



3

Contribution
to progress_

Economic impacts_

We are one of the most important drivers of economic progress in the communities in which we are present, having contributed more than 53,600 million euros to the combined GDP of the countries in which we operate in 2015.

We therefore provide significant stimulus to the economies of these communities, both directly and due to the capacity of our activity to generate a wealth multiplier effect. Thus, in 2015, for every euro generated, Telefónica contributed 3.7 euros to the GDP of the countries in which we operate.

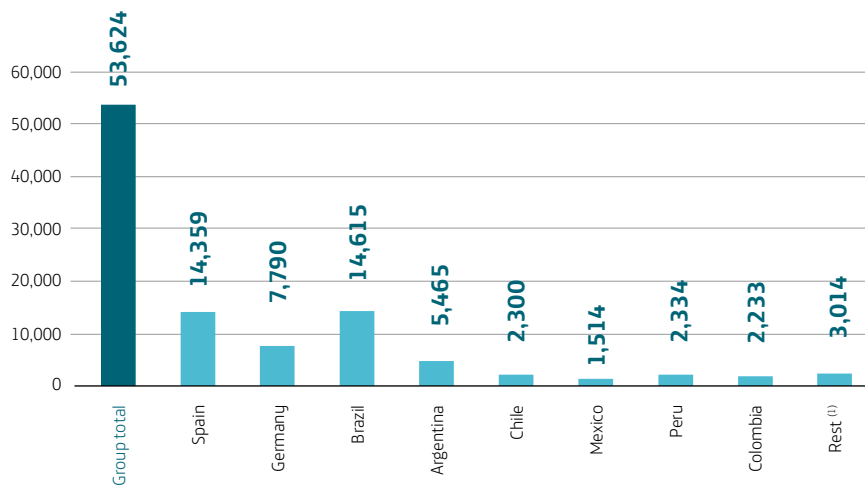
For each euro of profit we generated, we contributed

€3.7

to the GDP of the countries in which we operate

IMPACT ON GDP

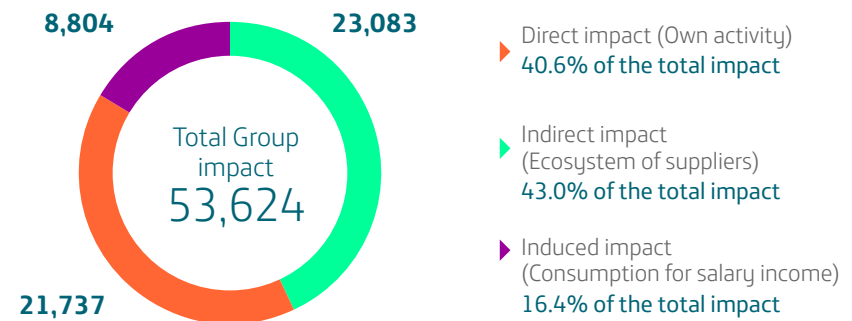
Millions of euros Source: PwC analysis



(1) Includes the approximate impact of Ecuador, Uruguay, Venezuela, El Salvador, Guatemala, Nicaragua, Panama, Costa Rica, USA and Puerto Rico.

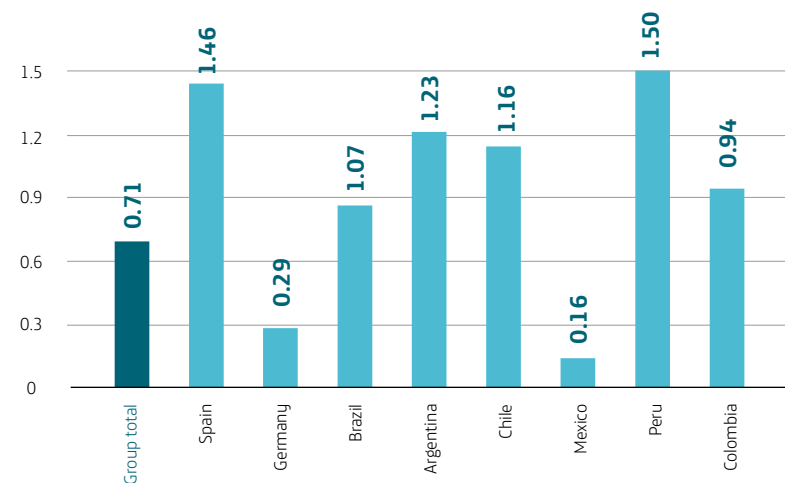
IMPACT ON THE TOTAL NUMBER OF COUNTRIES IN WHICH WE HAVE A PRESENCE

Millions of euros Source: PwC analysis



% OF GDP

% Source: PwC analysis



IMPACTS ON EMPLOYMENT

Telefónica is also a major driver of job creation in the countries in which we operate. To be specific, in 2015 we contributed to employment in these countries through more than

1.2 million direct, indirect and induced jobs. Thus, for each person recruited for our workforce, we generated 8.5 additional jobs in the countries in which we operate.

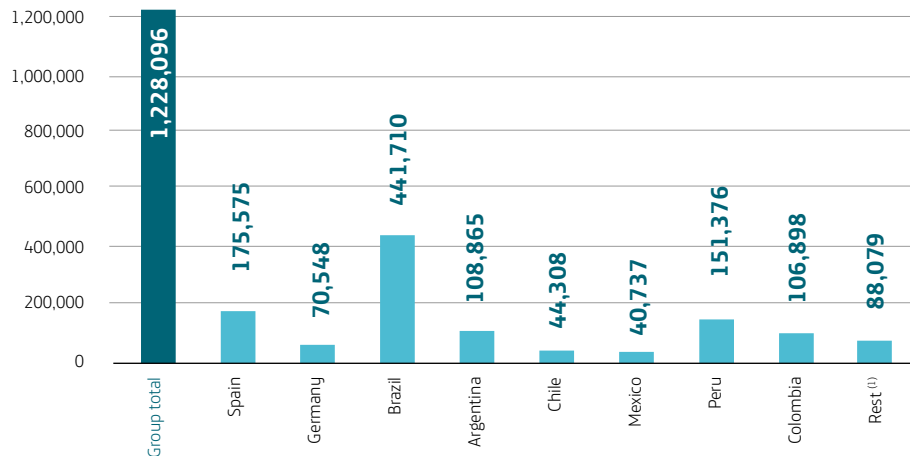
For each employee we recruited we generated

8.5

additional jobs in the countries in which we operate

IMPACT ON EMPLOYMENT

Employees Source: PwC analysis

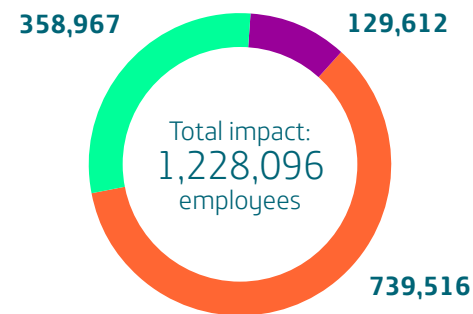


(1) Includes the approximate impact of Ecuador, Uruguay, Venezuela, El Salvador, Guatemala, Nicaragua, Panama, Costa Rica, USA and Puerto Rico.

IMPACT ON THE TOTAL NUMBER OF COUNTRIES IN WHICH WE HAVE A PRESENCE

People

Source: PwC analysis



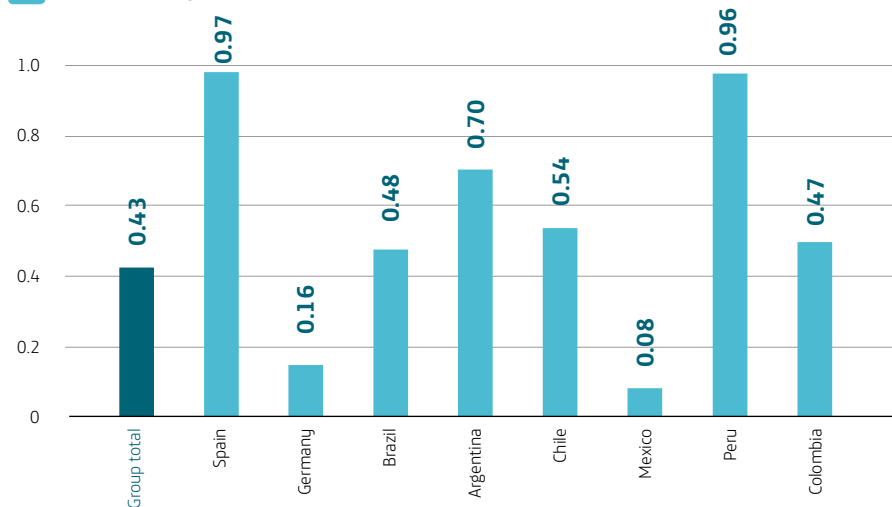
Direct impact (Own activity)
10.6% of the total impact

Indirect impact (Ecosystem of suppliers)
60.2% of the total impact

Induced impact (Consumption for salary income)
29.2% of the total impact

% OF NUMBER OF WORKERS

% Source: PwC analysis

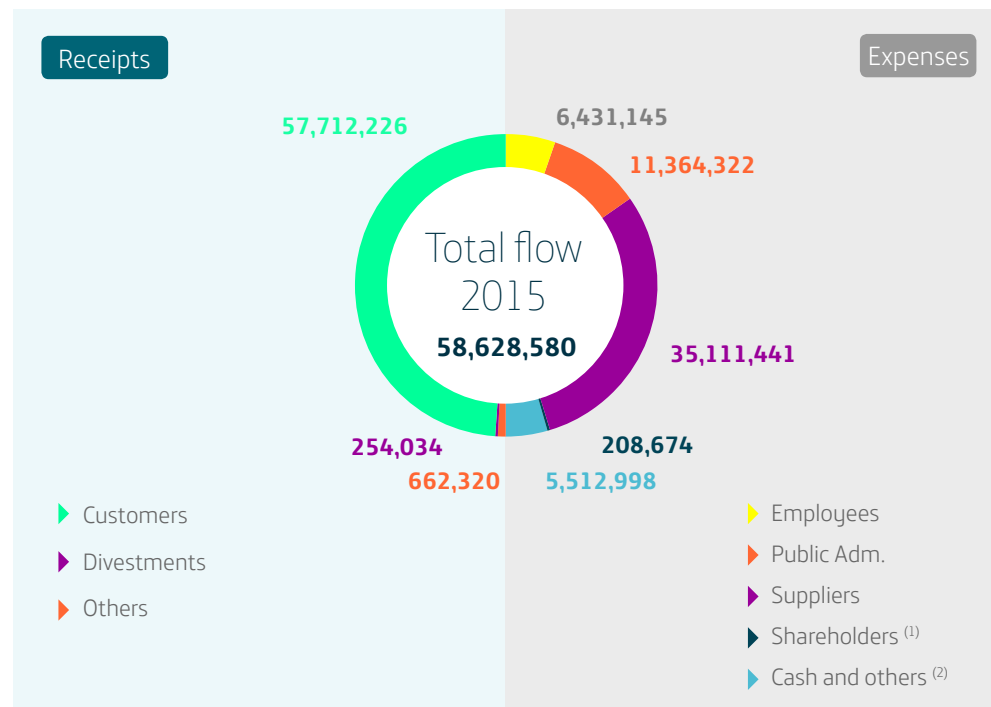


SOCIAL CASH FLOW

At Telefónica the income we receive, both from our activities with customers and from divestments, is contributed to society in various forms: employee salaries and income,

contributions to tax authorities, payments to our suppliers (material operations and investments), shareholder returns and the net effects of debt servicing and other cash operations with financial institutions.

Euros



(1) Net effect of accounting for dividends and operations with own shares with an increase in capital.

(2) Includes the net flows for financing operations and other cash operations.



Contribution to the local tax authorities

The current economic environment has placed the tax contributions of large multinational companies at the centre of the debate. At Telefónica we are committed to acting with fiscal responsibility in the management of our business by complying with all our tax obligations in all the territories in which we operate in a transparent manner.

In order to increase transparency, we have developed Business Principles for tax compliance, based on which we commit to acting with honesty and respect for the law in the [management of fiscal matters](#).

Furthermore, in 2010 the Board of Directors approved our adherence to the Code of Good Tax Practices developed by the Large Businesses Forum, together with the Spanish Tax Authority, in order to avoid the use of opaque structures for fiscal purposes.

Therefore, at Telefónica we do not use corporate structures to conceal or reduce the transparency of our activities from tax authorities or any other interested party. Nor do we operate in any of the jurisdictions included in the list of tax havens legally established by Spain in accordance with the 1st additional provision of Law 36/2006 on

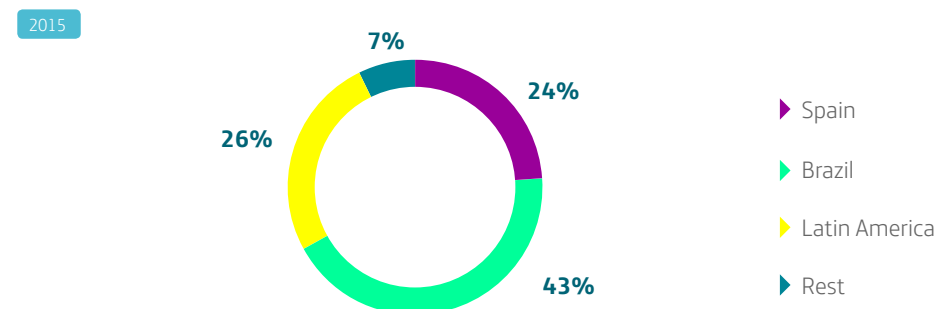
Measures for the Prevention of Fiscal Fraud, in the wording updated by the Final Provision 2 of Law 26/2014 of 27 November.

The Telefónica Group's operations in territories regarded by bodies other than the OECD and Spain as having little or no taxation, are, solely and exclusively, for economic and commercial reasons (Business Purpose) and have the material and human resources necessary for conducting the activities, without the purpose of these operations being, in any event, to transfer profits to these jurisdictions to obtain a reduction of the tax burden.

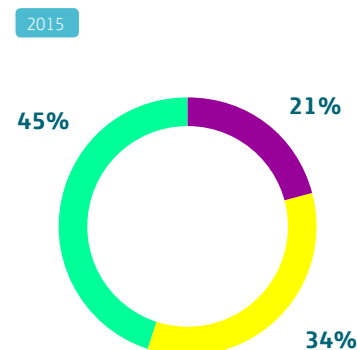
TAXES IN 2015

In 2015, our total tax contribution (TTC) amounted to 11,454 million euros (3,130,299 M€ in taxes borne and 8,323,802 M€ in taxes collected), accounting for 50% of the value distributed by Telefónica⁽¹⁾. Brazil and Spain, the markets in which the Company generates the most operating profit, are the jurisdictions which have most contributed to the payment of taxes.

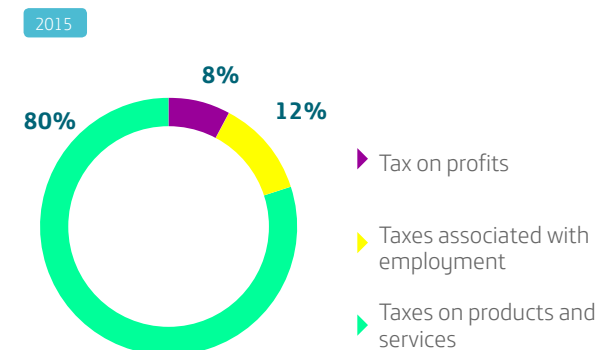
DISTRIBUTION OF THE TAXES PAID BY TELEFÓNICA BY GEOGRAPHIC AREA



TAXES BORNE⁽²⁾



TAXES COLLECTED⁽³⁾



(1) Value distributed as taxes borne and collected / total distributed value, the latter being the sum of the following items: value for the shareholder (profit after tax), wages and salaries net of taxes collected, net interests and taxes borne and collected.

(2) Taxes borne: taxes paid by Telefónica to administrations of the different states in which it operates and that cause the Company to assume an effective cost.

(3) Taxes collected: taxes managed by Telefónica that have been entered on behalf of other contributors as a result of the economic activity of the Company; that is, tax revenues obtained due to the economic value generated by this economic activity.



The amount in absolute value of Telefónica's TTC in 2015 decreased in comparison with 2014, due to issues arising from the exchange rates in relevant countries in Latin America (especially Colombia, Peru and Venezuela) and the United Kingdom's exit from the scope of consolidation, among others.

However, the ratios which make up the Telefónica Group's TTC, compared with the main business magnitudes (as is the case of the ratio of the Total Tax Contribution in relation to revenues), were slightly higher than those in 2014.

For every 100 euros of the Company's turnover, 24.2 euros were allocated to tax payments (6.6 to the payment of taxes borne and 17.6 to the payment of taxes collected⁽¹⁾).



FURTHER INFORMATION

Refer to the "Fiscal transparency" section of our corporate website.

BREAKDOWN OF TELEFÓNICA'S GLOBAL TAX CONTRIBUTION IN 2015

Millions of euros

| COUNTRY | Taxes borne ⁽²⁾ | Taxes collected ⁽³⁾ | Total contribution ⁽⁴⁾ |
|-------------|----------------------------|--------------------------------|-----------------------------------|
| BRAZIL | 1,065 | 3,858 | 4,922 |
| SPAIN | 561 | 2,176 | 2,737 |
| ARGENTINA | 626 | 839 | 1,465 |
| GERMANY | 164 | 551 | 715 |
| PERU | 208 | 286 | 493 |
| COLOMBIA | 146 | 144 | 290 |
| CHILE | 38 | 189 | 227 |
| MEXICO | 25 | 113 | 138 |
| ECUADOR | 96 | 21 | 117 |
| NICARAGUA | 23 | 24 | 47 |
| URUGUAY | 21 | 10 | 31 |
| PANAMA | 13 | 12 | 25 |
| EL SALVADOR | 8 | 16 | 24 |
| GUATEMALA | 5 | 12 | 16 |
| OTHERS | 131 | 74 | 205 |
| TOTAL | 3,130 | 8,324 | 11,454 |

In total, for every 100 euros of our turnover,

24.2 EUROS

were allocated to tax payments;

of which

6.6 EUROS

were taxes borne and

17.6 EUROS

were taxes collected

(1) Calculated as total tax contribution based on revenues.

(2) Taxes borne: taxes paid by Telefónica to administrations of the different states in which it operates and that cause the Company to assume an effective cost.

(3) Taxes collected: taxes managed by Telefónica that have been entered on behalf of other contributors as a result of the economic activity of the Company; that is, tax revenues obtained due to the economic value generated by this economic activity.

(4) Total contribution: the TC measures the total impact of tax payments on the different administrations directly or indirectly as a result of the Company's economic activity.

Environmental impact

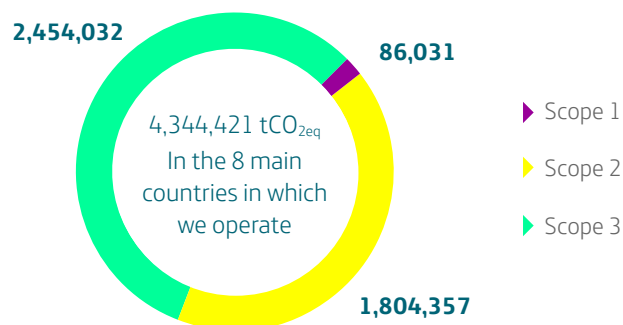
The carbon footprint of our activity accounts for only 0.18% of the total emissions of the 8 main countries in which we operate.

However, [sectoral studies](#) indicate that our services have the potential to reduce our carbon footprint a further 9.7 times by 2030.

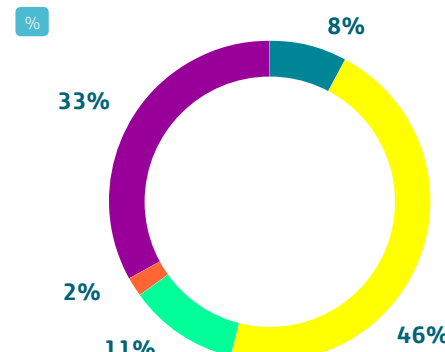
Our Internet of Things (IoT) lines are already helping to reduce CO₂ emissions in sectors as diverse as energy and utilities, industry, transport, agriculture and buildings.

In 2015 our green services brought in revenues of over 130 million euros. Through our fleet management service alone we managed to avoid more than 20% of the carbon footprint of our activity.

OUR CARBON FOOTPRINT



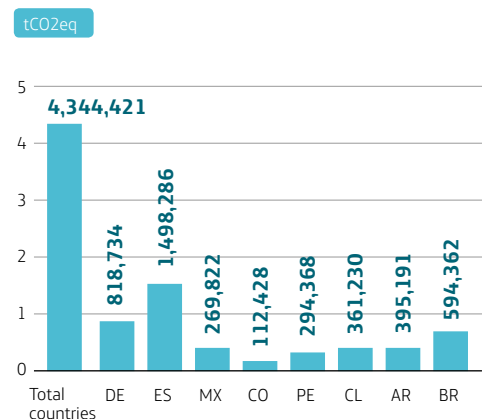
GREEN SERVICES REVENUE



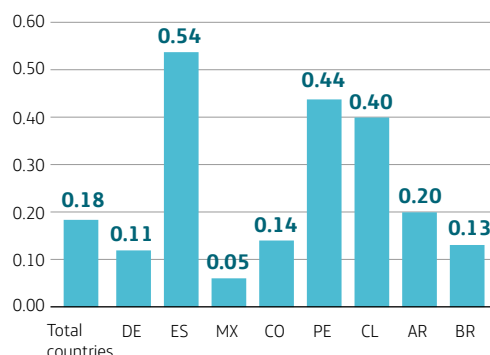
1 Mt CO₂
Emissions avoided during 2015 through our fleet management service

- Energy and utilities
- Transport
- Industry
- Agriculture
- Buildings

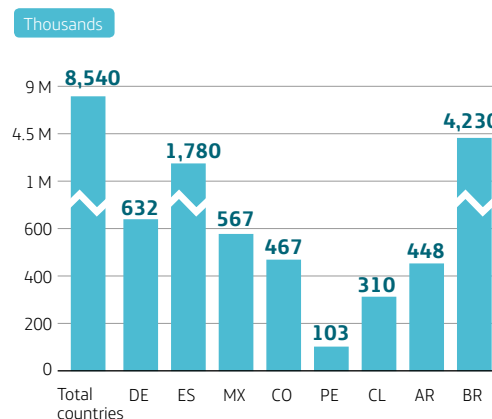
SCOPE 1, 2 AND 3 EMISSIONS



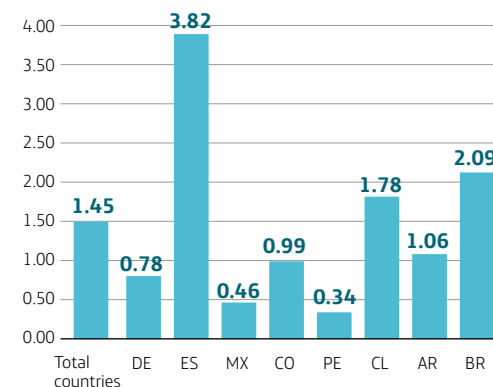
% OF THE COUNTRY'S CARBON FOOTPRINT



IoT LINES



% OF THE COUNTRY'S POPULATION



Impacts of the Network_

There are numerous studies which show that the introduction of broadband has a positive effect on the economic growth of the communities in which we operate. In addition to boosting the telecommunications sector, the development of

broadband contributes to increased productivity and competitiveness of local businesses, due to significant improvements in the speed and automation of processes, data processing and the dissemination of information, encouraging

the creation of new business models. The development of broadband also generates a number of positive impacts on society which go beyond the purely quantitative, including, among others, better and greater customer

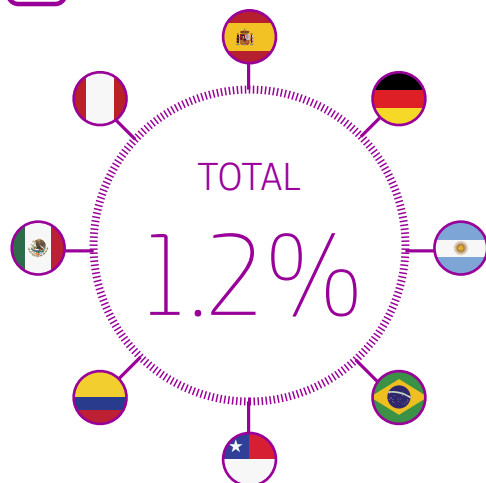
access to information and culture, and the expansion of entertainment options.

You can find more information in the section titled 'Digital inclusion'.

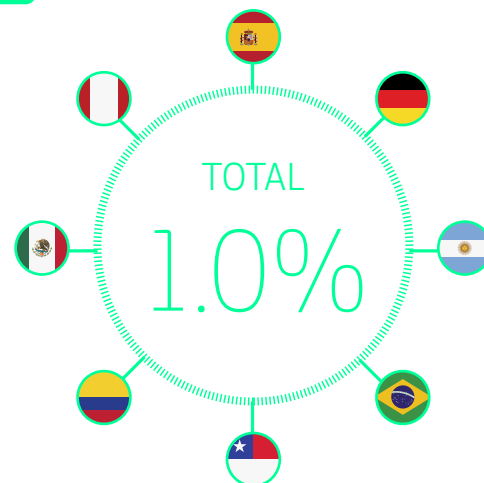
IMPACT CAUSED BY TELEFÓNICA BROADBAND AS A PERCENTAGE OF GDP

Source: PwC analysis

FIXED BB IMPACT



MOBILE BB IMPACT



TOTAL IMPACT (FIXED + MOBILE)



+

