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Contribution to progress

- Economic impact
- Environmental impact
- Impacts of the Network
- Contribution to local tax authorities



Economic impact

IMPACT ON GDP

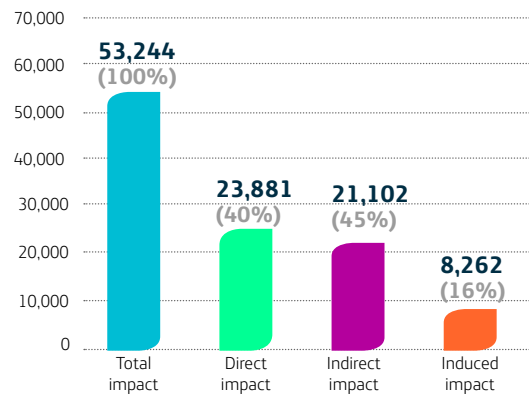
We are one of the most important driving forces of economic progress in the communities in which we are present. In 2016 we increased our contribution to the combined GDP of the countries in which we operate by 53,244 million euros, a figure which accounts for almost 0.6% of the total wealth generated by these countries as a whole.

We can, therefore, regard ourselves as a great enhancer of the economies of these communities, both directly and due to our capacity to generate a wealth multiplier effect by means of our activity. Thus, according to PwC's impact calculation methodology, for each euro of GDP created directly in 2016, we generated an additional 1.14 euros in an indirect and induced manner through our expenditure and investments.

For each euro of gross operating margin (excluding the provision for the individual Suspension Plan included in the consolidated accounts for 2016) obtained in these countries, we generated 3.5 euros which contributed to these countries' GDP.

IMPACTS ON GDP GENERATED BY THE WHOLE TELEFÓNICA GROUP

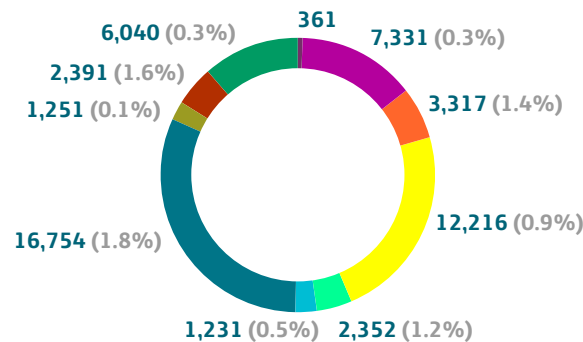
Millions of euros (%)



- ▶ Total impacts generated by corporate activity and Telefónica's expenditure and investments in the countries in which it operates.
- ▶ Impacts generated directly by Telefónica through the course of its activity.
- ▶ Impacts generated by Telefónica's expenditure and investments throughout its supply chain.
- ▶ Impacts generated by the increase in consumption arising from the increase in labour income generated by direct and indirect employment.

IMPACT ON THE MAIN COUNTRIES IN WHICH WE OPERATE

Millions of euros (% of local GDP)

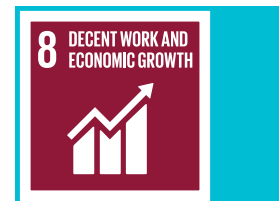


- ▶ Germany
- ▶ Argentina
- ▶ Brazil
- ▶ Chile
- ▶ Colombia
- ▶ Spain
- ▶ Mexico
- ▶ Peru
- ▶ United Kingdom
- ▶ Other countries

For every euro we generated, we contributed

3.5 euros

to the *GDP of the countries* in which we operate





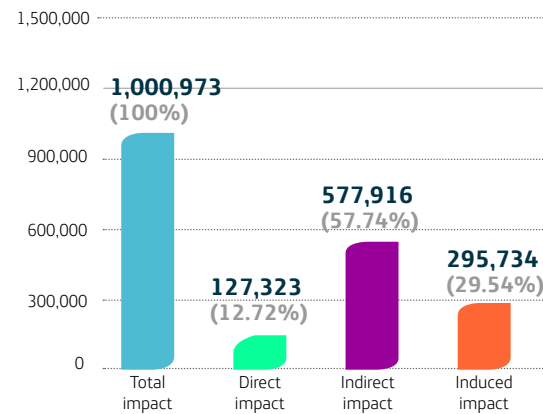
IMPACT ON EMPLOYMENT

The labour market is one of the main social concerns in some of the countries in which we operate and, therefore, it is also relevant to us as members of these communities.

In 2016 the impact that we had on employment in these countries reflected a total of 1,000,973 direct, indirect or induced jobs, according to PwC's impact methodology. Thus, as a result of our activity, for each person recruited into our workforce, we generated an additional 7 jobs in the countries in which we operate.

IMPACTS ON EMPLOYMENT GENERATED BY THE WHOLE TELEFÓNICA GROUP

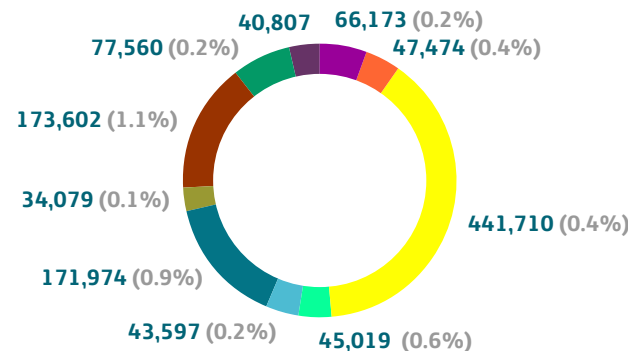
People (%)



- Jobs generated by corporate activity and Telefónica's expenditure and investments in the countries in which we operate.
- Employees recruited directly by Telefónica.
- Jobs generated in the companies and sectors that receive the expenditure and investments of Telefónica and its respective suppliers.
- Jobs generated in the different economic sectors as a result of the economic activity generated in an induced manner.

IMPACT ON THE MAIN COUNTRIES IN WHICH TELEFÓNICA OPERATES

People (% of total local employees)



- Germany
- Argentina
- Brazil
- Chile
- Colombia
- Spain
- Mexico
- Peru
- United Kingdom
- Other countries

For each worker recruited, we generated **7** additional jobs in the countries in which we operate



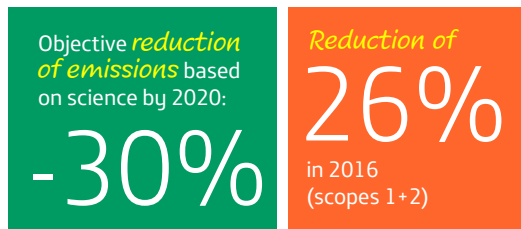
Environmental impact_

OUR FOOTPRINT

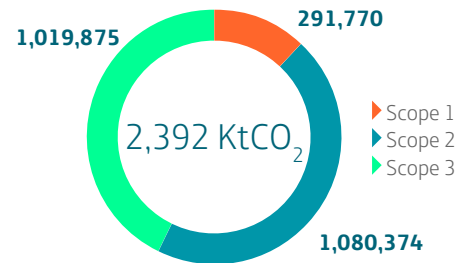
The carbon footprint we generate comes mostly from our Network, and, including scope 3 emissions, is equivalent to 2,392 KtCO₂, which represents 0.1% of the total emissions in the countries in which we operate.

Although our emissions are not particularly high in comparison with other sectors, they are equivalent to half of the emissions of a country like Nicaragua. For this reason, in 2016 we established our Energy and Climate Change goals for 2020 and 2030. Our objective is to align our efforts with the level of decarbonisation needed to limit global warming to under 2°C, reducing our greenhouse gas emissions by 30% by 2020.

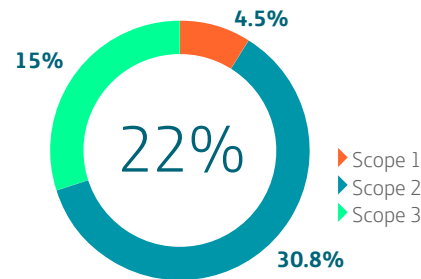
In 2016, thanks to our Renewable Energy plan and our energy efficiency projects, we managed to reduce our carbon footprint by 26% (scopes 1+2), 22% if we include our entire value chain (scopes 1+2+3), and we avoided the emission of 938 KtCO₂, which is equivalent to almost 40% of our total emissions.



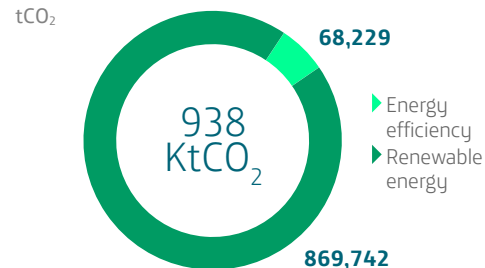
OUR CARBON FOOTPRINT



REDUCTION OF EMISSIONS



AVOIDED EMISSIONS



OUR ECO-SMART SERVICES

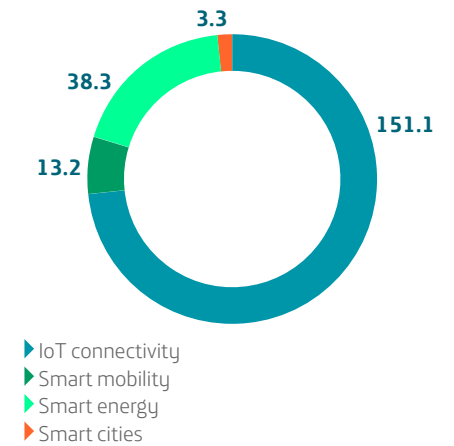
Our contribution to reducing and adapting to climate change goes beyond our own footprint. Through our services, we have the capacity to reduce emissions in other sectors and increase the resiliency of the communities in which we operate.

For example, our IoT services improve the mobility and energy efficiency of our customers. This has resulted in over 50 million euros in revenue and a reduction of 229,314 tCO₂.

For more information, see the chapters under the 'Commitment to the environment' section.

ECOSMART IoT REVENUE

Millions of euros



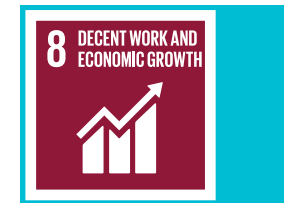
Impacts of the Network_

Numerous studies demonstrate that the introduction of broadband has a positive effect on the digital inclusion and economic growth of the communities in which we operate. Not only does it boost the telecommunications sector, but the development of broadband also contributes to an increase in the productivity and competitive capacity of local businesses.

The development of broadband generates a series of positive impacts on society which reach far beyond the purely quantitative to include, among others, better and greater customer access to information and culture, and the expansion of leisure and entertainment options.

It is both through and thanks to significant improvements in the speed and automation of processes, data processing and information circulation that new business models are being created and promoted.

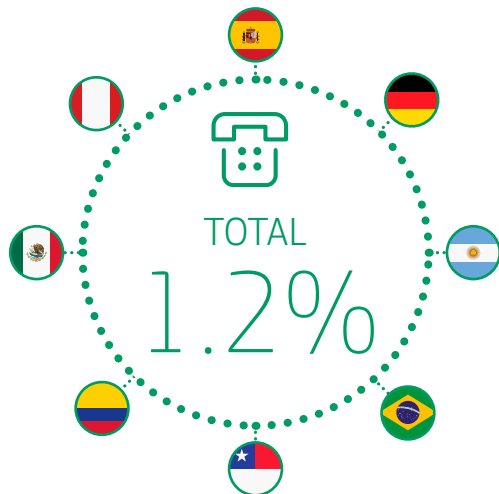
You can find further information in the section titled "Digital inclusion".



IMPACT CAUSED BY TELEFÓNICA BROADBAND (BB) AS A PERCENTAGE OF GDP

Source: PwC analysis

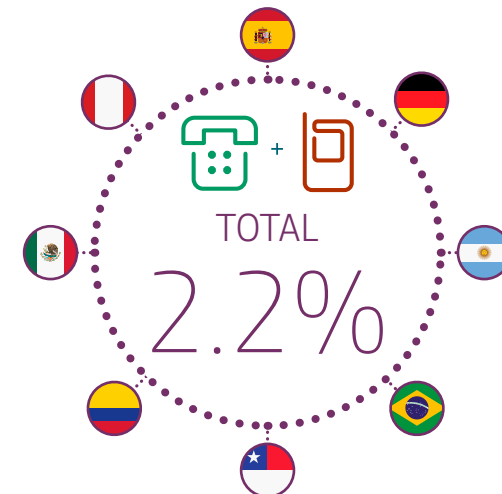
FIXED BB IMPACT



MOBILE BB IMPACT



TOTAL IMPACT (FIXED + MOBILE)



Contribution to local tax authorities

The current economic environment has placed the tax contributions of large multinational companies at the centre of the debate. Therefore, we are committed to acting with fiscal responsibility and transparency in the management of our business, and complying with all our tax obligations in the territories in which we operate.

In order to increase transparency, we have developed Responsible Business Principles in matters of tax compliance, upon the basis of which we are committed to acting with honesty and respect for the law in the management of fiscal matters.

Additionally, in 2010, by resolution of the Board of Directors, Telefónica, S.A. adopted the Code of Good Practice in Tax Affairs. As a result, and in accordance with the recommendations of the Code, the Company does not use corporate structures in the pursuance of its business activity for the purpose of covering up or reducing the transparency of its activities in the eyes of the tax authorities or any other interested party.

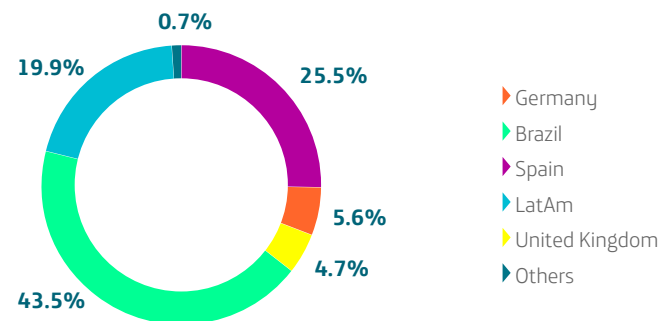
On the basis of these recommendations, our actions are rooted in reciprocal cooperation with the Tax Agency, based on good faith and mutual trust, and on the application of responsible fiscal policies approved by our Board of Directors.

Furthermore, in accordance with the Corporate Enterprises Act, the creation or procurement of shares in entities with special purposes or those domiciled in countries or territories which are considered tax havens, as well as any other transactions or operations of a similar nature which, owing to their complexity, could undermine the transparency of Telefónica, are reviewed and, where appropriate, subject to approval by the Board of Directors.

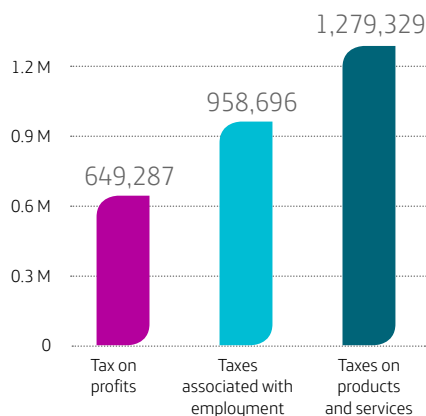
Telefónica will not create or acquire entities domiciled in any of the jurisdictions included in the list of tax havens established by Spanish regulations. If, for business reasons, the presence of an operator in a territory classified as a tax haven were to be necessary, authorisation would be sought from the Board of Directors.

The Group's operations in territories regarded by other bodies as having little or no taxation exist solely and exclusively for economic and commercial reasons (*Business Purpose*), and have the material and human resources needed to conduct their activities without being the object of these operations, and, under no circumstances shall transfer profits to those jurisdictions in order to obtain a reduction in the tax burden.

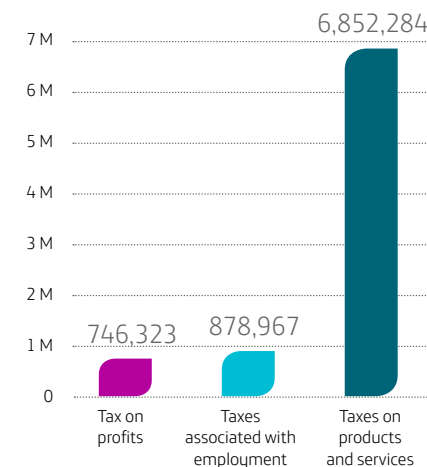
GEOGRAPHIC DISTRIBUTION OF TAXES PAID BY TELEFÓNICA



TAXES BORNE
Euros



TAXES COLLECTED
Euros



**TAXES IN 2016**

Our economic and social contribution is not only quantifiable via payment of Corporate Tax, but also through other specific contributions in the various countries where we operate, such as fees (for Public Domain Use, for Radio and Television Corporation Financing, etc.), local taxes, and Social Security payments, as well as other similar contributions in the remaining countries.

In addition to these directly borne taxes, we pay in to public coffers, as a result of our activity and on the part of other contributors, other amounts that must be considered within the total tax contribution that the Company makes, such as indirect taxes, workers' withholdings and other withholdings.

In this context and during 2016, our total tax contribution (TTC) amounted to 11,365 million euros (2,887 million euros for taxes borne and 8,478 million euros for taxes collected), accounting for 49% of the value distributed by Telefónica⁽¹⁾. Brazil and Spain, the markets in we generate the most operating profit, are the jurisdictions which have most contributed to the payment of taxes.

The amount in absolute values of Telefónica's TTC for the 2016 tax year have decreased slightly in comparison to the 2015 tax year due to the evolution of the currencies in relevant Latin American countries.

Therefore, for every 100 euros of Company revenue, 21.8 euros were allocated to the payment of taxes (5.5 to the payment of taxes borne and 16.3 to the payment of taxes collected).

All the information about our tax practices is available on [our website](#).

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For every 100 euros of Company revenue, **21.8 euros** are allocated to the payment of taxes

BREAKDOWN OF TELEFÓNICA'S OVERALL TAX CONTRIBUTION IN 2016

Thousands of euros

Country	Borne	Collected	Total
Germany	132,300	500,492	632,792
Argentina	303,953	619,322	923,275
Brazil	901,802	4,045,432	4,947,234
Chile	47,834	207,265	255,099
Colombia	124,309	140,521	264,830
Costa Rica	8,142	17,351	25,494
Ecuador	86,128	30,003	116,131
El Salvador	9,477	17,162	26,639
Spain	866,831	2,045,988	2,912,819
Guatemala	4,762	7,759	12,521
Mexico	8,266	77,634	85,900
Nicaragua	26,463	23,073	49,537
Panama	13,964	15,924	29,889
Peru	164,701	197,015	361,717
United Kingdom	77,047	455,562	532,609
Uruguay	17,364	14,622	31,986
Venezuela	29,954	48,968	78,922
Others	64,012	13,479	77,491
TOTAL	2,887,311	8,477,574	11,364,885

(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.