10.8%)
Internet and data accesses (2)	1,229.2	1,337.1	8.8%
Broadband	1,199.9	1,305.6	8.8%
FTTx/Cable	126.8	303.7	139.5%
Mobile accesses	66,788.6	68,041.1	1.9%
Prepay	57,190.7	58,010.4	1.4%
Contract	9,597.9	10,030.7	4.5%
M2M	1,686.7	1,922.8	14.0%
Pay TV	982.1	1,007.6	2.6%
Final Clients Accesses	72,554.6	73,555.6	1.4%
Total Accesses	72,565.4	73,556.1	1.4%

(*) Revised data.

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

The table above includes accesses for Guatemala (3.2 million and 2.8 million total accesses as of December 31, 2017 and 2018, respectively) and El Salvador (2.0 million and 2.1 million total accesses as of December 31, 2017 and 2018, respectively). On January 24, 2019, Telefónica reached an agreement for the sale of Telefónica Móviles Guatemala, S.A. and Telefónica Móviles el Salvador, S.A. de C.V. The closing of the Telefónica El Salvador sale is subject to applicable regulatory conditions while the sale of Telefónica Móviles Guatemala was completed on such date.

Total accesses reached 73.6 million at December 31, 2018 (+1.4% year-on-year).

Mobile accesses increased by 1.9% year-on-year to 68.0 million customers.

- **Contract** accesses increased 4.5% year-on-year, due to the good performance in almost all the countries in the region as a result in part of the Group's continued focus on attracting high-value customers. Contract accesses grew in Mexico (+8.0%), Central America (+15.1%), Colombia (+2.7%) and Venezuela (+0.3%). Only Ecuador experienced a decrease in contract accesses (-1.6%).
- **Prepay** accesses increased 1.4% year-on-year, with positive net adds of 820 thousand accesses at December 31, 2018, mainly as a result of the evolution in Colombia (+1.0 million accesses) and Mexico (+1.1 million accesses), which was partially offset by Central America (-791 thousand accesses) and Venezuela (-637 thousand accesses).
- **The smartphone** customer base increased 7.6% year-on-year, reaching 32.0 million accesses (+2.3 million compared to December 31, 2017) with a mobile access penetration of 47.6% (+2.4 percentage points year-on-year), mainly due to Colombia (+15.2%), Central America (+22.5%) and Venezuela

(+5.7%), which offset the evolution of Mexico (-1.9%). In addition, accesses with 4G handsets increased by 43.2%, reaching 19.5 million accesses at December 31, 2018.

Fixed accesses stood at 3.2 million at December 31, 2018 (-10.8% year-on-year) with negative net adds of 385 thousand customers due to the erosion of the traditional fixed business.

Fixed broadband accesses reached 1.3 million at December 31, 2018 (+8.8% year-on-year), mainly due to Mexico and Ecuador's launch of the "Movistar al hogar" offer and a slight increase in FBB accesses in Colombia (+0.9%). The penetration of FBB accesses over fixed accesses stood at 41.2% (+7.4 percentage points year-on-year), as a result of the focus on UBB deployment mainly in Colombia, reaching 1.1 million real estate units and 304 thousand connected accesses at year-end 2018 (177 thousand of them connected in 2018). The penetration of UBB accesses over fixed broadband accesses stood at 23.3% (+12.7 percentage points year-on-year).

Pay TV accesses stood at 1.0 million, increasing +2.6% year-on-year, as a result of positive net adds in Colombia (+18 thousand accesses) and Central America (+24 thousand accesses) which offset net negative adds in Venezuela (-16.5 thousand accesses). "Movistar Play", a TV service rendered through the Internet, was launched in Colombia, Central America and Ecuador and accounted for 455 thousand accesses as of December 31, 2018.

The table below shows the evolution of Telefónica Hispam Norte results over the past two years:

Millions of euros				
TELEFÓNICA HISPAM NORTE	2017 (*)	2018	% Reported YoY	% Organic YoY (1)
Revenues	4,331	4,075	(5.9%)	(1.2%)
Mobile Business	3,595	3,343	(7.0%)	(1.5%)
Mobile service revenues	3,089	2,744	(11.2%)	(5.0%)
Fixed Business	736	732	(0.6%)	(0.2%)
Other income	114	229	100.4%	69.1%
Supplies	(1,385)	(1,349)	(2.6%)	3.2%
Personnel expenses	(375)	(352)	(6.1%)	(2.1%)
Other expenses	(1,422)	(1,810)	27.3%	7.1%
OIBDA	1,263	793	(37.2%)	(8.7%)
OIBDA margin	29.2%	19.5%	(9.7 p.p.)	(2.3 p.p.)
Depreciation and amortization	(992)	(967)	(2.5%)	1.0%
Operating income (OI)	271	(174)	c.s.	(42.9%)
CapEx	1,264	668	(47.1%)	(26.8%)
OpCF (OIBDA-CapEx)	—	125	n.m.	17.9%

c.s.: change of sign.

n.m.: not meaningful

(*) Revised data.

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Hispam Norte, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

- **Exchange rate effects:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year (using the average foreign exchange rate of 2017 for both years), except for Venezuela (in respect of which 2017 and 2018 results were converted at the closing synthetic exchange rate for each period).
- **Restructuring costs:** we have excluded the impact of restructuring costs in 2018 and 2017, amounting to 18 and 24 million euros impact in OIBDA, respectively.
- **Results of tower sales:** the results attributable to the sale of towers have been excluded (51 million euros in 2018 and 7 million euros in 2017).
- **Spectrum acquisition:** the impact of spectrum acquisitions has been excluded in 2018 (135 million euros, mainly in Mexico) and 2017 (510 million euros, mainly in Colombia).
- **IFRS 15 impact:** the organic variations exclude the impact of the adoption of IFRS 15 in 2018.
- **Goodwill impairments:** impairment losses from goodwill in consolidation are excluded to calculate organic variations. In 2018, the impairment loss on the goodwill assigned to Telefónica Móviles Mexico amounting to 350 million euros was excluded. In 2017, no goodwill impairments were recorded.
- **Changes in the scope of consolidation:** we have excluded the impact of changes in our consolidation perimeter in 2018 and 2017. The main changes in our consolidation perimeter in such years related to the inclusion of the Colombian companies Telebucaramanga, Metrotel and Optecom in our consolidation perimeter since October 2017. No significant changes took place in the scope of consolidation of the Group in 2018.

To exclude the impact of the mentioned perimeter changes in the calculation of organic variations, the 2017 comparative figures include the results of Telebucaramanga, Metrotel and Optecom for the whole year.

- **Other adjustments:** the positive result of Telefónica Venezuela's tariff increases in the last quarter of 2017 is excluded (6 million euros in revenues and 2 million euros in OIBDA in 2017).

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA HISPAM NORTE 2018	YoY variation		Contribution to reported growth (percentage points)							
	% Reported YoY	% Organic YoY	Exchange rate effect	Restructuring costs	Towers sales	Spectrum acquisition	IFRS 15 impact	Impairments	Perimeter change	Other adjust- ments
Revenues	(5.9%)	(1.2%)	(5.4)	—	—	—	(0.1)	—	0.8	(0.1)
Other income	100.4%	69.1%	(11.0)	—	42.2	—	—	—	2.6	—
Supplies	(2.6%)	3.2%	(5.7)	—	—	—	0.3	—	(0.4)	—
Personnel expenses	(6.1%)	(2.1%)	(5.2)	(1.4)	—	—	—	—	2.4	—
Other expenses	27.3%	7.1%	(5.9)	—	0.1	—	0.1	24.4	1.4	—
OIBDA	(37.2%)	(8.7%)	(5.0)	0.4	3.7	—	(0.7)	(27.7)	1.2	(0.1)
CapEx	(47.1%)	(26.8%)	(3.1)	—	—	(28.9)	—	—	1.3	—
OpCF (OIBDA-CapEx)	n.m.	17.9%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

n.m.: not meaningful.

Results discussion

Revenues amounted to 4,075 million euros in 2018, decreasing 5.9% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange effect, which contributed 5.4 percentage points of the decrease, and the adoption of IFRS 15, which contributed 0.1 percentage points of the decrease. In organic terms, revenues decreased by 1.2% year-on-year, driven mainly by the interconnection tariff reductions in Mexico, which more than offset the increase in mobile handset sales and the positive evolution of residential postpaid, fixed broadband, new services and TV revenues.

Mobile service revenues reached 2,744 million euros in 2018, decreasing 11.2% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange effect, which contributed 5.2 percentage points to the decrease, and the adoption of IFRS 15, which contributed 1.0 percentage points of the decrease. Excluding these impacts, these revenues decreased by 5.0%. Mobile service revenues performance by country was as follows:

- In Colombia, mobile service revenues reached 759 million euros in 2018, decreasing by 1.1% year-on-year in reported terms, driven by the foreign exchange effect, which contributed 4.8 percentage points to the decrease, and the adoption of IFRS 15, which contributed 0.7 percentage points to the decrease. Excluding these impacts, these revenues increased by 4.4% due to the positive evolution of prepay revenues, mobile IT services, mobile interconnection and national roaming which more than offset the drop in MVNOs revenues.
- In Mexico, mobile service revenues reached 889 million euros in 2018, decreasing by 19.3% year-on-year in reported terms. This decrease was mainly attributable to the foreign exchange effect, which contributed 5.4 percentage points of the decrease, and the adoption of IFRS 15, which contributed 1.1 percentage points of the decrease. Excluding these impacts, these revenues decreased by 12.8%, principally due to the reduction of interconnection tariffs from 19.1 to 11.3 cents per minute (incoming) and the decrease in prepay revenues, affected by the decrease in top ups.

Data revenues in the segment reached 1,564 million euros in 2018, decreasing by 6.8% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange effect, which contributed 5.4 percentage points of the decrease, and the adoption of IFRS 15, which contributed 0.3 percentage points of

the decrease. Excluding these impacts, data revenues decreased by 1.1%, as the decrease in data revenues in Mexico more than offset the growth of these revenues in other countries in the region.

Fixed business revenues reached 732 million euros in 2018, decreasing by 0.6% year-on-year in reported terms. Excluding foreign exchange effects, which contributed 2.3 percentage points of the decrease, and the adoption of IFRS 15, which contributed 2.9 percentage points of the decrease, these revenues decreased by 0.2% year-on-year, as the decline in accesses and voice revenues in Colombia more than offset the growth in TV and fixed broadband revenues.

OIBDA reached 793 million euros in 2018, decreasing 37.2% year-on-year in reported terms, mainly as a result of the impairment of goodwill in Mexico, which contributed 27.7 percentage points of the decrease, foreign exchange effects, which contributed 5.0 percentage points of the decrease, and the adoption of IFRS 15, which contributed 0.7 percentage points of the decrease. In organic terms, OIBDA decreased by 8.7%, due to lower revenues and higher handsets, network and IT expenses. The higher expenses were mainly attributable to:

- higher supply costs due to higher handsets costs driven by the increase of commercial activity in Mexico and Ecuador while interconnection costs remained stable, and
- higher network expenses, due to the expansion of the fixed networks principally in Colombia and mobile networks both in Colombia and Central America.

The increases in expenses referred to above more than offset the decrease in personnel expenses mainly in Ecuador and Venezuela. Personnel expenses increased in Colombia and Central America.

Below is additional information by country:

- Colombia: OIBDA amounted to 556 million euros in 2018, increasing 15.4% year-on-year in reported terms, despite the exchange rate evolution (which decreased growth by 5.6 percentage points). The adoption of IFRS 15 increased growth by 0.3 percentage points. Excluding these impacts, OIBDA increased by 20.7% due to the good performance of service revenues and the capital gains derived from the sale of buildings and towers.
- Mexico: OIBDA amounted to 150 million euros in 2018, decreasing 50.4% year-on-year in reported terms, affected in part by the exchange rate effect (which contributed 3.3 percentage points to the decrease) and the adoption of IFRS 15 (which contributed 1.3 percentage points to the decrease). Excluding these impacts, OIBDA decreased by 45.7% as a result of the reduction of the interconnection margin, the payment of higher spectrum fees in October 2018 and the negative evolution of prepay revenues.

OIBDA margin reached 19.5% in 2018, and decreased by 9.7 percentage points year-on-year in reported terms, mainly impacted by the lower margin in Mexico.

TELEFÓNICA HISPAM SUR

The below table shows the evolution of accesses in Telefónica Hispam Sur over the past two years as of December 31 of such years:

ACCESSES

Thousands of accesses	2017 (*)	2018	%Reported YoY
Fixed telephony accesses (1)	7,938.5	7,435.2	(6.3%)
Internet and data accesses (2)	4,656.1	4,669.7	0.3%
Broadband	4,535.4	4,549.5	0.3%
FTTx/Cable	1,656.2	2,490.8	50.4%
Mobile accesses	43,775.1	42,575.1	(2.7%)
Prepay	27,631.8	25,571.6	(7.5%)
Contract	16,143.3	17,003.5	5.3%
M2M	1,199.8	1,457.7	21.5%
Pay TV	2,050.3	2,209.9	7.8%
Final Clients Accesses	58,419.9	56,889.9	(2.6%)
Total Accesses	58,445.9	56,913.1	(2.6%)

(*) Revised data.

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

Total accesses reached 56.9 million at December 31, 2018 (-2.6% year-on-year).

Mobile accesses fell by 2.7% year-on-year to 42.6 million customers in 2018, mainly due to a lower prepaid customer base.

- **Contract** accesses increased 5.3% year-on-year, with growth in all countries in the region, as a result in part of the Group's continued focus on attracting high-value customers. Contract accesses grew in Chile (+12.5%), Argentina (+2.9%), Peru (+4.8%) and Uruguay (+1.7%).
- **Prepay** accesses decreased 7.5% year-on-year, with negative net adds of 2.1 million accesses at December 31, 2018, mainly as a result of the evolution in Chile (-892 thousand accesses) and Argentina (-810 thousand accesses), with Uruguay and Peru also reducing their accesses to a lesser extent. This evolution was mainly the result of intense market competition and the Group's continued focus on attracting high-value customers.
- The **smartphone** customer base decreased 1.3% year-on-year at December 31, 2018, reaching 21.4 million accesses (-280 thousand compared to December 31, 2017) with a mobile access penetration of 51.3% (+0.6 percentage points year-on-year). The decrease was mainly attributable to the evolution in Peru (-4.5% year-on-year) and Argentina (-1.9% year-on-year), which more than offset the growth in Chile (+7.5% year-on-year) and Uruguay (+3.1% year-on-year). In addition, accesses with 4G handsets increased 27.5% year-on-year, reaching 16.0 million accesses by December 31, 2018.

Fixed accesses stood at 7.4 million at December 31, 2018 (-6.3% year-on-year) with negative net adds of 503 thousand customers, due to the erosion of the traditional fixed business.

Fixed broadband accesses reached 4.5 million at December 31, 2018 (+0.3% year-on-year), mainly as a result of the positive results in Peru (+10.1% year-on-year), which more than offset the decreases in accesses in Argentina (-9.1% year-on-year) and Chile (-1.1% year-on-year), as both operators focused on fiber (high-value customers), which negatively affected the growth in the copper business. The penetration of FBB accesses over fixed accesses stood at 61.2% (+4.0 percentage points year-on-year), as a result of the focus on UBB

deployment in the region, reaching 8.3 million real estate units and 2.5 million connected accesses (+50.4% year-on-year). The penetration of UBB accesses over fixed broadband accesses stood at 54.7% (+18.2 percentage points year-on-year).

Pay TV accesses stood at 2.2 million (+7.8% year-on-year) with net adds of 160 thousand accesses mainly due to positive results in Peru (+11.8% year-on-year). “Movistar Play”, a TV service rendered through the Internet, was launched in the region and accounted for 490 thousand accesses as of December 31, 2018.

The table below shows the evolution of Telefónica Hispam Sur results over the past two years:

Millions of euros				
TELEFÓNICA HISPAM SUR	2017 (*)	2018	% Reported YoY	% Organic YoY (1)
Revenues	8,218	6,677	(18.8%)	9.6%
Mobile Business	4,993	3,965	(20.6%)	9.8%
Mobile service revenues	4,319	3,115	(27.9%)	5.9%
Fixed Business	3,225	2,712	(15.9%)	9.3%
Other income	160	148	(7.5%)	21.7%
Supplies	(2,288)	(2,051)	(10.4%)	9.2%
Personnel expenses	(1,269)	(943)	(25.7%)	12.6%
Other expenses	(2,546)	(2,112)	(17.1%)	10.7%
OIBDA	2,275	1,719	(24.4%)	8.1%
OIBDA margin	27.7%	25.7%	(1.9 p.p.)	(0.4 p.p.)
Depreciation and amortization	(1,198)	(1,167)	(2.6%)	0.6%
Operating income (OI)	1,077	552	(48.7%)	15.9%
CapEx	1,414	1,116	(21.1%)	8.0%
OpCF (OIBDA-CapEx)	860	603	(29.9%)	8.3%

(*) Revised data.

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Hispam Sur, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

- **Exchange rate effects and hyperinflation adjustments in Argentina:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year (using the average foreign exchange rates of 2017 for both years). In 2018, we have also excluded the impact of hyperinflation adjustments in Argentina.
- **Restructuring costs:** we have excluded the impact of restructuring costs in 2018 and 2017, amounting to a 50 and 79 million euros impact in OIBDA, respectively.
- **Spectrum acquisition:** the impact of spectrum acquisitions has been excluded in 2018 (21 million euros in Argentina) and 2017 (27 million euros in Uruguay).

- **IFRS 15 impact:** the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA HISPAM SUR 2018	YoY variation		Contribution to reported growth (percentage points)			
	% Reported YoY	% Organic YoY	Exchange rate effect and hyperinflation	Restructuring costs	Spectrum acquisition	IFRS 15 impact
Revenues	(18.8%)	9.6%	(28.0)	—	—	(0.4)
Other income	(7.5%)	21.7%	(25.4)	—	—	(3.8)
Supplies	(10.4%)	9.2%	(19.5)	—	—	(0.0)
Personnel expenses	(25.7%)	12.6%	(36.0)	(1.5)	—	—
Other expenses	(17.1%)	10.7%	(27.3)	—	—	(0.5)
OIBDA	(24.4%)	8.1%	(32.6)	0.9	—	(1.1)
CapEx	(21.1%)	8.0%	(29.8)	—	0.8	—
OpCF (OIBDA-CapEx)	(29.9%)	8.3%	(37.2)	2.2	(1.3)	(2.9)

Results discussion

Revenues amounted to 6,677 million euros in 2018, decreasing 18.8% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange rate effect and hyperinflation in Argentina, which contributed 28.0 percentage points to the decrease, and the adoption of IFRS 15, which contributed 0.4 percentage points to the decrease. In organic terms, revenues grew 9.6% year-on-year, driven by the positive performance of both mobile and fixed revenues and the increase in handset sales, in spite of interconnection tariff reductions.

- **Mobile service revenues** reached 3,115 million euros in 2018, decreasing 27.9% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange rate effect and hyperinflation in Argentina, which contributed 29.2 percentage points to the decrease, and the adoption of IFRS 15, which contributed 4.5 percentage points to the decrease. Excluding these effects, mobile service revenues grew by 5.9%. Mobile service revenues performance by country was as follows:
 - In Argentina, mobile service revenues reached 1,270 million euros in 2018, decreasing by 35.4% year-on-year in reported terms. This decrease was mainly due to the foreign exchange effect and hyperinflation, which contributed 49.8 percentage points to the decrease, and the adoption of IFRS 15, which contributed 9.1 percentage points to the decrease. Excluding these effects, these revenues grew by 23.5% due to the adjustment in tariffs in order to reflect the increase in inflation, a bigger customer base in postpaid and higher handsets revenues.
 - In Chile, mobile service revenues reached 905 million euros in 2018, decreasing by 15.3% year-on-year in reported terms, due mainly to the adoption of IFRS 15, which contributed 6.7 percentage points to the decrease, and the foreign exchange effect, which contributed 3.1 percentage points to the decrease. Excluding these impacts, these revenues decreased by 5.5%, as a result of increased commercial competition.

- In Peru, mobile service revenues reached 748 million euros in 2018, decreasing by 30.2% year-on-year in reported terms mainly due to the adoption of IFRS 15, which contributed 11.2 percentage points to the decrease, and to the foreign exchange effect, which contributed 4.5 percentage points to the decrease. Excluding these impacts, these revenues decreased by 14.6% as a result of the smaller customer base, and increased competition in the market due to the entry of new competitors, which also had an adverse impact on ARPU.
- **Data revenues** in the segment reached 1,800 million euros in 2018, decreasing by 26.3% year-on-year in reported terms, due to the foreign exchange effect and hyperinflation in Argentina, which contributed 42.3 percentage points to the decrease, and the adoption of IFRS 15, which contributed 1.4 percentage points to the decrease. Excluding these effects, these revenues grew by 17.5% year-on-year mainly driven by higher data revenues in Argentina, which more than offset the decrease in Peru and Chile.
- **Fixed business revenues** reached 2,712 million euros in 2018, decreasing by 15.9% year-on-year in reported terms. Excluding foreign exchange effects and hyperinflation in Argentina (-24.9 percentage points), and the adoption of IFRS 15 (-0.3 percentage points), these revenues grew by 9.3% year-on-year due to higher fixed broadband revenues and accesses and voice revenues in Argentina due to tariff adjustments, higher speed offers and the increase in high-value customers.

OIBDA reached 1,719 million euros in 2018, decreasing 24.4% year-on-year in reported terms, mainly as a result of the foreign exchange effect and hyperinflation in Argentina, which contributed 32.6 percentage points to the decrease, and the adoption of IFRS 15, which contributed 1.1 percentage points to the decrease. In organic terms, OIBDA increased by 8.1%, due to the increase in revenues which more than offset the increase in handset, network and IT expenses. The increase in expenses was mainly attributable to:

- higher supply costs due to higher handsets costs driven by the increase in commercial activity, partially offset by the lower interconnection costs in all countries in the region, except Argentina and Chile;
- higher personnel expenses driven by the increased inflation in some countries of the region, which were partially offset by the savings resulting from the restructuring plans carried out during 2018 in Chile; and
- higher network expenses, mainly in Peru and Argentina, due to the expansion of the fixed and mobile networks, as well as a result of inflation and the depreciation of Latin American currencies against the U.S. dollar.

Below is additional information by country:

- Argentina: OIBDA amounted to 669 million euros in 2018, decreasing by 31.1% in reported terms. The exchange rate effect and hyperinflation (-71.2 percentage points) and the adoption of IFRS 15 (-0.2 percentage points) contributed significantly to this decrease. Excluding these effects, OIBDA grew by 40.3% year-on-year, thanks to the positive performance of revenues, which offset the effect of higher expenses as a result of inflation. Customer service expenses also increased as a result of changes in IT systems aimed at providing a better service and unifying the brand name. Personnel expenses increased as a result of inflation.

- Chile: OIBDA amounted to 617 million euros in 2018, decreasing 2.1% year-on-year in reported terms due to the exchange rate evolution (which contributed 3.5 percentage points to the decrease) and the adoption of IFRS 15 (which contributed 3.6 percentage points to the decrease). Excluding these effects, OIBDA increased by 5.0%, due to efficiency efforts carried out throughout the year which resulted in a decrease in costs that more than offset the decrease in revenues.
- Peru: OIBDA amounted to 350 million euros in 2018, decreasing 40.5% in reported terms. Excluding the impact of the exchange rate effect (which contributed 3.3 percentage points to the decrease) and the adoption of IFRS 15 (which contributed 0.1 percentage points to the decrease), OIBDA decreased by 37.1%, as a result of the decrease in revenues and the higher commercial expenses incurred with the objective of turning around last year's commercial trend. The increased commercial activity in 2018 resulted in an increase in the customer base.

OIBDA margin reached 25.7% in 2018, decreasing by 1.9 percentage points year-on-year in reported terms, mainly impacted by the lower margin in Peru.

3.4. 2017 Highlights

2017 was characterized by positive growth in OIBDA and operating cash flow (OIBDA-CapEx), up by 7.1% and by 21.0% respectively year-on-year in reported terms. Furthermore, the Company continued its transformation process with 44.4 million premises passed ready to use FTTx, additionally, the LTE coverage reached 72% as of December 31, 2017 (+10.5 percentage points year-on-year), as a result of which the CapEx over revenues ratio remained at 16.7%. The Company closed the year with a total of 343 million accesses (down 1.9% year-on-year), explained by the decrease in prepay and fixed voice. In line with our strategic focus to grow in high-value customers, post-pay customers grew by 4.6% year-on-year, reaching 116 million customers, while UBB customers reached 11 million customers at December 31, 2017, representing a 20% increase year-on-year.

In 2017, **revenues** totaled 52,008 million euros, down 0.1% compared to 2016 in reported terms (+3.4% in organic terms). **OIBDA** totaled 16,187 million euros in 2017, up 7.1% in reported terms. In organic terms, OIBDA was up 5.3%, mainly due to the positive evolution of all regions and offsetting the lower service revenues in Spain. In 2017, operating income was 6,791 million euros, up by 24.2% as compared to 2016 in reported terms (+14.1% in organic terms), which included depreciation and amortization of 9,396 million euros, down by 2.6% as compared to 2016 in reported terms.

Telefónica's **total accesses** totaled 343.5 million as of December 31, 2017, decreasing by 1.9% year-on-year, mainly as a result of the reduction of the prepay base in Telefónica Hispam Norte, Telefónica Hispam Sur and Telefónica Germany. By service, commercial activity related to high value customers increased, resulting in a growth of the contract mobile segment (smartphones and LTE), fiber and Pay TV. Accesses in Telefónica Hispam Sur decreased by 5.8% year-on-year (representing 17.0% of the Group's total accesses as of December 31, 2017), accesses in Telefónica Germany decreased by 3.5% (representing 13.9% of the Group's total accesses as of December 31, 2017) and accesses in Telefónica Hispam Norte decreased by 1.7% year-on-year (representing 21.1% of the Group's total accesses as of December 31, 2017).

The below table shows the evolution of accesses for 2016 and 2017 as of December 31 of such years:

ACCESSES

Thousands of accesses	2016	2017	%Reported YoY
Fixed telephony accesses (1)	38,280.1	36,898.6	(3.6%)
Internet and data accesses (2)	21,652.1	21,864.6	1.0%
Broadband (3)	21,194.9	21,417.5	1.1%
FTTx/Cable	9,137.6	10,961.6	20.0%
Mobile accesses	276,450.0	271,766.9	(1.7%)
Prepay	165,663.2	155,868.5	(5.9%)
Contract	110,786.8	115,898.4	4.6%
M2M	14,002.0	16,137.2	15.2%
Pay TV	8,289.0	8,467.7	2.2%
Final Clients Accesses	344,671.1	338,997.9	(1.6%)
Wholesale Accesses	5,300.9	4,460.2	(15.9%)
Total Accesses	349,972.1	343,458.1	(1.9%)

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

(3) Includes DSL, satellite, optic fiber, cable modem and broadband circuits.

The below table shows the evolution of accesses by segment:

Accesses 2017	YoY variation	% Over Total Accesses	
			2017
Telefónica Spain	(0.6%)	11.8%	11.9%
Telefónica United Kingdom	(1.7%)	7.4%	7.4%
Telefónica Germany	(3.5%)	14.1%	13.9%
Telefónica Brazil	0.7%	27.8%	28.5%
Telefónica Hispam Norte	(1.7%)	21.1%	21.1%
Telefónica Hispam Sur	(5.8%)	17.7%	17.0%
Other companies	28.9%	0.1%	0.2%

Mobile accesses totaled 271.8 million at December 31, 2017, down 1.7% compared to December 31, 2016. The decrease in prepay accesses (-5.9% year-on-year) more than offset the increase in accesses in mobile contract (+4.6% year-on-year), which continued to increase their weight over total mobile accesses reaching 42.6% (+2.6 percentage points year-on-year).

Smartphone accesses grew (up 7.9% year-on-year), totaling 158.7 million accesses and reaching a penetration rate over total accesses of 63.0% (+5.9 percentage points year-on-year), reflecting the Company's strategic focus on the growth of its data services.

Fixed broadband accesses stood at 21.4 million at December 31, 2017, up 1.1% year-on-year. Fiber accesses stood at 11.0 million at December 31, 2017 compared to 9.1 million in 2016.

Pay TV accesses totaled 8.5 million as of December 31, 2017, growing 2.2% year-on-year, due to the growth in Telefónica Spain (+5.2% year-on-year), that expanded its TV offer to the whole Fusión base and in Telefónica Hispam Sur (+5.9% year-on-year) where all countries offering this service grew.

The table below shows the evolution of our estimated access market share for mobile and fixed broadband during 2016 and 2017.

Competitive Position Evolution

Telefónica	Mobile Market Share (1)	
	2016	2017
Spain	29.7%	29.3%
United Kingdom	26.9%	26.3%
Germany	37.9%	36.9%
Brazil	30.2%	31.7%
Argentina	33.3%	32.8%
Chile	32.6%	32.2%
Peru	44.0%	36.8%
Colombia	23.4%	24.4%
Venezuela	37.8%	39.1%
Mexico	24.2%	22.0%
Central America	29.9%	28.4%
Ecuador	30.7%	30.0%
Uruguay	33.0%	34.2%

(1) Internal estimates in both years

Telefónica	FBB Market Share (1)	
	2016	2017
Spain	42.5%	40.6%
Brazil	27.9%	26.5%
Argentina	28.4%	24.1%
Chile	36.5%	34.6%
Peru	78.7%	73.9%
Colombia	16.3%	15.3%

(1) Internal estimates in both years

3.5. 2017/2016 Consolidated results

In this section, we discuss changes in the Group's consolidated income statements for 2017 and 2016.

Consolidated Results	Year ended December 31,				Variation	
	2016		2017		2017 vs 2016	
	Total	% of revenues	Total	% of revenues	Total	%
Millions of euros						
Revenues	52,036	100.0%	52,008	100.0%	(28)	(0.1%)
Other income	1,763	3.4%	1,489	2.9%	(274)	(15.5%)
Supplies	(15,242)	(29.3%)	(15,022)	(28.9%)	220	(1.4%)
Personnel expenses	(8,098)	(15.6%)	(6,862)	(13.2%)	1,236	(15.3%)
Other expenses	(15,341)	(29.5%)	(15,426)	(29.7%)	(85)	0.5%
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	15,118	29.1%	16,187	31.1%	1,069	7.1%
OIBDA Margin	29.1%		31.1%		2.1 p.p.	
Depreciation and amortization	(9,649)	(18.5%)	(9,396)	(18.1%)	253	(2.6%)
OPERATING INCOME	5,469	10.5%	6,791	13.1%	1,322	24.2%
Share of (loss) income of investments accounted for by the equity method	(5)	0.0%	5	0.0%	10	c.s.
Net financial expense	(2,219)	(4.3%)	(2,199)	(4.2%)	20	(0.9%)
PROFIT BEFORE TAX	3,245	6.2%	4,597	8.8%	1,352	41.6%
Corporate income tax	(846)	(1.6%)	(1,219)	(2.3%)	(373)	44.1 %
PROFIT FOR THE YEAR	2,399	4.6%	3,378	6.5%	979	40.8%
Attributable to equity holders of the Parent	2,369	4.6%	3,132	6.0%	763	32.2 %
Attributable to non-controlling interests	30	0.1%	246	0.5%	216	n.m.

c.s.: change of sign

n.m.: not meaningful

Adjustments made to calculate organic variations

Year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis, by considering a constant perimeter of consolidation and constant average foreign exchange rates and by making certain other adjustments which are described herein. “Organic” variations should not be viewed in isolation or as an alternative to reported variations.

For purposes of this report, 2017/2016 “organic” variation is defined as the reported variation as adjusted to exclude the impacts detailed below:

- **Foreign exchange effects and hyperinflation adjustments in Venezuela:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rates of 2016 for both years.

Foreign exchange rates had a negative impact on our reported 2017 results, mainly due to the depreciation versus the euro of various Latin American currencies (in particular the Venezuela bolivar and the Argentine peso) and the pound sterling.

The impact of hyperinflation adjustments in Venezuela has been excluded by reversing such adjustments.

Foreign exchange effects and hyperinflation in Venezuela decreased revenue growth by 3.2 percentage points and OIBDA growth by 4.7 percentage points.

- **Changes in the scope of consolidation:** we have excluded the impact of changes in our consolidation perimeter in 2017 and 2016. The main changes in our consolidation perimeter in such years related to the sale of Telef  and the sale of Telecomunicaciones Personalizadas in the last quarter of 2016, and the inclusion of the Colombian companies Telebucaramanga, Metrotel and Optecom in our consolidation perimeter since October 2017.

To exclude the impact of the mentioned perimeter changes in the calculation of organic variations, the 2016 comparative figures exclude the consolidated results of Telef  and Telecomunicaciones Personalizadas, and in 2017 we exclude the results of Telebucaramanga, Metrotel and Optecom.

- **Restructuring costs:** we have excluded the impact in 2017 and 2016 of restructuring costs, mainly those related to the first Collective Agreement of Related Companies in Spain (Individual Suspension Plan), restructuring processes relating to Telef nica Germany, Telef nica Hispam Norte and Telef nica Hispam Sur, and the Group's simplification program in global areas.

The distribution by segment of the restructuring costs was as follows (impacts on OIBDA):

Millions of euros	2016	2017
Telef�nica Spain	837	165
Telef�nica Brazil	40	—
Telef�nica Germany	89	82
Telef�nica United Kingdom	37	—
Telef�nica Hispam Norte	18	24
Telef�nica Hispam Sur	66	79
Other companies	293	(10)
Total restructuring costs	1,380	340

- **Results of tower sales:** the results attributable to the sale of towers in 2017 and 2016 have been excluded.

In 2017, the impact on OIBDA from the sale of towers totaled 7 million euros, mainly in Telef nica Hispam Norte.

In 2016, the impact on OIBDA from the sale of towers totaled 1 million euros, mainly in Telef nica Hispam Norte.

- **Spectrum acquisition:** we have excluded the impact of spectrum acquisitions in 2017 and 2016.

In 2017, these acquisitions totaled 538 million euros, 470 million euros corresponding to Telef nica Colombia, 4 million euros corresponding to Telef nica M xico, 36 million euros corresponding to Telef nica Central America (21 million euros in Costa Rica and 15 million euros in El Salvador), 27 million euros corresponding to Telef nica Uruguay and 1 million euros corresponding to Telef nica Germany.

In 2016, these acquisitions totaled 345 million euros, 284 million euros corresponding to Telefónica Peru, 48 million euros corresponding to Telefónica Brazil, 7 million euros corresponding to Telefónica Spain and 6 million euros corresponding to Telefónica Germany.

- **Gains or losses on the sale of companies:** the gains obtained or losses incurred from the sale of companies have been excluded from calculations of organic variations.

In 2017 no results were recorded related to sales of companies. In 2016, the 199 million euros in profit obtained from the sale of Telefé and the 29 million euros obtained from the sale of Telecomunicaciones Personalizadas were excluded. Similarly, the loss of 16 million euros incurred in the sale of Vocem was also excluded.

- **Impairment of goodwill:** the impairment losses on goodwill are excluded in calculations of organic variations.

In 2017, no goodwill impairments were recorded. The comparative base for 2016 excludes the impairment of the goodwill allocated to Telefónica Venezolana and Telefónica Móviles México, amounting to 124 million euros and 91 million euros, respectively.

- **Other adjustments:** the impact of the provision of certain regulatory contingencies is excluded in 2017, amounting to 50 million euros in Telefónica Brazil and 57 million euros in other companies, as well as the provisions recorded in Telefónica Spain to optimize the distribution network in the amount of 13 million euros in 2017 and 18 million euros in 2016. Also the positive result of Telefónica Venezuela tariff increases in the last quarter of 2017 is excluded (6 million euros in revenues and 2 million euros in OIBDA).

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the consolidated income statement and CapEx and OIBDA-CapEx:

TELEFÓNICA 2017	YoY variation	
		% Organic YoY
Revenues	(0.1%)	3.4%
Other income	(15.5%)	(3.6%)
Supplies	(1.4%)	0.6%
Personnel expenses	(15.3%)	3.0%
Other expenses	0.5%	3.7%
OIBDA	7.1%	5.3%
Operating income	24.2%	14.1%
CapEx	(2.6%)	(1.2%)
OpCF (OIBDA-CapEx)	21.0%	12.2%

The table below shows the contribution to reported growth of each item considered to calculate the organic variations, as explained above. For each line item, the contribution to reported growth, expressed in percentage points, is the result of dividing the amount of each impact (on a net basis when the impact affects both years) by the consolidated reported figure for the previous year.

Contribution to reported growth (percentage points)

TELEFÓNICA 2017	Exchange rate effect and hyperinflation	Perimeter change	Restructuring costs	Towers sales	Spectrum acquisition	Capital gains/losses on sale of	Impairments	Other adjustments
Revenues	(3.2)	(0.3)	—	—	—	—	—	—
Other income	0.1	—	—	0.4	—	(12.9)	—	—
Supplies	(1.8)	(0.2)	—	—	—	—	—	—
Personnel expenses	(4.3)	(0.8)	(12.7)	—	—	—	—	—
Other expenses	(4.5)	(0.1)	—	—	—	(0.1)	(1.4)	3.2
OIBDA	(4.7)	(0.2)	6.8	—	—	(1.4)	1.4	(0.6)
Operating Income	(10.7)	(0.5)	18.9	0.1	—	(3.9)	3.9	(1.8)
CapEx	(3.6)	—	—	—	2.2	—	—	—
OpCF (OIBDA-CapEx)	(6.4)	(0.4)	16.7	0.1	(3.1)	(3.4)	3.5	(1.6)

Results discussion

Revenues totaled 52,008 million euros in 2017, decreasing 0.1% compared to 2016 in reported terms, impacted by the negative evolution in foreign exchange rates and hyperinflation in Venezuela (-3.2 percentage points year-on-year) and the changes in the consolidating perimeter (-0.3 percentage points year-on-year), which offset the higher revenues of Telefónica Hispam Norte, Telefónica Hispam Sur, Telefónica Brazil and Telefónica United Kingdom. In organic terms (for additional information on organic variations, see "Adjustments made to calculate organic variations"), revenues increased by 3.4%. The **structure of revenues** reflects Telefónica's business diversification. The segment with the largest contribution to our revenues was Telefónica Spain, representing 24.3% (-0.3 percentage points compared to 2016), followed by Telefónica Brazil, representing 23.1% (+1.8 percentage points compared to 2016), and Telefónica Hispam Sur, representing 15.8% (+0.7 percentage points compared to 2016).

Since January 1, 2017 Mobile Service Revenues (mainly data revenue) and Fixed revenues were revised due to different allocation criteria. For comparative purposes, these numbers for 2016 are reported using the same criteria. This change does not affect the total Mobile Business Revenues figures reported for 2016.

Mobile business revenues totaled 32,827 million euros in 2017 (of which 28,677 million euros corresponded to service revenues and 4,150 million euros corresponded to handset revenues), up 1.2% year-on-year in reported terms as a result of the higher revenues of Telefónica Hispam Sur, Telefónica Brazil and Telefónica United Kingdom, which were partially offset by the negative impact of the evolution in foreign exchange rates and hyperinflation in Venezuela (-4.1 percentage points year-on-year). In organic terms, mobile business revenues grew by 5.3% despite the regulatory impacts affecting interconnection revenues in some operators of the Group.

Mobile service revenues, which include mobile data revenues, totaled 28,677 million euros in 2017, up 0.9% year-on-year in reported terms mainly explained by higher data consumption. Excluding the impact of changes in foreign exchange rates and hyperinflation in Venezuela the growth was 5.1%.

Mobile data revenues totaled 16,942 million euros in 2017, up 11.5% in reported terms mainly due to higher consumption of data by our customers. Excluding the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-5.4 percentage points year-on-year), the growth of mobile data revenues was 16.8% as a result of the popularization of the use of data with the growth of commercial plans including data-inclusive prepay plans. Mobile data revenues accounted for 59.1% of mobile service revenues in 2017, up 5.6 percentage points compared to 2016 in reported terms.

Fixed revenues totaled 18,331 million euros in 2017, up 1.8% year-on-year in reported terms, despite the negative impact of changes in foreign exchange rates and hyperinflation in Venezuela (-0.1 percentage points year-on-year). Excluding such impact, fixed revenues increased by 1.9% mainly as a result of higher broadband connection revenues and Pay TV revenues due to the commercial actions carried out by the Company in order to increase our value proposition by giving even more speed to our customers.

Other income totaled 1,489 million euros in 2017, which mainly included own work capitalized in our fixed assets and the profit from the sale of other assets.

In 2016, other income also included the profit obtained from the sale of Telef  (199 million euros) and Telecomunicaciones Personalizadas (29 million euros).

Total expenses, which include supply costs, personnel costs and other expenses (principally external services and taxes) but do not include amortization and depreciation expenses, amounted to 37,310 million euros in 2017, down 3.5% year-on-year in reported terms. This decrease was mainly attributable to the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-3.4 percentage points year-on-year) and to lower restructuring costs in 2017 (-2.7 percentage points year-on-year). These costs are explained in detail below:

- **Supplies** amounted to 15,022 million euros in 2017, down 1.4% year-on-year in reported terms mainly as a result of the impact of foreign exchange rates and hyperinflation in Venezuela (-1.8 percentage points). In organic terms, supplies expenses increased by 0.6% year-on-year, mainly due to higher handset costs.
- **Personnel expenses** amounted to 6,862 million euros in 2017, down 15.3% year-on-year in reported terms. This decrease was mainly attributable to lower restructuring costs in 2017 (303 million euros in 2017 versus 1,336 million euros in 2016). In organic terms, personnel costs increased 3.0% year-on-year mainly due to inflationary pressure in some Latin American countries.

The average headcount was 125,371 employees in 2017, down 5.1% compared to 2016.

- **Other expenses** amounted to 15,426 million euros in 2017, up 0.5% year-on-year in reported terms, mainly as a result of inflationary pressure in some Latin American countries and the depreciation of certain Latin American currencies against the U.S. dollar, which offset the impact of foreign exchange rates and hyperinflation in Venezuela (-4.5 percentage points). There were also increases in network costs, as a result of the growth in data traffic, and higher systems costs, due to the transformation process of our systems which require us to have both systems cohabitating, as we are still decommissioning some IT systems. In organic terms, other expenses increased by 3.7% year-on-year.

OIBDA was 16,187 million euros in 2017, up 7.1% in reported terms, mainly due to the lower restructuring costs in 2017 compared to 2016 (+6.8 percentage points), partially offset by the impact of foreign exchange rates and hyperinflation in Venezuela (-4.7 percentage points). In organic terms, OIBDA grew by 5.3% mainly due to the positive evolution of service revenues and the continuous effort to contain costs.

OIBDA margin stood at 31.1% in 2017, up 2.1 percentage points compared to 2016 in reported terms.

By segments, the main contributors to Group OIBDA were: Telef nica Spain with 30.6% (+1.5 percentage points compared to 2016), Telef nica Brazil with 25.9% (+1.4 percentage points compared to 2016) and Telef nica

Hispania Sur with 14.1% (reducing its contribution by 1.6 percentage points compared to 2016 due to the lower contribution of Peru and Chile).

Depreciation and amortization amounted to 9,396 million euros in 2017, down 2.6% year-on-year in reported terms, mainly due to the impact of foreign exchange rates and hyperinflation in Venezuela (-1.3 percentage points) and lower amortization in Telefónica Spain and Telefónica Germany.

Operating income (OI) in 2017 totaled 6,791 million euros, up 24.2% in reported terms (14.1% in organic terms).

The **share of income (loss) of investments accounted for by the equity method** for 2017 was a gain of 5 million euros (compared to a loss of 5 million euros in 2016).

Net financial results amounted to a loss of 2,199 million euros in 2017, 0.9% lower than the previous year, due to a lower cost of debt in European and Latin American currencies, which was partially offset by a lower impact associated to Venezuela and by not generating this year the savings from 2016 in FX hedging linked to Telefónica United Kingdom.

Corporate income tax amounted to 1,219 million euros in 2017. Considering a profit before taxes of 4,597 million euros, the effective tax rate stood at 26.5%, in line with the previous year (26.1%).

As a result, **profit for the year attributable to equity holders of the parent** for 2017 was 3,132 million euros (2,369 million euros in 2016).

Profit attributable to non-controlling interests was 246 million euros, 216 million euros higher than in 2016, mainly due to the increase in the profit attributable to minority interests at Telefónica Brazil and Telefónica Colombia and lower loss attributable to Telefónica Germany.

3.6. 2017/2016 Segment results

TELEFÓNICA SPAIN

The below table shows the evolution of accesses in Telefónica Spain for 2016 and 2017 as of December 31 of such years:

ACCESSES

Thousands of accesses	2016	2017	%Reported YoY
Fixed telephony accesses (1)	9,720.2	9,304.7	(4.3%)
Internet and data accesses (2)	6,094.5	6,039.6	(0.9%)
Broadband	6,067.3	6,020.3	(0.8%)
FTTH	2,998.3	3,423.7	14.2%
Mobile accesses	17,237.7	17,576.5	2.0%
Prepay	2,329.3	1,793.4	(23.0%)
Contract	14,908.4	15,783.1	5.9%
M2M	2,006.3	2,015.6	0.5%
Pay TV	3,657.0	3,847.6	5.2%
Final Clients Accesses	36,709.4	36,768.5	0.2%
Wholesale Accesses	4,525.5	4,221.1	(6.7%)
Total Accesses	41,234.9	40,989.6	(0.6%)

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

In 2017 the commercial activity continued to leverage the differentiated assets of the Company, mainly through the convergent offer (which means the offer of more than a single service for a single price) "Movistar Fusión+" and the "Más por Más" strategy. The Company continued to evolve the above mentioned offer and to adapt it to incremental customer demand mainly through the rise of data in all mobile lines included in the Fusión portfolio. In addition, in July 2017 the portfolio was increased with the launching of two new options for "Fusión +" ("Fusión Series" and "Fusión #0") which include TV services and its functionalities in all the convergent portfolio.

In 2017 Consumer "Fusión" churn rose up to 1.5% (+0.2 percentage points year-on-year), reflecting increased commercial competition in the market during the year. Broadband accesses decreased by 47 thousand year-on-year and fixed telephony accesses net loss, reached 416 thousand customers. On the other hand, high-value accesses such as fiber accesses, increased by 425 thousand and mobile contract accesses increased by 875 thousand, showing the success of the convergent strategy (which means the offer of more than a single service for a single price) that from 2017 includes a second mobile line in all "Fusión" tariffs additional to the main line that was already included in the package.

Telefónica Spain had 41.0 million **accesses** at the end of December 2017, down 0.6% year-on-year, explained by the decrease in prepay mobile accesses, fixed telephony accesses as well as copper wholesale accesses. Retail accesses increased by 0.2% year-on-year.

Consumer "Movistar Fusión", with a customer base of 4.4 million with 3.7 million additional mobile add-ons to the original offer as of December 31, 2017, maintained a solid year-on-year growth (+2.1% and +45.2%

respectively compared to December 31, 2016) and contributed 85.5% of the fixed retail broadband customer base (+2.2 percentage points year-on-year) and 79.3% of the wireless contract customer base (+6.2 percentage points year-on-year). There was significant growth in the penetration of the high-value services of “Movistar Fusión”, with 38.4% of the customer base already using 300 Mb ultra-fast broadband (+1.7 percentage points year-on-year) and 75.6% of the customer base having Pay TV as of December 31, 2017 (+7.7 percentage points year-on-year), as well as growth in mobile lines (each main Fusión package had 1.8 mobile lines in average compared to 1.6 in 2016).

Retail broadband accesses decreased 47 thousand accesses in 2017, totaling 6 million accesses (-0.8% year-on-year).

Fiber accesses showed a good evolution in terms of net adds, reaching 3.4 million customers at December 31, 2017 (up 14.2% compared to December 31, 2016), representing 56.9% of broad band accesses (+7.5 percentage points year-on-year), with 425 thousand new accesses in 2017. Ultra-speed fiber accesses with 300 Mb (with additional ARPU of 10-12 euros, including VAT) reached 2.2 million accesses (64.5% of total fiber accesses). At December 31, 2017 the fiber deployment reached 19.2 million premises, 2.1 million more than at December 31, 2016, and continues to be the largest in Europe.

Total **mobile accesses** stood at 17.6 million, up 2.0% compared with year-end 2016 as a result of the increase in contract accesses and despite the decrease in prepay accesses, reflecting the success of the convergent strategy and the good evolution of the mobile number portability in the last quarter of the year, boosted by the improvement of the portability offer. The contract access base accelerated its growth during 2017, growing by 5.9% year-on-year. Smartphone penetration stood at 76.4% of the mobile voice base (+5.6 percentage points compared to year-end 2016) and significantly boosted data traffic which grew by 110.8% year-on-year in 2017 due to the higher number of customers with the renewed portfolio containing superior data packages.

LTE network rollout continued to progress and coverage reached approximately 97% (criteria based on competitors' calculation by summing up all inhabitants of the cities with some LTE coverage) of the population at December 31, 2017, up 0.7 percentage points compared to December 31, 2016. As a result, the LTE customer base was over 7.6 million customers at December 31, 2017, while penetration reached 49.4% (+9.5 percentage points year-on-year) over the total mobile base.

Pay TV accesses reached 3.8 million at the end of 2017, growing by 5.2% compared to December 31, 2016 driven by the inclusion of TV services in all “Fusión” portfolio convergent packages since July 2017.

Wholesale accesses stood at 4.2 million at the end of 2017, decreasing by 6.7% year-on-year, however NEBA (New Ethernet Broad Band Service for Wholesale) Fiber accesses net adds increased to 850 thousand accesses, representing 20.1% of total wholesale accesses (+12.9 percentage points year-on-year) and reflecting the positive evolution of the network due to the use of superior technologies.

The table below shows Telefónica Spain's results for 2016 and 2017:

Millions of euros				
TELEFÓNICA SPAIN	2016	2017	%Reported YoY	%Organic YoY (3)
Revenues	12,815	12,653	(1.3%)	(1.2%)
Consumer (1)	6,536	6,602	1.0%	1.0%
Fusión	4,096	4,470	9.1%	9.1%
Out of Fusión	2,440	2,132	(12.6%)	(12.6%)
Corporate	3,445	3,401	(1.3%)	(1.3%)
Communications	2,721	2,631	(3.3%)	(3.3%)
IT	724	770	6.4%	6.4%
Others (2)	2,337	2,271	(2.8%)	(2.5%)
Other income	474	410	(13.5%)	(8.0%)
Supplies	(3,406)	(3,481)	2.2%	2.2%
Personnel expenses	(3,022)	(2,212)	(26.8%)	(6.3%)
Other expenses	(2,458)	(2,418)	(1.6%)	(1.4%)
OIBDA	4,403	4,952	12.5%	(1.8%)
OIBDA Margin	34.4%	39.1%	4.8 p.p.	(0.2 p.p.)
Depreciation and amortization	(1,827)	(1,688)	(7.6%)	(7.6%)
Operating income (OI)	2,576	3,264	26.7 %	1.3 %
CapEx	1,852	1,683	(9.1%)	(8.8%)
OpCF (OIBDA-CapEx)	2,551	3,269	28.2 %	2.0 %

(1) Consumer revenues also include freelance revenues.

(2) Other includes wholesale, subsidiaries and other revenues.

(3) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Spain, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

- **Changes in the scope of consolidation:** the main change in 2017 as compared with the previous year related to the sale of Telecomunicaciones Personalizadas in the last quarter of 2016.
- **Restructuring costs:** the impact of certain restructuring costs related to the Individual Suspension Plan and other plans in Spain amounting to 165 million and 837 million euros in 2017 and 2016, respectively, were excluded.
- **Spectrum acquisition:** we have excluded the impact of spectrum acquisitions in 2016, which totaled 7 million euros. During 2017 no acquisitions were made.
- **Gains or losses on the sale of companies:** in the comparative base of 2016, the gain obtained from the sale of Telecomunicaciones Personalizadas for 29 million euros was excluded.

- **Optimization of the distribution network:** the impact of the provisions recorded totaling 13 and 18 million euros in 2017 and 2016, respectively, were excluded.

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA SPAIN 2017	YoY variation		Contribution to reported growth (percentage points)				
	%Reported YoY	%Organic YoY	Perimeter change	Restructuring costs	Spectrum acquisition	Capital Gains/losses on sale of companies	Spain distribution network
Revenues	(1.3%)	(1.2%)	(0.1)	—	—	—	—
Other income	(13.5%)	(8.0%)	—	—	—	(6.0)	—
Supplies	2.2%	2.2%	—	—	—	—	—
Personnel expenses	(26.8%)	(6.3%)	—	(22.3)	—	—	—
Other expenses	(1.6%)	(1.4%)	—	—	—	—	(0.2)
OIBDA	12.5%	(1.8%)	(0.1)	15.3	—	(0.7)	0.1
CapEx	(9.1%)	(8.8%)	—	—	(0.4)	—	—
OpCF (OIBDA-CapEx)	28.2 %	2.0%	(0.2)	26.4	0.3	(1.1)	0.2

Results discussion

Revenues in Telefónica Spain in 2017 were 12,653 million euros, down 1.3% year-on-year in reported terms mainly as a result of the decrease in handset revenues. In organic terms (excluding Telecomunicaciones Personalizadas from the consolidation perimeter), revenues were down 1.2% year-on-year.

Given the high penetration level of convergent offers (which means the offer of more than a single service for a single price), the revenue breakdown by service is considered to be increasingly less relevant. For this reason, Telefónica Spain has established a revenue breakdown that management believes is more meaningful.

- **Consumer revenues** (6,602 million euros in 2017) grew by 1.0% year-on-year in reported terms mainly driven by the growth in ARPU and in the number of customers as well as a significant improvement in the customers' mix. It is worth highlighting the strong growth in "Fusión" revenues during 2017 (4,470 million euros, +9.1% year-on-year in reported terms) which more than offset the drop in "non-Fusión" revenues.
- **Business revenues** (3,401 million euros in 2017) decreased by 1.3% year-on-year in reported terms, mainly due to a better evolution in the communications revenues trend and higher IT revenues.
- **Other revenues**, which include wholesale, subsidiaries and other revenues (2,271 million euros in 2017) decreased by 2.8% year-on-year in reported terms, due mainly to lower wholesale revenues from TV and MVNOs and, to a lesser extent, to the effect of price regulatory changes applicable throughout 2017 (affecting NEBA (New Ethernet Broad Band Service for Wholesale), ORLA (leased lines reference offer including Ethernet interfaces), etc.).

Fusión ARPU rose to 85.1 euros in 2017, up 5.8% year-on-year in reported terms, boosted by the demand of higher value packages and the tariff revisions, as well as the improvement in the customers' mix stimulated by

the renovation of our portfolio including additional mobile lines, additional contents as well as an improvement in functionalities in the convergent offers.

OIBDA amounted to 4,952 million euros in 2017, up 12.5% year-on-year in reported terms. In 2016, OIBDA was adversely affected by the provisions recorded in connection with the restructuring costs resulting from the extension to 2018 of the 'Individual Suspension Plan' and other restructuring plans (837 million euros) and the restructuring of the distribution channel (18 million euros). In 2017, OIBDA included lower provisions related mainly to the 'Individual Suspension Plan' as a result of its increased acceptance (165 million euros), which we expect will result in further cost savings, and the restructuring of the distribution channel (13 million euros).

In organic terms, OIBDA decreased 1.8% year-on-year, mainly due to the lower wholesale revenues and higher content costs, partially offset by the decrease in personnel expenses. Personnel expenses decreased 6.3% year-on-year in organic terms driven by the savings generated by the 'Individual Suspension Plan' (158 million euros). On the other hand, the increase in supplies (+2.2% in reported terms) which were impacted by higher content costs and IT equipment purchases, were partially offset by the other expenses, which dropped 1.6% in reported terms principally due to lower commercial costs.

OIBDA margin was 39.1% in 2017 in reported terms, down 4.8 percentage points year-on-year in reported terms.

TELEFÓNICA UNITED KINGDOM

The table below shows the evolution of accesses in Telefónica United Kingdom for 2016 and 2017 as of December 31 of such years:

ACCESSES

Thousands of accesses	2016	2017	%Reported YoY
Fixed telephony accesses (1)	272.6	283.9	4.1%
Internet and data accesses (2)	23.7	25.3	6.6%
Broadband	23.7	25.3	6.6%
Mobile accesses	25,462.7	25,003.9	(1.8%)
Prepay	9,701.4	9,203.7	(5.1%)
Contract	15,761.3	15,800.2	0.2%
M2M	3,266.9	3,358.9	2.8%
Final Clients Accesses	25,759.0	25,313.1	(1.7%)
Total Accesses	25,759.0	25,313.1	(1.7%)

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

In 2017, Telefónica United Kingdom maintained a competitive position which has been underpinned by the strength of the O2 brand, new and innovative commercial propositions and customer experience. These factors have allowed the Company to maintain customer loyalty and continue to keep growing in high-value customers in a competitive market.

The **total access** base went down by 1.7% year-on-year and stood at 25.3 million at December 31, 2017, mainly driven by a 1.8% decline in the mobile customer base.

The **contract mobile customer** base grew 0.2% year-on-year and stood at 15.8 million accesses, with a broadly stable 63.2% share over the total mobile base. Mobile accesses decreased by 459 thousand customers, driven by higher volatility in the prepay customer base (which decreased 5.1% year-on-year to 9.2 million at December 31, 2017) and 228 thousand inactive disconnections in postpay. Smartphone penetration reached 76.5% of the total mobile accesses base, up 8.1 percentage points year-on-year. LTE customers, increased by 6.6% year-on-year reaching 12.9 million at December 31, 2017. LTE penetration reached 59.6% of the total mobile access base.

The table below shows the evolution of Telefónica United Kingdom's results for 2016 and 2017:

Millions of euros				
TELEFÓNICA UNITED KINGDOM	2016	2017	% Reported YoY	% Organic YoY (1)
Revenues	6,861	6,540	(4.7%)	2.2%
Mobile service revenues (2)	5,363	5,050	(5.8%)	1.0%
Other income	148	135	(9.0%)	(2.4%)
Supplies	(3,226)	(3,125)	(3.1%)	3.9%
Personnel expenses	(528)	(442)	(16.2%)	(3.4%)
Other expenses	(1,546)	(1,469)	(5.0%)	1.9%
OIBDA	1,709	1,639	(4.1%)	0.7%
OIBDA Margin	24.9%	25.1%	0.1 p.p.	(0.4 p.p.)
Depreciation and amortization	(1,090)	(1,047)	(4.0%)	3.0%
Operating Income (OI)	619	592	(4.3%)	(3.1%)
CapEx	931	827	(11.2%)	(4.8%)
OpCF (OIBDA-CapEx)	778	812	4.4%	6.9%

(1) See adjustments made to calculate organic variation below.

(2) Mobile service revenues include revenues from MVNOs since January 1, 2017, which were previously accounted as "Handset revenues and others"; these criteria are applied across Telefónica Group. For comparative purposes, mobile services and handset revenues for 2016 are reported using the same criteria.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica United Kingdom, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

- **Exchange rate effect:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rates of 2016 for both years.
- **Restructuring costs:** we have excluded the impact in 2017 and 2016 of restructuring costs, amounting to 314 thousand euros and 37 million euros, respectively.

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA UNITED KINGDOM 2017	YoY variation		Contribution to reported growth (percentage points)	
	% Reported YoY	% Organic YoY	Exchange rate effect	Restructuring costs
Revenues	(4.7%)	2.2%	(6.9)	—
Other income	(9.0%)	(2.4%)	(6.6)	—
Supplies	(3.1%)	3.9%	(7.0)	—
Personnel expenses	(16.2%)	(3.4%)	(6.1)	(7.0)
Other expenses	(5.0%)	1.9%	(6.9)	—
OIBDA	(4.1%)	0.7%	(7.0)	2.2
CapEx	(11.2%)	(4.8%)	(6.4)	—
OpCF (OIBDA-CapEx)	4.4%	6.9%	(7.6)	4.8

Results discussion

Total **revenues** were 6,540 million euros in 2017, down by 4.7% year-on-year in reported terms mainly due to the depreciation of the pound sterling (which accounted for 6.9 percentage points of the year-on-year decrease). In organic terms, revenues increased by 2.2% year-on-year due mainly to higher mobile service revenues and the handset revenues growth as well as revenues linked to M2M programs.

- **Mobile service revenues** totaled 5,050 million euros in 2017, down by 5.8% year-on-year in reported terms due mainly to the depreciation of the pound sterling (which accounted for 6.8 percentage points of the year-on-year decrease). Excluding this impact, mobile service revenues grew by 1.0% due to the increase in "In-Bundle" tariffs (which are linked to the RPI (Retail Price Index)) and the higher data consumption that offset the significant negative impact from changes in the European roaming regulation that became effective on June 15, 2017.

Mobile **ARPU** decreased by 6.5% year-on-year in reported terms due mainly to the depreciation of the pound sterling. In organic terms, **ARPU** increased by 0.3% with a data ARPU growth of 1.1% year-on-year, despite the significant negative impact from changes in the European roaming regulation, due to the growth of high-speed network penetration that led to the increased adoption of high end tariffs by our customers.

TELEFÓNICA UNITED KINGDOM	2016	2017	%YoY	%Organic YoY
Voice Traffic (millions of minutes)	93,306	94,723	1.5%	1.5%
ARPU (EUR)	17.0	15.9	(6.5%)	0.3%
Prepay	7.5	6.9	(7.0%)	0.3%
Contract (1)	28.8	26.8	(6.8%)	0.2%
Data ARPU (EUR)	10.3	9.7	(5.8%)	1.1%
% non-SMS over data revenues (2)	64.2%	65.5%	1.3 p.p.	1.3 p.p.

(1) Excludes M2M.

(2) Mobile data revenues have been revised, for comparative purposes mobile data revenues for 2016 are reported using the same criteria

OIBDA totaled 1,639 million euros in 2017, down by 4.1% year-on-year in reported terms, mainly as a result of the depreciation of the pound sterling. In organic terms, OIBDA increased by 0.7% year-on-year mainly as a

result of higher mobile service revenues (+1.0% year-on-year in organic terms) despite the significant negative impact from the new European roaming regulation (RLAH "Roaming Like at Home") and the costs growth, associated with 4G network deployment needed to support the higher data traffic demand.

The **OIBDA margin** stood at 25.1% in reported terms in 2017, with an increase of 0.1 percentage points compared to 2016.

TELEFÓNICA GERMANY

The below table shows the evolution of accesses in Telefónica Germany for 2016 and 2017 as of December 31 of such years:

ACCESSES

Thousands of accesses	2016	2017	% Reported YoY
Fixed telephony accesses (1)	2,010.3	1,979.6	(1.5%)
Internet and data accesses (2)	2,324.5	2,281.5	(1.9%)
Broadband	2,104.0	2,072.2	(1.5%)
FTTx	805.5	1,151.6	43.0%
Mobile accesses	44,320.7	43,154.7	(2.6%)
Prepay	23,784.0	21,880.9	(8.0%)
Contract	20,536.6	21,273.8	3.6%
M2M	787.8	1,027.0	30.4%
Final Clients Accesses	48,655.5	47,415.8	(2.5%)
Wholesale Accesses	691.0	188.1	(72.8%)
Total Accesses	49,346.4	47,603.9	(3.5%)

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

During 2017 Telefónica Germany maintained solid operational momentum in a dynamic competitive environment increasingly focused on the monetization opportunity driven by large data packages. Data usage showed significant year-on-year growth, supported by the good reception from new and existing customers of the O2 Free 15th anniversary promotions and the new O2 Free portfolio.

The **total access** base decreased 3.5% year-on-year and stood at 47.6 million at December 31, 2017, mainly driven by a 2.6% decrease in the mobile base (which fell to 43.2 million).

The **contract** mobile customer base grew 3.6% year-on-year and reached 21.3 million accesses, with a broadly stable 49.3% share over the total mobile base. Net adds reached 0.7 million contract accesses due to the solid contribution of partners (second brands) and increasing demand for tariffs with large data volumes. Smartphone penetration reached 60.9% of the total mobile access base, up 1.4 percentage points year-on-year driven by the continued growth of LTE customers (+31% year-on-year reaching 15.8 million at December 31, 2017) which reflects the continuous demand by customers for high speed mobile data access. LTE penetration reached 37.4% of the total mobile access base.

The **prepay** mobile access base decreased 8.0% year-on-year to 21.9 million. The prepay segment lost 1.9 million accesses in 2017 mainly due to a technical base adjustment of 1.2 million inactive users driven by IT-harmonization after systems integration and the implementation of regulatory changes (mainly, the need for a legitimization check for prepay SIM-cards as well as requirements applicable to European travelers).

The retail broadband net additions were negative in 2017 with 31.8 thousand accesses. VDSL accesses grew driven by strong demand with 346 thousand net additions in 2017 (+19.9% year-on-year), while the wholesale DSL customer base continued to fall according to the planned dismantling of the old legacy infrastructure.

The table below shows the evolution of Telefónica Germany's results for 2016 and 2017:

Millions of euros				
TELEFÓNICA GERMANY	2016	2017	%Reported YoY	%Organic YoY (1)
Revenues	7,503	7,296	(2.8%)	(2.8%)
Mobile Business	6,498	6,415	(1.3%)	(1.3%)
Mobile service revenues	5,437	5,287	(2.8%)	(2.8%)
Fixed Business	981	862	(12.2%)	(12.2%)
Other income	146	159	9.2%	9.2%
Supplies	(2,452)	(2,396)	(2.3%)	(2.6%)
Personnel expenses	(646)	(642)	(0.6%)	(0.3%)
Other expenses	(2,780)	(2,596)	(6.6%)	(6.6%)
OIBDA	1,771	1,821	2.8%	2.9%
OIBDA Margin	23.6%	25.0%	1.4 p.p.	1.4 p.p.
Depreciation and amortization	(2,200)	(1,954)	(11.2%)	(10.9%)
Operating Income (OI)	(429)	(133)	(69.1%)	(85.3%)
CapEx	1,107	951	(14.2%)	(13.7%)
OpCF (OIBDA-CapEx)	664	870	31.1 %	27.4%

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Germany, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

- **Restructuring costs:** we have excluded the impact of restructuring costs associated with simplification processes implemented in Germany. In 2017, restructuring costs had an 82 million euros impact on OIBDA. In 2016, restructuring costs had an 89 million euros impact on OIBDA.
- **Spectrum acquisition:** the CapEx organic variation exclude spectrum acquisition, which in 2017 amounted to 1 million euros (6 million euros in 2016).
- **Changes in the scope of consolidation:** in 2016, we have excluded the results of four months of the tower business transferred to Telxius on May 1, 2016, which had a 12 million euros impact on OIBDA (11 million euros on OpCF).

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement measures and CapEx and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA GERMANY 2017	YoY variation		Contribution to reported growth (percentage points)		
	%Reported YoY	%Organic YoY	Restructuring costs	Spectrum acquisition	Perimeter change
Revenues	(2.8%)	(2.8%)	—	—	—
Other income	9.2%	9.2%	—	—	—
Supplies	(2.3%)	(2.6%)	—	—	0.3
Personnel expenses	(0.6%)	(0.3%)	(0.3)	—	—
Other expenses	(6.6%)	(6.6%)	(0.2)	—	0.1
OIBDA	2.8%	2.9%	0.4	—	(0.7)
CapEx	(14.2%)	(13.7%)	—	(0.5)	(0.1)
OpCF (OIBDA-CapEx)	31.1 %	27.4%	1.1	0.8	(1.7)

Results discussion

Total **revenues** were 7,296 million euros in 2017 down 2.8% year-on-year in reported terms due mainly to the lower service revenues.

Mobile service revenues totaled 5,287 million euros in 2017, decreasing 2.8% year-on-year in reported terms due to the negative impact of regulatory developments (termination rate cuts and European roaming regulation), OTT trends, the higher share of wholesale revenues and the ongoing legacy base rotation. Telefonica Germany continued to focus on data revenues, which decreased by 0.2% and accounted for 56% of mobile service revenues in 2017. Non-P2P SMS data revenues amounted to 2,398 million euros (increasing +5.0% year-on-year) and accounted for 80.3% of the total data revenues (+4.0 percentage points year-on-year).

Fixed revenues were 862 million euros in 2017 (down 12.2% year-on-year), as a result of the lower year-on-year customer base in retail DSL and the planned phasing-out of the wholesale DSL business.

Mobile ARPU was 9.7 euros in 2017 (down 5.7% year-on-year), while contract ARPU stood at 15.5 euros (down 6.0% year-on-year), as a result of the regulatory developments, high pricing pressure in a competitive market, a higher share of wholesale customers in the customer base and the consequent change in the weight of retail to wholesale. Data ARPU was 5.6 euros (down 2.8% year-on-year).

TELEFÓNICA GERMANY	2016	2017	%YoY
Voice Traffic (millions of minutes)	113,896	98,084	(13.9%)
ARPU (EUR)	10.3	9.7	(5.7%)
Prepay	5.7	5.2	(8.5%)
Contract (1)	16.5	15.5	(6.0%)
Data ARPU (EUR)	5.7	5.6	(2.8%)
% non-SMS over data revenues (2)	76.3%	80.3%	4.0 p.p.

(1) Excludes M2M.

(2) Mobile data revenues have been revised, for comparative purposes mobile data revenues for 2016 are reported using the same criteria.

OIBDA totaled 1,821 million euros in 2017, increasing 2.8% year-on-year in reported terms. In organic terms, OIBDA grew by 2.9% year-on-year, driven by the integration synergies captured (as a consequence of the

integration of activities after the E-Plus acquisition in 2014) and the capital gains on the sale of assets, which offset the decrease in service revenues as a result of the impact of regulation and the continued commercial investments to drive O2 brand positioning.

The **OIBDA margin** stood at 25.0% in reported terms for 2017, up 1.4 percentage points compared to 2016.

TELEFÓNICA BRAZIL

The below table shows the evolution of accesses in Telefónica Brazil for 2016 and 2017 as of December 31 of such years:

ACCESSES

Thousands of accesses	2016	2017	%Reported YoY
Fixed telephony accesses (1)	14,338.4	13,837.3	(3.5%)
Internet and data accesses (2)	7,383.2	7,534.5	2.0%
Broadband	7,311.0	7,466.1	2.1%
FTTx/Cable	4,145.8	4,541.0	9.5%
Mobile accesses	73,769.8	74,931.3	1.6%
Prepay	40,387.2	38,168.1	(5.5%)
Contract	33,382.6	36,763.2	10.1%
M2M	5,005.1	6,312.5	26.1%
Pay TV	1,712.7	1,587.7	(7.3%)
Final Clients Accesses	97,204.2	97,890.8	0.7%
Wholesale Accesses	17.9	14.3	(20.4%)
Total Accesses	97,222.2	97,905.1	0.7%

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

Telefónica Brazil closed the year 2017 improving its competitive position in the mobile market. In the mobile business, leadership was maintained in the higher value segments, which permitted the operator to capture mobile market revenue growth in 2017. In the fixed business, the transformation towards value-added clients resulted in the increase in fiber in broadband and in IPTV in the Pay TV business.

Revenues and OIBDA evolution was positively supported by the acceleration of mobile adoption and the good evolution of fiber and IPTV. Additionally, Telefónica Brazil carried out cost control measures and generated benefits from the synergies with GVT that offset the negative impacts of adverse political conditions in Brazil, the aggressiveness of competitors and the worsening of the traditional fixed business.

However, results in 2017 were adversely affected by the interconnection tariff reduction in the mobile business (-45.6%), in the retail fixed-mobile tariff (-17.7%), in the fixed-local tariff (-35.3%) and in the fixed-interurban tariff (-50.9%) since February 25, 2017.

Telefónica Brazil reached 97.9 million **accesses** at December 31, 2017, up 0.7% compared with December 31, 2016.

In the **mobile business**, the strategic focus remained on gaining and retaining high value customers, reaching a market share of 41.8% in the contract segment as of December 31, 2017 (source: Anatel), preserving the leadership. Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 31.7% as of December 31, 2017 (source: Anatel), driven in part by the contract clients growth (10.1% year-

on-year), which offset the fall in prepaid clients (-5.5% year-on-year). The improvement in contract accesses was the consequence of the offering of more attractive plans, the applications and certain special roaming plans for pure contract clients.

In its **fixed business**, Telefónica Brazil maintained its strategic focus on fiber deployment, with 18.4 million premises passed with fiber at December 31, 2017 and 4.5 million homes connected. Traditional accesses decreased 3.5% due to the fixed-mobile migration. Retail broadband accesses totaled 7.5 million accesses at the end of 2017, increasing 2.1% year-on-year. Among them, 61% accesses were connected with FTTx. Pay TV customers reached 1.6 million as of December 31, 2017, down 7.3% year-on-year due to the discontinuation of the DTH business and a commercial strategy based on value clients of IPTV. IPTV accesses increased in relevance representing 24% of total Pay TV accesses.

The table below shows the evolution of Telefónica Brazil's results for 2016 and 2017:

Millions of euros				
TELEFÓNICA BRAZIL	2016	2017	%Reported YoY	%Organic YoY (1)
Revenues	11,090	12,019	8.4%	1.4%
Mobile Business	6,663	7,360	10.5%	3.7%
Mobile service revenues	6,351	7,062	11.2%	4.4%
Fixed Business	4,427	4,659	5.2%	(2.1%)
Other income	348	358	2.9%	(3.6%)
Supplies	(2,260)	(2,268)	0.4%	(6.2%)
Personnel expenses	(1,165)	(1,196)	2.6%	(1.2%)
Other expenses	(4,311)	(4,722)	9.5%	1.7%
OIBDA	3,702	4,191	13.2%	6.0%
OIBDA Margin	33.4%	34.9%	1.5 p.p.	1.5 p.p.
Depreciation and amortization	(2,036)	(2,228)	9.4%	2.6%
Operating Income (OI)	1,666	1,963	17.9%	10.0%
CapEx	2,137	2,225	4.1%	(0.1%)
OpCF (OIBDA-CapEx)	1,566	1,966	25.5%	13.6%

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Brazil, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

- **Exchange rate effect:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rates of 2016 for both years.
- **Changes in the scope of consolidation:** the 2016 comparative figures for organic changes included the six months impact of the consolidation of Terra Networks Brazil in this segment which had an impact of 14 million euros on OIBDA and 13 million euros on OpCF for 2016, and excluded the results

of three months of the tower business transferred to Telxius on April 1, 2016, which had an impact of 4 million euros on OIBDA and OpCF.

- **Restructuring costs:** we have excluded the impact of restructuring costs associated with the simplification processes implemented in Telefónica Brazil. In 2016, these restructuring costs totaled 40 million euros. There were no such restructuring costs during 2017.
- **Results of tower sales:** the results attributable to the sale of towers have been excluded (107 thousand euros in 2017 and 100 thousand euros in 2016).
- **Spectrum acquisition:** the impact of spectrum acquisitions has been excluded (48 million euros in 2016).
- **Contingencies:** the impact of the provision of certain regulatory contingencies in 2017 was excluded in Telefónica Brazil (50 million euros).

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA BRAZIL 2017	YoY variation		Contribution to reported growth (percentage points)					
	%Reported YoY	%Organic YoY	Exchange rate effect	Perimeter change	Restructuring costs	Towers sales	Spectrum acquisition	Contingencies
Revenues	8.4%	1.4%	6.7	0.3	—	—	—	—
Other income	2.9%	(3.6%)	(6.4)	(0.1)	—	—	—	—
Supplies	0.4%	(6.2%)	6.2	0.4	—	—	—	—
Personnel expenses	2.6%	(1.2%)	6.4	0.8	(3.5)	—	—	—
Other expenses	9.5%	1.7%	6.8	—	—	—	—	1.1
OIBDA	13.2%	6.0%	7.0	0.3	1.1	—	—	(1.3)
CapEx	4.1%	(0.1%)	6.5	0.1	—	—	(2.3)	—
OpCF (OIBDA-CapEx)	25.5%	13.6%	7.8	0.6	2.6	—	3.1	(3.0)

Results discussion

Revenues totaled 12,019 million euros in 2017, up 8.4% in reported terms, due mainly to the appreciation of the Brazilian real (which accounted for +6.7 percentage points of the evolution) and the changes in the consolidation perimeter (+0.3 percentage points). In organic terms, the year-on-year increase was 1.4%, principally due to the good evolution in the mobile business (+3.7% year-on-year) despite the negative impact from the decrease of the regulated tariffs.

- **Revenues from the mobile business** totaled 7,360 million euros in 2017, up 10.5% in reported terms due mainly to the appreciation of the Brazilian real (which accounted for 6.9 percentage points of the evolution). In organic terms, revenues from the mobile business increased by 3.7% due to the positive evolution of service revenues (+4.4% year-on-year) as a result of the higher weight of the contract clients, who generally use more data and other services over connectivity, that offset the decrease in interconnection tariffs and the decline in prepay revenues associated with a smaller customer base. Additionally, handset revenues slowed down by 4.5% in reported terms due to a lower commercial activity, which was focused on higher value clients.

- **Fixed telephony revenues** totaled 4,659 million euros, up 5.2% in reported terms due mainly to the appreciation of the Brazilian real (which accounted for 6.5 percentage points of the evolution) and the impact of the consolidation of Terra Networks Brasil (0.8 percentage points), which offset the regulatory impact of the decrease in the fixed-mobile and fixed-fixed tariffs and the decrease in voice traffic. In organic terms, revenues were down by 2.1%, mainly due to the regulatory impact of such tariff decreases and the decrease in voice traffic, which more than offset the increase in broadband and new services revenues, which were up by 8.3% year-on-year in organic terms supported by the increase in fiber revenues, from high-value customers.

The **mobile ARPU** increased 7.8% year-on-year in reported terms due mainly to the better quality of the customer base and the expansion of data revenues as well as the appreciation of the Brazilian real. In organic terms, it increased 2.6% year-on-year as a consequence of the higher data ARPU which more than offset the negative impact of the reduction in the mobile termination rates.

TELEFÓNICA BRAZIL	2016	2017	%YoY	%Local Currency YoY
Voice Traffic (millions of minutes)	373,074	333,752	(10.5%)	(10.5%)
ARPU (EUR)	7.1	7.7	7.8%	2.6%
Prepay	3.4	3.7	11.1%	(3.4%)
Contract (1)	12.9	14.4	11.2%	1.5%
Data ARPU (EUR)	3.5	5.4	55.0%	32.4%
% non-SMS over data revenues (2)	89.3%	92.2%	2.9 p.p.	3.0 p.p.

(1) Excludes M2M.

(2) Mobile data revenues have been revised, for comparative purposes mobile data revenues for 2016 are reported using the same criteria.

OIBDA stood at 4,191 million euros in 2017, up 13.2% in reported terms. This evolution was affected by the appreciation of the Brazilian real (+7.0 percentage points) and the changes in the consolidation perimeter (+0.3 percentage points). In organic terms, the year-on-year increase was 6.0% due to the contract and fiber revenues improvement, as well as cost efficiencies and higher synergies from the consolidation of GVT in 2015. Personnel expenses totaled 1,196 million euros in 2017, up 2.6% in reported terms mainly as the result of the appreciation of the Brazilian real. In organic terms, personnel expenses decreased by 1.2% year-on-year as a result of the restructuring plans implemented in 2016. In addition, supplies costs fell (-6.2% in organic terms) thanks to the positive impact of the interconnection tariff reduction and synergies from the consolidation of GVT achieved mainly in content costs.

The **OIBDA margin** stood at 34.9% in reported terms for 2017, up 1.5 percentage points in reported and organic terms compared to 2016.

TELEFÓNICA HISPAM NORTE

The below table shows the evolution of accesses in Telefonica Hispam Norte for 2016 and 2017 as of December 31 of such years:

ACCESSES

Thousands of accesses	2016 (*)	2017 (*)	% Reported YoY
Fixed telephony accesses (1) (2)	3,639.3	3,554.7	(2.3%)
Internet and data accesses (2) (3)	993.4	1,229.2	23.7%
Broadband	968.0	1,199.9	24.0%
FTTx/Cable	27.1	126.8	368.7%
Mobile accesses	68,200.9	66,788.6	(2.1%)
Prepay	59,085.9	57,190.7	(3.2%)
Contract	9,115.0	9,597.9	5.3%
M2M	1,514.2	1,686.7	11.4%
Pay TV	983.7	982.1	(0.2%)
Final Clients Accesses	73,817.3	72,554.6	(1.7%)
Total Accesses	73,857.6	72,565.4	(1.7%)

(*) Revised data.

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Following the pre-payment of the debt derived from the operating agreement with PARAPAT in Colombia and after taking over its subsidiaries Telebucaramanga, Metrotel and Optecom, the consolidated results are included in the fixed business from 1 October 2017.(3) Also referred to as fixed broadband accesses.

The table above includes accesses for Guatemala (3.3 million and 3.2 million total accesses as of December 31, 2016 and 2017, respectively) and El Salvador (2.4 million and 2.0 million total accesses as of December 31, 2016 and 2017, respectively). On January 24, 2019, Telefónica completed the sale of its operations in Guatemala. In addition, the sale of Telefónica's operations in El Salvador is currently pending.

Total **accesses** reached 72.6 million at December 31, 2017 (-1.7% year-on-year).

Mobile accesses fell by 2.1% year-on-year to 66.8 million customers, due to a lower prepay customer base.

- **Contract** accesses increased 5.3% year-on-year, mainly due to good performances in Mexico (+13.0%), Central America (+13.9%) and Colombia (+4.0%) which offset declines in Venezuela (-2.1%) and Ecuador (-2.0%).
- **Prepay** accesses decreased 3.2% year-on-year, with negative net adds of 1.9 million accesses at December 31, 2017, mainly as a result of the evolution in Mexico (-1.7 million accesses) and Venezuela (-0.5 million accesses), which was partially offset by Colombia (+0.7 million accesses). Lower accesses were mainly the result of intense market competition and the Group's continued focus on attracting high-value customers.
- The **smartphone** customer base increased 4.0% year-on-year at December 31, 2017, reaching 29.7 million accesses (+1.1 million compared to December 31, 2016) with a mobile access penetration of 44% (+2.6 percentage points year-on-year), growing in all countries of the region except Mexico (-3.2%) and Venezuela (-3.0%). In addition, accesses with 4G handsets increased 87%, reaching 13.6 million accesses by the end of 2017.

Fixed accesses stood at 3.6 million at December 31, 2017 (-2.3% year-on-year) with negative net adds of 0.1 million customers, due to the erosion of the traditional fixed business, which more than offset the inclusion of 0.3 million accesses in Colombia of Tele-Bucaramanga and MetroTel in 2017.

Fixed broad band accesses reached 1.2 million at December 31, 2017 (+24.0% year-on-year), mainly due to the inclusion of 236 thousand accesses in Colombia of Tele-Bucaramanga and MetroTel. The penetration of FBB accesses over fixed accesses stood at 31% (+7.2 percentage points year-on-year), focusing on UBB deployment in the region, reaching 0.7 million real estate units and 0.1 million connected accesses, almost all of them connected in 2017. The penetration of UBB accesses over fixed broadband accesses stood at 11% (+8 percentage points year-on-year).

Pay TV accesses stood at 1 million, remaining mainly unchanged compared with the prior year, with positive results in Colombia (+12 thousand accesses) and Central America (+9 thousand accesses) which were offset by Venezuela (-23 thousand accesses).

The table below shows the evolution of Telefónica Hispam Norte's results for 2016 and 2017:

Millions of euros

TELEFÓNICA HISPAM NORTE	2016 (*)	2017 (*)	%Reported YoY	%Organic YoY (1)
Revenues	4,711	4,331	(8.1%)	25.4%
Mobile Business	3,881	3,595	(7.4%)	28.0%
Mobile service revenues	3,488	3,089	(11.4%)	26.8%
Fixed Business	831	736	(11.4%)	13.8%
Other income	128	114	(10.9%)	(13.2%)
Supplies	(1,527)	(1,385)	(9.3%)	1.4%
Personnel expenses	(431)	(375)	(13.0%)	55.5%
Other expenses	(1,768)	(1,422)	(19.5%)	15.5%
OIBDA	1,113	1,263	13.5%	51.7%
OIBDA Margin	23.6%	29.2%	5.5 p.p.	6.0 p.p.
Depreciation and amortization	(1,112)	(992)	(10.8%)	4.0%
Operating Income (OI)	1	271	n.m.	n.m.
CapEx	878	1,264	43.9%	22.9%
OpCF (OIBDA-CapEx)	235	(1)	n.m.	n.m.

n.m.: not meaningful

(*) Revised data.

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Hispam Norte, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

- **Exchange rate effects and hyperinflation adjustments in Venezuela:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rates of 2016 for both years. We have also excluded the impact of hyperinflation adjustments in Venezuela, by reversing such adjustments.
- **Changes in the scope of consolidation:** the results of the Colombian companies Telebucaramanga, Metrotel and Optecom (which were acquired in October 2017 and had a 4 million euros impact on OIBDA before restructuring costs) have been excluded.
- **Restructuring costs:** we have excluded the impact of restructuring costs in 2017 and 2016, amounting to 24 and 18 million euros impact in OIBDA, respectively.
- **Results of tower sales:** the results attributable to the sale of towers have been excluded (7 million euros in 2017 and 478 thousand euros in 2016).
- **Spectrum acquisition:** the impact of spectrum acquisitions amounting to 510 million euros has been excluded in 2017 (470 million euros in Colombia).
- **Goodwill impairments:** impairment losses from goodwill in consolidation are excluded to calculate organic variations. In 2016, the impairment loss on the goodwill assigned to Telefónica Venezolana and Telefónica Móviles Mexico amounting to 124 and 91 million euros, respectively, was excluded.

- **Other adjustments:** the positive result of Telefónica Venezuela tariff increases in the last quarter of 2017 was excluded (6 million euros in revenues and 2 million euros in OIBDA).

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA HISPAM NORTE 2017	YoY variation		Contribution to reported growth (percentage points)						
	% Reported YoY	% Organic YoY	Exchange rate effect and hyperinflation	Restructuring costs	Towers sales	Spectrum acquisition	Impairments	Perimeter change	Other adjustments
Revenues	(8.1%)	25.4%	(33.3)	--	--	--	--	0.5	0.1
Other income	(10.9%)	(13.2%)	(3.9)	--	5.2	--	--	0.8	--
Supplies	(9.3%)	1.4%	(11.3)	--	--	--	--	0.6	--
Personnel expenses	(13.0%)	55.5%	(66.2)	1.7	--	--	--	0.9	--
Other expenses	(19.5%)	15.5%	(42.7)	--	--	--	(12.2)	0.4	21.9
OIBDA	13.5%	51.7%	(66.9)	(0.6)	0.6	--	19.3	0.3	0.2
CapEx	43.9%	22.9%	(37.6)	--	--	58.2	--	0.9	--
OpCF (OIBDA-CapEx)	c.s.	n.m.	(176.4)	(2.8)	2.6	(217.5)	91.4	(1.6)	0.8

c.s.: change of sign

n.m.: not meaningful

Results discussion

Revenues amounted to 4,331 million euros in 2017, decreasing 8.1% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange effect and the hyperinflation in Venezuela which decreased growth by 33.3 percentage points. In organic terms, revenues would have grown by 25.4% year-on-year, driven by the good performance of data revenues, both mobile and fixed revenues, and the increase in TV revenues and handset sales revenues, in spite of interconnection tariff reductions.

- **Mobile service revenues** reached 3,089 million euros in 2017, decreasing 11.4% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange effect and the hyperinflation in Venezuela which decreased growth by 38.3 percentage points. Excluding this effect, these revenues would have grown by 26.8%. Mobile service revenues performance by country was as follows:
 - In Mexico, mobile service revenues reached 1,102 million euros in 2017, decreasing by 11.6% year-on-year in reported terms. This decrease was attributable in part to the foreign exchange effect, which decreased growth by 2.8 percentage points. Excluding this effect, these revenues decreased by 8.8%, principally as a result of the performance of the prepay revenues which were affected by the 7.1% decrease in the customer base, which more than offset the positive impact of the interconnection agreements entered into during the first half of 2016 (37 million euros).
 - In Colombia, mobile service revenues reached 768 million euros in 2017, increasing by 3.4% year-on-year in reported terms, affected by the foreign exchange effect which accounted for 1.4 percentage points of the increase. In local currency, these revenues increased by 2.0% due to higher interconnection tariffs and improvements in our offers, directed to high-value customers.

- **Data revenues** in the segment reached 1,678 million euros in 2017, increasing by 7.6% year-on-year in reported terms, due to the higher data revenues in all countries of the region. This increase was significantly offset by the foreign exchange effect and the impact of hyperinflation adjustments in Venezuela (which detracted 69.7 percentage points of the increase). Excluding this effect, the data revenues would have been up by 77.4 % year-on-year.
- **Fixed business revenues** reached 736 million euros in 2017, decreasing by 11.4% year-on-year in reported terms. Excluding foreign exchange effects and the impact of hyperinflation adjustments in Venezuela (-25.2 percentage points) and the changes in the scope of consolidation of the Colombian companies of Telebucaramanga, Metrotel and Optecom (+2.7 percentage points), these revenues would have grown by 13.8% year-on-year due to higher TV and fixed broadband revenues, offsetting the decline in accesses and voice revenues.

OIBDA reached 1,263 million euros in 2017, increasing 13.5% year-on-year in reported terms, mainly as a result of the absence of impairment losses from goodwill such as those recorded in 2016 (+19.3 percentage points), which more than offset the impact of foreign exchange effects and hyperinflation adjustments in Venezuela (which decreased growth by 66.9 percentage points) and restructuring costs incurred by the Group (which decreased growth by 0.6 percentage points). In organic terms, OIBDA increased 51.7%, due to higher revenues in spite of higher interconnection, network and IT expenses. The higher expenses were mainly attributable to:

- higher supply costs due to higher fixed equipment purchases in Mexico and Central America and higher mobile handsets purchases in the region except for Central America, which more than offset the lower interconnection costs in the region;
- higher personnel expenses driven by the increase of inflation in some countries of the region, which could not be offset by the savings resulting from the restructuring plans carried out during the previous year. Restructuring plans carried out in 2017, in respect of which we incurred 24 million euros, affected mainly Mexico, Colombia and Central America; and
- higher network expenses, mainly in Mexico, Colombia and Central America due to the expansion of the fixed and mobile networks, as well as the depreciation of Latin American currencies against the U.S. dollar.

Below, is additional information by country:

- Mexico: OIBDA amounted to 302 million euros in 2017, decreasing 2.2% in reported terms, affected by the exchange rate effect which reduced growth in 3.1 percentage points. In local currency, OIBDA increased by 0.9% reflecting the positive evolution of prepay revenues as well as the positive impact of interconnection agreements entered into in the first quarter of 2016 and the cost efficiencies achieved. Moreover, personnel expenses increased in 2017 as a result of the restructuring plans of the Group.
- Colombia: OIBDA amounted to 482 million euros in 2017, increasing 3.7% in reported terms, due in part to the exchange rate evolution that accounted for 1.4 percentage points of the increase. In local currency, OIBDA increased by 2.3% due to the good performance of revenues as well as lower supplies associated with lower interconnection tariffs and efficiencies in other expenses. Personnel expenses in 2017 increased as a result of the restructuring plans of the Group.

OIBDA margin reached 29.2% in 2017 and increased by 5.5 percentage points year-on-year in reported terms. Excluding the foreign exchange effects and the impact of hyperinflation adjustments in Venezuela, OIBDA margin would have increased by 6.0 percentage points, due principally to the higher margin in all the operating businesses in the region.

TELEFÓNICA HISPAM SUR

The below table shows the evolution of accesses in Telefónica Hispam Sur for 2016 and 2017 as of December 31 of such years:

ACCESSES

Thousands of accesses	2016 (*)	2017 (*)	% Reported YoY
Fixed telephony accesses (1)	8,299.3	7,938.5	(4.3%)
Internet and data accesses (2)	4,714.5	4,656.1	(1.2%)
Broadband	4,602.7	4,535.4	(1.5%)
FTTx/Cable	1,082.1	1,656.2	53.1%
Mobile accesses	47,083.7	43,775.1	(7.0%)
Prepay	30,375.3	27,631.8	(9.0%)
Contract	16,708.3	16,143.3	(3.4%)
M2M	1,047.2	1,199.8	14.6%
Pay TV	1,935.6	2,050.3	5.9%
Final Clients Accesses	62,033.0	58,419.9	(5.8%)
Total Accesses	62,059.1	58,445.9	(5.8%)

(*) Revised data.

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

Total **accesses** reached 58.4 million at December 31, 2017 (-5.8% year-on-year).

Mobile accesses fell by 7.0% year-on-year to 43.8 million customers, mainly due to a lower prepay customer base.

- **Contract** accesses decreased 3.4% year-on-year, mainly due to Peru's negative evolution (-17.5%), where we faced a complicated competitive environment, which more than offset the good performances in Chile (+13.0%), Argentina (+4.9%) and Uruguay (+1.1%).
- **Prepay** accesses decreased 9.0% year-on-year, with negative net adds of 2.7 million accesses at December 31, 2017, mainly as a result of the evolution in Argentina (-1.9 million accesses) and Peru (-0.8 million accesses), and to a significantly lesser extent, Chile and Uruguay. Lower accesses were mainly the result of intense market competition and the Group's continued focus on attracting high-value customers.
- The **smartphone** customer base increased 23.2% year-on-year at December 31, 2017, reaching 21.7 million accesses (+4.1 million compared to December 31, 2016) with a mobile access penetration of 49% (+12.1 percentage points year-on-year), growing in all countries. In addition, accesses with 4G handsets increased 68%, reaching 13.8 million accesses by the end of 2017.

Fixed accesses stood at 7.9 million at December 31, 2017 (-4.3% year-on-year) with negative net adds of 0.4 million customers, due to the erosion of the traditional fixed business.

Fixed broad band accesses reached 4.5 million at December 31, 2017 (-1.5% year-on-year), mainly due to the decrease in accesses in Argentina (-10.1%), as the Group focused on fiber (high-value customers), which affected the growth in the copper business. This decrease more than offset the good results in Peru (+6.2%) and Chile (+1.7%). The penetration of FBB accesses over fixed accesses stood at 57% (+1.7 percentage points year-on-year), focusing on UBB deployment in the region, reaching 6.1 million real estate units and 1.7 million connected accesses (+53.1% year-on-year). The penetration of UBB accesses over fixed broadband accesses stood at 37% (+13 percentage points year-on-year).

Pay TV accesses stood at 2 million (+5.9% year-on-year) registering net adds of 0.1 million accesses with positive results in the two countries in the region that offer this service: Peru (+7.2%) and Chile (+3.6%).

The table below shows the evolution of Telefónica Hispam Sur's results for 2016 and 2017:

Millions of euros				
TELEFÓNICA HISPAM SUR	2016 (*)	2017 (*)	%Reported YoY	%Organic YoY (1)
Revenues	7,870	8,218	4.4 %	9.4 %
Mobile Business	4,697	4,993	6.3 %	11.9 %
Mobile service revenues	4,140	4,319	4.3 %	9.8 %
Fixed Business	3,173	3,225	1.6 %	5.7 %
Other income	146	160	9.5 %	23.8 %
Supplies	(2,194)	(2,288)	4.3 %	6.8 %
Personnel expenses	(1,156)	(1,269)	9.7 %	18.0 %
Other expenses	(2,306)	(2,546)	10.4 %	15.7 %
OIBDA	2,360	2,275	(3.6)%	2.4 %
OIBDA Margin	30.0%	27.7%	(2.3 p.p.)	(1.9 p.p.)
Depreciation and amortization	(1,075)	(1,198)	11.4 %	14.2 %
Operating Income (OI)	1,285	1,077	(16.2)%	(7.0)%
CapEx	1,737	1,414	(18.6)%	0.2 %
OpCF (OIBDA-CapEx)	623	861	38.0 %	5.9 %

(*) Revised data.

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Hispam Sur, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

- **Exchange rate effects:** we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rates of 2016 for both years.

- **Changes in the scope of consolidation:** the results in 2016 of the towers business transferred to Telxius (on April 1, 2016 by Telefónica Peru and on May 1, 2016 by Telefónica Chile), which had a 3 million euros impact on OIBDA and a 2 million euros impact on OpCF, have been excluded.
- **Restructuring costs:** we have excluded the impact of restructuring costs in 2017 and 2016, which had a 79 million euros and 66 million euros impact on OIBDA, respectively.
- **Spectrum acquisition:** the impact of spectrum acquisitions has been excluded in 2017 (27 million euros, corresponding to Uruguay) and 2016 (284 million euros, corresponding to Peru).
- **Capital gains and losses on sales of companies:** gains and losses obtained from the sale of companies are excluded to calculate organic variations. In 2016, the profit from the sale of Telefé in Argentina for 15 million euros was excluded.

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA HISPAM SUR 2017	YoY variation		Contribution to reported growth (percentage points)				
	%Reported YoY	%Organic YoY	Exchange rate effect	Restructuring costs	Spectrum acquisition	Capital gains/losses on sale of companies	Perimeter change
Revenues	4.4 %	9.4%	(4.9)	--	--	--	--
Other income	9.5 %	23.8%	(2.0)	--	--	(10.0)	--
Supplies	4.3 %	6.8%	(2.7)	--	--	--	0.1
Personnel expenses	9.7 %	18.0%	(8.9)	1.6	--	--	--
Other expenses	10.4 %	15.7%	(5.3)	--	--	--	--
OIBDA	(3.6)%	2.4%	(4.6)	(0.8)	--	(0.6)	(0.1)
CapEx	(18.6)%	0.2%	(3.9)	--	(14.8)	--	0,0
OpCF (OIBDA-CapEx)	38.0 %	5.9%	(6.6)	(3.0)	41.3	(2.3)	(0.4)

Results discussion

Revenues amounted to 8,218 million euros in 2017, increasing 4.4% year-on-year in reported terms. This increase was mainly driven by the good performance of data revenues, both mobile and fixed revenues, and the increase in handset sales revenues, which more than offset the foreign exchange effects (which decreased growth by 4.9 percentage points) and interconnection tariff reductions. In organic terms, revenues grew by 9.4% year-on-year.

- **Mobile service revenues** reached 4,319 million euros in 2017, increasing 4.3% year-on-year in reported terms, due mainly to the good performance of Argentina. Excluding foreign exchange effects, which decreased growth by 5.4 percentage points, these revenues grew by 9.8%. Mobile service revenues performance in the main countries comprising this segment was as follows:
 - In Argentina, mobile service revenues reached 1,966 million euros in 2017, increasing by 20.8% year-on-year in reported terms. This increase was due mainly to upward adjustment in tariffs, higher consumption in postpaid, a bigger customer base with top-ups and a higher top-up

volume in prepay, which more than offset the foreign exchange effect (which decreased growth by 16.6 percentage points). Excluding this effect, these revenues grew by 37.4%.

- In Chile, mobile service revenues reached 1,069 million euros in 2017, decreasing by 3.0% year-on-year in reported terms, due mainly to the lower outgoing mobile revenues, which were affected by extremely aggressive competition, and lower FBB revenues, also as a result of increased competition that affected ARPU growth and our customer base (which was negatively impacted by churn level). These factors more than offset the positive impact of the foreign exchange effect. In local currency, these revenues decreased by 5.1%.
- In Peru, mobile service revenues reached 1,072 million euros in 2017, decreasing by 11.1% year-on-year in reported terms. The decrease in revenues was mainly due to lower prepay and postpaid revenues as a consequence of higher competitiveness in the market with the launching of voice and data unlimited plans, the offering of high subsidies and portability with discounts of 50%. These actions resulted in net losses of customers and lower ARPU levels. These factors more than offset the positive impact of the foreign exchange effect. In local currency, these revenues decreased by 12.5%.
- **Data revenues** in the segment reached 2,442 million euros in 2017, increasing by 12.9% year-on-year in reported terms, due to the higher data revenues in Argentina. This increase was significantly offset by the foreign exchange effects (which detracted 6.3 percentage points of the increase). Excluding this effect, the data revenues increased by 19.2 % year-on-year.
- **Fixed business revenues** reached 3,225 million euros in 2017, increasing by 1.6% year-on-year in reported terms. Excluding foreign exchange effects (-4.0 percentage points), these revenues grew by 5.7% year-on-year due to higher TV and fixed broadband revenues, which more than offset the decline in accesses and voice revenues. Argentina in particular, experienced strong momentum in the fixed business with strong growth of broadband revenues due to the adjustment of tariffs, improved speed and a better quality of the access base.

OIBDA reached 2,275 million euros in 2017, decreasing 3.6% year-on-year in reported terms, mainly as a result of the impact of foreign exchange effects (which decreased growth by 4.6 percentage points) and restructuring costs made by the Group (which decreased growth by 0.8 percentage points). In organic terms, OIBDA increased 2.4%, due to higher revenues in spite of higher interconnection, network and IT expenses. The higher expenses were attributable to:

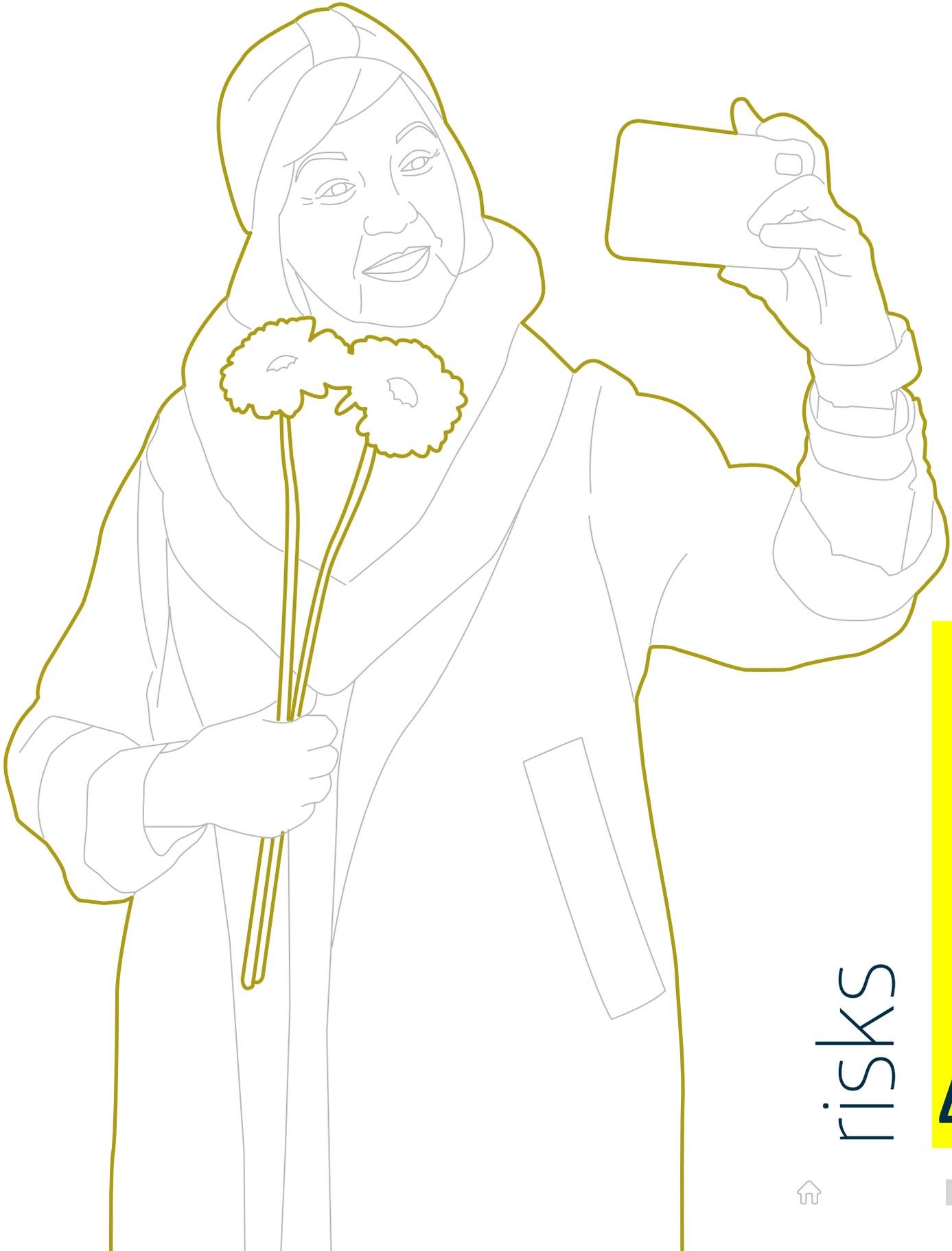
- higher supply costs due to increased fixed equipment purchases in Chile, as a result of the Group's engagement in connection with the 2017 Chilean general election (pursuant to which Telefónica provided the necessary equipment and maintenance services in connection therewith), and higher interconnection expenses in Argentina and Peru;
- higher personnel expenses driven by the increase of inflation in some countries of the region, which could not be offset by the savings resulting from the restructuring plans carried out during the previous year. Restructuring plans carried out in 2017, amounting to 78 million euros, affected mainly Argentina, Peru and Chile; and

- higher network expenses, mainly in Argentina due to the expansion of the fixed and mobile networks, higher IT expenses in Argentina, Chile and Peru, and the impact of inflation and depreciation of Latin American currencies against the U.S. dollar.

Below, is additional information by country:

- Argentina: OIBDA amounted to 971 million euros in 2017, increasing 21.8% in reported terms. The exchange rate effect reduced growth by 16.7 percentage points. In local currency, the year-on-year variation was 38.5%, due to the good performance of revenues, which more than offset the effect of higher expenses as a result of inflation. Personnel expenses also increased as a result of the ongoing restructuring plans of the Group and interconnection expenses increased due to tariff increases.
- Chile: OIBDA amounted to 630 million euros in 2017, decreasing 10.5% in reported terms. Excluding the exchange rate effect (that reduced variation in 2.0 percentage points), OIBDA decreased by 12.4% as a result of the reduction in revenues mentioned above. In addition, there were higher personnel expenses in 2017 as a result of the restructuring plans of the Group.
- Peru: OIBDA amounted to 588 million euros in 2017, decreasing 24.5% in reported terms (with the exchange rate evolution having a positive impact of 1.2 percentage points). In local currency, OIBDA decreased by 25.7%, affected by the service revenue reduction. In addition, there were higher personnel expenses in 2017 as a result of the restructuring plans of the company.

OIBDA margin reached 27.7% in 2017, and decreased by 2.3 percentage points year-on-year in reported terms. Excluding the foreign exchange effects, OIBDA margin decreased by 1.9 percentage points, due to the evolution in Peru (-5.8 percentage points) and Chile (-3.7 percentage points).



risks

4





Risks

102-15

Risk factors associated with the issuer

The Telefónica Group's business is affected by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The main risks and uncertainties facing Telefónica which could affect its business, financial position, reputation, corporate image and brand and its results of operations are set out below and must be considered jointly with the information set out in the Consolidated Financial Statements:

Worsening of the economic and political environment could negatively affect Telefónica's business.

Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to diverse legislation, as well as to the political and economic environments of the countries in which it operates. Any adverse developments or even uncertainties in this regard, including exchange-rate or sovereign-risk fluctuations, may adversely affect Telefónica's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

Economic conditions may adversely affect the level of demand of existing and prospective customers, as they may no longer deem critical the services offered by the Group.

In Europe, the macro-financial outlook showed a slight deterioration during the second half of 2018, influenced by external factors such as the weaker and maturing global economic cycle, the recent tightening of financial conditions, the greater uncertainty associated with the trade tensions between China and the United States and the risks that such tensions pose on economic growth and global stability. On the regional front, the political uncertainty in Europe has diminished in part after the results of the general elections in some European countries, but it still persists in various countries, including Italy, given the lack of political commitment with a reformist agenda. Economic activity and financial stability in Europe could also be affected by the monetary normalization that the European Central Bank is expected to continue implementing and by how Greece continues to manage its ongoing banking and economic restructuring process, after the country's recent exit from its bailout program.

Furthermore, the planned exit of the United Kingdom from the European Union ("EU") following the outcome of the referendum held in June 2016 is expected to result in economic adjustments regardless of the nature of the new trade and investment relationships between the United Kingdom and the rest of Europe in the future. As of the date of this Annual Report, there is significant uncertainty regarding the Brexit negotiations and required parliamentary approvals, both in terms of timing (the process can be subject to delays) and the final outcome, with multiple options still being possible, including a no deal Brexit. In the meantime, uncertainty surrounding Brexit could have a negative impact on investment, economic activity and employment. It could also lead to financial market volatility, which could limit or restrict access to capital markets. This situation could worsen depending on the final terms of Brexit, which could increase regulatory and legal complexities, including those relating to tax, trade and security. Such changes could be costly and potentially disruptive to business relationships in these markets, including those of Telefónica, its suppliers and its customers. The elections to the European Parliament in May 2019 could also lead to political uncertainty, as they could result in a rebalancing of political groupings and significant changes in goals for the European project in the medium term, as well as in changes in key positions of the main European institutions during 2019.

In Spain, another possible source of uncertainty is Catalonia's political situation and its impact on the Spanish economy. Although recent developments have contributed to reduce such uncertainty, if political tensions re-emerge or intensify, there could be a negative impact both on financing conditions and on the Spanish macroeconomic scenario, given the demanding sovereign bond maturity calendar and the high dependence of the Spanish economy on the international investors and economic outlook. There is also some uncertainty regarding the economic policy mix to be implemented in 2019 as a result of the current high parliamentary fragmentation. In 2018, the Telefónica Group obtained 26.1% of its revenues in Spain (24.3% in 2017), 15.0% in Germany (14.0% in 2017) and 13.9% in the United Kingdom (12.6% in 2017).

In Latin America, exchange rate risk is particularly noteworthy. Certain external factors contributing to this risk are the uncertainty derived from the monetary normalization process in the United States, increasing global trade tensions, the continuing low commodity prices in certain cases and doubts about growth and financial imbalances in China. Certain internal factors contributing to this risk are the high fiscal and external deficits in major Latin American countries and the low liquidity in certain exchange markets, together with low productivity growth, which hinder a more accelerated progress in economic development and the rebalancing of still existing mismatches.

In Argentina, the government is focused on resolving the country's macroeconomic and financial imbalances and on recovering international confidence, particularly after the agreement reached with the International Monetary Fund to provide financial support in the medium term. Even though the measures taken by the government are expected to have positive effects in the medium term, both the macroeconomic and exchange rate risks remain high in the short term. The major challenges the economy is facing, both internally (with an ongoing sharp reduction of public deficit in an environment of economic recession and high inflation) and externally (with significant financing needs in the medium term), make the Argentine economy vulnerable to episodes of volatility in the financial markets. Moreover, the presidential elections due to take place in 2019 pose additional risks, as they could result in a change in the current economic policy stance with very limited economic policy levers.

In Brazil, after the presidential elections resulted in a change of government, the effectiveness of such government in implementing the announced and needed reforms that would improve the potential growth of the economy and drive the fiscal accounts towards sustainability remains to be seen. On the other hand, while signs of stabilization have emerged and the economy has started to show positive growth figures, the pace of the recovery is still gradual. Despite the decreasing external financing needs, internal financing needs remain high, and financing conditions remain challenging, as the country sovereign credit rating remains below investment grade.

Mexico has a high commercial and financial exposure to the United States, which could generate uncertainty. Domestically, there is also uncertainty surrounding the new government's political agenda, despite having a relatively stable economic outlook. Both the political management by the new government of the structural achievements made in recent years and the final approval of the Agreement between the United States, Mexico and Canada (USMCA) are expected to have a material impact on the economy. While the signing of USMCA has significantly reduced uncertainty, it has not eliminated it, as the agreement still needs to be ratified by the respective national legislative chambers. Any higher than expected increase in interest rates in the United States and/or a possible re-negotiation of trade agreements between the abovementioned countries could result in higher restrictions on imports into the United States, which, together with political uncertainty surrounding such matters, could negatively impact economic activity and

exchange rates in Mexico. The relative weight of Mexico in the consolidated revenues of the Telefónica Group was 2.4% in 2018.

Chile, Colombia and Peru have been able to stabilize their economies with growth rates close to their potential growth led by domestic demand, while recent adjustments and political decisions have addressed certain fiscal and external account issues. Nevertheless, these economies are exposed not only to changes in the global economy given their vulnerability to abrupt movements in commodity prices, but also to unexpected changes in financial conditions.

In Ecuador, a decrease in domestic political uncertainty has allowed for an improvement in economic activity through exports, but risks persist, mainly on the fiscal front. The country's financing needs are still high, which, together with low international reserves, keep the country in a vulnerable position against volatility shocks.

In 2018, Telefónica Brazil represented 20.8% of the Telefónica Group's revenues (23.1% in 2017). In 2018, Telefónica Hispam Norte and Telefónica Hispam Sur represented 8.4% and 13.7% of the Telefónica Group's revenues, respectively (8.3% and 15.8%, respectively, in 2017). In 2018, 4.3% of Telefónica Group's revenues came from Chile, 4.3% from Peru and 4.8% from Argentina. In 2018, 28.2% of the Group's revenues were generated in countries that do not have investment grade status (in order of their contribution to the Group's revenues: Brazil, Argentina, Ecuador, Costa Rica, Nicaragua, Guatemala, El Salvador and Venezuela) and other countries are only one notch away from losing this status.

"Country risk" factors include, among others, the following:

- unexpected adverse changes in regulation or administrative policies, including changes that modify the terms and conditions of licenses and concessions and their renewal (or delay their approval);
- abrupt exchange-rate movements;
- high inflation rates;
- expropriation or nationalization of assets, adverse tax decisions, or other forms of state intervention;
- economic and financial downturns, political instability and civil disturbances; and
- maximum limits on profit margins imposed in order to limit the prices of goods and services through the analysis of cost structures (for example, in Venezuela, a maximum profit margin has been introduced that is set annually by the Superintendencia for Defense of Socioeconomic Rights).

Any of the foregoing may adversely affect the business, financial position, results of operations and/or cash flows of the Group.

The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates or interest rates.

In nominal terms, as of December 31, 2018, 73.6% of the Group's net financial debt plus commitments was pegged to fixed interest rates for a period greater than one year. As of the same date, 18.7% of the Group's net financial debt plus commitments was denominated in a currency other than the euro.

To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of December 31, 2018: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica had a financial position at that date would have led to an increase in financial expenses of 102 million euros, (ii) whereas a 100 basis points decrease in interest rates in all currencies (even if negative rates are reached), would have led to a reduction in financial expenses of 88 million euros. These calculations were made assuming a constant currency and balance position equivalent to the position at that date and taking into account the derivative financial instruments arranged by the Group.

According to the Group's calculations, the impact on results and specifically on net exchange differences due to a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies against the euro would result in exchange losses of 1 million euros for the year ended December 31, 2018, primarily due to the weakening of the Venezuelan bolivar and, to a lesser extent, the Argentine peso. These calculations have been made assuming a constant currency position with an impact on profit or loss as of December 31, 2018, taking into account derivative instruments in place.

During 2018, Telefónica Brazil represented 27.7% (25.9% in 2017), Telefónica United Kingdom represented 12.0% (10.1% in 2017), Telefónica Hispam Norte represented 5.1% (7.8% in 2017) and Telefónica Hispam Sur represented 11.0% (14.1% in 2017) of the operating income before depreciation and amortization ("OIBDA") of the Telefónica Group.

The Telefónica Group uses a variety of strategies to manage this risk, among others the use of financial derivatives, which themselves are also exposed to risk, including counterparty risk. However, the Group's risk management strategies may not achieve the desired effect, which could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

The evolution of exchange rates negatively impacted the Group's 2018 results, decreasing the year-on-year growth of the Group's consolidated revenues and OIBDA by an estimated 8.8 percentage points and 10.3 percentage points, respectively, mainly due to the depreciation of the Brazilian real and the Argentine peso (3.2 percentage points and 4.7 percentage points, respectively in 2017, mainly due to the depreciation of the Argentine peso, the Venezuelan Bolivar and the pound sterling). Furthermore, translation differences had a negative impact on the Group's equity of 2,043 million euros as of December 31, 2018, whereas they had a negative impact on the Group's equity of 4,279 million euros as of December 31, 2017.

If the Group does not effectively manage its exposure to foreign currency exchange rates or interest rates, it may adversely affect its business, financial position, results of operations and/or cash flows.

Existing or worsening conditions in the financial markets may limit the Group's ability to finance, and consequently, the ability to carry out its business plan.

The operation, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the implementation of Telefónica's strategic plan and new technologies, the renewal of licenses or the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

A decrease in the liquidity of Telefónica, or a difficulty in refinancing maturing debt or raising new funds as debt or equity could force Telefónica to use resources allocated to investments or other commitments to pay its financial debt, which could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

Funding could be more difficult and costly in the event of a deterioration of conditions in the international or local financial markets due, for example, to monetary policies set by central banks, including increases in interest rates and/or balance sheet reductions, increasing global political and commercial uncertainty and oil price instability, or if there is an eventual deterioration in the solvency or operating performance of Telefónica.

As of December 31, 2018, the Group's net financial debt amounted to 41,785 million euros (44,230 million euros as of December 31, 2017) and the Group's gross financial debt amounted to 54,702 million euros (55,746 million euros as of December 31, 2017). As of December 31, 2018, the average maturity of the debt was 8.98 years (8.08 years as of December 31, 2017).

As of December 31, 2018, the Group's gross financial debt scheduled to mature in 2019 amounted to 9,368 million euros and gross financial debt scheduled to mature in 2020 amounted to 6,417 million euros.

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next 12 months with cash and credit lines available at December 31, 2018. As of December 31, 2018, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of 12,219 million euros (11,887 million euros of which were due to expire in more than 12 months). Telefónica's liquidity could be affected if market conditions make it difficult to renew existing undrawn credit lines. As of December 31, 2018, 2.7% of the aggregate undrawn amount under credit lines was scheduled to expire prior to December 31, 2019.

In addition, given the interrelation between economic growth and financial stability, the materialization of any of the economic, political and exchange rate risks referred to above could lead to a negative impact on the availability and cost of Telefónica's financing and its liquidity strategy. This in turn could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

Adoption of new accounting standards could affect the Group's reported results and financial position.

Accounting standard-setting bodies and other authorities may periodically change accounting regulations that govern the preparation of the Group's consolidated financial statements. Those changes could have a significant impact on the way the Group accounts for certain matters and presents its financial position and its results of operations. In some instances, a modified standard or a new requirement with retroactive effect must be implemented, which requires the Group to restate previous financial statements.

In particular, Telefónica is required to adopt the new accounting standard IFRS 16 Leases ("IFRS 16") effective from January 1, 2019.

This standard requires significant changes that will affect the accounting treatment for all lease contracts where Telefónica acts as lessee, other than certain short-term leases and leases of low-value assets. The Group estimates that the first-time adoption of IFRS 16 will have a material impact on the Group's financial statements and may make comparisons between periods less meaningful. It will also likely materially affect the amounts used to calculate certain financial metrics reported by the Group or used by analysts and investors to analyze the Group.

Note 3 to the Consolidated Financial Statements includes information on the main impacts expected from the first-time adoption of the new requirements.

The Group operates in a highly regulated industry which requires government concessions for the provision of a large part of its services and the use of spectrum, which is a scarce and costly resource.

The telecommunications sector is subject to laws and sector-specific regulations in the majority of the countries where the Group operates. Additionally, many of the services the Group provides require the granting of a license, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to the acquisition of spectrum capacity. Among the main legal risks are those related to spectrum regulation and licenses/concessions, rates, universal service regulation, regulated wholesale services over fiber networks, privacy, functional separation of businesses and network neutrality. The fact that the Group's business is highly regulated both affects its revenues and imposes costs on its operations.

As the Group provides most of its services under licenses, authorizations or concessions, it is vulnerable to administrative bodies' decisions, such as economic fines for serious breaches in the provision of services and, potentially, revocation or failure to renew these licenses, authorizations or concessions, or the granting of new licenses to competitors for the provision of services in a specific market. The spectrum to which most of the licenses and administrative concessions refer to is used for the provision of mobile services on 2G, 3G and 4G technologies. The complementarity between the different frequency bands successively assigned to an operator in a geographic market enables greater flexibility and efficiency in both the deployment of the network and the provision of services to final customers over the capacities resulting from such network.

Any challenges or amendments to the terms of licenses, authorizations or concessions granted to the Group and necessary for the provision of its services or the Group's failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions discussed below or any others in which it operates, or its inability to assume the related costs, could have an adverse impact on its ability to launch and provide new services and on its ability to maintain the quality of existing services, which may adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Additional information on the key regulatory issues and concessions and licenses held by the Telefónica Group can be found in Appendix VI of the Consolidated Financial Statements.

Additionally, the Telefónica Group could be affected by regulatory actions of the antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines. Any such measures implemented by the antitrust authorities could result in economic and/or reputational loss for the Group, in addition to a loss of market share and/or harm to the future growth of certain businesses.

Regulation of spectrum and access to new government licenses/concessions of spectrum

In Europe, the Directive (EU) 2018/1972 of the European Parliament and of the Council establishing the European Electronic Communications Code ("EECC"), was approved on December 11, 2018. The aim of the EECC is fostering investment in new high-capacity networks (principally fiber networks and the fifth generation of mobile telecommunications, or 5G) and create a 'level playing field' between telecommunications companies and over-the-top providers ("OTTs"). Member States have a period of two years (until December 21, 2020) to transpose said Directive into their national legislation. Certain provisions included in the EECC are so extensive and complex that their final impact on operators, such as Telefónica, will largely depend on how they are interpreted by regulatory authorities in each Member State. The EECC will continue to oblige national regulatory authorities to analyze telecommunications markets and determine whether any operators

dominate the market. Such operators will continue to be designated as having significant market power ("SMP") and face additional obligations in that territory. In the case of new fiber networks, such SMP obligations could be relaxed if co-investment agreements bear fruit among SMP and non-SMP networks operators.

Furthermore, in Europe, spectrum auctions are expected to take place in the coming years, requiring potential cash outflows to obtain additional spectrum or to meet the coverage requirements associated with some of these licenses.

In Spain, the auction of the 3.6 GHz band was carried out during July 2018, and Telefónica was awarded 50 MHz. The Ministry of Economy and Business Affairs has published the roadmap to clear spectrum in the 700 MHz band from its current use (digital television), in line with the calendar approved by the European Commission ("EC") and with the 5G National Plan adopted in December 2017. The plan foresees the completion of the release of the 700 MHz band before June 30, 2020 and the Ministry has indicated its intention to hold the auction in 2020.

In the United Kingdom, the Office of Communications ("Ofcom"), the national telecommunications regulatory authority, conducted a spectrum auction for the 2.3 GHz and 3.4 GHz bands in March and April 2018. Telefónica United Kingdom won all of the 2.3 GHz spectrum available (40 MHz) and an additional 40 MHz of the 3.4 GHz spectrum band (out of the 150 MHz available), in both cases under 20-year renewable licenses. In December 2018, Ofcom launched a public consultation regarding the coverage obligations and auction design relating to the 700 MHz/3.6GHz bands, which are expected to be auctioned in the first quarter of 2020.

In Germany, on May 14, 2018 the Regulatory Agency for Electricity, Gas, Telecommunications, Post and Railway ("BNetzA") published Decisions I and II on the method to award frequencies nationwide, in the 2GHz band and a large part of the 3.6 GHz band. In addition, under the same decisions, BNetzA allocated 100 MHz in the 3.6 GHz band and also frequencies in the 26 GHz band, both for local/regional assignments upon application.

Subsequently, on November 26, 2018, BNetzA published Decisions III and IV establishing the conditions for frequency usage and auction rules on the above-mentioned 2 GHz and 3.6 GHz bands (Auction Rules). The rules include obligations for better coverage in both urban and rural areas, as well as along transport routes and other conditions, such as the obligation to negotiate on national roaming and network sharing. The above four decisions have been challenged in Court by Telefónica Deutschland Group. Nevertheless, Telefónica Deutschland Group submitted its application to the auction by January 25, 2019. The auction is scheduled to begin in the first quarter of 2019.

All of the bands mentioned above are considered to be technologically neutral, which means that they could potentially be used in the future for 5G services.

In Latin America, spectrum auctions are expected to take place in the coming years, potentially requiring cash outflows to obtain additional spectrum or to meet the coverage requirements or other obligations associated with these licenses. Specifically, the procedures that will take place in 2019 in jurisdictions that are relevant for the Group are:

- Argentina: the government issued on January 21, 2018 a decree (Decreto de Necesidad y Urgencia) that contemplates the possibility of auctioning the spectrum previously reserved for ARSAT (a public

company). The spectrum that was reserved for ARSAT includes 20 MHz in the 700 MHz band (national), 50 MHz in the AWS band (national) and 20 MHz in the 1900 MHz band (regional).

- Brazil: In September 2018, the Brazilian regulator, Anatel, launched a first consultation to award spectrum in the 2.3GHz TDD (time-division duplexing) band and spectrum in the 3.5GHz TDD band. A consultation on the auction of the remaining spectrum in the 700 MHz band is expected to take place in the first half of 2019. Anatel's 5G commission has also identified 1500 MHz which could be auctioned. An auction to award spectrum in any of these bands could take place in 2019 or 2020.
- Colombia: The consultation processes launched in 2017 and early 2018 on the conditions of the 700 MHz spectrum auction were suspended following the change of government that took place in August 2018. The new government has submitted to Congress a draft bill with regards to information and communication technologies. Among the measures included in the draft bill, there is an extension of the duration of spectrum licenses. The approval process of the draft bill may have an impact on the timing of the auction. This draft bill is expected to be discussed in the first quarter of 2019.
- Peru: In October 2018, the Ministry of Transport and Communications approved a new regulation for the reorganization of frequency bands, known as "refarming". This could result in a spectrum award process in 2019 or 2020.

It is possible that some of the abovementioned spectrum tender procedures will not be completed, or even initiated within the proposed time frames. In addition, in the cases where Telefónica has submitted comments to the proposed conditions of auctions or allocation procedures, there is no certainty as to whether and to what extent such comments will be considered by the relevant regulator. In addition, Telefónica may decide to abstain from a particular process once it reviews the viability of each spectrum acquisition opportunity.

In addition to the spectrum tender procedures referred to above, it may be the case that certain administrations which have not yet announced their intention to release new spectrum may do so during 2019 and thereafter. The above does not include processes announced through general statements by administrations, which involve bands not key to Telefónica's needs. Furthermore, Telefónica may also seek to acquire spectrum on the secondary market where opportunities might arise.

Risks relating to concessions and licenses previously granted

In Spain, pursuant to the license for the 800 MHz spectrum band, there are a series of obligations that Telefónica is subject to with the aim of reaching coverage that allows access, with a speed of at least 30 Mb per second, to at least 90% of the inhabitants in population units of less than 5,000 inhabitants. The approval of the final terms and conditions to implement this coverage obligation was published in November 2018. Telefónica is undergoing a constant process of deployment and densification of Long Term Evolution ("LTE") solutions over the 800 MHz band that will be the base for compliance with such obligation.

Telefónica owns two concessions in the 2.1 GHz and 3.5 GHz spectrum, both awarded in 2000, which expire in April 2020 but may be extended for an additional ten years.

In the state of São Paulo, Telefónica Brazil provides local and national long-distance Fixed Switched Telephony Services ("STFC") under the so-called public regime, through a concession agreement, which is expected to remain in force until 2025. At December 31, 2018, the estimated residual value of the assets

assigned to the provision of STFC was 8,622 million Brazilian reais (approximately 1,943 million euros under the exchange rate applicable on such date) (8,763 million Brazilian reais as of December 31, 2017, approximately 2,209 million euros under the exchange rate applicable on such date), which comprised switching and transmission equipment and public use terminals, external network equipment, energy, system and operational support equipment. In principle, such assets were considered to be reversible assets, and were thus supposed to revert to the federal government at the end of the concession agreement. However, the implementation of a bill amending the regulatory framework in Brazil which establishes, among other things, that such assets would no longer be reversible under a new license regime in exchange for investment commitments, is currently pending. The bill was approved at both legislative houses, but was challenged before the Federal Supreme Court due to an alleged procedural defect. The outcome of this lawsuit is uncertain, although the Senate's board may overcome it by sending the bill for voting in the Plenary. In the event that the bill is finally approved, ANATEL would be entitled to adopt the relevant administrative decisions for the amendment of the respective licenses with the consequent amendment of the future obligations imposed on STFC providers.

As of the date of this Annual Report, there is no certainty that the proposed change in the regulatory framework will be completed, or that it will be completed in fully satisfactory terms for Telefónica Brazil. Only after this bill or a similar law is adopted (enabling the exchange of reversion obligations for investment commitments) could ANATEL impose the investment obligations referred to above.

As of the date of this Annual Report, it is not possible to estimate the hypothetical investment obligations that ANATEL could impose on the concessionaires, including Telefónica Brazil, in exchange for eliminating their obligation to revert assets used for the provision of the STFC services.

In Colombia, the ITC issued resolution 597 on March 27, 2014 to renew 850 MHz/1900 MHz band licenses for ten additional years. Under the scope of such resolution, Colombia Telecomunicaciones, S.A. ("ColTel") (67.5% of which is owned, directly and indirectly, by Telefónica and 32.5% of which is owned by the government of Colombia), renewed its license to exploit such spectrum to provide telecommunication services.

The concession agreements from 1994, which were renewed in 2004 and under which the mobile telephone services were provided until November 28, 2013, contained a reversion clause for the underlying assets. However, Law 422 of 1998 and Law 1341 of 2009 provided that upon expiration of a concession agreement for telecommunication services, only the spectrum reverts to the State. That was the understanding under which all the operators, including the authorities, operated between 1998 and 2013. In 2013, however, when analyzing an appeal on the constitutionality of said laws, the Constitutional Court confirmed the constitutionality of the laws but ruled that it could not be concluded that those laws modified with retroactive effect the reversion clause of the concession agreements of 1994. On February 16, 2016, the ITC started an arbitration proceeding against ColTel and other defendants in accordance with the terms of the relevant concession agreement of 1994, in order to clarify the validity and scope of such reversion clause. The arbitration award was rendered on July 25, 2017 and was not favorable to ColTel and its co-defendants.

The arbitration tribunal ordered ColTel to pay 1,651,012 million Colombian pesos. On August 29, 2017, the shareholders' meeting of ColTel approved a capital increase in a total amount of 1,651,012 million Colombian pesos (470 million euros at the exchange rate as of such date) to pay the amount imposed by the arbitration award. The Telefónica Group and the Colombian government subscribed the capital increase pro rata to their respective shareholding in ColTel. Telefónica's decision to participate in the capital increase does

not constitute, and should not be understood as, an acceptance of the arbitration award. Telefónica reserves all of its legal rights and the exercise by Telefónica or ColTel of any applicable legal action, national or international. Both ColTel and Telefónica have started legal actions. On August 18, 2017, ColTel filed an appeal to challenge the arbitration award at Colombia's highest court of administrative litigation (Consejo de Estado), which was dismissed on May 24, 2018. In addition, on December 18, 2017, ColTel also filed a constitutional action (acción de tutela) with the Constitutional Court seeking to protect its constitutional rights, jeopardized by the arbitration award. On March 15, 2018, the constitutional action was denied and ColTel filed an appeal against this ruling on April 18, 2018, which was dismissed on May 24, 2018. On November 27, 2018 a recusal motion was filed at the Constitutional Court, which is pending resolution.

In addition, pursuant to the relevant bilateral treaty, Telefónica notified Colombia of its intention to file a claim in the International Center for Settlement of Investment Disputes ("ICSID"). After the expiration of the required 90-day notice period, on February 1, 2018, Telefónica submitted the arbitration request to the ICSID and, on February 20, 2018, the General Secretary of ICSID registered the request for the institution of arbitration proceedings. The request for arbitration is ongoing and the arbitral tribunal is in the process of being appointed.

In Peru, Telefónica has concessions for the provision of fixed-line services until November 2027. In December 2013, Telefónica filed a partial renewal request for these concessions for five more years. On November 26, 2018, the Ministry of Transportation and Communications (Ministerio de Transportes y Comunicaciones) notified the denial of such renewals. Telefónica has filed an appeal for reconsideration. On February 5, 2019 the Ministry dismissed the mentioned appeal and Telefónica is considering to challenge the decision. In December 2014, June 2016 and May 2017 Telefónica filed renewal requests for an additional 20 years in relation to a concession for the provision of local carrier services, one of the concessions to provide mobile services in certain provinces, and one concession to provide fixed-line services, respectively. In addition, in April 2016, Telefónica filed a renewal request in relation to the 1900 MHz frequency spectrum for the Provincias (all of Peru except for Lima and Callao), which license expired in 2018.

As of the date of this Annual Report, the decision of the Ministry of Transport and Communications (Ministerio de Transportes y Comunicaciones) in these proceedings is still pending and, according to the legislation, the underlying concessions remain in force as long as the proceedings are pending.

In Chile, Telefónica Móviles Chile, S.A. and other two telecommunications operators were awarded spectrum in the 700 MHz band in March 2014, with Telefónica Móviles Chile being awarded 2x10 MHz. While services are being provided on such spectrum, a consumer organization filed a claim before the Tribunal for the Defense of Free Competition (the "TDFC") against Telefónica Móviles Chile, S.A. and the other two operators, regarding the allocation of spectrum in the 700 MHz band and challenging the outcome of the spectrum allocation. The TDFC rejected this claim on consecutive occasions but, on June 25, 2018, the Supreme Court issued a final judgment stating that the assignment of spectrum in the 700 MHz band to the mobile operators constituted anticompetitive behavior as it awarded spectrum blocks without respecting the 60 MHz spectrum cap set by the Supreme Court in a ruling from 2009.

The Supreme Court ruled that the incumbent operators have to relinquish the same amount of spectrum that they acquired in the 700 MHz band auction. However, the ruling of the Supreme Court allows the operators to choose the band from which the spectrum that exceeds the fixed cap (60 MHz) is to be relinquished and no deadline has been set to complete such relinquishment. As of the date of this Annual

Report, Telefónica Móviles Chile has not relinquished any of the required spectrum, since the proceeding has been temporarily suspended by a resolution issued by the Constitutional Court on January 29, 2019.

The Supreme Court ruling also states that if the sector-specific authority ("**Subtel**") considers it necessary to review the maximum spectrum cap, it should put in place a consultation process before the TDFC. Subtel must otherwise initiate the necessary procedures to adapt the set cap to the fixed parameters of 60 MHz for each participating operator in the aforementioned radio spectrum. On October 3, 2018, Subtel submitted its proposal on the review of the maximum spectrum cap to the TDFC.

Additionally, Subtel submitted to the TDFC a proposal of "complementary conditions" with a general scope which would be applicable to all bands, as well as another proposal of "special conditions" to be considered in future auctions. The TDFC set a deadline of December 28, 2018 for interested parties to provide their comments. The process initiated by the TDFC is expected to last several months.

In addition, the Supreme Court rejected the appeal filed by Telefónica Móviles Chile, S.A. against the resolution of the TDFC that ordered immediate compliance with the spectrum relinquishment obligations, without waiting for the result of the spectrum cap consultation. However, on January 29, 2019, the Constitutional Court temporarily suspended the obligation to immediately comply with such spectrum relinquishment obligations until the remedy of inapplicability that has been filed by Telefónica is resolved.

Additionally, regarding the 3.5 GHz band, Subtel issued a decision on June 21, 2018 regarding the 3.4-3.8 GHz spectrum band, which, among other things, has suspended the granting of authorizations, the modification of concessions and the reception of network rollouts in connection with this spectrum band. Its purpose is to carry out an in-depth study on the efficiency of the usage of this band for 5G and ensuring the efficient usage of this band in light of international best practices and the need for efficient spectrum management. The decision had a limited impact on Telefónica's operations as Telefónica Chile, S.A. only has 50 MHz of spectrum assigned in that band in Regions XI and XII (representing less than 2% of the population) and that spectrum is currently not in use. On October 3, 2018, Subtel modified the above mentioned resolution and resolved to release part of this spectrum to enable operators to provide wireless fixed services. Of the 50 MHz awarded to Telefónica Chile, S.A., 30 MHz were released and may only be used for mobile services, which is a required change for 5G provision, once future auctions on 3400-3800 MHz range are firmly awarded. The remainder of the spectrum may not currently be used for any service.

On November 20, 2018, Telefónica Chile, S.A. requested the TDFC to initiate a consultation process to determine whether the decision of Subtel regarding the 3.5 GHz band violates competition law. The deadline for third parties to provide background information expired on February 18, 2019.

In Mexico, in August 2018, Telefónica participated in the auction of the 2500-2690 MHz band and was awarded 2x20 MHz of spectrum. The rules and the procedure of the auction were challenged by an operator and Telefónica has responded to the allegations made. Telefónica's regional holdings in the 1900 MHz band (approximately 44% of the total 1900 MHz band) expired in October 2018. Telefónica has requested the renewal of this concession. The Instituto Federal de Telecomunicaciones ("IFT") is expected to decide on the renewal request during the first quarter of 2019. Telefónica may continue to use this spectrum while the IFT decision is pending.

In 2018, the Group's consolidated investment in spectrum acquisitions and renewals amounted to 868 million euros (538 million euros in 2017).

Regulation of wholesale services

The EC's proposal in respect of the regulatory framework for wholesale services intends, among other measures, to incorporate a costing methodology to fix a European upper limit for the call-termination prices for landline phones/mobile phones (FTRs/MTRs) applicable in the EU. According to this proposal, the decreases in wholesale mobile termination rates ("**MTRs**") in Europe have been noteworthy. It should be noted that since termination fees in mobile and fixed communications have decreased substantially in recent years, future decreases are expected to become smaller so that the negative impact on turnover is expected to be less significant than in the past.

In the United Kingdom, on June 1, 2018, the price of MTRs fell to 0.489 pence per minute. From April 1, 2019, they will be priced at 0.479 pence per minute, with a further reduction based on inflation (consumer prices index ("CPI") minus 3.7% from April 1, 2020).

In Spain, in January 2018 the Spanish National Regulatory and Competition Authority (Comisión Nacional de los Mercados y la Competencia or "**CNMC**") approved a decision setting the new MTRs for all mobile operators, which will result in a progressive reduction of 40% from January 2018 levels (0.0109 euros per minute). The approved MTRs are as follows: from the date the decision became effective until December 31, 2018 0.0070 euros per minute; from January 1, 2019 until December 31, 2019 0.0067 euros per minute; and as from January 1, 2020 0.0064 euros per minute. The CNMC launched a public consultation in November 2018 regarding fixed termination rates ("**FTRs**"), which proposed a progressive reduction in prices of 34% from November 2018 levels. The proposed prices are as follows: from the date the decision becomes effective until December 31, 2019 0.0640 euros per minute; from January 1, 2020 until December 31, 2020 0.0591 euros per minute and as from January 1, 2021 0.0543 euros per minute. A final decision is expected to be adopted in the first quarter of 2019.

In Germany, on December 1, 2018 the price of the MTR fell from 1.07 euro cents per minute to 0.95 euro cents per minute. This price will be in force until November 30, 2019. MTRs for subsequent periods will be decided in 2019.

In Brazil, Resolution 639/2014 established that MTRs will be subject to successive yearly reductions from 2016 until 2019, when the definitive cost-oriented-model fees are expected to be in force. In addition, through Act No. 6211/2014, ANATEL published the reference prices to be applied by operators with significant market power ("**SMP**"). In 2018, through Act No. 9919/2018, ANATEL published the reference prices to be applied by SMP operators from 2020 until 2023. In addition to the planned implementation of the cost-oriented-model, the Plano Geral de Metas de Competição ("**PGMC**"), amended by Resolution 649/2015, among other changes, updated the partial "bill and keep" model for MTRs, aiming to fix an imbalanced remuneration pattern between SMP operators and other companies operating in the relevant market. This measure was intended to adapt the networks to the reductions of MTRs and promote a gradual adaptation to the enforcement of the cost-oriented fees in early 2019. However, the new PGMC that was published in July 2018, among other changes, extended the "bill and keep" model, which was expected to expire in February 2019, until the next revision of the PGMC in four years.

In Mexico, on November 13, 2018, the IFT announced that the MTRs applicable to the so-called Prevailing Economic Agent ("**PEA**") for 2019 shall be 0.028313 pesos per minute while the MTRs applicable to the operators other than the PEA shall be 0.112623 pesos per minute. Both this decision and the decision that established the MTRs applicable to 2018 were challenged by Telefónica.

In Peru, on December 21, 2018, the regulator, OSIPTEL, published the new MTRs. The new MTRs applicable to all operators of mobile public services was fixed at 0.00302 dollars per minute rated at the second, which entails a 54% decrease from the previous rate (0.0066.1 dollars per minute rated at the second). The new rates have been in effect since January 1, 2019 and will remain in effect until a new MTR value is defined by the regulator.

In Argentina, on August 17, 2018, the Ente Nacional de Comunicaciones ("**Enacom**") published the provisional termination and local origination charges for mobile communications services provided by networks until the final charges are decided pursuant to a cost model. Enacom set a tariff of 0.0108 dollars per minute and the measurement unit for valuation is per second. During the summer of 2018, Enacom launched a public consultation on the cost models for mobile communications services. On November 22, 2018, Enacom set the provisional termination charge in fixed networks at 0.0045 dollars per minute, the tariff for local transit services at 0.0010 dollars per minute, and the tariff for long distance transportation services at 0.0027 dollars per minute. In each case the measurement unit for valuation is per second.

In Chile, regarding mobile termination rates, on February 5, 2019, Subtel notified TMCH of a new proposal on tariff decree, which will be applicable for the next five years. The average tariff which will apply until 2024 is 1.8 Chilean pesos per minute (0.0024 euros, without VAT, based on the exchange rate as of February 6, 2019, to be charged on a per second basis). The new tariff decree is in effect since January 26, 2019. New tariffs on fixed operations will come into force in May 2019.

In Colombia, in December 2018, the regulator (Comisión de Regulación de Comunicaciones) published two consultations. The first initiative would reduce the FTRs from 0.01 to 0.003 dollars in 2019, which would be beneficial to ColTel as it is a net payer of FTRs. As of 2020, FTRs between fixed networks would be completely eliminated. The second initiative, on one hand seeks to substitute the national roaming charges in incoming calls charged to operators using national roaming, for mobile termination rates, which would negatively impact the revenues of ColTel; and, on the other hand, modifies the formula that defines the maximum regulated rate for network provision charged to MVNOs, from the minimum ARPU reported by MVNOs to the average ARPU from the past four (4) quarters.

As a result of the foregoing actions, the prices for certain wholesale services may be reduced, which may materially adversely affect the Group's business, financial condition, results of operations and/or cash flows. During 2018, the negative impact of these wholesale regulations (mainly MTRs, FTRs and roaming) is estimated to have resulted in the deduction of approximately 1.1 percentage points from the organic growth of the Group's revenues.

Regulation of universal service obligations

Universal service obligations ("**USO**") refers to the obligations imposed on telecommunication operators which are aimed at granting access to all consumers in a country to a minimum set of services offered at reasonable and fair prices in order to avoid social exclusion.

As stated above, Directive (EU) 2018/1972, of December 11, 2018, which approves the EECC, updates USO provisions in Europe, removing the mandatory inclusion of the legacy outdated services (payphone boxes, directories and information services) and focusing on the provision of affordable broadband services. The EECC provides Member States with full flexibility in relation to the financing required for the provision of these services, allowing Member States to choose between public or industry funding. This ample room for

discretion, together with the possibility that the affordability obligations could end up being too onerous, might result in higher costs for the industry.

In Spain, Telefónica is the operator responsible for the provision of universal service elements with respect to fixed network access with a broadband bandwidth of at least 1 Mb per second (until December 2019). On December 28, 2018, the government approved (by Royal Decree 1517/2018) the modification of the USO framework, eliminating the obligation to provide telephone directories to users (which had been assigned from January 1, 2017 to Telefónica), but maintaining Telefónica's designation as the operator responsible for the provision of public payphones until December 31, 2019, date on which it is expected that such obligation will be removed.

In Brazil, the General Plan of Univerzalization Targets (PGMU IV) of Fixed Switched Telephony Services (the "General Plan") that was due to have been published in 2016 was finally published on December 21, 2018 (Presidential Decree n. 9.619/2018) after a long period of discussion.

The General Plan lessens the USO framework in three ways: (i) there is a material decrease in the maintenance obligations with respect to Public Use Terminals; (ii) there is a material reduction of the obligations to meet requests for installation of individual accesses within seven days; and (iii) the extinction of the obligations to install and maintain Multifacilities Service Stations.

However, the General Plan imposes a new obligation with respect to "fixed wireless access systems with support for broadband connection" through the implementation of a base radio station in 310 pre-determined localities in the State of São Paulo.

The imposition on the Telefónica Group of additional or more onerous USO in the jurisdictions where it operates could have a material adverse effect on its business, financial condition, results of operations and/or cash flows.

Regulation of fiber networks

In Spain, on March 6, 2018, the CNMC approved a final decision on the economic replicability methodology (or ERT in its acronym in English) to be used to assess the maximum wholesale access price which Telefónica can charge other operators for accessing the optical fiber network in regulated areas (NEBA Local and NEBA services). According to this methodology, from April 2018, Telefónica is to apply a wholesale access price (NEBA) of 17.57 euros per month, with this price being updated twice a year in order to assess whether Telefónica's retail offers (broadband flagship products) are economically replicable with such wholesale NEBA price. In July 2018, the CNMC approved a final decision on the methodology to assess if Telefónica's retail offers for the business sector can be replicated by other operators.

This and any other similar obligations and restrictions which may be imposed in the future in the various jurisdictions where the Telefónica Group operates could raise costs and limit Telefónica's flexibility in providing the aforementioned services, which could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

Regulations on privacy

In Europe, the General Data Protection Regulation ("**GDPR**") of April 27, 2016, has been directly applicable in all Member States since May 25, 2018 and implementing measures have been introduced by Member States, including Spain, Germany and the United Kingdom.

In Spain, on December 5, 2018 the Personal Data Protection and Digital Rights Act was approved. This Act implements GDPR in Spain, addressing several particularities concerning data blocking for judicial purposes or specific matters on databases for advertising purposes or data relating to deceased people. Equally, it implements procedural mechanisms within the framework of legal investigations concerning potential infringements of the GDPR.

In addition, on January 10, 2017, the EC presented its proposal for a regulation on privacy and electronic communications ("**ePrivacy Regulation**"), which will replace the current Directive 2002/58/EC. The proposal implies an extra layer of regulation on top of the GDPR and also introduces administrative fines of up to 4% of an undertaking's annual global turnover for breaching new regulations. In this area, a strict data protection and privacy regulation may result in limitations on the ability to offer innovative digital services such as big data services. The future ePrivacy Regulation is not expected to be adopted before the end of 2019.

The Privacy Shield, approved by the EC on July 12, 2016 to lay out the framework for the international transfer of personal data from the EU to the US, was challenged before the EU's General Court by civil-society groups. One of the appeals was not admitted and the admission of a second appeal is still pending as of the date of this Annual Report. The results of the second annual revision of the Privacy Shield by the Commission were published on December 19, 2018. The report concludes that the United States continues to guarantee an adequate level of protection of transferred personal data under the Privacy Shield and that the measures adopted by US authorities to implement the recommendations made by the Commission in the 2017 report have improved the functioning of the framework.

In Brazil, the Personal Data Protection Act (Act 13709/2018) was approved on August 14, 2018. This Act entails further obligations and restrictions for operators in relation to the collection of personal data and its processing and is based on the GDPR. The text was approved in the Chamber of Deputies and the Senate but the President vetoed the creation of the Authority for the Protection of Personal Data and of the National Council for the Protection of Personal Data and Privacy, after considering them to be unconstitutional. On December 27, 2018 the President of Brazil signed provisional measure 869/2018 that created the National Data Protection Authority (ANPD) and postponed to August 2020 the entry into force of the new Personal Data Protection Act. The approval of provisional measure 869/2018 by the National Congress and its conversion into law is still pending.

In Chile and Argentina, two bills aligned with the GDPR are in process to pass into law.

Any obligations and restrictions arising from privacy regulations could raise costs and limit Telefónica's ability to provide certain services, which could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

Regulation of network neutrality

Under the principle of network neutrality applicable to the Internet access services realm, network operators are not permitted to establish technical or commercial restrictions regarding the terminals that can

be connected or the services, or applications and contents that can be accessed or distributed through the Internet by the end user. It also refers to the non-discriminatory behavior (e.g. non-anticompetitive) to be adopted by operators regarding the different types of Internet traffic circulating through their networks.

Net neutrality regulation is being implemented all across Europe and in most of the Latin America countries where Telefónica is operating.

In Mexico, it is expected that IFT will issue guidelines during 2019.

Any changes to regulation as it is established in the various jurisdictions where the Telefónica Group operates, could limit the commercial flexibility and might have an impact on its business, financial condition, results of operations and/or cash flows of the Group.

The Telefónica Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.

The Telefónica Group is required to comply with the laws and regulations of various jurisdictions where it conducts operations. In particular, the Group's international operations are subject to various anti-corruption laws, including the US Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010, and economic sanctions programs, including those administered by the United Nations, the European Union and the United States, including the US Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Telefónica Group's business, it may deal with entities, the employees of which are considered government officials. In addition, economic sanctions programs restrict the Group's business dealings with certain sanctioned countries, individuals and entities.

Although the Group has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or, otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties, exclusion from government contracts, damage to the Group's reputation and result in other consequences, that could have a material adverse effect on the Group's business, results of operations and financial condition.

As of the date of this Annual Report, Telefónica is currently conducting internal investigations covering various countries regarding possible violations of applicable anti-corruption laws. Telefónica continues to cooperate with governmental authorities and continues with the ongoing investigations. Although it is not possible at this time to predict the scope or duration of these matters or their likely outcome, Telefónica believes that, considering the size of the Group, any potential penalty as a result of the resolution of these investigations would not materially affect the Group's financial condition.

Telefónica may not anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards, which could adversely affect Telefónica's business and reputation.

To maintain and improve its position in the market vis-à-vis its competitors, it is vital that Telefónica has the ability to anticipate and adapt to the evolving needs and demands of its customers, and that it avoids

commercial actions that may generate a negative perception of the Group or the products and services it offers, or that may have or be perceived to have a negative impact on society. In addition to harming Telefónica's reputation, such actions could also result in fines and other sanctions.

There is growing social and regulatory demand for companies to behave in a socially responsible manner. In addition, the risks associated with potential damage to a brand's reputation have become more relevant, especially due to the impact that the publication of news through social networks can have.

If Telefónica were not able to anticipate or adapt to the evolving needs and demands of its customers or avoid inappropriate actions, its reputation could be adversely affected or it could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Telefónica's competitive position in some markets could be affected by the evolution of competition and market consolidation.

The Telefónica Group operates in highly competitive markets and it is possible that the Group may not be able to market its products and services effectively or respond successfully to the different commercial actions carried out by its competitors. The Group may also fail to meet its growth plans or to retain its customers, any of which may result in the decrease of the Group's profits and revenue margins.

In addition, increased market concentration, including as a result of mergers and acquisitions, or alliances and collaboration agreements among other industry players, could adversely affect the competitive position of Telefónica, as well as the efficiency of its operations and its business continuity.

The entry of new competitors into markets where Telefónica is a leader, in addition to changes in market dynamics which have led to aggressive data offers and broadband deployments by the Group's competitors and mergers of operators in certain markets, have adversely affected the competitive position of Telefónica, negatively impacting the evolution of revenues and its share of customers.

If Telefónica is not able to face the challenges posed by its competitors, the business, financial condition, results of operations and/or cash flows of the Group could be negatively affected.

Telefónica operates in a sector characterized by rapid technological changes and it may not be able to anticipate and adapt to such changes or select the right investments to make.

The pace of innovation and Telefónica's ability to keep up with its competitors is a critical issue in a sector so affected by technology such as telecommunications.

While automation and other digital processes may lead to significant cost and efficiency gains, there are also significant risks associated with such transformation processes.

New products and technologies are constantly emerging that can render products and services offered by the Telefónica Group obsolete, as well as its technology. In addition, the explosion of the digital market and the entrance of new players in the communications market, such as MNVOs, Internet companies or device manufacturers, could imply the loss of value of certain assets, affect the generation of income, or otherwise cause Telefónica to have to update its business model. This forces Telefónica to invest in the development of new products, technology and services in order to compete effectively with current or future competitors, which may result in the decrease of the Group's profits and revenue margins. Additionally, this investment may not lead to the development or commercialization of successful products or services. In this respect,

margins from traditional voice and data business are shrinking, while new sources of revenues are derived from mobile Internet and connectivity services that are being launched. Examples of these services include IPTV services, IoT services, financial, security and cloud services.

Research and development costs amounted to 947 million euros in 2018, representing an increase of 9.8% from 862 million euros in 2017 (906 million euros in 2016). These expenses represented 1.9%, 1.7% and 1.7% of the Group's consolidated revenues in 2018, 2017 and 2016, respectively. These figures have been calculated using the guidelines established in the Organization for Economic Cooperation and Development ("OECD") manual.

One of the technologies currently being developed by telecommunications operators, including Telefónica (in Spain and Latin America), is the new FTTx type networks, which allow to offer broadband accesses over fiber optics with high performance, such as 600MB Internet connections or high definition television services. However, the deployment of such networks, in which the copper of the access loop is totally or partially replaced by optical fiber, implies high levels of investments. As of December 31, 2018, in Spain, fiber coverage reached 20.2 million premises. There is a growing demand for the services that these new networks can offer to the end customer. However, the high level of investments required by these networks results in the need to continuously consider the expected return on investment, and no assurance can be given that these investments will be profitable.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to adequately support and evolve to respond to Telefónica's operating requirements is a key factor in the commercial development, customer satisfaction and business efficiency of the Telefónica Group. Any failure by the Telefónica Group to develop or implement IT systems that adequately support and respond to the Group's evolving operating requirements could have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

If Telefónica were not able to anticipate and adapt to the technological changes and trends in the sector, or to properly select the investments to be made, this could negatively affect the Group's business, financial condition, results of operations and/or cash flows.

Telefónica depends on its suppliers.

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets with a high concentration in a small number of suppliers, poses risks that may affect Telefónica's operations, and may cause legal contingencies or damages to its image in the event that a participant in the supply chain engages in practices that do not meet acceptable standards or that otherwise fail to meet Telefónica's performance expectations. This may include delays in the completion of projects or deliveries, poor-quality execution, cost deviations and inappropriate practices.

As of December 31, 2018, the Telefónica Group depended on two handset suppliers and ten network infrastructure suppliers, which, together, accounted for 71% and 80%, respectively, of the total contracted handsets as of such date. One of the handset suppliers represented 42% of all contracted handsets as of such date.

These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls and business requirements or for other reasons. In addition, the suppliers on which Telefónica relies may also be subject to litigation with respect to technology on which Telefónica depends,

including litigation involving claims of patent infringement. Such claims are frequently made in the communications industry.

If suppliers cannot supply their products to the Telefónica Group within the agreed deadline or such products and services do not meet the Group's requirements, this could hinder the deployment and expansion plans of the network, which in certain cases could affect Telefónica's compliance with the terms and conditions of the licenses under which it operates, or otherwise adversely affect the business and operating results of the Telefónica Group. In addition, the possible adoption of new protectionist measures in certain parts of the world, including as a result of trade tensions between the United States and China, may have an adverse impact on certain of Telefónica's suppliers and other significant players in the industry.

The imposition of trade restrictions could result in higher costs and lower margins, and could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Unanticipated network interruptions can lead to quality loss or the interruption of the service.

Unforeseen network interruptions due to system failures, including those due to natural disasters caused by natural or meteorological events or phenomena, network failures, hardware or software failures, theft of network elements or cyber-attacks that affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group, could cause customer dissatisfaction, a reduction in revenues and traffic, the realization of expensive repairs, the imposition of sanctions or other measures by regulatory bodies, and damage to the image and reputation of the Telefónica Group or could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Information technology is key to the Group's business and it could be subject to cybersecurity risks.

The Group operates in an environment increasingly prone to cyber-threats. Consequently, it is necessary for the Group to continue to advance its capacity to identify and detect technical threats and vulnerabilities and improve its ability to react to incidents. This includes the need to strengthen security controls in the supply chain as well as to place increased focus on security measures adopted by partners of the Group and other third parties.

Telecommunications companies worldwide face increasing cybersecurity threats as businesses have become increasingly dependent on telecommunications and computer networks and have adopted cloud computing technologies. Cybersecurity threats may include gaining unauthorized access to Telefónica's systems or inserting computer viruses or malicious software in its systems to misappropriate consumer data and other sensitive information, corrupt Telefónica's data or disrupt its operations. Unauthorized access may also be gained through traditional means such as the theft of laptop computers, data devices and mobile phones and intelligence gathering by employees with access. Further, the Group's employees or other persons may have unauthorized or authorized access to the Group's systems and/or take actions that affect the Group's networks in an inconsistent manner with the Group's policies or otherwise adversely affect the Group or its ability to adequately process internal information.

Telefónica attempts to mitigate these risks through a number of measures, including backup, log review, vulnerabilities checks, network segregation measures and protective systems such as firewalls, intrusion detection or prevention systems, virus scanners and other physical and logical security measures. However, the application of these measures may not always be effective. The Telefónica Group has insurance policies in place which could cover, subject to the policies terms, conditions, exclusions, limits and sublimits of indemnity,

and deductibles applying, certain losses arising out of this type of incidents. To date the insurance policies in place have covered some incidents of this sort, yet due to the potential severity and uncertainty of the mentioned events, these policies may not be sufficient to cover all possible monetary losses arising out of an individual event.

Possible regulatory, business, economic or political changes and other factors could lead to asset impairment.

The Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the value of assets and cash-generating units, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases synergies allowed for in acquisition costs. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and to recognize impairments in goodwill, intangible assets, property, plant and equipment or financial assets. Although the recognition of impairments of these assets results in a non-cash charge on the income statement, it could adversely affect the results of the Telefónica Group's operations. In this respect, the Telefónica Group has experienced impairments on certain of its investments, affecting its results of operations in the year in which they were experienced. In 2018, impairment losses in the value of goodwill, have been recognized amounting to 350 million euros, related to Telefónica's operations in Mexico. No impairments were recognized in 2017. In 2016, impairment losses, in the value of goodwill, were recognized amounting to 215 million euros, related to Telefónica's operations in Venezuela (124 million euros) and in Mexico (91 million euros). In addition, Telefónica may not be able to realize deferred tax assets on its statement of financial position to offset future taxable income. The recoverability of deferred tax assets depends on the Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. If Telefónica believes it is unable to utilize its deferred tax assets during the applicable period, it may be required to record an impairment against them resulting in a non-cash charge on the income statement. In 2018, Telefónica Móviles México derecognized deferred tax assets amounting to 327 million euros. Further details on intangible assets and goodwill are provided in Notes 6 and 7 to the Consolidated Financial Statements.

The Telefónica Group's networks carry and store large volumes of confidential, personal and corporate data, and its Internet access and hosting services may lead to claims for illegal or illicit use of the Internet.

The Telefónica Group's networks carry and store large volumes of confidential, personal and business data, through both voice and data traffic. The Telefónica Group stores increasing quantities and types of customer data in both business and consumer segments. Despite its best efforts to prevent it, the Telefónica Group may be found liable for any loss, transfer, or inappropriate modification of the customer data or general public data stored on its servers or transmitted through its networks, any of which could involve many people and have an impact on the Group's reputation, or lead to legal claims and liabilities that are difficult to measure in advance.

In addition, the Telefónica Group's Internet access and hosting servers could lead to claims for illegal or unlawful use of the Internet. Telefónica, like other telecommunications providers, may be held liable for any loss, transfer or inappropriate modification of the customer data stored on its servers or carried by its networks.

In most countries in which the Telefónica Group operates, the provision of its Internet access and hosting services (including the operation of websites with shelf-generated content) are regulated under a limited

liability regime applicable to the content that it makes available to the public as a technical service provider, particularly content protected by copyright or similar laws. However, regulatory changes have been introduced imposing additional obligations on access providers (such as blocking access to a website) as part of the struggle against some illegal or illicit uses of the Internet, notably in Europe.

Any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings.

Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the financial outcome of which is unpredictable. An adverse outcome or settlement in these or other proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, results of operations, reputation and/or cash flows. In particular, the Telefónica Group is party to certain judicial tax proceedings in Peru concerning the clearance of certain previous years' income tax, in respect of which a contentious-administrative appeal is currently pending and to certain tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax. Further details on these matters are provided in Notes 22 and 26 to the Consolidated Financial Statements. Additional details on provisions for litigation, tax sanctions and claims can be found in Note 21 to the Consolidated Financial Statements.

The telecommunications industry could be affected by factors related to sustainability and the environment. It could also be affected by the possible effects that electromagnetic fields could have on health.

Telefónica's operations and assets (including its towers and submarine cables) are located in many areas that are subject to natural disasters and severe weather, and which may be adversely affected in the future by climate change. Climate-related factors, such as heat waves, drought, sea levels, storms or flooding, could lead to unanticipated network interruptions and costly repairs, and negatively impact the demand for Telefónica's services in affected areas. Furthermore, if the Group's insurance did not fully cover business interruptions or losses resulting from these events, any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

In addition, government restrictions, standards, or regulations intended to reduce greenhouse gas emissions or potential climate change impacts are likely to result in increased energy, transportation, or raw material and other supply costs. Moreover, local, national or international policy responses to climate change, such as carbon pricing or levies, emission caps or subsidy withdrawals may also lead to the stranding or financial impairment of certain of the Group's assets. Furthermore, the Group may face increased reputational pressure if its activities are perceived to be inconsistent with addressing climate change.

While the Group has taken several steps to increase its resilience to climate change and to limit its carbon footprint, there is no certainty as to whether such steps will be effective or sufficient.

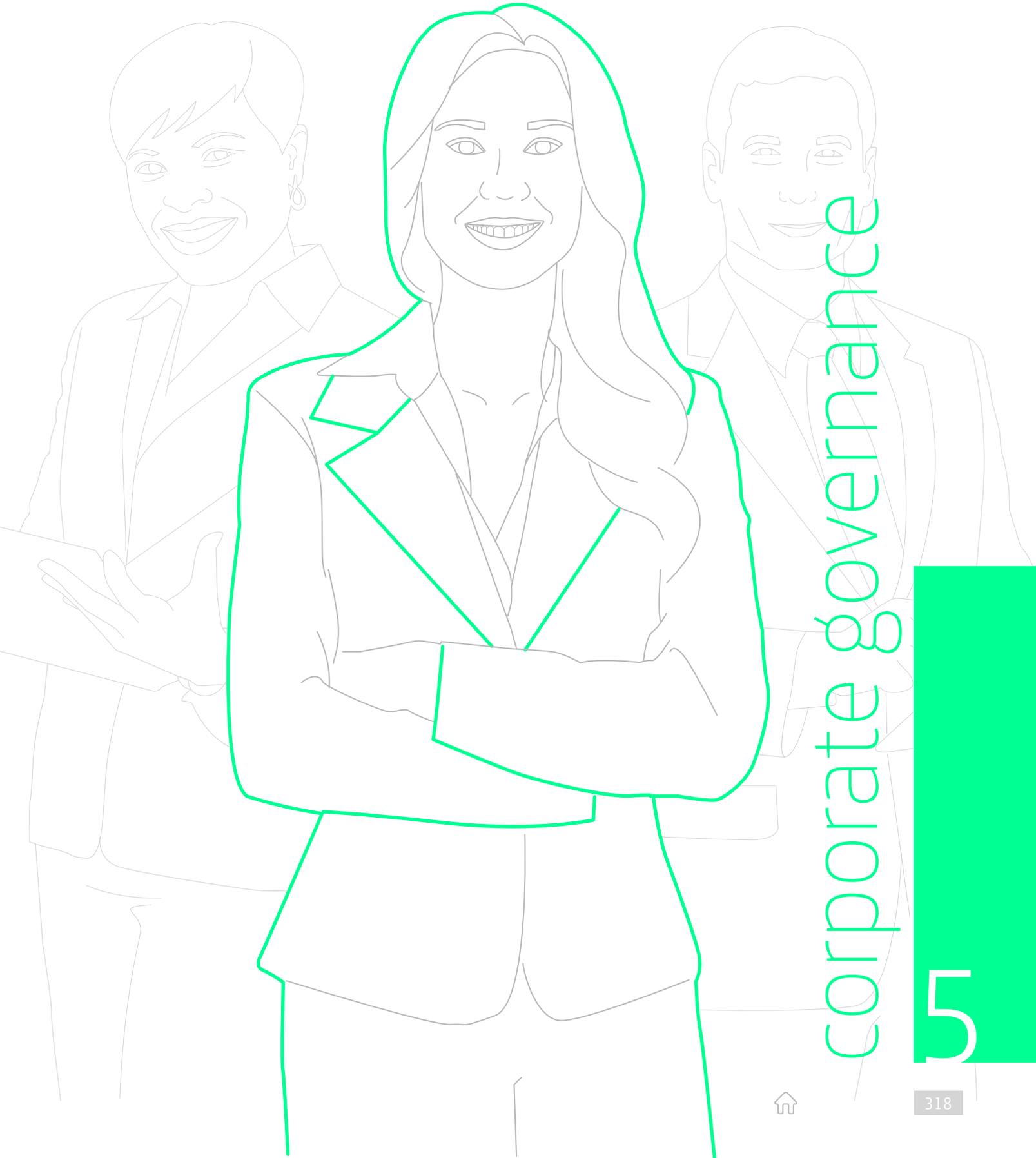
The telecommunications industry could also be affected by the possible effects that electromagnetic fields emitted by mobile devices and base stations could have on health, as well as by concerns relating to such matters. These concerns have led some governments and administrations to take measures that have

compromised the deployment of the necessary infrastructures to ensure quality of service, and have affected the criteria for the deployment of new networks and the development of digital services such as smart meters.

There is consensus among several groups of experts and public health agencies, including the World Health Organization, who state that, to date, there have been no proven risks of exposure to low radio-frequency signals from mobile communications. The scientific community continues to investigate this issue, especially with regard to mobile devices.

Concerns about electromagnetic fields may discourage the use of mobile telephony and new digital services, and may lead government authorities to impose significant restrictions on the location and operation of antennas or cells and the use of radio frequencies by mobile phones, as well as the deployment of smart meters and other products that use mobile technology. This could lead to the impossibility of expanding or improving the Group's mobile network.

Any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.



corporate governance

5



Annual **corporate governance** report

» There is more detailed public information in the Telefónica corporate governance report.



More information.

102-24
102-25
102-28
102-37



+ information



Other information

- » 6.1. Liquidity and Capital Resources
- » 6.2. Treasury shares
- » 6.3. Events after the reporting period
- » 6.4. Average payment period of the Spanish companies
- » 6.5. Glossary of terms

6.1. Liquidity and Capital Resources

Financing

During 2018, Telefónica's financing activity amounted approximately to 12,494 million euros equivalents (excluding the refinancing of euro commercial paper and short term banking loans) and focused on maintaining a solid liquidity position, as well as refinancing and extending the debt maturities (in an environment of low interest rates).

The main financing transactions carried out in the bond market in 2018 are as follows:

Item	Date	Maturity Date	Nominal (millions)		Currency of issuance	Coupon
			Currency	Euros		
Telefónica Emisiones, S.A.U.						
EMTN BOND	01/22/2018	01/22/2027	1,000	1,000	EUR	1.447%
SHELF BOND	03/06/2018	03/06/2038	750	655	USD	4.665%
SHELF BOND	03/06/2018	03/06/2048	1,250	1,091	USD	4.895%
EMTN BOND	09/11/2018	09/11/2025	1,000	1,000	EUR	1.495%
O2 Telefónica Deutschland Finanzierungs GmbH						
BOND	07/05/2018	07/05/2025	600	600	EUR	1.750%

During 2018 there was no outstanding amount under the main financing transactions arranged in 2018 in the bank market.

Availability of funds

As of December 31, 2018, Telefónica's liquidity, amounting to 20,119 million euros, includes: undrawn committed credit facilities arranged with banks for an amount of 12,219 million euros (of which 11,887 million euros maturing in more than 12 months); and cash equivalents and current financial assets.

Additional information on sources of liquidity and undrawn lines of credit available to the Company, on liquidity risk management, on the Company's debt levels, and on capital management is provided in Notes 15, 16 and 17 to the consolidated financial statements.

Contractual commitments

Note 23 to the consolidated financial statements provides information on firm commitments giving rise to future cash outflows and associated with purchases and services received in relation to the Company's principal activity, and any operating leases for buildings and assets related to the Company's activity, primarily.

Credit risk management

The Telefónica Group considers customer credit risk management as a key element to achieve its business and customer base growth targets in a sustainable way. This management approach relies on the active evaluation of the risk-reward balance within the commercial operations and on the adequate separation between the risk ownership and risk management functions.

Formal delegation of authority procedures and management practices are implemented in the different Group companies, taking into account benchmark risk management techniques but adapted to the local characteristics of each market. Commercial debtors that may cause a relevant impact on the Telefónica Group consolidated financial statements and increased risk profile products - due to customer target, term, channels or other commercial characteristics - are subject to specific management practices in order to mitigate the exposure to credit risk. These procedures include:

- statistical and expert models for customer acquisition that are used to forecast and to manage the customer expected probability of default.
- decision tools allowing the implementation of tailored credit strategies by product, channel, geography and type of customer.
- continuous monitoring of the payment behavior and solvency of the customer portfolio.
- internal and external collection processes designed to increase recovery through differentiated actions by debt age and customer profile.
- ongoing controls over the credit risk exposure.

The customer credit risk management strategy is embedded in the day-to-day operational processes guiding both the product and services available for the different customer profile and the management practices all through the customer life-cycle.

Credit rating

At December 31, 2018, Telefónica, S.A.'s long-term issuer default rating is "BBB stable outlook" from Fitch, "Baa3 stable outlook" from Moody's and "BBB stable outlook" from Standard & Poor's. During 2017, there have not been changes in the credit ratings by any of the three agencies. Last changes in the credit ratings took place in 2016 when Moody's downgraded the rating to "Baa3 stable" from "Baa2 negative" on November 7, 2016, Fitch downgraded the rating to "BBB stable" from "BBB+ stable" on September 5, 2016 and Standard and Poor's revised the outlook to "stable" from "positive" on May 17, 2016.

European Commission's decision to block the proposed sale of O2 U.K. to Hutchison's Three U.K. in 2016 had an impact on Telefonica's credit ratings and outlooks by Moody's and Standard and Poor's, as they considered that decision would delay the Company's deleveraging process. In 2018, among the measures taken to protect the credit rating, it is noteworthy an intensive financing activity, taking advantage of historical low refinancing rates to extend average debt life, together with the maintenance of an appropriate level of liquidity and an active portfolio management through the completion of the 16.65% divestment of the share capital of Pontel Participaciones, S.L. that owns 60% of the share capital of the company Telxius Telecom, S.A.

Dividend policy

Telefónica, S.A.'s dividend policy is revised yearly based on the Group's earnings, cash generation, solvency, liquidity, flexibility to make strategic investments, and shareholder and investor expectations.

On October 27, 2016, the Board of Directors of Telefónica, S.A. announced the dividend policy for the year 2017, that would be 0.40 euros per share: 0.20 euros in the fourth quarter of 2017 and 0.20 euros in the second quarter of 2018, both in cash.

On March 29, 2017 the Board of Directors of Telefónica, S.A. decided to define the corresponding payment periods of the dividends. Therefore, from there on, the dividend payment in the second quarter will take place in June, and the dividend payment in the fourth quarter will take place in December, in both cases on or before the third Friday of the corresponding month. In this regard, the dividends paid during 2017 were paid on June 16 and December 14.

In February 2018, Telefónica announced the dividend policy for the year 2018: 0.40 euros per share in cash, in December 2018 (0.20 euros per share) and in June 2019 (0.20 euros per share).

The Annual General Meeting held in 2018, approved a dividend distribution in cash charged to Unrestricted Reserves, by means of a payment of a fixed gross amount of 0.40 euros during 2018 payable in two tranches, 0.20 euros per share on June 15, 2018 and 0.20 euros per share on December 20, 2018.

6.2. Treasury shares

Telefónica has performed, and may consider performing, transactions with treasury shares and financial instruments or contracts that confer the right to acquire treasury shares or assets whose underlying is Company shares.

Treasury share transactions will always be for legitimate purposes, including:

- undertaking treasury share acquisitions approved by the Board of Directors or pursuant to General Shareholders' Meeting resolutions.
- honoring previous legitimate commitments assumed.
- covering requirements for shares to allocate to employees and management under stock option plans.
- other purposes in accordance with prevailing legislation. In the past, treasury shares purchased on the stock market were exchanged for other shares-securities (as in the case of preferred capital securities), swapped for stakes in other companies (e.g. the share exchange with KPN) acquired to reduce the number of shares in circulation (by redeeming the shares acquired), thereby boosting earnings per share.

Treasury share transactions will not be performed in any event based on privileged information or in order to intervene in free price formation. In particular, any of the conduct referred to in Articles 83.ter.1 of the Spanish Securities Market Law and 2 of Royal Decree 1333/2005 of November 11 implementing the Spanish Securities Market Law, with regards to market abuse will be avoided.

Telefónica, S.A. held the following treasury shares at December 31, 2018, 2017 and 2016:

	Number of shares	Euros per share		Market value(*)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/18	65,496,120	10.48	7.34	481	1.26145%
Treasury shares at 12/31/17	65,687,859	10.48	8.13	534	1.26514%
Treasury shares at 12/31/16	141,229,134	10.48	8.82	1,246	2.80339%

(*) Millions of euros

The following transactions involving treasury shares were carried out in 2018, 2017 and 2016:

	Number of shares
Treasury shares at 12/31/15	141,639,159
Acquisitions	77,087,297
Employee share option plan	(2,869,334)
Capital reduction	(74,627,988)
Treasury shares at 12/31/16	141,229,134
Acquisitions	0
Employee share option plan	(3,518,795)
Capital reduction	(72,022,480)
Treasury shares at 12/31/17	65,687,859
Acquisitions	—
Employee share option plan	(191,739)
Other movements	0
Treasury shares at 12/31/18	65,496,120

There were no treasury shares purchases in 2018 and 2017 (668 million euros in 2017).

The most significant transaction with treasury shares in 2017 was the swap with Koninklijke KPN NV (hereinafter, KPN) by which Telefónica delivered 72.0 million of its treasury shares (representing 1.43% of its share capital) in exchange for 178.5 million shares of its subsidiary Telefónica Deutschland Holding AG, representing 6.0% of the share capital of the latter, amounting to 754 million euros (see Note 5).

On September 30, 2017, and September 30, 2018, the first and second cycles, respectively, of the Telefónica, S.A. long-term incentive plans called "Performance and Investment Plan 2014-2019" (PIP 2014-2019) and "Talent for the Future Share Plan (TFSP)" ended, which did not entail the delivery of any shares (see Note 24).

On July 31, 2017, the Global Employee Share Plan III matured and 3,187,055 treasury shares were delivered to the Group employees who met the requirements (see Note 24).

On June 30, 2016, the third phase of the Telefónica, S.A. long-term incentive plan called "Performance and Investment Plan 2011-2016" (PIP 2011-2016) ended, which did not entail the delivery of any shares to Telefónica Group managers.

On October 13, 2016, pursuant to the resolution of the share capital reduction, by the cancellation of treasury shares, as adopted by the Annual General Shareholders' Meeting of Telefónica held on May 12, 2016, the public deed of this share capital reduction was registered. Therefore, 74,627,988 of the treasury shares of Telefónica, S.A. totaling 813 million euros were canceled.

The Company maintains a derivative financial instrument subject to net settlement on a notional equivalent of 21.7 million of Telefónica shares in 2018 (35.2 million shares in 2017), recognized under "Current financial liabilities" in the consolidated financial statements for both fiscal years.

6.3. Events after the reporting period

The following events regarding the Telefónica Group took place between December 31, 2018 and the date of authorization for issue of the accompanying consolidated financial statements:

- On January 23, 2019, Telefónica announced that Telefónica UK Limited had agreed non-binding heads of terms with Vodafone Limited to strengthen their existing network sharing partnership in the United Kingdom. The parties plan to extend the term of their existing network sharing partnership and include 5G capacity at joint radio network sites, and to upgrade transmission networks to support 5G technology. They also intend to devolve more activities to their joint venture company, Cornerstone Telecommunications Infrastructure Limited (CTIL), which manages passive tower infrastructure.
- On January 23, 2019, Telefónica announced that it was notified of a resolution issued by the Spanish Central Economic-Administrative Tax Court (Tribunal Económico-Administrativo Central) partially upholding the claims filed against the assessments relating to the 2008-2011 Corporate Income Tax Audit. Final implementation of this resolution will most likely lead to a tax refund related to overpayments made by the company in those tax years. At this point of time, it is not possible to quantify the exact amount of the expected refund since, as pointed out by the Central Economic-Administrative Court's resolution, the final amount shall only be settled once the resolution is duly executed by the Spanish Tax Authorities.
- On January 23, 2019, Telefónica, S.A. made a repayment of 100 million euros on its bilateral loan signed on December 20, 2017
- On January 24, 2019, Telefonica Centroamérica Inversiones, S.L. (60% of which is owned, directly and indirectly, by Telefonica and 40% of which is owned by Corporación Multi Inversiones), reached an agreement with América Móvil, S.A.B. of C.V. for the sale of the entire share capital of Telefónica Móviles Guatemala, S.A. and 99.3% of Telefónica Móviles El Salvador, S.A. de C.V. The closing of the Telefónica El Salvador sale is subject to applicable regulatory conditions while the sale of Telefónica Móviles Guatemala was completed on such date.
- The aggregate consideration for both companies (enterprise value) is 648 million US dollars (approximately 570 million euros at the exchange rate on the date of the agreement, 293 million of which correspond to Telefónica Móviles Guatemala and 277 million of which correspond to Telefónica Móviles El Salvador).
- On January 25, 2019, Telefónica Emisiones, S.A.U. redeemed 150 million euros of its notes issued on January 25, 2017. The notes were guaranteed by Telefónica, S.A.
- On February 5, 2019, Telefónica Emisiones, S.A.U. issued under its *Guaranteed Euro Program for the Issuance of Debt Instruments* ("EMTN Program") notes in the Euro market guaranteed by Telefónica, S.A., amounting to 1,000 million euros. These notes are due on February 5, 2024, pay an annual coupon of 1.069% and were issued at par (100%). The net proceeds of the notes are to be allocated towards projects aiming to improve energy efficiency in the network transformation from copper to fiber optic in Spain.
- On February 14, 2019, once the pertinent regulatory approvals were obtained, Telefónica transferred to Grupo Catalana Occidente 100% of Antares' share capital for a total amount of 161 million euros. On the closing of the sale, Telefónica and Grupo Catalana Occidente executed an agreement pursuant to which

Grupo Catalana Occidente will continue to manage the insurance policies of the Telefónica Group on an exclusive basis for the next 10 years.

- On February 18, 2019, Telefónica, S.A. made an early repayment for 500 million euros of its bilateral loan of 1,000 million euros signed on June 26, 2014 and originally scheduled to mature on June 26, 2019.
- On February 20, 2019, the Board of Directors of Telefónica, S.A. has approved the sale of the Telefónica Group businesses in Panama, Nicaragua and Costa Rica. The closing of the agreement is expected in the short term.

The detail of the assets and liabilities of these companies as of 31 December 2018 is as follows:

Millions of euros	Telefónica Móviles	Telefonía Celular	Telefónica de Costa
	Panamá, S.A.	de Nicaragua, S.A.	Rica TC, S.A.
Non-current assets	332	146	177
Current assets	34	38	51
Total assets	366	184	228
Non-current liabilities	69	21	32
Current liabilities	71	49	53
Total liabilities	140	70	85

6.4. Average payment period of the Spanish companies

The Telefónica Group's Spanish companies adapted their internal processes and payment schedules to the provisions of Law 15/2010 (amended by Law 31/2014) and Royal Decree-Law 4/2013, amending Law 3/2004, which establishes measures against late payment in commercial transactions. Engagement conditions with commercial suppliers in 2018 included payment periods of up to 60 days, according to the terms agreed between the parties.

For efficiency purposes and in line with general business practices, Telefónica Group companies in Spain have agreed payment schedules with suppliers, whereby most of the payments are made on set days of each month. Invoices falling due between two payment days are settled on the following payment date in the schedule.

Payments to Spanish suppliers in 2018 surpassing the established legal limit were the result of circumstances or incidents beyond the payment policies, mainly the delay in issuing invoices (legal obligation of the supplier), the closing of agreements with suppliers over the delivery of goods or rendering of services, or occasional processing issues.

The average payment period to suppliers of the Telefónica Group's companies in Spain in 2018, calculated in accordance with the only additional provision of the Resolution of the Instituto de Contabilidad y Auditoría de Cuentas (Spanish Accounting and Audit Institute) of January 29, 2016, amounted to 49 days (53 days in 2017).

6.5. Glossary of terms

Below are definitions of certain technical terms used in this Annual Report:

"**Access**" refers to a connection to any of the telecommunications services offered by Telefónica. A single fixed customer may contract for multiple services, and Telefónica believes that it is more useful to count the number of accesses a customer has contracted for, than to merely count the number of its customers. For example, a customer that has fixed line telephony service and broadband service is counted as two accesses rather than as one customer.

"**ARPU**" is the average revenues per access per month. ARPU is calculated by dividing total gross service revenues (excluding inbound roaming revenues) from sales to customers for the preceding 12 months (or another given period) by the weighted average number of accesses for the same period, and then dividing by 12 (or the number of months in such other given period).

"**Bundles**" refer to combination products that combine fixed services (wirelines, broadbands and television) and mobile services.

"**Churn**" is the percentage of disconnections over the average customer base in a given period.

"**Cloud computing**" is the delivery of computing as a service rather than a product, whereby shared resources, software and information are provided to computers and other devices as a utility over a network (typically the Internet).

"**Commercial activity**" includes the addition of new lines, replacement of handsets and migrations.

"**Convergent**" is the offer of more than a single service for a single price.

"**Data ARPU**" is the average data revenues per access per month. Data ARPU is calculated by dividing total data revenues (from sources such as Short Message Service ("**SMS**"), Multimedia Messaging Services ("**MMS**"), other mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and wireless application protocol ("**WAP**") connectivity from sales to customers) for a given period by the weighted average number of accesses for the same period, and then dividing by the relevant number of months in such period.

"**Data revenues**" include revenues from SMS, MMS, other mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and WAP connectivity from sales to customers.

"**Data traffic**" includes all traffic from Internet access, messaging (SMS, MMS) and connectivity services that is transported by the networks owned by Telefónica.

"**Fixed telephony accesses**" includes public switched telephone network (PSTN) lines (including public use telephony), and integrated services digital network (ISDN) lines and circuits. For the purpose of calculating Telefónica's number of fixed line accesses, Telefónica multiplies its lines in service as follows: PSTN (x1); basic ISDN (x1); and primary ISDN (x30, x20 or x10).

"**Fixed termination rates**" or "**FTRs**" is an established fixed network tariff that applies when a customer makes a call to someone in a network operated by another operator.

"**Fiber to Home**" or "**FTTH**" is the installation and use of optical fiber from a central point directly to individual buildings such as residences, apartment buildings and businesses to provide high-speed Internet access.

"**FTTx**" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop.

"**Gross adds**" means the gross increase in the customer base measured in terms of accesses in a period.

"**HDTV**" or "**high definition TV**" has at least twice the resolution of standard definition television (SDTV), allowing it to show much more detail than an analog television or digital versatile disc (DVD).

"**Interconnection revenues**" means revenues received from other operators which use Telefónica's networks to connect to or finish their calls and SMS or to connect to their customers.

"**Internet and data accesses / Fixed Broadband (FBB)**" include broadband accesses (including retail asymmetrical digital subscriber line ("ADSL") very high bit-rate digital subscriber line ("VDSL"), satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and the remaining non-broadband final customer circuits. Internet and data accesses also include "Naked ADSL", which allows customers to subscribe for a broadband connection without a monthly fixed line fee.

"**IPTV**" (Internet Protocol Television) refers to distribution systems for television subscription signals or video using broadband connections over the IP protocol.

"**IT**", or information technology, is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

"**Local loop**" means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.

"**LTE**" means Long Term Evolution, a 4G mobile access technology.

"**M2M**", or machine to machine, refers to technologies that allow both mobile and wired systems to communicate with other devices of the same ability.

"**Market share**" is the percentage ratio of the number of final accesses or operator revenues over the existing total market in an operating area.

"**Mobile accesses**" includes accesses to the mobile network for voice and/or data services (including connectivity). Mobile accesses are categorized into contract and pre-pay accesses.

"**Mobile broadband**" includes Mobile Internet (Internet access from devices also used to make voice calls such as smartphones), and Mobile Connectivity (Internet access from devices that complement fixed broadband, such as PC Cards/dongles, which enable large amounts of data to be downloaded on the move).

"**MTR**" means mobile termination rate, which is the charge per minute or SMS paid by a telecommunications network operator when a customer makes a call to another network operator.

"**MVNO**" means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement

with a mobile network operator in order to provide mobile access to their customers. An MVNO pays a determined tariff to such mobile network operator for using the infrastructure to facilitate coverage to their customers.

"**Net adds**" means the number of new accesses in a certain period.

"**Non SMS data revenues**" means data revenues excluding SMS revenues.

"**OTT services**" or "**over the top services**" means services provided through the Internet (such as television and video streaming).

"**P2P SMS**" means person to person short messaging service (usually sent by mobile customers).

"**Pay TV**" includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

"**p.p.**" means percentage points.

"**Revenues**" means net sales and revenues from rendering of services.

"**Service revenues**" means revenues less revenues from handset sales. Service revenues are mainly related to telecommunications services, especially voice revenues and data revenues (SMS and data traffic download and upload revenues) consumed by Telefónica's customers.

"**SIM**" means subscriber identity module, a removable intelligent card used in mobile handsets, USB modems, etc. to identify the user in the network.

"**Ultra Broad Band**" or "**UBB**" is the fiber to the premise broadband which is capable of giving minimum downlink speed of 100 mbps and minimum uplink speed of 50 mbps.

"**Unbundled local loop**", or "**ULL**" includes accesses to both ends of the copper local loop leased to other operators to provide voice and digital subscriber line ("**DSL**") services (fully unbundled loop or "**fully ULL**") or only DSL services (shared unbundled loop or "**shared ULL**").

"**Voice Traffic**" means voice minutes used by Telefónica's customers over a given period, both outbound and inbound.

"**VoIP**" means voice over Internet protocol.

"**Wholesale accesses**" means accesses Telefónica provides to its competitors, who then sell services over such accesses to their residential and corporate clients.

"**Wholesale ADSL**" means accesses of broadband or fiber that Telefónica provides to its competitors, who then sell services over such accesses to their residential and corporate clients.

"**YoY**" or "**y-o-y**" means year-on-year.



TELEFÓNICA, S.A.

Independent Verification Report
31 December 2018

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT VERIFICATION REPORT

To the shareholders Telefónica, S.A.:

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the accompanying Consolidated Non-Financial Statement – Digital responsibility and well-being attached (“NFS”) for the year ended 31 December 2018 of Telefónica, S.A. and subsidiaries (Telefónica or the Group or the Company) which forms part of Telefónica’s 2018 Consolidated Directors’ Report (“CDR”).

The content of the NFS includes additional information to that required by current commercial legislation on non-financial reporting which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in the table included in the section “2.9.9. GRI and Spanish Law 11/2018 compliance” in the accompanying NFS.

Likewise, we have carried out a moderate assurance engagement of the application of the principles of inclusivity, materiality and responsiveness, related to the information included in the section “1.7. Our relations with stakeholders” of the CDR in accordance with the provisions of the 2008 Accountability Principles Standard AA1000 (AA1000APS) issued by AccountAbility.

Responsibility of the Directors

The preparation of the NFS included in Telefónica’s CDR, and the content thereof are the responsibility of the Board of Directors of Telefónica, S.A.. The NFS has been drawn up in accordance with the provisions of current commercial legislation and with the Sustainability Reporting Standards of the Global Reporting Initiative (“GRI Standards”) in accordance with the Comprehensive Option, in line with the details provided for each matter in the table included in the section “2.9.9. GRI and Spanish Law 11/2018 compliance” included in CDR’s Annex.

This responsibility also includes the design, implementation and maintenance of the internal control that is considered necessary to ensure NFS is free from material misstatement, due to fraud or error.

The directors of Telefónica, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFS is obtained, and also for the application of AA1000APS (2008) principles.

Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (“IESBA”) which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialising in non-financial information reviews and specifically in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance verification report based on the work carried out in relation solely to fiscal year 2018. The data relating to previous years were not subject to the verification envisaged in current commercial legislation. Our work has been carried out in accordance with the requirements laid down in the current International Standard on Assurance Engagements 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors (“Instituto de Censores Jurados de Cuentas de España”). We have also carried out our moderate assurance engagement (type 2) in accordance with the 2008 AA1000 Assurance Standard (AA1000AS) issued by AccountAbility.

In a limited assurance engagement, the procedures performed vary in terms of their nature and timing of execution, and are more restricted than those carried out in a reasonable assurance engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted of posing questions to Management and several Telefónica’s units that were involved in the preparation of the NFS, in the review of the processes for compiling and validating the information presented in the NFS and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with Telefónica personnel to ascertain the business model, policies and management approaches applied and the main risks related to these matters, and to obtain the information required for the external review.
- Analysis of the scope, relevance and integrity of the content included in the NFS based on the materiality analysis carried out by Telefónica and described in the “1.8. Material aspects of our business” section, and considering the content required under current commercial legislation.
- Analysis of the procedures used to compile and validate the information presented in NFS for 2018.
- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the NFS for 2018.
- Analysis of the documentation and actions related to the application of the inclusivity, materiality and responsiveness principles of the AA1000APS (2008).
- Verification, through sample testing, of the information relating to the content of the NFS for 2018 and its adequate compilation using data supplied by Telefónica’s information sources.

- Regarding the indicators on energy consumption and greenhouse gas emissions, we have reviewed that they have been verified by an independent third party in accordance with the ISO 14064-3 standards and we have evaluated the competence, capabilities and objectivity of the verification team and the adequacy of its work based on a review of the work planning activities and reports issued.
- Obtainment of a management representation letter from the Directors and Management.

Conclusions

Based on the procedures performed and the evidence we have obtained, no matters have come to our attention which may lead us to believe that:

- Telefónica's NFS for the year ended 31 December 2018 has not been prepared, in all of their significant matters, in accordance with the provisions of current commercial legislation and with the GRI Standards in accordance with the Comprehensive Option, in line with the details provided for each matter in the table included in the section "2.9.9. Tabla de cumplimiento GRI - Ley 11/2018, de 28 de diciembre" in the accompanying NFS.
- The information included in the section "1.7. Our relations with stakeholders" of the Telefónica's CDR, regarding the application of the principles of inclusivity, materiality and responsiveness, has not been prepared, in all of their significant matters, in accordance with the provisions of the AA1000APS (2008).

Recommendations

Regarding the observations and recommendations for improvements that have come to our attention during our assurance engagement, set out below is a summary of the main recommendations regarding improvements to the application of the AA1000APS (2008) principles of inclusivity, materiality and responsiveness, which do not alter our limited or moderate assurance conclusions given in this report.

Inclusivity

Telefónica, in section "1.7. Our relationship with stakeholders" in the Consolidated Directors' Report includes information on the company's relationship with its main stakeholders. Thanks to the activity performed by the Responsible Business Panel, through the Advisory Panel and Extended Panel, direct communication channels with stakeholders are identified and established. As a novelty, in 2018 the map of stakeholders has been updated at a local level, favoring the identification of the different organizations that best represent their main publics at a local level.

In this sense, it is recommended to identify in a more detailed manner the topics to be addressed with the different stakeholders according to the peculiarities that are identified in each location, through the development of local panels or even through specific consultations adapted to each one of them.

Finally, it is recommended to establish multidirectional response channels as forums, so that the different members of the stakeholders can interact with each other. In this sense, the Company will be able to analyze its demands in a more adjusted manner and satisfy its needs.

Materiality

As a result of the effective implementation of the dialogue processes established with stakeholders by the Responsible Business Panel, in 2018 the process of prioritizing relevant issues was reinforced. Detailed knowledge of the importance of issues for stakeholders has been complemented by Telefónica's internal analysis, enabling it to perfect its Materiality Analysis and the level of relevance of each issue.

In this regard, it is recommended that Telefónica does progress in monitoring the results and conclusions obtained in the meetings of the Responsible Business Panel and guarantees their inclusion in the Materiality Analysis to ensure the continuous review and updating of the issues identified and their prioritization.

Responsiveness

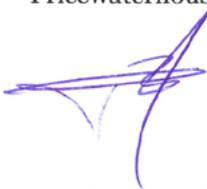
Telefónica's current stakeholder relations strategy involves establishing objectives to respond to stakeholder expectations and establishing metrics to evaluate the vision of the Company held by different stakeholders. Telefónica also identifies the relevant issues identified, explaining how the Company responds to the needs of its stakeholders.

In this regard, it is recommended to continue working to ensure that the initiatives, plans and programmes derived from the analysis of stakeholder expectations are implemented and evaluated through indicators that allow monitoring of the impact on the different stakeholders and their alignment with the Company's performance. It is also recommended that the results of the dialogue held with stakeholders are analyzed in depth in such a way that their needs are resolved thanks to the establishment of action plans incorporated into the business strategy.

Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish commercial legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.



Original in Spanish signed by
Pablo Bascones

21 February, 2019



AA1000
Licensed Assurance Provider
000-42

TELEFÓNICA, S.A.

Independent Verification Report
31 December 2018

Distribucion

Cliente 2

PwC 1

3

Telefonica
