

Telefonica

Integrated Report 2017

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tomorrow today



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Letter from the Chairman



José María Álvarez-Pallete
Chairman

Dear shareholder,

This letter has been devised and written with a single purpose: to convey a series of clear and direct messages to the owners of Telefónica, our shareholders. I do not want this letter to simply be another letter, I want it to be different. **My aim is to explain our business performance**, and also lay out **our plans to transform the Company** given the vertiginous speed of change taking place in technology and in society. A change that

has a direct effect on the business world and on our sector in particular.

We are currently at an extraordinarily unique moment that will, quite possibly, mark a watershed in history. Moreover, I would like to take this opportunity to share with you the challenges we face and the enormous opportunities that lie ahead of us.

OUR WORLD

Never before has a generation lived through such a moment of change as the one we are living. Neither the Bronze Age, nor the Renaissance, nor the Industrial Revolution, nor the arrival of electricity represented a degree of transformation comparable to modern times. Every day we see advances that were simply unthinkable a short time ago: mines operated by machines and self-driving vehicles; children who learn physics by programming voice-controlled robots, or houses that can be printed in 3D in a matter of hours...

Such a horizon is thrilling because 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... These and other advances complement and enhance each other. And we are close to witnessing the emergence of machines with the same capabilities to think and act like a human.

Managing transition

These changes are also revolutionizing the world of business.

Already today, the world's largest fleet management company does not own a single car. The biggest tourist accommodation company does not own a single hotel room, and the world's largest logistics company holds no inventory.

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The average age of the world's largest companies included in the S&P500 index was 65 years in 1960. It is currently 15 years. Back in the year 2000, there were four industrial companies among the world's top five corporations. Nowadays, the world's five largest enterprises are Apple, Facebook, Microsoft, Amazon and Tencent. They are all technology companies and there is not a single manufacturer.

This new revolution is going to generate trillions of euros in value. It will create thousands of new jobs and destroy many others. It will also bring new ethical dilemmas: fake news (the manipulation of public opinion through the widespread dissemination of false stories), transparency and respect on social media, setting limits on genetic manipulation, the rules that should govern self-driving cars and, above all, the monitoring and protection of personal data in order to guarantee security and privacy.

This change is as historic as is our responsibility to manage this transition.

OUR SECTOR

If any sector can lay claim to being most dramatically hit by this revolution, it is precisely ours. For over a hundred years, our activity has consisted in selling a product that people considered essential: voice communication using technology. This is a product that fewer and fewer people are willing to pay for nowadays. You will probably have noticed the same phenomenon in your own most immediate surroundings. Our star product is fading.

That is our challenge. Nevertheless, we have an enormous trump card: communication, after food & beverage, is the most important need of human beings. And, technology has provided us with a new product considered essential in this new world, namely data connectivity. While the voice minutes we manage on our networks are falling, data volumes are growing at a pace of between 50% and 60% year-on-year. The challenge lies in successfully managing this transition between products.

Data volume is growing by between 50% and 60% a year

The challenge ahead of us

This brings us face to face with another challenge: our traditional networks (copper and traditional 2G and 3G mobile networks) were designed to carry voice, while data represented a by-product. Those networks are no longer capable of processing the huge amounts of data our clients now need and will increasingly need in the future.

We must therefore build new networks – Ultra Broad-Band networks (fibre, 4G and soon 5G), capable of handling the data volume demanded by the current wave of technology, expected to multiply tenfold over the next decade.

In short, **the challenge** facing our sector is **two-fold**:

- On the one hand, a **radical transformation in demand**, from voice to data.
- On the other, the need to **build new infrastructure** able to meet the new exponential growth in demand. That is the big problem. But it is a good problem, as it offers us a great window of opportunity.

OUR COMPANY

True to our history, we have decided to accept the challenge. **Five years ago, we began to transform our Company.** Our goal was to make the most of the 125,000 people working in the company and we decided to re-invent ourselves; living up to the expectations of those who created the Company almost 100 years ago and placed it where it is today. So, we got down to work.

During these last five years, we have invested over 45 billion euros, an average of about 9 billion euros a year. Furthermore, we continue to invest around 16-17% of our annual revenue. This is a very high level, perhaps the highest in our history.

Therein lies **Telefónica's challenge and a large part of the Company's resources: in the deployment of the new network we need to lead the future of our sector.** In other words: in our network, a huge platform that places us on the level of the main players and not just on the sideline of the revolution our sector and our world are undergoing.

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We have not just settled for investing. We are also **transforming our offering to transition from the world of voice to the world of data**. Today, for the first time in Telefónica's history, voice traffic represents less than half our revenues. Data streams, state-of-the-art connectivity (fibre and 4G), value-added services, and everything that belongs to the new world that is coming, already total more than half our revenues and are enjoying relentless growth.

This is our future. And thanks to this challenge, after years of falling revenues, **we have already seen three straight years of organic growth**. We are on the right track.

Investing in new networks and adapting our service offering are two of the necessary conditions to remain where we want to be. But, there is also a third condition: the new digital reality is forcing us to be simpler, more efficient, to overcome the complexity of the analogue world and **embrace the enormous simplicity of the digital world**. We are also making progress on this front. Our costs are

Reinventing Telefónica means investing in new networks, adapting our service offering and becoming simpler and more efficient

declining and are now on-track with this world of new products and digital services. We have established the foundations for a future we can already see ahead of us. By means of the new network we have built, **we are now able to deliver all the new world's products and services to our clients**, from video to cybersecurity; from the Internet of Things to cloud connectivity.

And, once again, Telefónica is leading the vision on the future of communication networks. We are at the forefront of the process for network virtualization and we have been pioneers in the global integration of different elements of artificial intelligence into our networks and services.

Telefónica is today, more than ever before, a technology company.

That is the reason why we have been growing for more than three straight years in our main magnitudes. Our operating income before depreciation and amortization, our amortizations and our financial expenses have evolved very positively in the last few years.

Namely, in 2017:

- our revenues topped 52 billion euros,
- our operating result reached 6.8 billion euros and grew by 24%,
- our net profit increased 32%,

- our cash flow generation increased 13%, to a figure close to 5 billion euros,
- we are in a position to be able to reduce debt (4.4 billion euros in 2017) and at the same time meet the payment of our dividend in a balanced and sustainable manner, ensuring a dividend payment of 0.40 euros per share for 2018.

The sector analysts are beginning to acknowledge our vision and the consensus of the main investment banks places the target share price at around 10 euros.

Analysts are beginning to acknowledge our vision and the main investment banks' consensus places the target share price at around 10 euros

We have pioneered this transformation in our sector. We were aware of the difficulty because we knew we were undertaking the construction of an expensive network. That's why our level of debt is high today and is still weighing on the share price.

Another contributing factor is that we are exposed to currency fluctuations in the countries where we operate. In addition, during the last two years, our sector has seen the

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worst performance on global stock markets because investors are fearful of the cost of this transformation, the negative impact of regulation and the inaction of other companies in the sector which undermine credibility and harm the sector as a whole.

Nonetheless, I am able to state that **Telefónica is today incomparably stronger than five years ago.** Our path towards the future is well mapped out and we have the right teams and resources to achieve our goals.

Telefónica is today stronger and progressing towards the future with determination

We have a diverse team of highly-talented professionals who truly feel the colours of the Company, are deeply committed to its future and that I am proud to call my colleagues. We have a portfolio of happier and more satisfied customers. We have a demanding, effective and dedicated Board of Directors whose members are aware of their responsibilities and are committed to their work.

All of these circumstances will be reflected in our share price. The Company, our Company, is stronger today and progressing towards the future with determination. Without arrogance, but firmly and decisively.

OUR TIME

We have the privilege of living in a unique and unprecedented moment in the history of humankind. Furthermore, at Telefónica, our Company, we enjoy a two-fold privilege: we do not have to settle for being passive spectators of this transformation; we can lead it. **We can create new paths that do not yet exist.**

We can write the pages of the future. That is, indeed, what we are already doing.

Our present level of digitalization is impressive. We are already capable of processing 3.5 Petaflops (equivalent to NASA's latest super-computer), we can store 66 Petabytes (the equivalent of nine centuries of non-stop high-quality film projection). **We have once more become a technology company.** We have returned to growth. And we are going to continue along this same path. Our path.

And we will do so guided by our values. The same media that informs us daily of huge changes, also remind us every day of the problems associated with an advancement that turns its back on the ethical values of transparency, responsibility, respect and solidarity.

These are **values** that we are not afraid of, but instead **fill us with enthusiasm and inspiration** in order to help everyone gain the maximum potential from this revolution. With them, we will contribute to the achievement of the United Nations Sustainable Development Goals contained in the 2030 Agenda.

This is our time. Here and now. Here is our Company and now is our chance.



It is time to write a new chapter in Telefónica's history, a new page in its incredible and exciting existence. And we have the opportunity to participate in this transformation as a main player.

I am grateful to you for your attention and for accompanying me by reading this letter, in which I have tried to create a new communication channel between the Company's management team and its owners, the shareholders.

I feel an enormous debt of appreciation towards the professionals working at Telefónica, my colleagues, for their talent and their sacrifices.

I am also grateful to our customers for their loyalty.

As a shareholder, **I would like to express my thanks to you for allowing me to lead this thrilling project on your behalf.** You have my word that I shall honour that trust with tenacity, commitment and the utmost dedication.

José María Álvarez-Pallete
Chairman

Company profile

Telefónica S.A. is currently one of the largest telecommunications companies in the world in terms of market capitalisation and number of customers. In addition to connectivity services, we offer technological solutions to help companies and individuals with their own digital transformations.

Telefónica is a private company with more than 1.2 million direct shareholders. Headquartered in Madrid (Spain), our shares are traded on the stock exchanges of Madrid, London, New York, Lima, São Paulo, Frankfurt and Buenos Aires, in all of which 100% of the shares are in free circulation.

We are one of the most international companies in the sector: our customer base exceeds 340 million accesses and is distributed between Spain, the United Kingdom, Germany and Latin America. We operate in 17 countries and have a presence in 24; as a result, we generate more than 75% of our business outside of our domestic market.

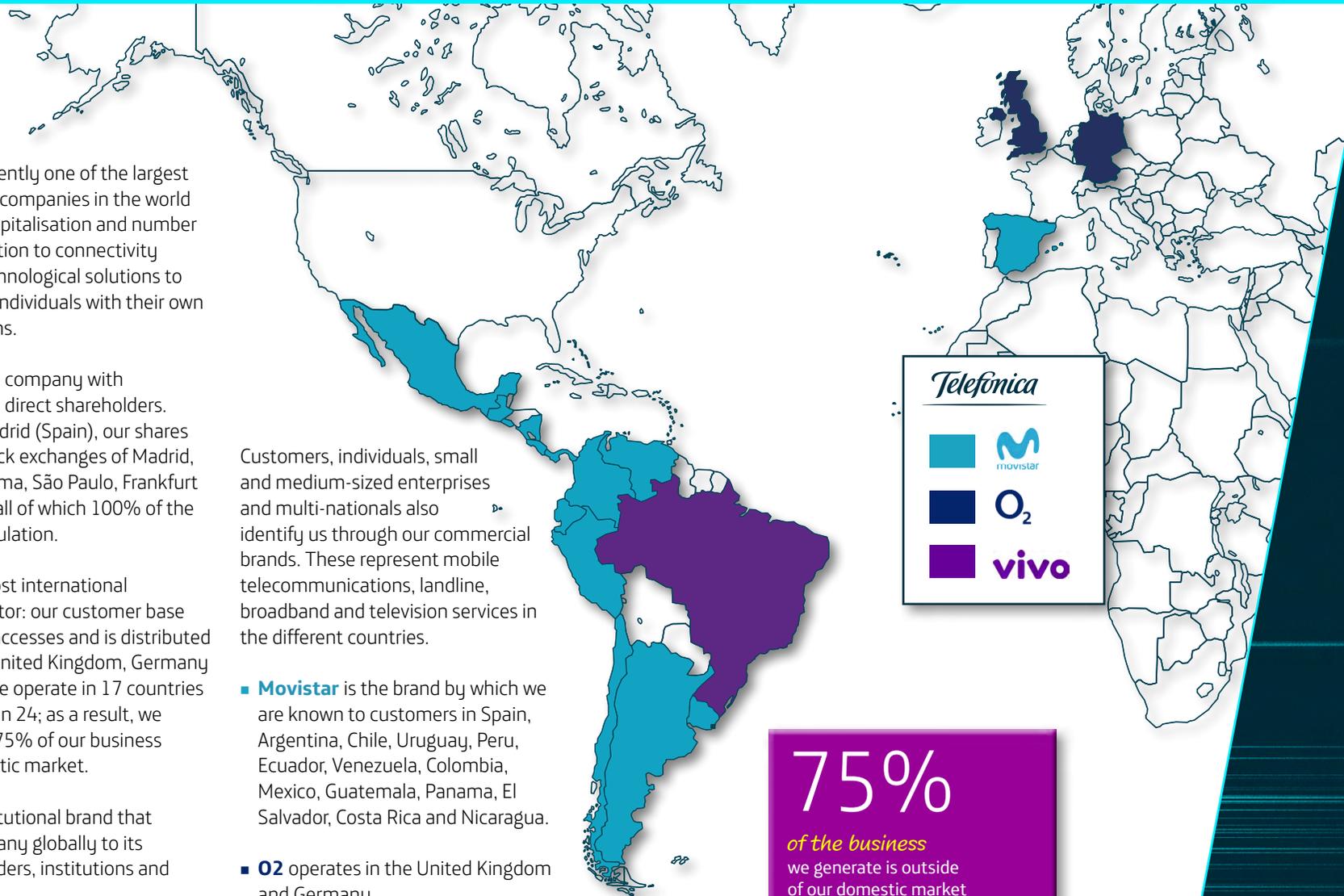
Telefónica is the institutional brand that represents the Company globally to its employees, shareholders, institutions and suppliers.

Customers, individuals, small and medium-sized enterprises and multi-nationals also identify us through our commercial brands. These represent mobile telecommunications, landline, broadband and television services in the different countries.

- **Movistar** is the brand by which we are known to customers in Spain, Argentina, Chile, Uruguay, Peru, Ecuador, Venezuela, Colombia, Mexico, Guatemala, Panama, El Salvador, Costa Rica and Nicaragua.

- **O2** operates in the United Kingdom and Germany.

- **Vivo** is our brand in Brazil.



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We want our customers to enjoy the possibilities of technology around the world, even outside of the countries in which we operate; to enable this, we have signed agreements with more than 900 operators in over 210 destinations.

We also have several “specialist” brands that focus on specific activities:

Telefónica has other mobile operator brands in several different countries, including [Tuenti](#) (Spain, Peru, Ecuador and Argentina), [Giffgaff](#) (UK) and [Fonic](#) (Germany).

[Wayra](#) is our world startup accelerator, which, in just a few years, has become one of the largest networks of innovation worldwide.

[Terra](#) provides internet content and services in Spanish and Portuguese-speaking markets.

[Media Networks](#) is a B2B company belonging to Telefónica's Video Latam unit which provides wholesale pay television and internet services, satellite, content generation and ad sales. Through it we serve companies and operators in Brazil, Mexico, Chile, Colombia, Argentina, Paraguay, Ecuador, Bolivia, Venezuela, the USA, Central America and Peru.

Some of our companies offer specialised services, including dynamic marketing ([On the Spot](#)) and security ([ElevenPaths](#)) services.

Finally, we have several different companies that offer services to Telefónica employees and to society in general, such as [Fonditel](#), [Antares](#), [Pléyade](#) and Tgestiona.

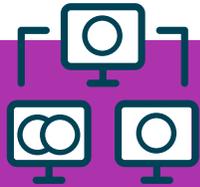


The list of the companies that comprise the Telefónica Group, detailing their name, main corporate purpose, country, corporate capital, percentage of effective share in the Group, and the company or companies through which their share in the Group is achieved, can be found in Perimeter Annex I of the 2017 Consolidated Financial Statements.

We know that the only way to become a trustworthy company is to be transparent with our stakeholders, and therefore we provide our customers, employees, suppliers, shareholders and society as a whole with information related to the social, economic and environmental impact of our activity, as well as our strategy, business model and any other relevant data. This Integrated Report corresponding to the 2017 fiscal year is presented on an annual basis at each General Meeting of Shareholders, and reflects the progress made during the year.

Throughout this Report, links to additional information provide a greater breakdown of certain issues covered. These are complemented by updated information from our [website](#) and [Atlas Telefónica](#), as well as the annual Corporate Governance and Remuneration Report, the Consolidated Report on Annual Accounts and the corresponding Management Report for the year. The aforementioned documents are linked to this one for easy reference. However, the information in the links does not make up an integral part of this Report.

Company purpose and values



Purpose

Put innovation and our knowledge of communication at the service of people and their well-being in order to create a better world

OUR VALUES

Every day we strive to offer our customers the latest innovations on the market, without losing sight of the value that our experience and knowledge of the sector provide. We want new technologies to make people's lives easier.

Our goal is to promote advances that contribute to ensuring that new technologies have a positive impact on society and the environment.

Our world is constantly evolving, and digitalisation opens up a range of possibilities to be more efficient and environmentally friendly, to explore, to be informed, to learn and to innovate.

We want to be a company in which customers, employees, suppliers, shareholders and society can all trust.



INTEGRITY

For us integrity means honesty and acting in accordance with non-negotiable ethical standards.



COMMITMENT

The relationship we have with each of our stakeholders is based on a commitment to always act responsibly and fulfill our promises.



TRANSPARENCY

We are committed to ensuring that our customers, employees, suppliers, shareholders and society in general have clear and accessible information about our strategy and activities, and that they may communicate all questions or doubts at any time.

Our commitments to achieve this are based on offering:

- A connectivity that places people before technology and gives people the ability to choose.
- Protection and confidence to offer people control over their digital lives.
- A digital ecosystem that prioritizes people and optimizes their lives.

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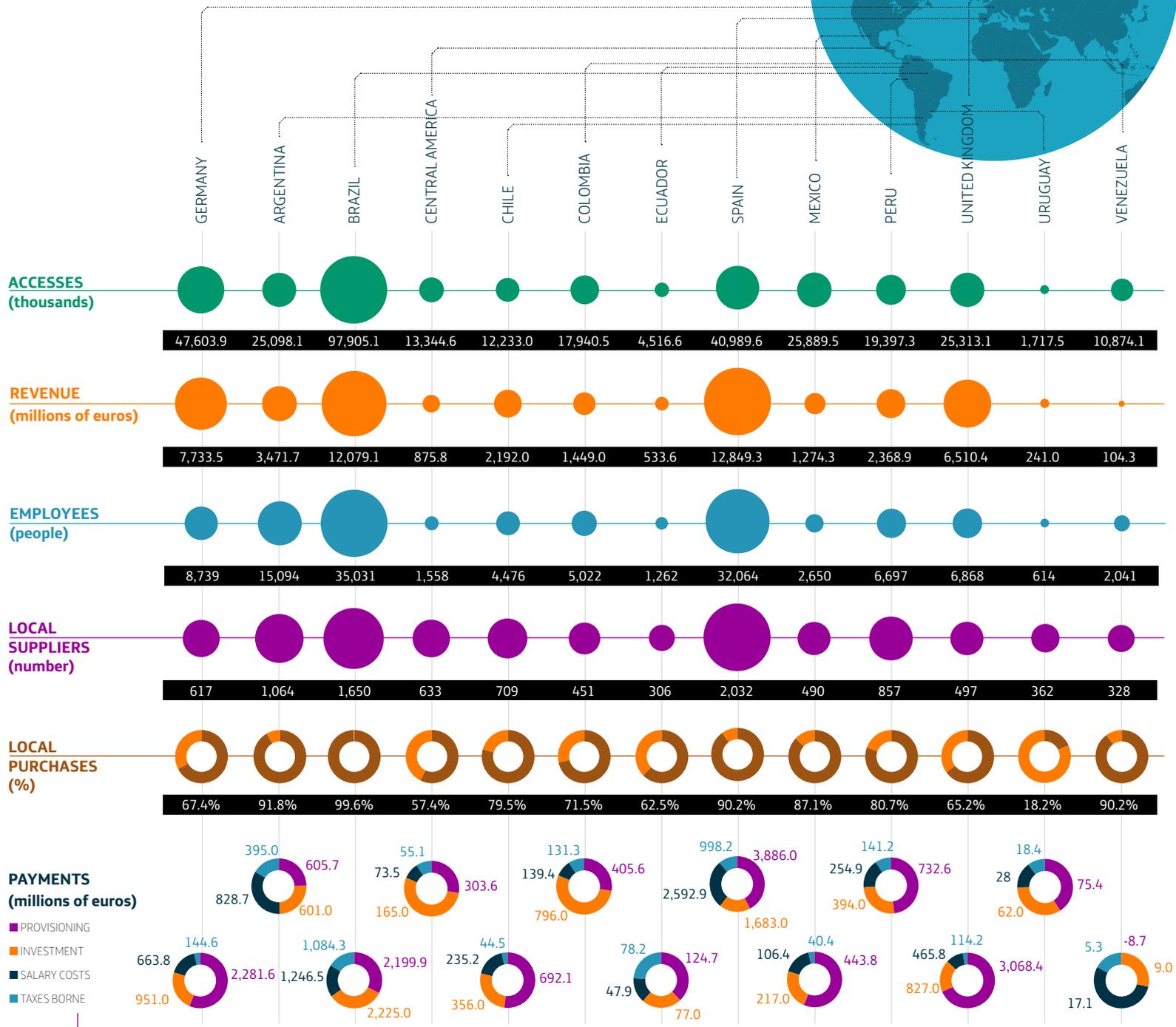
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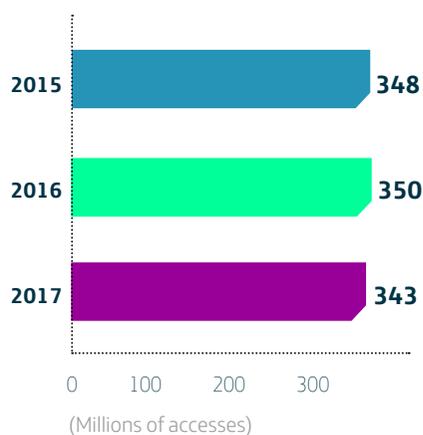
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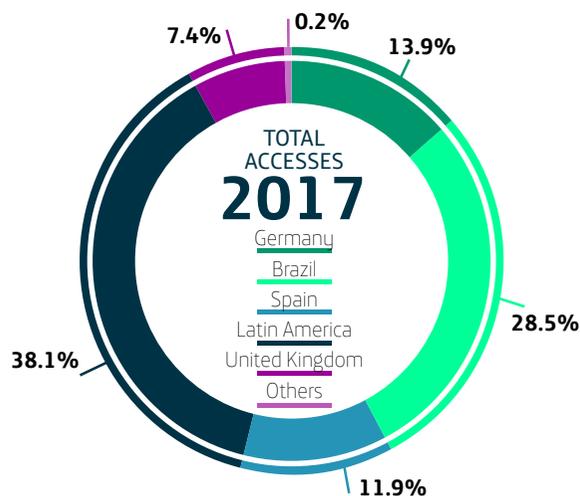
Total accesses

As of December 2017, the Telefónica Group's total accesses stood at 343.5 million, with the performance of high-value customers particularly standing out. LTE customers grew to 97.5 million, that is, 1.5 times more than the previous year, and reached a penetration of 38%.

Mobile contract accesses also grew (+5% year-on-year), to account for 43% of the total accesses (+3 p.p. year-on-year). The growth in *smartphone* accesses was even greater (+8% year-on-year, to 158.7 million), reaching a penetration of 63% (+6 p.p. year-on-year). Fixed broadband customers also increased (21.4 million; +1% year-on-year), as did FTTx cable (11.0 million), which, with a year-on-year growth of 20%, now accounts for 51% of the total number of our fixed broadband

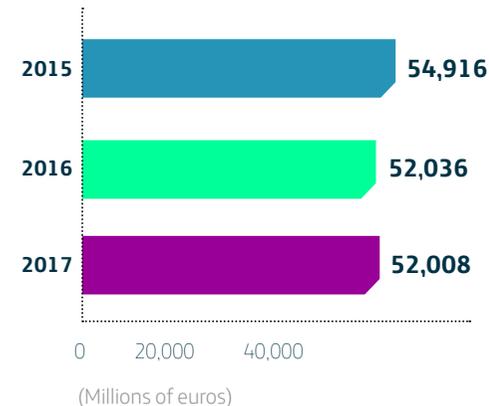


accesses (+8 p.p. year-on-year). Pay TV accesses reached 8.5 million, representing a year-on-year increase of +2%.



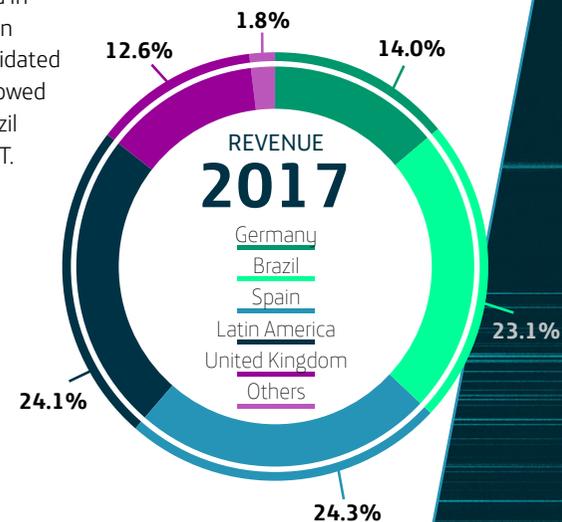
Revenue

Our annual consolidated revenue in euros decreased slightly in comparison with the previous year (-0.1%). However, in organic terms, growth accelerated to +3.4% in 2017, driven by service revenues (which improved their performance by +3.1%) and revenues generated by handset sales, which maintained a strong growth rate (+6.5% in 2017).



It is also important to highlight the growth in mobile data revenues, which rose by +16.8% in organic terms. Excluding the negative impact of regulation (-1.1 p.p. in 2017), revenue increased by 4.5% during the year.

The Company's high degree of diversification and scale is reflected in our revenue structure; thus, T. Spain accounted for 24.3% of the consolidated revenue in January-December, followed by T. Latin America (24.1%), T. Brazil (23.1%), T. Germany (14.0%) and T. United Kingdom (12.6%).



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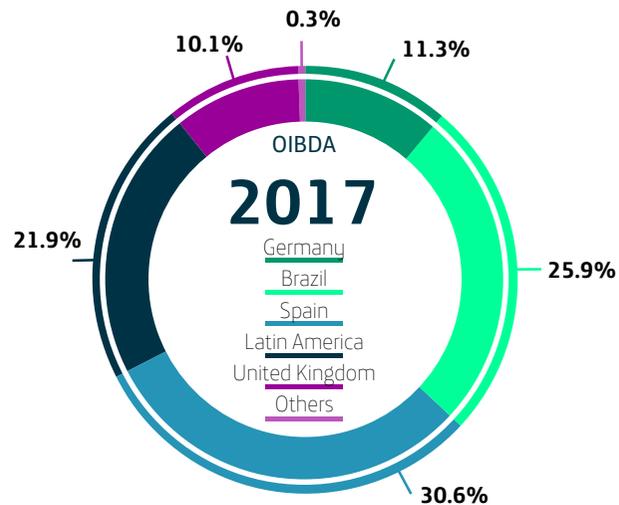
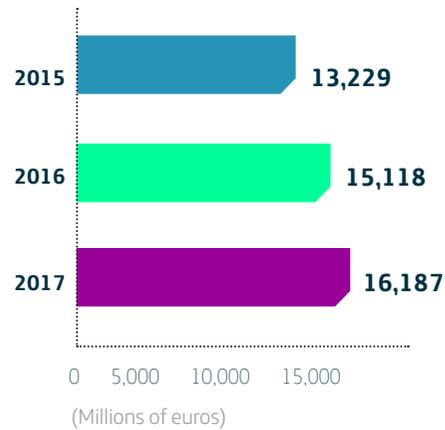
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OIBDA

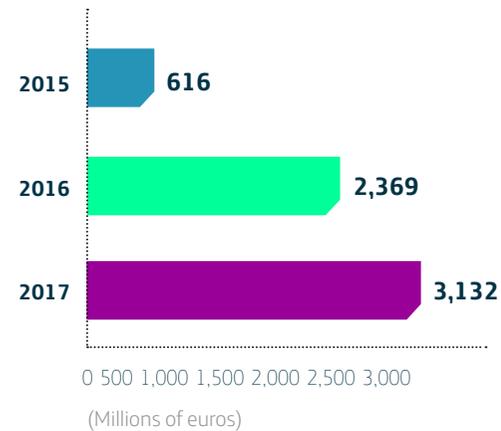
In 2017, our operating income before depreciation and amortisation (OIBDA) experienced a year-on-year growth of 7.1%. In organic terms, OIBDA growth reflects the sustained revenue improvement, cost containment efforts, efficiencies from the transformation process and digitalisation, synergy capture and a lower regulatory impact. Excluding the impact of regulation, OIBDA increased by +6.7% in 2017.



Net income

2017 net income stood at 3,132 million euros, representing a +32.2% year-on-year increase. The earnings per share reached 0.56 euros, which is +33.9% higher than in 2016.

The underlying net income stood at 4,085 million euros, with a year-on-year growth of 1.2%, which represents a net underlying earnings per share of 0.75 euros.



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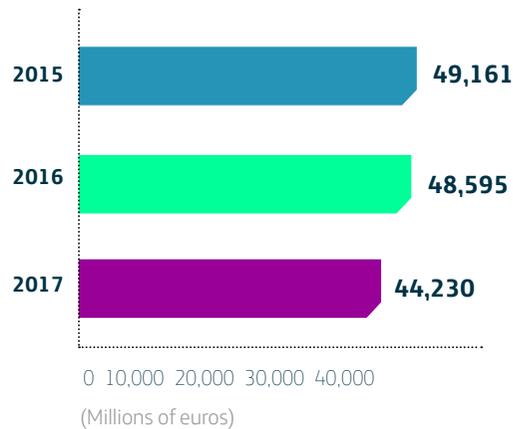
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Net debt

In the year to December 2017, net financial debt (44,230 million euros) was reduced by 4,365 million euros, driven by strong free cash flow generation (4,947 million euros), the closing of the sale of 40% of Telxius (1,275 million euros) and the lower value in euros of net debt in foreign currencies (639 million euros). These factors were partially offset by shareholder remuneration (1,264 million euros, including the issuance an coupon payments of equity instruments and the dividend), the payment of labour-related commitments (696 million euros) and

other factors (536 million euros, mainly from the extension of payment terms with suppliers or the factoring company).

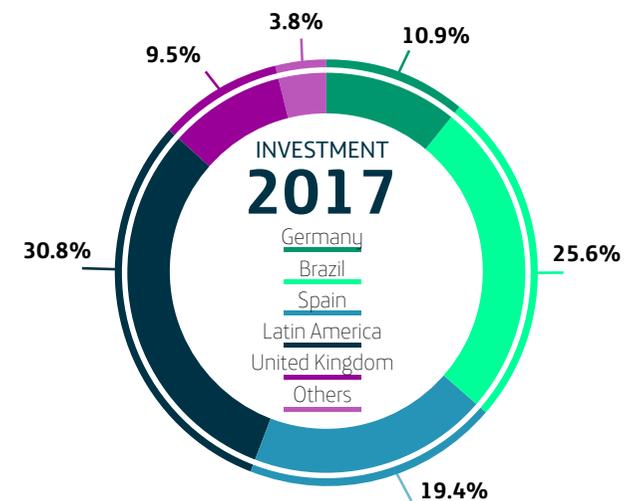
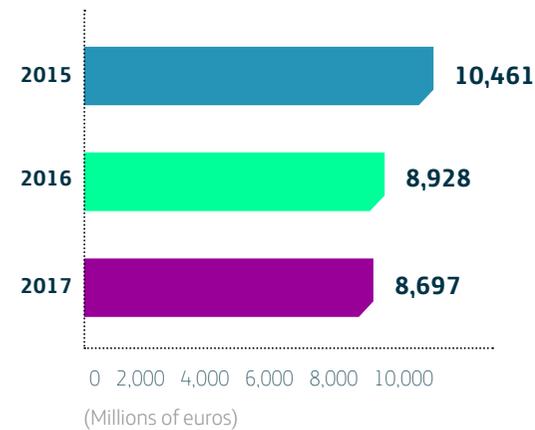
As of the end of December, the Group has covered debt maturities for the next two years. Average debt life stood at 8.1 years (compared to 6.4 years in December 2016).



Investment

Total investment in 2017 reached 8,697 million euros (-2.6% reported; -1.2% organic). We continued to focus on the expansion of 4G and UBB networks, and the simplification and digitalisation of

processes and systems. Total investment also reflects integration synergies and includes 538 million euros in spectrum and licenses.



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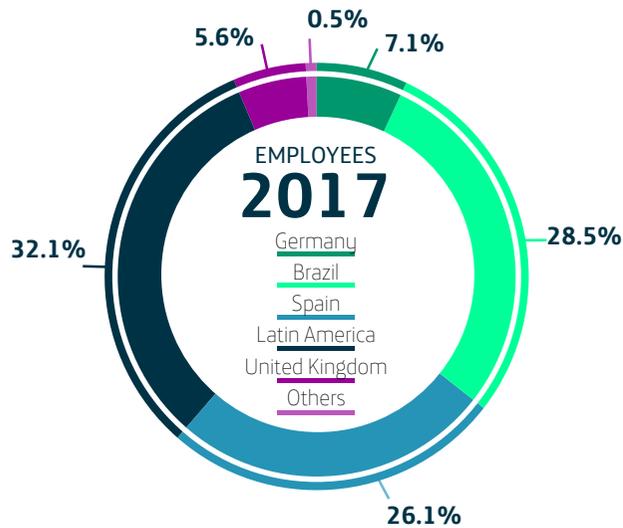
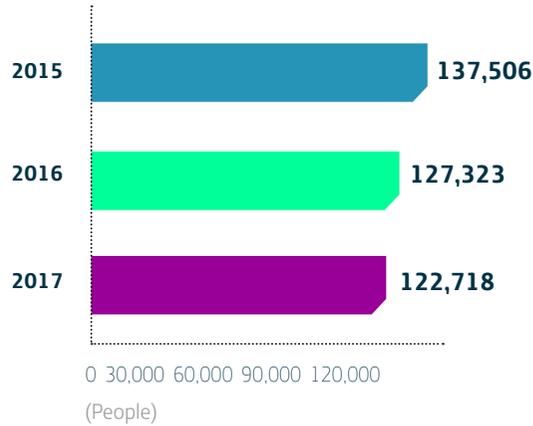
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Employees

Headcount at the end of 2017 totalled 122,718 people, which represents a net fall of 3.6% compared to the end of 2016. Of this figure, 97.9% have fixed contracts and the degree of diversity continues to slowly increase: women account for 37.7% of the workforce, while 91 nationalities are represented. The average age of our employees stands at 39.7 years.



Suppliers

The total number of suppliers with which we worked in 2017 fell slightly to 10,982, with a total awarded volume of 25,031 million euros⁽¹⁾. It is worth noting that 92.2% of our suppliers were local.



(1) Agreements with an impact in 2017.

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Consolidated income statement

(Millions of euros)	2016	2017
Revenues	52,036	52,008
Internal exp. capitalized in fixed assets	867	863
Operating expenses	(38,043)	(36,758)
Supplies	(15,242)	(15,022)
Personnel expenses	(8,098)	(6,862)
Other operating expenses	(14,703)	(14,874)
Other net income (expense)	186	(60)
Gain (loss) on sale of fixed assets	296	111
Impairment of goodwill and other assets	(224)	24
Underlying operating income before D&A (OIBDA)	16,519	16,638
Operating income before D&A (OIBDA)	15,118	16,187
OIBDA Margin	29.1%	31.1%
Depreciation and amortisation	(9,649)	(9,396)
Operating income (OI)	5,469	6,791
Share of profit (loss) of investments accounted for by the equity method	(5)	5
Net financial income (expense)	(2,219)	(2,199)
Profit before taxes	3,245	4,597
Corporate income tax	(846)	(1,219)
Profit for the period	2,399	3,378
Attributable to equity holders of the Parent	2,369	3,132
Attributable to non-controlling interests	30	246
Weighted average number of ordinary shares outstanding during the period (millions)	5,061	5,110
Basic and diluted earnings per share attributable to equity holders of the Parent (euros)	0.42	0.56
Underlying basic and diluted earnings per share attributable to equity holders of the Parent (euros)	0.75	0.75

Notes

After considering Venezuela as a hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro. For the January-December 2017 period Telefónica uses a synthetic exchange rate of 36,115 Venezuelan bolivars fuertes per dollar at December 2017. Basic and diluted earnings per share ratio is calculated dividing Profit for the period Attributable to equity holders of the Parent, adjusted for the net coupon corresponding to "Other equity instruments" (€70m in October-December 17; €276m in January-December 17), by the weighted average number of ordinary shares outstanding during the period. 2016 and 2017 reported figures include hyperinflationary adjustments in Venezuela in both years.

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Consolidated statement of financial position

(Millions of euros)	2016	2017
Non-current assets	103,667	95,135
Intangible assets	20,518	18,005
Goodwill	28,686	26,841
Property, plant and equipment and Investment properties	36,393	34,225
Investments accounted for by the equity method	76	77
Non-current financial assets	9,765	8,167
Deferred tax assets	8,229	7,820
Current assets	19,974	19,931
Inventories	1,055	1,117
Trade and other receivables	10,675	10,093
Current financial assets	2,954	2,154
Tax receivables	1,533	1,375
Cash and cash equivalents	3,736	5,192
Non-current assets and disposal groups classified as held for sale	21	-
Total Assets = Total Equity and Liabilities	123,641	115,066
Equity	28,385	26,618
Equity attributable to equity holders of the parent and other holders of equity instruments	18,157	16,920
Non-controlling interests	10,228	9,698
Non-current liabilities	59,805	59,382
Non-current financial liabilities	45,612	46,332
Non-current trade and other payables	1,925	1,687
Deferred tax liabilities	2,395	2,145
Non-current provisions	9,873	9,218
Current liabilities	35,451	29,066
Current financial liabilities	14,749	9,414
Current trade and other payables	16,150	15,095
Current tax payables	2,332	2,341
Current provisions	2,220	2,216
Financial Data		
Net Financial Debt ⁽¹⁾	48,595	44,230
Net Financial Debt / OIBDA	2.95x	2.66x

(1) Net financial debt includes a positive value of the derivatives portfolio for a net amount of €505m, €3,152m included as financial liabilities and €3,657m included as financial assets.

Notes

2016 and 2017 reported figures include the hyperinflationary adjustments in Venezuela in both years.

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Non-Financial indicators

ECONOMIC	Unit	2016	2017
Impact in communities			
Local suppliers	Percentage	81.9	82.7
Average period for paying suppliers (Domestic market)	Days	45	53
Global tax contribution: total contribution (borne and collected)	million euros	11,364	12,188
Internal impact			
Nº of audits or evaluations on risk suppliers	Units	11,678	19,507
Risk suppliers with corrective action plans arising from the audits	Units	468	659
Standard entry level wage compared to local minimum wage (Spain) ⁽¹⁾	times	2.24	2.22
Customers			
Traffic managed (total year)	Petabytes	25,687	35,708
Customer satisfaction index at the end of the year	Points out of 10	7.46	7.58
Digital Trust			
Number of attendees on courses related to privacy/data protection and security	People	25,498	47,278
Number of fines confirmed for data protection issues	Units	55	43
Internal complaint channels			
Total number of complaints registered	Units	1,152	1,053
Identifications found to be justified	People	641	490
Measures to terminate the employment contract taken as a result of the complaints received	Units	135	188
Bribery and corruption			
Number of confirmed cases	Units	2	0
Measures taken in relation to employees in the workplace as a result of confirmed cases of corruption	Units	2	0

Notes

(1) Group telecommunication companies information.

(2) Number of days lost due to absence in the period / Total number of days worked in the period.

(3) (Total number of accidents / Total hours worked)* 200,000

(4) The variation with regard to 2016 is due to changes in the method of calculation and upgrading of report criteria.

SOCIAL	Unit	2016	2017
Internal (HHRR)			
Total no. employees at the end of period	People	127,323	122,718
Voluntary turnover	Percentage	6.8	6.6
Employees under 30 yrs old	People	24,331	22,142
Percentage of women on staff	Percentage	37.6	37.7
Percentage of female directors	Percentage	20.5	21.5
Nº of people with disabilities	People	855	842
Average salary of women compared to men undifferentiated seniority: managers (Spain)	Percentage	97.3	96.4
Average salary of women compared to men undifferentiated seniority: middle managers (Spain)	Percentage	95.9	96.8
Employees with collective bargaining	Percentage	64.7	67.2
Global Environment and Commitment Index	Points out of 100	79.0	80.0
Nº of hours of training	Thousands of hours	4,947	4,750
Absenteeism rate (AR) ^{(2) (4)}	Units	0.02	0.03
Incident rate (IR) ^{(3) (4)}	Units	1.05	0.855
Number of discrimination cases detected	Units	0	1
Measures taken in relation to employees in the workplace as a result of confirmed cases of discrimination	Units	0	1
External			
Penetration of broad band in fixed acceses	Percentage	55.4	58.0
Mobile prepay customers	Miles	165,663	155,869

ENVIRONMENTAL	Unidad	2016	2017
Energy			
Total energy consumption	GJ	24,271,941	24,646,485
Energy from renewable sources	Percentage	45.99	46.80
GHG emissions			
Scope 1 emissions	tCO ₂ eq	326,076	328,582
Scope 2 emissions (market based method)	tCO ₂ eq	1,080,516	1,034,143
Avoided emissions ⁽⁵⁾	tCO ₂ eq	869,742	770,026
Waste			
Total waste	t	23,508	27,356
Total recycled waste	Percentage	97	97
Water			
Water consumption	Hm ³	3.7	3.7

(5) Avoided emissions by renewable energy.

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Share price performance

In 2017 our overall growth remained steady, and surpassed expectations for the first time since 2010.

Regarding monetary policy, the European Central Bank maintained a stable marginal lending facility of 0.25% throughout the year, but in October announced its intention to reduce the Asset Purchase Programme. In the United States, on the one hand, the Federal Open Market Committee of the Federal Reserve raised interest rates 3 times during the year, from 0.75% to 1.50%, and began a balance sheet normalisation programme in October. On the other hand, progress on the fiscal agenda accelerated, particularly in the area of tax reform.

On the political front, the focus centered on the elections in the Netherlands, France and Germany, as well as on the Brexit negotiations between the European Union and the United Kingdom. In Spain the political agenda was marked by the separatist events in Catalonia, which led to regional elections in December.

On the geopolitical front, there was an escalation in tensions between the United States and North Korea. In this context, the major European indices ended 2017 with a positive behaviour: EStoxx-50 (+ 6.5%), DAX (+ 12.5%), CAC-40 (+ 9.3%), FTSE-100 (+ 7.6%) and Ibex-35 (+ 7.4%).

By sector, and within the DJ Stoxx-600 (+ 7.7%) in Europe, technology (+ 19.2%) and basic resources (+ 19.2%) led the positive returns. Only 4 sectors recorded negative returns, the worst being telecommunications (-3.7%). Performance in the sector was affected by adverse regulation, which was reflected in weak revenue growth trends. Regulation also negatively affected the limited activity of mergers and acquisitions, as well as the visibility of returns on investments necessary for the digital society.

At Telefónica, our shares ended 2017 at 8.13 euros per share, -8.1% over the year, and with a return for the shareholder of -3.8%, after a distribution of dividends of 0.40 euros per share, in cash. In Europe the sector delivered a return for the shareholder, after dividends, of 0.7%. Our profit margin was particularly affected in the second half of the year by the negative exchange rate performance, as well as the political developments in Spain, which impacted the evolution of our results.

Telefónica closed 2017 with a market capitalisation of 42,183 million euros, making it the twelfth largest company in the telecommunications sector worldwide.

Cash flow per share



Dividends



At the Shareholders' Office we ensured that we maintained transparent and fluent communication with our private investors. Over the past year we have attended a total of 41,682 calls on the shareholder information line (900 111 004), receiving a monthly average of 3,473 queries, and we have dealt with 1,956 inquiries via email and post.

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Contribution to progress and impact in the communities

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Contribution to progress

We are one of the main driving forces of economic progress in the communities in which we operate. However, we believe that our contribution to society goes beyond the economic value we generate for our customers and shareholders, and therefore we also assess and monitor our contribution to society and the impact we have on our environment.

With the aim of ensuring sustainable business development, we have established a comprehensive monitoring and measurement model that allows us to estimate our impact as precisely as possible, and therefore helps us

to make the most appropriate decisions at any one time.

The results obtained from this analysis also allow us to monitor in detail our contribution to the fulfilment of the [United Nations' Sustainable Development Goals](#).

The model, which is unique in the sector, is based on a dual approach: on the one hand the global impact of the Company is analysed, and, on the other, we study the impact of our solutions, products and services.

We contribute to the development of the communities in which we operate, improving the quality of life of both the people and their environment

Impact analysis model



Company impact analysis approach

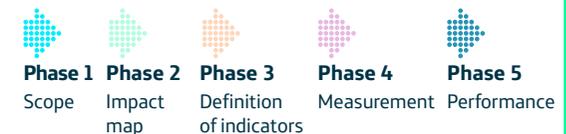
Evaluation and quantification of the impact and the contribution of our activity, as well as its effects and consequences, for all regions in which we operate:

- Carbon footprint and emissions
- Impact of the network
- Impact on local tax authorities
- Economic impact on society
- Impact on employment

Project and solution impact analysis approach

Evaluation of the real impact of specific products, services and projects to assess their contribution and potential risks. The evaluation follows a methodology based on the "Change Theory" model, adapted to the needs of the ICT sector.

METHODOLOGY IN 5 STEPS:



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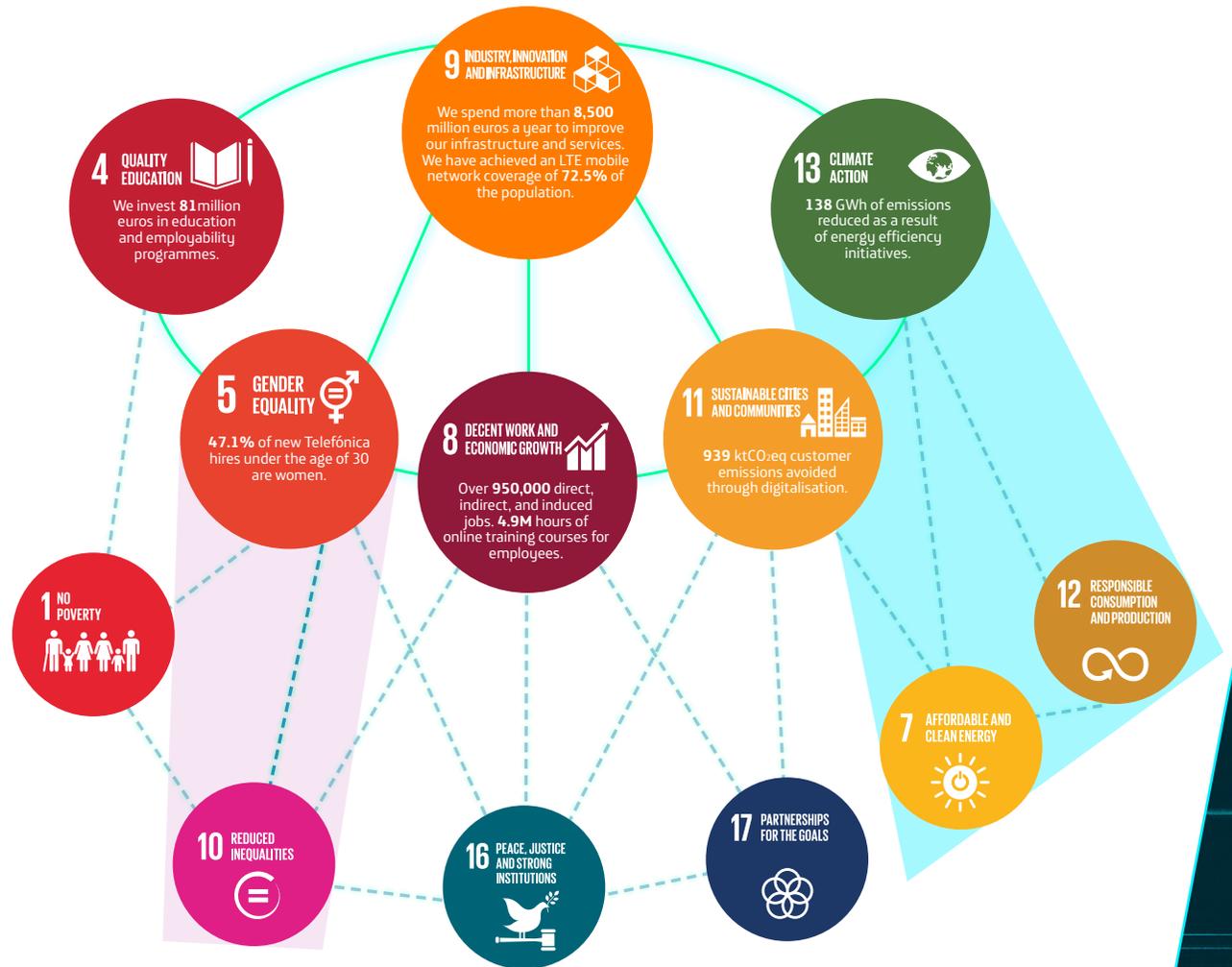
OUR CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS

We are conscious of our responsibility to help achieve the United Nations' [Sustainable Development Goals \(SDG\)](#), since we understand that new digital technologies are one of the main driving forces of economic and social transformation.

Therefore, our responsible business strategy incorporates the SDGs in their broadest sense, considering them a key element in guiding the response to the social, economic and environmental challenges that our generation has to address.

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

 More information is available in the Sustainable Development Objectives annex



Secondary contribution to the SDGs





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Economic impact

IMPACT ON GDP

We are one of the most important driving forces of economic progress in the communities in which we operate. According to our calculations, in 2017 we increased our contribution to the GDP of the group of countries in which we operate by 52,232 million euros, a figure which accounts for almost 0.6% of the total wealth generated within them as a whole.

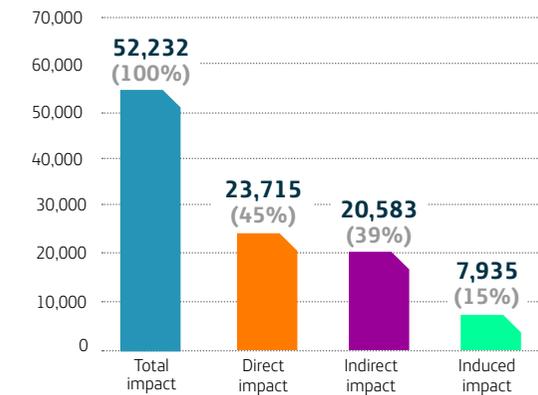
We can, therefore, regard ourselves as a great enhancer of the economies of these communities, both directly and thanks to the capacity of our activity to generate a wealth multiplier effect. Thus, according to the calculation methodology applied, for each euro of GDP created directly in our nine most important countries, in 2017 we generated an additional 1.2 euros in an indirect and induced manner as a result of our expenditure and investments.

For each euro of gross operating margin that we generated, we contributed 3.2 euros to the GDP of the countries in which we operate.

For every euro we generated, *we contributed 3.2 euros to the GDP* of the countries in which we operate

Total Telefónica Group impact on GDP in 2017

Millions of euros (%)



▶ **Total impact:** Total impacts generated by the corporate activity and the expenditure and investments performed by Telefónica in the countries in which we operate.

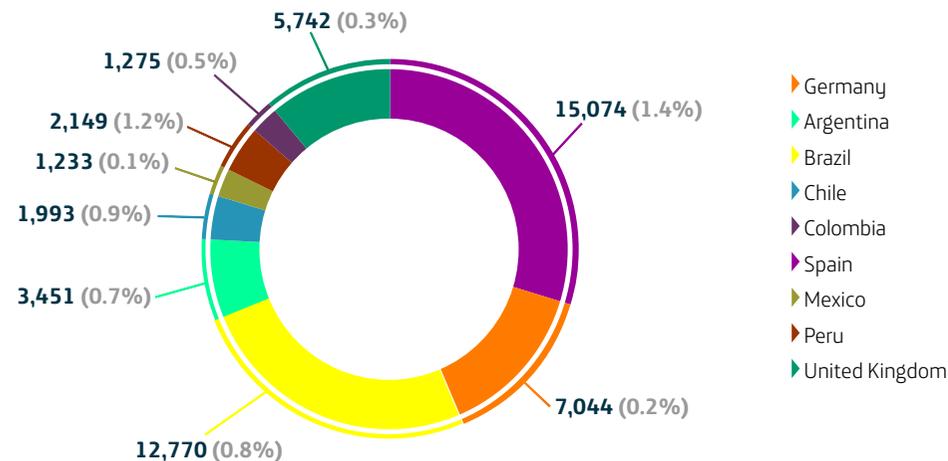
▶ **Direct impact:** Impacts generated directly by our activity.

▶ **Indirect impact:** Impacts generated by expenditure and investments performed by Telefónica throughout its supply chain.

▶ **Induced impact:** Impacts generated by the increase in consumption arising from the increase in labour income generated by direct and indirect employment.

Impact on the 2017 GDP of the main countries in which we operate

Millions of euros (% of local GDP)



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IMPACT ON EMPLOYMENT

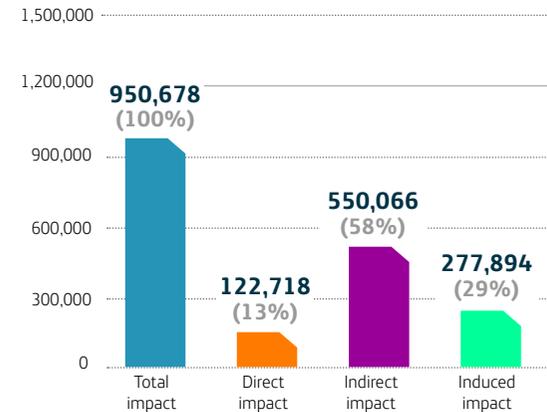
The labour market is one of the main social concerns in some of the countries in which we operate and, therefore, it is also relevant to us as part of those communities.

According to the methodology used to analyse impacts, in 2017, the impact we had on employment in the countries in which we operate amounted to 919,035 people, including direct, indirect and induced jobs. Thus, as a result of our activity, for each person recruited into our workforce, we generated an additional 7.8 jobs in the countries in which we operate.



Total Telefónica Group impact on employment in 2017

People (%)



▶ Jobs generated by the corporate activity and the expenditure and investments performed by Telefónica in the countries in which we operate.

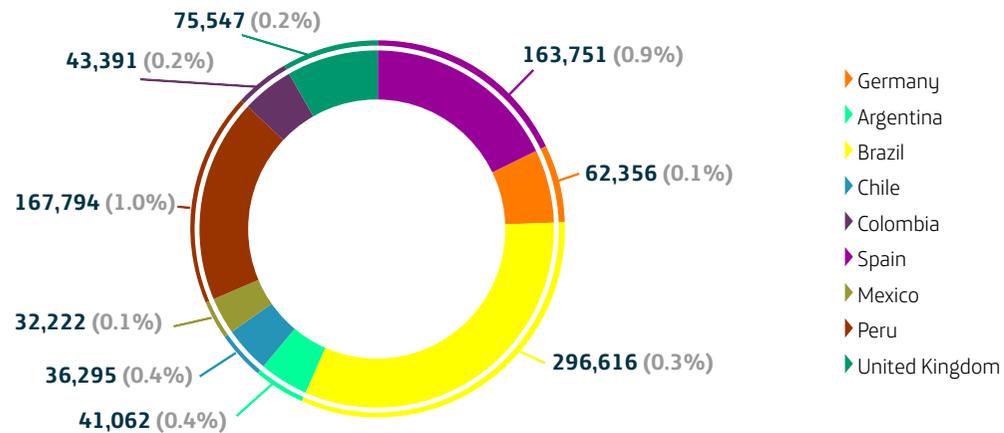
▶ Employees recruited directly.

▶ Jobs generated in those companies and sectors that received the expenditure and investments performed by Telefónica and its respective suppliers.

▶ Jobs generated in the set of economic sectors as a result of the economic activity generated in an induced manner.

Impact on the 2017 employment rates in the main countries in which we operate

Total people employed (% of total local employment)



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Impact on the environment

Our activity affects the environment through the footprint that we leave on our surroundings. Aside from the negative impact that this may have, the Company generates a positive impact on the environment through its services, because digitalisation offers solutions to some of the major environmental challenges.

Therefore, we analyse our net impact on climate change in particular, because this is the main environmental challenge facing the world today, and this is where we have the greatest influence on a global level.

TELEFÓNICA'S CARBON FOOTPRINT

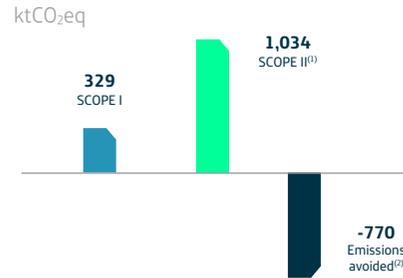
We are reducing our impact on climate change by decarbonising our activity, committing to a disengagement of business growth from greenhouse gas emissions. Our objective is to align our efforts with the level of decarbonisation required to limit global warming to under 2°C. In doing so, we will reduce our greenhouse gas emissions by 30% by 2020 and by 50% by 2030.

Our carbon footprint is generated mainly by our Network, as a result of the energy consumption required to provide our services. However, we are committed to ensuring our electricity consumption is 100% renewable by 2030.

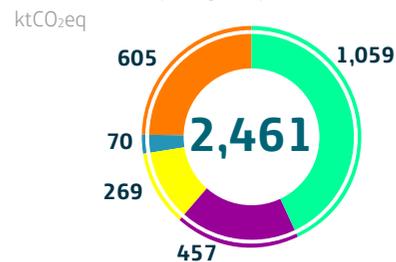
Currently, 46.8% of our electricity consumption comes from renewable sources.

(1) Market-based approach.
 (2) Emissions avoided through renewable energy generation for self-consumption and renewable energy purchasing.
 Note: figures for 2015 and 2016 have been revised.

Telefónica emissions (Scope 1 and 2)



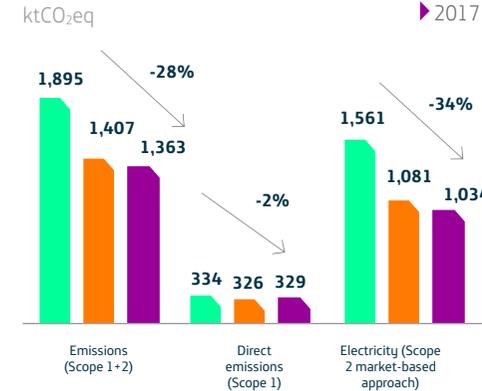
Emissions from our value chain (Scope 3)



- Purchase of goods and services
- Acquisition of capital expenditure
- Activities related to energy consumption
- Business trips
- Use of sold products

Together with an ambitious energy efficiency programme, this has caused our carbon emissions to decrease by 28% in absolute terms, and the intensity of our emissions by revenue by 24%, compared with 2015.

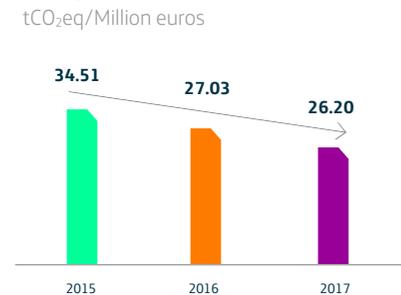
Evolution of Telefónica emissions (Scope 1 and 2)



-28%
 in our Scope 1 and 2 emissions since 2015

-6%
 in our value chain emissions (Scope 3) in 2017

Intensity of emissions (Scope 1 and 2)



We also take into account the impact that our value chain has on climate change as a result of our activity. To do this we calculate our Scope 3 emissions, which have fallen by 6% over the last year.

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OUR ECOSMART SERVICES

Our greatest contribution to the mitigation of and adaptation to climate change will be, without a doubt, increased digitalisation, supported by a renewable network and with solutions that are already providing answers to these environmental challenges.

Through our services, we have the capacity to reduce carbon emissions in other sectors and increase the resiliency of the communities in which we operate. We have, for example, IoT and Big Data services, which are designed to improve our customers' mobility and energy efficiency; our Cloud and video conferencing services also avoid greenhouse gas emissions.

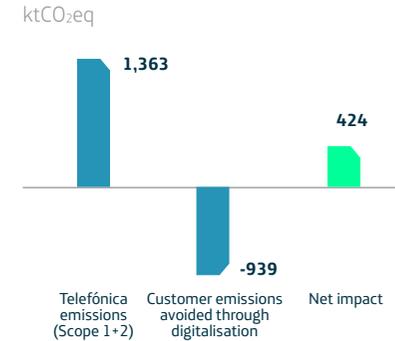
NET IMPACT

To assess our net impact on climate change, we weigh up the amount of Company emissions required to provide our services and

the emissions avoided through digital services. The difference between the two offers a vision of the net impact of our Company, which was 424 ktCO₂ in 2017.

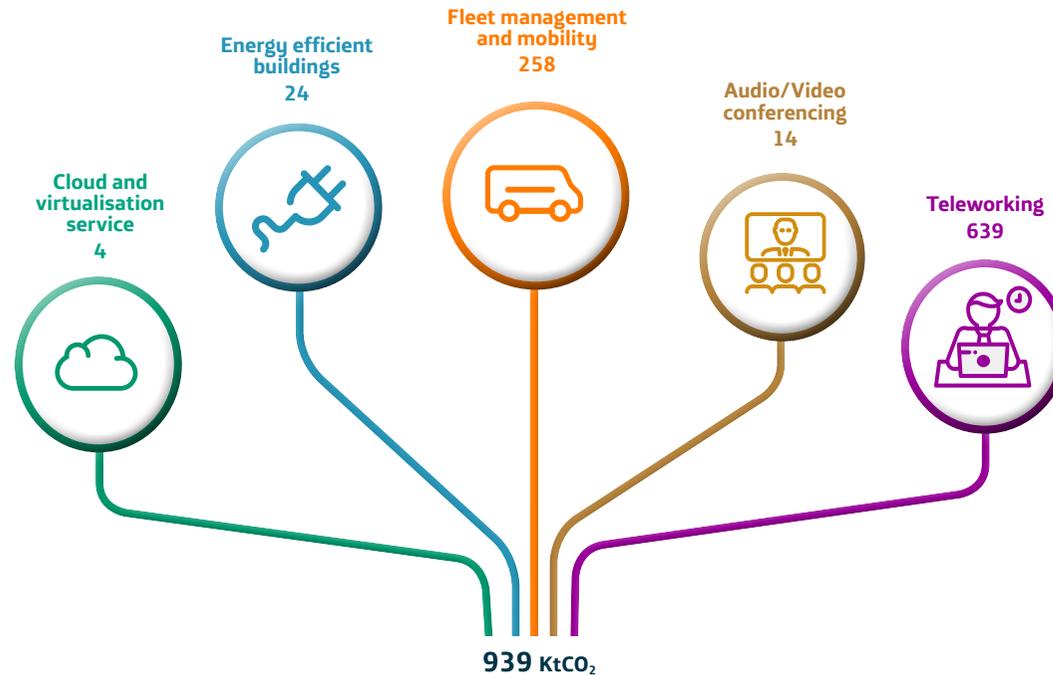
In accordance with our energy and climate change strategy, the net impact will be reduced each year. This will be achieved by ensuring our carbon emissions continue to decrease, while increasing digitalisation and the Company's EcoSmart services.

Net impact 2017



More information is available in the 'Commitment to the environment' section

Customer emissions avoided through digitalisation (ktCO₂)



(1) Scope 1+2



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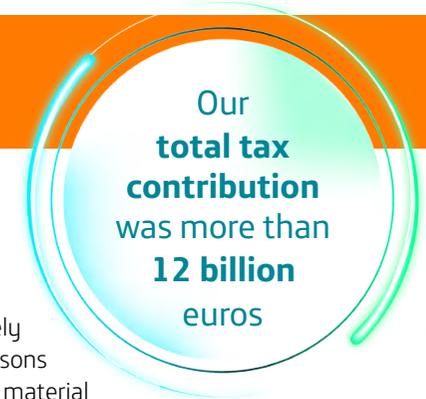
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Contribution to local tax authorities



We are committed to acting with fiscal responsibility and transparency in the management of our business, and complying with all our tax obligations in all the territories in which we operate.

With the aim of increasing transparency, we have developed a set of Responsible Business Principles for matters of tax compliance, based on which we pledge to act with honesty and respect for the law in the management of fiscal matters. All our tax action guidelines (strategy, control function, risks and best practices) are publicly available and are published on our [tax transparency website](#).

In 2010, Telefónica, S.A. adopted the Code of Good Practice in Tax Affairs by resolution of its Board of Directors. As a result, we do not use corporate structures in the pursuance of our business activities for the purpose of covering up or reducing the transparency of our

For every 100 euros of Company revenue, **23.4 euros** are allocated to the *payment of taxes*

activities in the eyes of the tax authorities or any other interested party, in accordance with the recommendations of the Code of Good Practice in Tax Affairs.

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.

In accordance with the Corporate Enterprise 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 our transparency, 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 in 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 the 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.

TAXES IN 2017

Our economic and social contribution is not only quantifiable through the payment of corporate tax, but also through other specific contributions in the various countries in which we operate, such as fees (for use of the public domain, 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 taxes that are directly borne, 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 made by the Company, such as indirect taxes, workers' withholdings and other withholdings.

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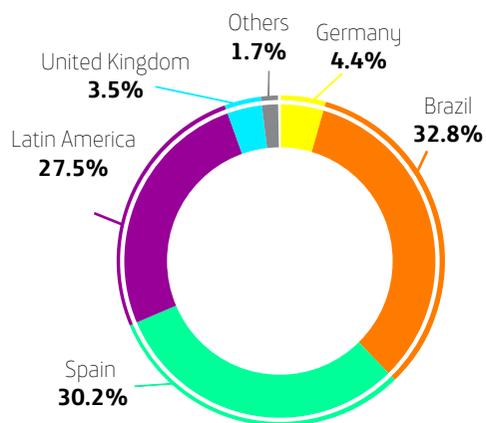
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In this context and during 2017, our total tax contribution (TTC) amounted to 12,188 million euros (3,305 million euros in taxes borne and 8,882 million euros in taxes collected), which represents 52.4% of our distributed value⁽¹⁾.

Brazil and Spain, the markets in which we generated the most operating profit, were the jurisdictions which most contributed to the payment of taxes, both borne and collected.

Therefore, for every 100 euros of Company revenue, 23.4 euros were allocated to the payment of taxes (6.4 to the payment of taxes borne and 17.0 to the payment of taxes collected).

Geographic distribution of taxes paid by Telefónica in 2017



Breakdown of Telefónica's tax contribution in 2017

(Thousand euros)

Country	Borne	Collected	Total
Germany	144,621	655,082	799,703
Argentina	395,021	791,954	1,186,975
Brazil	1,084,323	4,414,943	5,499,266
Central America	55,093	80,358	135,451
Chile	44,520	216,134	260,654
Colombia	131,340	143,627	274,967
Ecuador	78,181	30,214	108,395
Spain	998,193	1,779,346	2,777,539
Ireland	20,852	-550	20,302
Mexico	40,385	72,634	113,018
Peru	141,160	190,056	331,216
United Kingdom	114,222	471,880	586,102
Uruguay	18,392	14,858	33,250
Venezuela	5,311	9,777	15,088
Others	34,058	11,859	45,917
Total	3,305,671	8,882,172	12,187,844

Taxes borne

(Thousand euros)

	2017	
Goods and services	1,369,812	41.4%
Associated with employment	930,959	28.2%
Benefits	1,004,901	30.4%
Total borne	3,305,671	100%

Taxes collected

(Thousand euros)

	2017	
Goods and services	7,400,060	83.3%
Associated with employment	915,088	10.3%
Benefits	567,024	6.4%
Total collected	8,882,172	100%

(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), net wages and salaries from collected taxes, net interests and taxes borne and collected.



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Network impact on communities

Numerous studies demonstrate that the deployment of infrastructure and connectivity services have a positive effect on digital inclusion and on the economic growth of the communities in which we operate (see chapter on '[Digital inclusion](#)'). Broadband development not only boosts the telecommunications sector, but it also also contributes to an increase in the productivity and competitive capacity of local businesses.

Our Network has an added value for our customers having a real impact on education, health, administration and finance. Ensuring that both companies and individual users widely benefit from the social, environmental and economic impacts of connectivity.

NETWORK IMPACT ON COMPANIES

Infrastructure and connectivity are the foundation of digital transformation. They have a large impact on the business ecosystem, affecting the way in which its members operate and interact with each other. Starting from greater efficiency to the establishment of new business models, the Network has had an impact on companies and has changed the ways in which they operate.

Each business ecosystem requires a different level of broadband adoption, each with its own series of associated social, environmental, and economic impacts.

Network impact on companies

Analysis source: Accenture



- Improvement of operational management.
- Increase in business productivity & benefits.
- Increase in quality of products & services.
- Customer satisfaction & retention maintenance.
- Improvement in customer experience.
- Improvement of employee living standards.
- Increase in national & international trade.
- Improvement in supply chain resilience.
- Increase in business relation between companies.
- Increase in knowledge transfer.
- Optimization of daily tasks through cloud services.
- Increase in new investment attraction.
- Increase in flexibility at work.
- Creation of a more diverse ecosystem.



BASIC
bandwidth
adoption



MODERATE
bandwidth
adoption



HIGH
bandwidth
adoption



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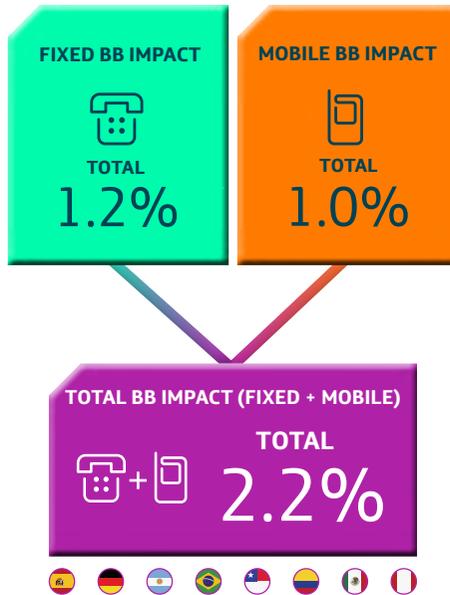
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Impact caused by broadband (BB)

(% of GDP)
Source: PwC analysis



NETWORK IMPACT ON PEOPLE

Similarly to businesses, the Network also has a strong impact on the daily lives of our users. From guaranteeing social inclusion through bringing connectivity closer to the most depressed populations, to real time streaming; connectivity has changed the way we communicate. In doing so, it breaks down barriers and brings people closer together, serving as a bridge towards equality, through accessing tools for education and health.

Each level of connectivity brings different impacts on society, the environment, and the economy of the ecosystem in which it is deployed. The basic level of connectivity (voice and SMS) provides access to traditional communications. Broadband and 3G services provide access to more detailed information

Network impact on people

Analysis source: Accenture



- Increase in users resilience in the face of natural disasters (i.e.: early warnings).
- Increase in social inclusion.
- Savings in communication time, resources and costs.

through video and social networking platforms, giving the ability to create new business models or to enhance already existing ones. High speed (fibre) and 4G connections provide access to real time information through streaming services.

- Increase in financial inclusion (i.e.: online banking).
- Better training for students and teachers (i.e.: digital education).
- Poverty reduction by stimulation of knowledge-driven economy.
- Generation of additional revenues and new business opportunities (i.e.: e-commerce).
- Reduction in the incidence of disease (i.e.: e-learning).
- Increase in administrative procedures (i.e.: e-Government).
- Time savings in the execution of tasks.
- Increase in the development and entertainment of the people (i.e.: online-TV).
- Increase in knowledge and transparency regarding social issues.
- Creation of a more diverse business ecosystem.
- Boost of work flexibility.



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Corporate Governance

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Board of Directors

Our corporate governance systems guarantee that the business is managed in the best interests of all of its shareholders (including its minority shareholders) and stakeholders. To this end, we need to ensure that there are structures in place that allow the Board of Directors to effectively manage the appropriate control and supervision responsibilities.

Supported by its Committees, the Telefónica, S.A. Board of Directors carries out its duties in accordance with standards of Corporate Governance that are chiefly established in the Company Bylaws, the Rules governing the General Meeting of Shareholders, and the Regulations of the Board of Directors.

The Board of Directors is the body which supervises and controls the activity of the Company. Among other decisions, it bears sole responsibility for the Company's general policies and strategies, including those related to Corporate Governance, Corporate Responsibility, the remuneration of Directors and Senior Management, the remuneration of shareholders, and strategic investments.

An effective and well-balanced Board of Directors is the backbone of good corporate governance. To evaluate the Board's capacity to perform its activity, our shareholders and

stakeholders look at its composition, its diversity in terms of gender and origin of its members, the educational background of its members, the proportion of independent members, and its general size.

In order to strengthen the Company's Corporate Governance, the Board of Directors of Telefónica, S.A. has six Committees, each responsible for the examination and monitoring of areas of particular importance.

Furthermore, in accordance with its Regulations, the Board of Directors entrusts the day-to-day management of the business to the executive bodies and management team of Telefónica, S.A.

We want personal experience and the diversity of our markets to be reflected in the Telefónica Board of Directors, thereby ensuring a variety of perspectives are heard and considered in corporate decisions.

More detailed information on this matter is contained in the Annual Corporate Governance Report and the Annual Report on the Remuneration of Directors.

At Telefónica, we publish a full annual Report on the remuneration of all our Directors, their structure, the remuneration items,



the fixed and variable short and long-term payments, as well as other kinds of allowances. This information can be found in the Annual Corporate Governance Report and the Annual Report on the Remuneration of Directors.

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Committees of the Board of Directors

	Executive Commission	Audit and Control	Nominating, Compensation and Corporate Governance	Regulation and Institutional Affairs	Service Quality and Customer Service	Strategy and Innovation
■ Mr. José María Álvarez-Pallete López (Chairman)	✓					
■ Mr. Isidro Fainé Casas (Vice-Chair)	✓					
■ Mr. José María Abril Pérez (Vice-Chair)	✓					✓
■ Mr. Ángel Vilá Boix (Chief Operating Officer)	✓					
■ Mr. Juan Ignacio Cirac Sasturain						✓
■ Mr. José Javier Echenique Landiríbar	✓	✓	✓			
■ Mr. Peter Erskine	✓		✓			✓
■ Ms. Sabina Fluxà Thienemann			✓			
■ Mr. Luiz Fernando Furlán			✓			
■ Ms. Carmen García de Andrés		✓			✓	
■ Ms. María Luisa García Blanco						
■ Mr. Jordi Gual Solé				✓		✓
■ Mr. Peter Löscher						✓
■ Mr. Ignacio Moreno Martínez		✓		✓	✓	
■ Mr. Francisco Javier de Paz Mancho	✓	✓	✓	✓		
■ Mr. Francisco José Riberas Mera						
■ Mr. Wang Xiaochu						
Mr. Pablo de Carvajal González (Non-Director Secretary)						
Ms. María Luz Medrano Aranguren (Non-Director Vice-Secretary)						

COMPOSITION OF THE BOARD OF DIRECTORS

- Executive Directors
- External institutional Directors
- Independent external Directors
- Other external Directors

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Committees of the Board of Directors

EXECUTIVE COMMISSION

Functions. Always in accordance with the legal provisions in force, the Board of Directors, delegates its powers and attributions, except for those which cannot be delegated for legal, statutory or regulatory reasons, to an

Executive Commission. This Commission allows the Board of Directors greater operability and effectiveness in the exercise of its functions, inasmuch as it meets more frequently than the latter.

Composition	Position
Mr. José María Álvarez-Pallete López	Chairman
Mr. Isidro Fainé Casas	Vice-Chair
Mr. José María Abril Pérez	Vice-Chair
Mr. Ángel Vilá Boix	C.O.O.
Mr. José Javier Echenique Landiribar	Member
Mr. Peter Erskine	Member
Mr. Francisco Javier de Paz Mancho	Member
Mr. Pablo de Carvajal González	Non-Director Secretary

AUDIT AND CONTROL COMMITTEE

Functions. Among other tasks, this Committee supports the Board of Directors in its supervisory work and reports on issues raised by shareholders regarding matters which are the responsibility of the Committee. Specific tasks include: proposal of the appointment and terms of engagement of the accounts auditor; supervision of

the internal audit and the process of drawing up and submitting the regulated financial information; proposal of the policy for risk control and management; and establishment and maintenance of an appropriate relationship with the accounts auditor. This Committee also receives reports on Sustainability risks.

Composition	Position	Date of Appointment
Mr. José Javier Echenique Landiribar	Chairman	8 April 2016
Ms. Carmen García de Andrés	Member	4 May 2017
Mr. Ignacio Moreno Martínez	Member	31 May 2013
Mr. Francisco Javier de Paz Mancho	Member	27 April 2016

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NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Functions. This Committee is responsible for reviewing, based on objectivity criteria and the corporate interest, proposals for the appointment, re-election and dismissal of Directors and Senior Managers of the Company and its subsidiaries, evaluating the skills, knowledge and experience of the candidates put forward to fill the vacancies. It also proposes to the Board of Directors, within the framework established

in the Company Bylaws, the extent and amount of the remunerations, rights and compensations of an economic nature, to be awarded to the Company Chairman and Senior Managers, including the basic terms of their contracts for the purposes of their contractual implementation. Compliance with all Telefónica internal codes of conduct and the rules of Corporate Governance in force are ensured at all times.

Composition	Position	Date of Appointment
Mr. Francisco Javier de Paz Mancho	Chairman	8 April 2016
Mr. José Javier Echenique Landiribar	Member	4 May 2017
Mr. Peter Erskine	Member	27 February 2008
Ms. Sabina Fluxà Thienemann	Member	27 April 2016
Mr. Luiz Fernando Furlán	Member	4 May 2017

SERVICE QUALITY AND CUSTOMER SERVICE COMMITTEE

Functions. Among other tasks, this Committee examines, analyses and regularly monitors quality indices relating to the main services provided

by Telefónica Group companies. It also evaluates the standards of customer service delivered by the Group companies to their customers.

Composition	Position	Date of Appointment
Ms. Carmen García de Andrés	Member	26 July 2017
Mr. Ignacio Moreno Martínez	Member	31 May 2013



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REGULATION AND INSTITUTIONAL AFFAIRS COMMITTEE

Functions. Among other tasks, this Committee is responsible for the following:

- Supervision and promotion of compliance with the Company's Responsible Business Principles and corporate responsibility policy, embodied in the Global Responsible Business Plan of the Company and the individual countries in which it operates, including (but not restricted to) the issues of customer promise (commercial trust, privacy, security, responsible use of technology), responsible management of the supply chain, the environmental and climate change strategy, management of talent and diversity, the health and safety policy, due diligence in the field of human rights, and the creation of value through sustainable innovation.
- Assessment and monitoring of the Company's non-financial risks and indicators, including reputational risks, and subsequent reporting in accordance with international standards.
- Monitoring of the established objectives for contribution to the United Nations Sustainable Development Goals and the expectations of our stakeholders.
- Permanent monitoring of the main regulatory issues which affect the Telefónica Group at any given moment.
- Serving as a channel of communication and information on regulatory matters between the Management Team and the Board of Directors and, when appropriate, informing the latter about matters that may be considered important or relevant to the Company or any of the companies of the Telefónica Group, for which a decision or specific strategy is necessary or appropriate.
- Analysing, informing, and proposing to the Board of Directors the principles that the Group's sponsorship and patronage policy must conform to, monitoring them and individually approving those for which the amount or importance exceeds the threshold set by the Board and that must be approved by them.

Composition	Position	Date of Appointment
Mr. Ignacio Moreno Martínez	Chairman	26 July 2017
Mr. Jordi Gual Solé	Member	31 January 2018
Mr. Francisco Javier de Paz Mancho	Member	27 April 2016

INNOVATION AND STRATEGY COMMITTEE

Functions. Among other responsibilities, this Committee performs the following tasks:

- Supports the Board of Directors in the analysis and monitoring of the Telefónica Group's strategic policy at a global level.
- Advises and provides support in all matters related to innovation, performing the analysis, study, and regular monitoring of the Company's innovation projects, and providing good judgement and support to guarantee their proper implementation and development throughout the Telefónica Group.

Composition	Position	Date of Appointment
Mr. Peter Erskine	Chairman	27 April 2016
Mr. José María Abril Pérez	Member	27 April 2016
Mr. Juan Ignacio Cirac Sasturain	Member	27 April 2016
Mr. Jordi Gual Solé	Member	31 January 2018
Mr. Peter Löscher	Member	27 April 2016

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Members of the Board

Mr. José María Álvarez-Pallete López

Chairman

Born in Madrid (1963). Graduate in Economic Sciences from the Complutense University of Madrid. He completed studies in Economic Sciences at the Free University of Brussels in Belgium; and is a Graduate of the International Management Programme (IMP) at the IPADE Business School (PanAmerican Institute for High Business Direction). He also holds an Advanced Research Degree from the Department of Financial Economics and Accounting of the Complutense University of Madrid.

Currently, he is CEO of Telefónica S.A. since 8 April 2016, and a member of the Telefónica S.A. Board of Directors since July 2006. He is also a Trustee of the Fundación Telefónica. Since 1999 he has held several positions within the Telefónica Group, including General Manager of Finance at Telefónica Internacional, S.A.U., General Manager of Corporate Finance at Telefónica, S.A., Executive Chairman of Telefónica Internacional, S.A.U., Chairman of Telefónica Latin America and Chairman of Telefónica Europe.

From September 2012 until April 2016 he was Chief Operating Officer of Telefónica S.A.

He previously worked at Arthur Young Auditors, Benito & Monjardín/Kidder, Peabody & Co. and Cementos Portland (Cemex). He was a member of the Board of the Cemex Group in Indonesia, among other companies.

In 2001 he was granted the "CFO Europe Best Practices" award in the Mergers & Acquisitions section 2000. He was named Member of Merit at the Carlos III Foundation Ibero-American Forum in 2003 and was named Golden Master of the Upper Management Forum in 2007. He received the Economics Person of the Year Award from the newspaper "El Economista" in 2011. He received the 2013 Award for Excellence for his contribution to the advancement of telecommunications, awarded by the Official Association of Telecommunications Engineers. He received the 2014 Sorolla Medal from the Hispanic Society of America. In 2017 we have named "Best CEO 2016" in Spain by Forbes magazine.

Mr. Isidro Fainé Casas

Vice-Chair

Born in Manresa, Barcelona (1942). Doctor of Economic Sciences. He holds a Diploma in Senior Management from the IESE, and completed the ISMP in Business Administration from Harvard University. He is a member of the Royal Academy of Economics and Finance and the Royal Academy of Doctorate Holders.

He is Chairman of the Board of Trustees of the Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", Banking Foundation, of Criteria Caixa, S.A.U., and Honorary Chairman of Gas Natural SDG, S.A.; and member of the Board of "The Bank of East Asia" and the Suez Environment Company.

Currently, he is Chairman of the Spanish Confederation of Savings Banks (CECA) and the European Savings Banks Group (ESBG). He is also Deputy Chair of the World Savings Banks Institute (WSBI). Furthermore, he is Chairman of the Spanish Confederation of Directors and Executives (CEDE for its Spanish original), of the Spanish Chapter of the Club of Rome, and of the Financial Circle.



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Mr. José María Abril Pérez

Vice-Chair

Born in Burgos (1952). Graduate in Economic Sciences from the University of Deusto and Professor at the University for nine years.

Among other positions, he has been Managing Director of Wholesale and Investment Banking at Banco Bilbao Vizcaya Argentaria, S.A. and a member of its Management Committee. He has also been Financial Manager of the Sociedad Anónima de Alimentación (SAAL) and Sancel-Scott Ibérica, Executive Coordinator of Banco Español de Crédito, S.A., Managing Director of the BBV Industrial Group, a member of the Boards of Directors of Repsol, Iberia and Corporación IBV, as well as Vice-Chair of Bolsas y Mercados Españoles (BME).

Mr. Ángel Vilá Boix

C.O.O.

Born in Barcelona (1964). Graduate in Industrial Engineering from the Universitat Politècnica de Catalunya in Barcelona, with an MBA from Columbia Business School, having studied there with a La Caixa Fulbright scholarship. He is a Trustee of the Fundación Telefónica.

He joined Telefónica in 1997, successively holding the positions of Group Comptroller, CFO of Telefónica Internacional, Director of Corporate Development and Managing Director

Finance and Corporate Development. In 2015 he was appointed Managing Director of Strategy and Finance.

Before joining Telefónica, he built his professional career in Citigroup, McKinsey & Co, Ferrovial and Planeta.

In the financial sector, was a member of the Board of Directors of the Banco Bilbao Vizcaya Argentaria (BBVA) and of the Macquarie MEIF Infrastructure Funds Advisory Panel.

In the TMT (Technology, Media, and Telecom) sector, he was Chairman of Telefónica Contenidos, Vice-Chair of Telco Spa (Italy), and a member of the Board of Endemol, Digital +, Atento, Telefónica Czech, CTC Chile, Indra SSI, and Terra Lycos.

In 2015 he received the Best CFO European Telecoms Award from Institutional Investor. He was recognised by Thomson Reuters Extel in 2013 and 2014 as the best CFO in Spain, and as the best CFO in the telecommunications sector in Europe in 2014.



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Mr. Juan Ignacio Cirac Sasturain

Member of the Board

Born in Manresa, Barcelona (1965). Doctor of Physics from the Complutense University of Madrid and a Graduate in Theoretical Physics from the same University. Areas of specialisation include Atomic Physics, Quantum Computing, and Quantum Optics.

In terms of professional experience, among other posts worth mentioning are his appointment as Director of the International Max-Planck Research School of Quantum Science and Technology (since 2016), "Honorarprofessor" at the Technical University of Munich (Department of Physics) (since 2002), Director of the Theory Division at the Max-Planck Institut für Quantenoptik, and member of the Max Planck Society (since 2001).

His other activities include: member of the Caixa Foundation Advisory Committee; Editor and Founder of the Quantum Information and Computation Magazine; member of the Advisory Board of the Interdisciplinary Institute of Information Sciences, Tsinghua University (since 2015); member of the Advisory Board of the Russian Quantum Centre (since 2012); member of the Advisory Board of Annalen der Physik (since 2012); member of the Review Panel, QSIT, Swiss National Science Foundation (since 2011); member of the Scientific Advisory

Committee of the BBVA Foundation (since 2010); member of the Advisory Board of the Benasque Science Centre (since 2008); member of the Scientific Advisory Board, Centre of Quantum Technology, NUS, Singapore (since 2007); Founding Managing Editor, Computing and Quantum Information (since 2001).

His national and international awards include: The Hamburg Prize for Theoretical Physics; Medal of Honour García Cabrerizo Foundation; the Wolf Prize in Physics; Medal of Honour from the Niels Bohr Institute; and the Grand Cross of the Order of Dos de Mayo of the Community of Madrid. He also has the following distinctions: Elected Member of the Royal Academy of Sciences, Spain; Doctor Honoris Causa, Polytechnic University of Valencia, Spain; Doctor Honoris Causa, University of Valencia, Spain; Visiting Miller Professorship Award, University of California, Berkeley, California, USA; Corresponding Member of the Royal Academy of Sciences and Arts of Barcelona, Spain; David Ben-Gurion Medal, Ben-Gurion University of the Negev, Israel; Professor at the Centre for Theoretical Science of Princeton, Princeton University, New Jersey, United States; Distinguished Lecturer, Technion, Haifa; Tsinghua Songjian Turing Lecturer, Beijing; and Erwin Schrödinger Distinguished Professor, Vienna.

He has been a guest lecturer at more than 200 international conferences, where he has spoken in both educational and informative capacities.

Mr. José Javier Echenique Landiribar

Member of the Board

Born in Isaba, Navarre (1951). Graduate in Economic and Actuarial Sciences from the University of the Basque Country, and Professor of Social Security Quantitative Techniques at the Bilbao Faculty of Economic Sciences of the UPV for several years.

Currently, he is a member of the Boards of Directors of: Banco Sabadell (Vice-Chair); ACS Actividades de Construcción y Servicios, S.A.; ACS Servicios, Comunicaciones y Energía, S.L.; and Grupo Empresarial ENCE, S.A., as well as a member of the Board of Telefónica Móviles México, S.A. de C.V.

He is also a Trustee of the Novia Salcedo Foundation, member of the Board of the Deusto Business School, and member of the Circle of Basque Businessmen and of the McKinsey Advisory Council.

He has been Director and General Manager of Allianz-Ercos and Director General of the BBVA Group (Head of Wholesale Banking). He has also been a member of the Boards of Directors of: Repsol, S.A.; Celestics Holdings, S.L.; and Chairman of: Banco Guipuzcoano; Sevillana de Electricidad, S.A.; Acesa; Hidroeléctrica del Cantábrico; Corporación IBV; Metrovacesa; the Patricio Echeverría Corporation; the BBVA Insurance Group; the Edhardt Group; Uralita; the Porres Group (Mexico); and Abertis Infraestructuras, S.A.

Mr. Peter Erskine

Member of the Board

Born in London (1951). Graduate in Psychology from the University of Liverpool and appointed Doctor Honoris Causa by Reading University.

He is Chairman of the Henley Business School Strategy Board, member of the Board of Reading University and a member of the Strategy and Finance Committees of the same University. He has been a member of the Telefónica Deutschland Holding AG Supervisory Board since May 2016.

He began his professional career in the Marketing department at Polycell and Colgate Palmolive, with the MARS Group and at UNITEL. He likewise held different management positions at BT Mobile until being appointed CEO and Chairman of O2, Plc. He resigned as Chairman of Ladbrokes, Plc., in December 2015.

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Ms. Sabina Fluxà Thienemann

Member of the Board

Born in Palma de Mallorca (1980). Graduate in Business Administration and Management from ESADE, and has an MBA from the same university. She holds a Diploma in Senior Management from IESE.

She joined the Iberostar Group in January 2005, and is currently the Vice-Chair and CEO.

She also holds the positions of member of the BBVA Regional Advisory Council, member of the Governing Council of APD Illes Balears, and is a Trustee of the Iberostar Foundation and the Endeavour Foundation.

Mr. Luiz Fernando Furlán

Member of the Board

Born in Brazil (1946). Graduate in Chemical Engineering from the FEI (Industrial Engineering Faculty of São Paulo) and in Business Administration from the University of Santana de São Paulo, specialising in Financial Administration at the Getúlio Vargas Foundation in São Paulo.

He is currently a member of the Board of Directors of Brasil Foods, S.A. (BRF) and Telefónica Brazil, S.A.

He held the post of Minister of Industry, Development, and Trade in the Government of Brazil between 2003 and 2007. He was previously a member of the Board of Directors and an Advisor for numerous companies, including Sadia, S.A.; Panasonic (Japan); Wal-Mart (USA); Abertis Infraestructuras, S.A. (Spain); and the AGCO Corporation.



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Ms. Carmen García de Andrés

Member of the Board

Born in Madrid (1962). Graduate in Economic Sciences and Business Studies from the Comillas Pontifical University, ICADE.

She is currently Chair of the Tomillo Foundation.

She joined PricewaterhouseCoopers (Coopers & Lybrand Legacy) in 1985, was promoted to Director in 1995, and to Firm Partner in 2000. Since then she has held various leadership positions at Landwell-Abogados and Asesores Fiscales, and in the Fiscal Legal Department at PwC. Specialising in consultancy for large companies, she has been a representative of the Spanish firm in the International Group of Indirect Taxation specialists for more than 6 years. Since 1998, her field of work has focused on consulting for large, multinational companies established in Spain with significant international involvement.

From 2004 to 2007, she was Managing Partner for the Grupo de Gran Consumo, Distribución, Industria y Servicios of Madrid, which incorporated more than 30 specialists in various legal and tax fields. Between 2005 and 2007, she was also head of the Diversity programme for Women at PwC.

She has been a member of the Board of Trustees at the Tomillo Foundation since 2006, taking on the role of General Manager of this not-for-profit entity in March 2008, and Executive Chair in 2014.

She is also the Director of the Tomillo Tietar Foundation and a member of its Board of Trustees. From 2013 until April 2017, she was the Chair of the Youth Business Spain Foundation, and is currently a member of its Board of Trustees.

She has also been a member of the Board of Directors of the Spanish Foundation Association (AEF) since June 2011, and is currently its Treasurer.

She is a member of the Board of Trustees for the Rais Foundation and Xavier de Salas Foundation, as well as member of the Board for the collective initiative Juntos por el Empleo (Together for Employment) for the most disadvantaged.

From 2005 until 2010, she collaborated with the Lidera Programme and Woman, Business and Technology (MET for its Spanish original) at the Instituto de Empresa. She was also a professor of International Taxation at ESADE during the 2005/06 and 2006/07 academic years, and facilitator for Circles of Trust – Centre for Courage and Renewal– 2017.



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Ms. María Luisa García Blanco

Member of the Board

Born in Córdoba (Spain) on 25 October 1965. Graduate in Law at the University of Córdoba (Spain). She is a State Attorney, class of 1992.

She is Partner of the Salama Blanco García, SLP law firm (State Attorney on leave since October 2013), the main activities of which are: administrative and constitutional law, technical advice and defence of credit institutions, civil and commercial procedural law, and arbitration (Arbitrator in the Spanish Court of Arbitration, in the Court of Arbitration of the Official Chamber of Commerce, Industry and Services of Madrid, and in the Civil and Commercial Court of Arbitration – CIMA).

She was previously: Deputy Director General of Constitutional and Human Rights; State Attorney - Head of the Department of Constitutional and Human Rights; Agent of the Kingdom of Spain before the European Court of Human Rights; head coordinator of the Spanish Delegation to different United Nations Committees in Geneva (2002-2013).

As agent of the Kingdom of Spain, the main activities carried out were the following:

- Management and coordination of the Spanish Delegation, composed of representatives of the different Ministerial Departments for the defence of the report of the Kingdom of Spain to various United Nations Committees dealing with extrajudicial procedures: Committee Against Torture (CAT); Universal Periodic Review of Spain before the Council of Human Rights (EPU for its Spanish original); Committee on the Rights of the Child (CRC); Committee on Human Rights (CDDH for its Spanish original), and the Committee for the Elimination of Racial Discrimination (CERD).
- Defence of the Kingdom of Spain before the various United Nations Committees in individual claims, and before the European Court of Human Rights (ECHR) against individual demands.

She acted as State Attorney - Head of the Department of Constitutional Rights, in the management of State constitutional processes before the Constitutional Court.

She was previously State Attorney before the Constitutional Court (2000-2002), for the Ministry of Justice - Studies Office (1999-2000), for the Ministry of Agriculture, Fishing and Food (1993-1999), and in Cáceres (1992-1993) as member of the Provincial Expropriation Jury of Cáceres.

She has also held the following positions:

- Secretary of the Board of Directors of the State Corporation of Agricultural Infrastructures of the North (SEIASA DEL NORTE) and of its Audit and Control Committee (1999-2010).
- Member of the Board of the State Corporation of Agricultural Infrastructures (SEIASA) (2010-2013).
- Member of the Board of the State Corporation of Waters of the North Basin (ACUANORTE) (2009-2012) and the State Corporation of the Waters of the Basins of Spain (AcuaEs) (2012-2013).

- Coordinator of cooperation activities in the promotion and defence of human rights in Uruguay (2006), Colombia (2007 and 2008), Chile (2009), and Guatemala (2010).

She has been awarded the Cross of Honour of the Order of Saint Raymond of Peñafort (2006) and is a member of the Academy of the Royal Academy of Jurisprudence and Legislation (2014).

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Mr. Jordi Gual Solé

Member of the Board

Born in Lérida (1957). Doctor of Economics at the University of California (Berkeley) (1987), Professor of Economics at the IESE Business School, and Research Fellow at the Centre for Economic Policy Research (CEPR) in London.

He has been the Chairman of CaixaBank, since July 2016. Before taking on this responsibility, he was the Executive Director of Strategic Planning and Studies at CaixaBank, and Managing Director of Planning and Strategic Development at CriteriaCaixa. He joined the "la Caixa" group in 2005.

Has been an Economic Counsellor in the Directorate General of Economic and Financial Affairs at the European Commission in Brussels, and a visiting professor at the University of California, Berkeley.

He is currently a member of the Supervisory Board of Erste Group Bank, of the Market Monitoring Group of the Institute of International Finance (IIF), and of the Boards of Directors of Repsol and Telefónica. He is also a member of the European Corporate Governance Institute Council, Chairman of FEDEA, Vice-Chair of the Circle of Economy, and member of the Board of Trustees of the CEDE Foundation, the CIC Cultural Institution, the Elcano Royal Institute, and the Cotec Foundation for Innovation.

He was awarded the European Investment Bank research prize in 1999, and the Extraordinary Bachelors Degree in Economic and Business Sciences Award in 1979.

Mr. Peter Löscher

Member of the Board

Born in Austria (1957). Studied Economics at the Vienna University of Economics and Business Administration at the Chinese University of Hong Kong. He obtained an MBA from the Vienna University of Economics and completed the Advanced Management Programme at the Harvard Business School.

He is Chairman of the Supervisory Board of OMV Aktiengesellschaft, of Sulzer AG, and member of the Board of Directors of TBG AG, Switzerland.

From March 2014 to March 2016 he was CEO of Renova Management AG (Switzerland). Former Chairman and Chief Operating Officer of Siemens AG. He was previously President of Global Human Health and member of the Executive Board of Merck & Co., Inc., Chief Operating Officer of GE Healthcare Bio-Sciences, and member of the GE Corporate Executive Council, Director of Operations and member of the Board of Amersham Plc. He held senior leadership positions at Aventis and Hoechst.

He served as Chairman of the Board of Trustees of the Siemens Foundation and is a Member Emeritus of the Advisory Council of the Economic Development Board of Singapore. He is also a member of the International Advisory Council of Bocconi University.

He is Honorary Professor at the University of Tongji (Shanghai), has received an Honorary Doctorate in Engineering from Michigan State University and is Doctor Honoris Causa at the Slovak University of Engineering in Bratislava.

He holds the Decoration of Honour in Gold for Services to the Republic of Austria, the Order of Friendship from the Russian Federation and is Knight Commander of the Order of Civil Merit of Spain.

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Mr. Ignacio Moreno Martínez

Member of the Board

Born in Santander (1957). Graduate in Economic and Business Sciences from the University of Bilbao. He has a Master's Degree in Marketing and Commercial Management from the Instituto de Empresa; and a Master's Degree in Business Administration (MBA) from INSEAD.

He is currently Chairman of Testa Residencial, Socimi, S.A.; Chairman of Metrovacesa, S.A.; and member of the Board of Obrascón Huarte Lain, S.A. (OHL). He is also Senior Advisor to BC Partners for Spain.

Until October 2016, he was Chief Operating Officer of Metrovasca, S.A. Previously, he held the position of Company Chairman.

He has worked at Banco de Vizcaya, Banco Santander de Negocios, Mercapital, Corporación Bancaria de España, S.A., Argentaria Bolsa, Sociedad de Valores and Banco Bilbao Vizcaya Argentaria, S.A., where he was General Manager of the Presidency Area. He has also been Chief Operating Officer of N+1 Private Equity.

Mr. Francisco Javier de Paz Mancho

Member of the Board

Born in Valladolid (1958). He holds a Diploma in Information and Advertising, and is a Graduate in Law. He also has a Diploma in Senior Management from the IESE (University of Navarre).

He is Chairman of Telefónica Ingeniería de Seguridad, S.A.; and member of the Board of Telefónica de Argentina, S.A., Telefónica Brasil, S.A. and Telefónica Móviles México, S.A. de C.V.

Among other positions, he has been Chairman of Telefónica Gestión de Servicios Compartidos España, S.A.U., Chairman of Atento Inversiones y Teleservicios, S.A.U., and of the National Company MERCASA, member of the Board of Tabacalera, S.A., Deputy to the Chairman and Director of Corporate Strategy of the Panrico Donuts Group, Director General of Internal Trade at the Ministry of Trade and Tourism, member of the Board of the Panrico Group, and member of the Executive Committee of the Higher Council of Chambers. From September 2014 until March 2016, he was also Chairman of Telefónica Gestión de Servicios Compartidos España, S.A.U.

Mr. Francisco José Riberas Mera

Member of the Board

Born in Madrid (1964). Graduate in Law (1987) and Economics and Business (1988) from the Pontifical University of Comillas (ICADE E-3), Madrid.

He began his professional career with several different positions in the Gonvarri Group, as Director of Corporate Development and later as Chief Operating Officer. In 1997 he founded Gestamp Automoción, and since then has been its Chief Executive Officer, building the Gestamp Group up to what is now, a global leader in metal components for the automotive industry.

As the CEO of Gestamp Automoción, he forms part of the management bodies of other Gestamp Group companies and Acek Group companies (including the Gonvarri Group companies Acek Energía Renovables and Inmobiliaria Acek). He is also a member of other Boards of Directors beyond the Acek Group, specifically, Telefónica, CIE Automotive, Global Dominion Access and the Sideacero Group. He additionally participates in the Family Business Endeavor Foundation and Institute, among others.

Mr. Wang Xiaochu

Member of the Board

Born in Zhejiang, People's Republic of China (1958). A Senior Professor of Engineering, he graduated in Telecommunications Engineering in 1989 from the Institute of Posts and Telecommunications in Beijing. He gained a Doctorate in Business Administration from the Hong Kong Polytechnic University in 2005.

He is currently the Chairman of China United Network Communications Group Company Limited ("Unicom Group"), as well as the Chairman and CEO of China Unicom (Hong Kong) Limited.

He has been General Manager of Hangzhou Telecommunications Bureau in Zhejiang Province and General Manager of Tianjin Posts and Telecommunications Administration. Has also been Chairman and CEO of China Mobile (Hong Kong) Limited; Vice-Chair of China Mobile Communications Corporation; Chairman and CEO of China Telecom Corporation Limited; Chairman of China Telecommunications Corporation; and Chairman and Non-Executive Director of China Communications Services Corporation Limited.

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Responsible business



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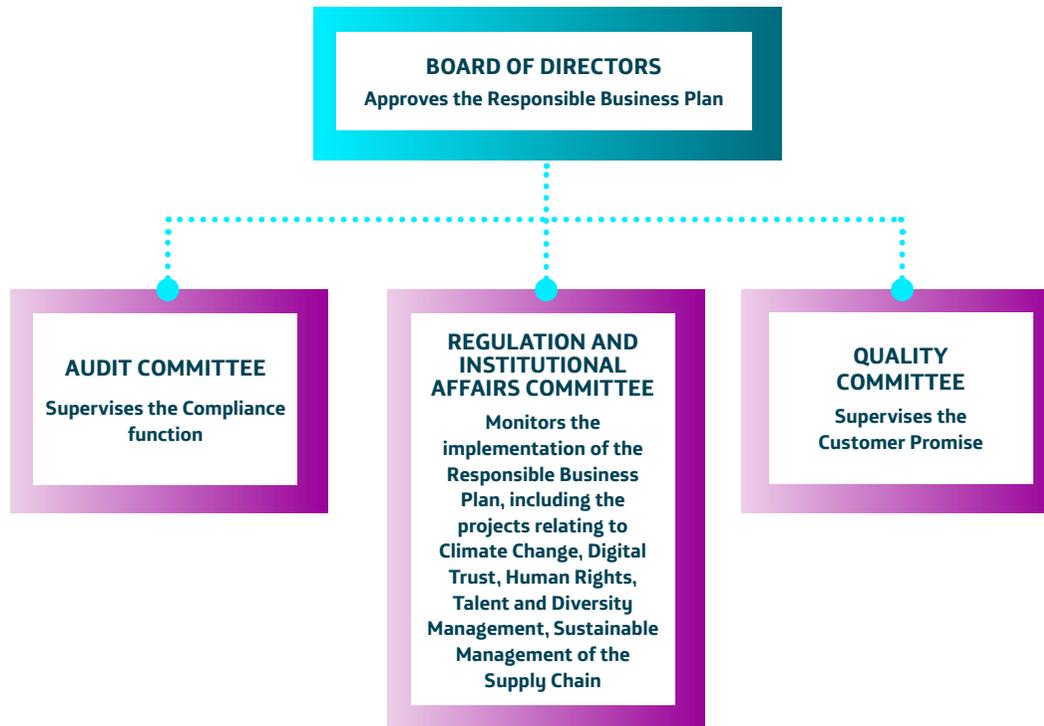
Responsible business governance and management

To make sure that our Responsible Business Principles are a guiding thread in everything we do, we incorporate sustainability into our governance structure, our strategic indicators, and the objectives of key functions in the Company's organisation chart:

The monitoring of the Responsible Business Plan and the Company's non-financial indicators is done through the Responsible Business Office, which meets three to four times a year and brings together the heads of those areas that take on commitments, or identify or incorporate sustainability opportunities into their value propositions.

The Office reports directly to the Board of Directors through the Regulation and Institutional Affairs Committee, which meets on a monthly basis.

In addition to the responsibility assumed by the Board of Directors, *the executive committees* of the Group's operators manage the *implementation of the Responsible Business Plans* at country level



The *Responsible Business Office* brings together the heads of Compliance, Auditing, Legal Services, Human Resources, Public Affairs, Corporate Ethics and Sustainability, Procurement, Operations, Marketing, Security and Big Data

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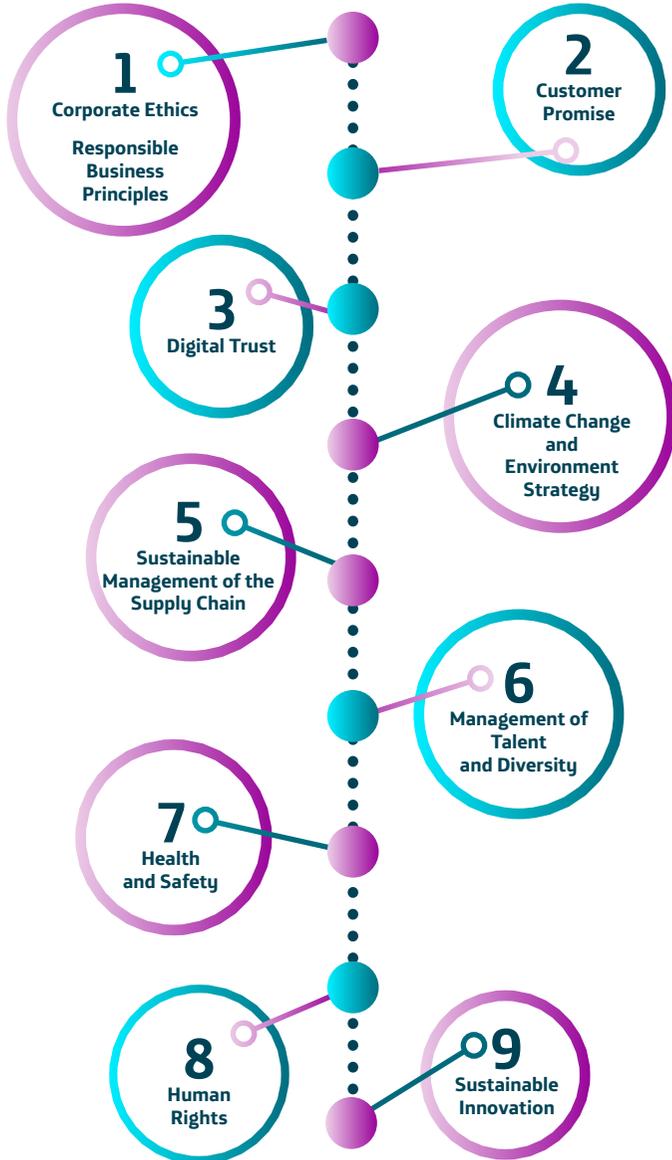
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Responsible Business Plan



A new 2018-2020 Responsible Business Plan was launched in 2018 as a continuation of the 2015-2017 Plan. This is a continuity plan designed to reflect our most significant issues in terms of impact on society and relevance to the Company's strategy. This plan includes new challenges and projects, such as greater health and safety coordination, a new Human Rights action plan (following on from the impact analysis review performed in 2017), a responsible communications policy, a project specifically related to the application of artificial intelligence, and waste reduction and water consumption goals.

In the Plan we address both risks and opportunities, ensuring the Company is aware of the opportunities offered by technology, data analysis and management, and artificial intelligence to contribute to improving the lives of people and mitigating the impacts of climate change.

In each sustainability challenge that we address, we base ourselves on an action model structured in three levels of action:





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Dialogue and involvement with our stakeholders: from theory to practice

Direct and constant involvement with our main stakeholders is the only way to gain a global vision of the true impact of our activity, its risks and opportunities, as well as an understanding of and compliance with the demands of an interconnected society in a complex environment where everything moves in real time.

Dialogue and involvement is the only way to achieve responsible and sustainable management that enables us to provide value for all our stakeholders. The main indicators that help us on this journey are the strengthening of trust and reputation in the Group, as well as the performance indicator for Responsible Business.

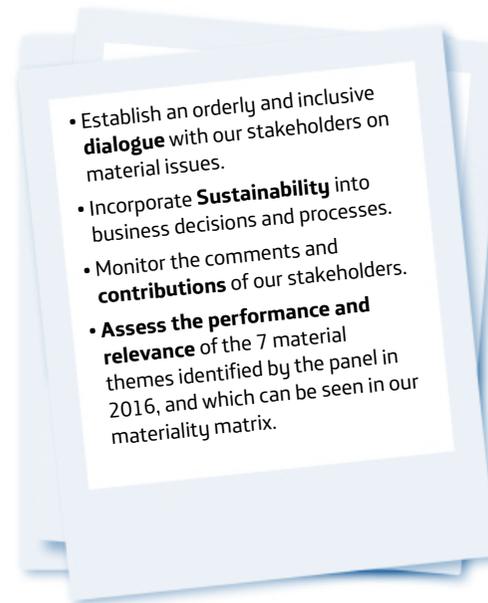
OUR STAKEHOLDER RELATIONSHIP PROCESS

Our dialogue approach is based on the Principles of the AA1000 Standard. Following approval of the [AA1000SEES](#) (2015), we worked to improve our dialogue process and to achieve more direct and effective participation from our stakeholders. The challenge has been to put this into practice.

In 2016, we set up our Responsible Business Advisory Panel, thanks to which the opinions and demands of our main stakeholders regarding the decisions of the Company's management areas are being incorporated.

This Panel has turned into a structured dialogue platform present in all the Company's geographies, which complements and strengthens local action.

Objectives of the Responsible Business Advisory Panel



Dialogue process:



Our *goal* is to transform our *stakeholders* into a *strategic asset* of the Company

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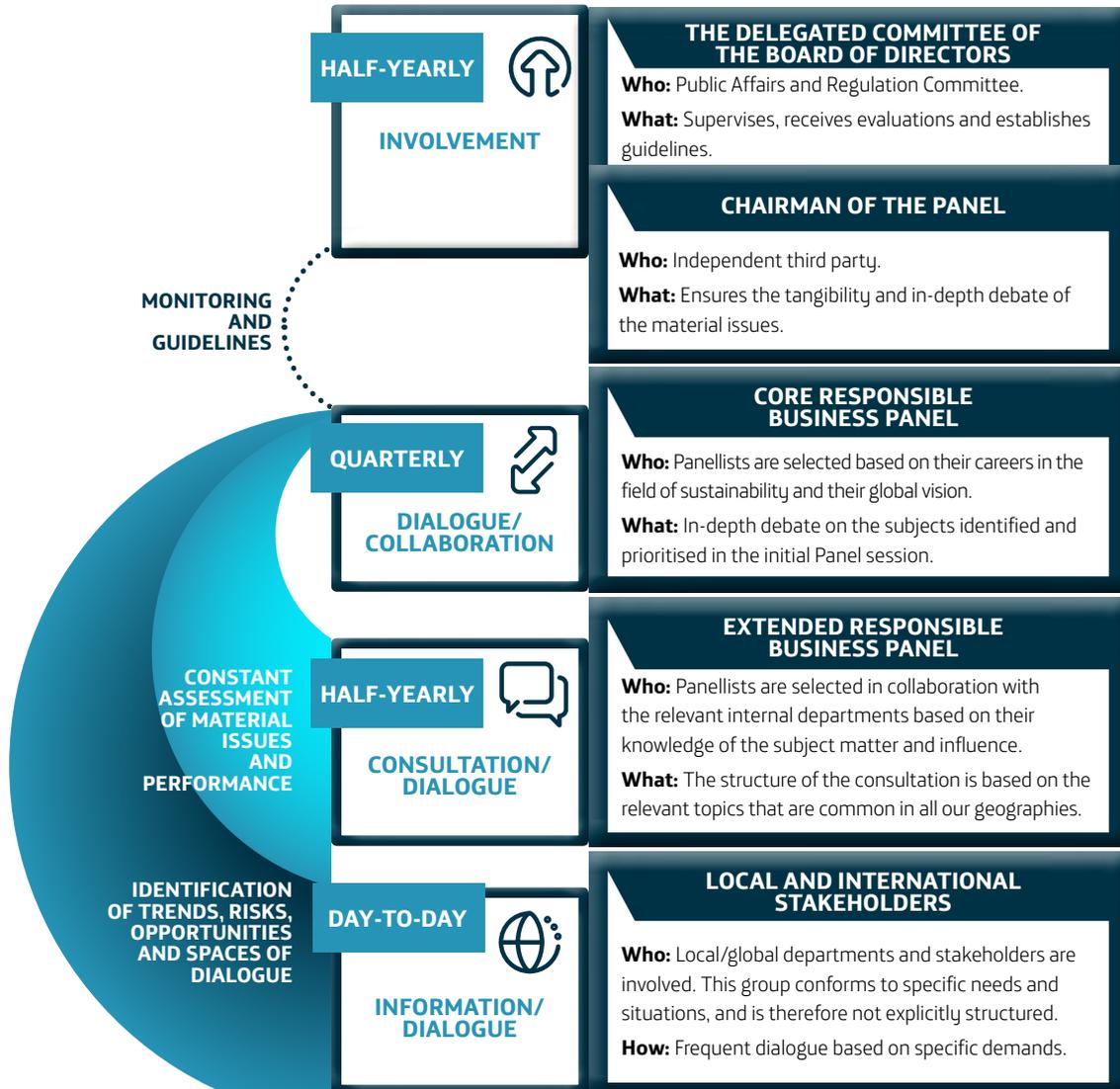
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STRUCTURE OF THE PANEL AND FUNCTIONING DYNAMICS

Our relationship with stakeholders is illustrated below:



In order to achieve maximum representation of our stakeholders in all our geographies, and to encourage both participation and in-depth debate of material issues, the Panel is composed of two groups:

- **Core Responsible Business Panel** consisting of 16 organisations that debate, in an in-depth manner and on a quarterly basis⁽¹⁾, the material issues identified in the first session of the Panel (June 2016).

- **Extended Responsible Business Panel** composed of more than 400 organisations, which participated in two bi-annual consultations in 2017.

- **Consultation I:** Held in June 2017 to assess the main material issues identified in 2016. The participation rate reached 26.6%, representing more than 350 consulted organisations.

- **Consultation II:** Taking place from December 2017 to February 2018. Individual interviews were conducted with more than 50 organisations to discuss management and expectations of dialogue with stakeholders.

(1) Quarterly sessions had initially been programmed, but the unexpected death of Ernst Ligteringen (in June 2017), Chairman of the panel, led to a rescheduling of the 2017 agenda.

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Both the participants in the Core Panel and the Extended Panel collaborate voluntarily without receiving any compensation whatsoever for the time spent. We thank them for their involvement and professionalism.

To make sure the Panel is objective, it is chaired by an independent third party who reports to the Delegated Committee of the Regulations and Public Affairs Council every six months.

The Chairman of the Panel was, from its creation until his death, Ernst Ligteringen, the great strategist behind the consolidation of the Global Reporting Initiative. After his death, María Rubiños (Kreab) assumed the Chairmanship of the Panel until the appointment of a new Chairman in December 2017 - Marta Rey (University of A Coruña).

The *Panel* is chaired by an *independent third party* who reports to the Delegated Committee of the Regulations and Public Affairs Council every six months



Ernst Ligteringen
Cooperability Consultoría

Post: Sustainability and Social Innovation Consultant

Ernst Ligteringen was CEO of the Global Reporting Initiative (GRI) between 2002 and 2012, an international organisation that developed the standards for sustainability reports. Ernst was the force behind the GRI when it was created in 2002 as an independent organisation with an international secretariat established in Amsterdam.

Before working for GRI, Ernst developed a 23-year career in several international organisations and non-governmental organisations in Africa, the Caribbean, the Middle East and Europe. Among the positions he held were Executive Director of Oxfam International and Consultant to the World Committee on the Social Dimension of Globalisation in the International Labour Organization.

In April 2016, Ernst was appointed Chairman of Telefónica's Responsible Business Panel.



María Rubiños
KREAB

Post: Director of Reputation and Intangibles in KREAB Iberia

María Rubiños heads the Reputation and Intangible Assets area in the Swedish communications, reputation and public affairs consultancy firm KREAB, where she leads projects focused on promoting transparency in organisations, managing the trust of their stakeholders through dialogue and active listening, and boosting assets such as the reputation of the CEO or their brand.

María has a Bachelors Degree in Audiovisual Communication (UCM), a PhD from UCM ("Transparency and Institutional Trust"), a Master's Degree in Political and Institutional Communication (Ortega y Gasset Foundation - USC), and a Graduate Degree in Communication and Journalism, specialising in International Trade (CECO - ICEX). She coordinates the module on intangible assets in public administration in the Master's Degree in Public Communication of the INAP and the UIMP, and collaborates as a teacher in the programmes of the Carlos III University and the University of Navarra.



Marta Rey
University of A Coruña

Post: Teacher

In 2018 we opened up a new stage of the Responsible Business Panel with our new Chairman, Marta Rey, with the goal of deepening the debate on new issues of sustainability.

Marta has had an extended career as a manager and consultant in the third sector, and as a teacher in Executive programmes, Master's degree programmes, and Bachelors degree programmes. She is a contracted professor doctor at the School of Economics and Business of the University of A Coruña, and Director of its Inditex-UDC Social Responsibility Course. She is the author of more than 50 publications on governance and the management of civil society organisations, cross-sector alliances, sustainability, philanthropy and social innovation, subjects that have to do with the international research projects in which she participates. She is academic director of the annual Global Civil Society seminar organised by the Rafael del Pino Foundation in collaboration with the Harvard Kennedy School.

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Companies participating in the Responsible Business Advisory Panel



Core Responsible Business Panel:

Customers



Suppliers



Investors



NGOs



Sectoral organisations

Multi-sectoral organisations



Professional services



Best Practice



Extended Responsible Business

Panel, an exercise that has allowed us to delve deeper into material issues and extend the level of participation and expectations of our stakeholders. We thank all the organisations that have made both measurements possible.

We include the list of all of those who accepted the invitation to participate in the in-depth interviews, as well as to appear in this [Report](#).



María Rubiños
KREAB Associated Director

“Dialogue with stakeholders is at the centre of many companies’ discourse, but it is a field in which it is not always easy to pass from words to action. The decision to structure this dialogue, giving it resources and a continuous regularity, indicates the extent of the importance Telefónica places on listening to and understanding its stakeholders. The tone of the sessions, in which strategic issues are openly addressed with different members of the Telefónica team, makes this experience positive and enriching for those who participate in it”.

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SUBJECTS ADDRESSED IN 2017

Continuing the structure established in 2016, the in-depth debate took place through the Core Panel, while the identification of trends and global currents took place through the Extended Panel.



Core Responsible Business Panel

In 2017, the subjects addressed were: sustainable innovation, digital trust and responsible management of the supply chain.

In 2016, we began the first session of the Panel by prioritising the material issues to be addressed in the following sessions. Thus, this year we addressed: Ethical and responsible behaviour: placing the customer at the centre.

In 2018, we will address the subjects of human rights, talent and diversity management, and the environment.



Extended Responsible Business Panel

The Advisory Panel, which consisted of more than 400 organisations, focused its activities on two fronts:

- **1. Evaluating the performance and relevance** of the 7 material issues identified by the panel in 2016.
- **2. In-depth individual dialogue** with experts from more than 50 organisations that represent our main stakeholders, carried out by the [Reputation Institute](#).

First Session of the Core Panel 2017



Sustainable innovation as a driving force for development

On-site, in-person meeting with a 66% participation rate. Attended by the Group's directors of strategy, connectivity and platforms.

Inventory of topics

- Accessibility
- Infrastructure
- Digital entrepreneurship
- Technological innovation
- R&D+i
- Social contribution

LESSONS

PENDING EXPECTATIONS

GENERAL

- Ensure that the **acceleration of technological development** does not imply a social risk.
- High potential of the sector as a **force for fighting against exclusion**.
- Work on the universalisation of content so that it functions as a **catalyst** of innovation.
- Boost the possibilities of technology as a **social transformer** in sectors such as health, education, finance and energy.

- **Empowerment of women** through mobile technology in the vulnerable territories in which the Company operates.
- Promote the same **ethical standards** regardless of the regulatory demands of each country.
- Deepen investigations into **price as a lever** to guarantee generalised access and prevent the risk of exclusion.

NUANCES ACCORDING TO STAKEHOLDERS

EMPLOYEES

- Clarify the intended positive objectives and implications of the **accessibility strategies**.

CUSTOMER:

- Promote technology as an instrument that helps people lead their **lives**.

Carolina Zambrano

Former Regional Director of Sustainable Cities / Focal Point for the Green Climate Fund

“Early warnings are key because they allow the organisation and society in general to collect the necessary and timely information to offer an adequate response to natural disasters. This requires coordination of the private sector with civil society and the government, for which continuous dialogue is essential. (...) Generating sustained dialogue with the different stakeholders is key, in order to listen to different voices and promote the convergence of interests and collaboration”.

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Second Session of the Core Panel 2017



Digital Trust

Online session with an 80% participation rate. Attended by the Digital Product Hacker & Strategist Manager.

Inventory of topics

- Child protection
- Content control and filters
- Data security
- Digital education

LESSONS

GENERAL

- **The demand** for data protection and privacy services, and the quality of information, is growing.
- The prioritisation of data management can lead to the **neglect of other important aspects** within the areas of trust and integrity in telecommunications.

PENDING EXPECTATIONS

- Increase **access** to the Internet and to telephone services in **marginalised communities**.
- Offer more **information about the storage of personal information** (how and where the information is stored).
- Combine **the challenge** of developing solid **data security** policies with open **Big Data** solutions.
- **Raise awareness** about digital consequences and risks (i.e.: cyberattacks)
- Raise the right to digital privacy to the status of human right.

CUSTOMER

NUANCES ACCORDING TO STAKEHOLDERS

- Tangibly materialise the commitment of **digital trust** to customers.
- The panellists value security over aspects such as privacy and ethics.

CUSTOMER

- Abandon relationships based on long-term contracts.

GOVERNMENT

- Promote the use of data as a tool in the **fight against crime and terrorism**.

Third Session of the Core Panel 2017



Responsible Management of the Supply Chain

Online session with an 80% participation rate. Attended by the Global Procurement Office Director.

Inventory of topics

- Environmental issues in the supply chain (conflict minerals, the supply of materials and waste management)
- Labour aspects in the supply chain (human rights, security, local and sustainable suppliers)

LESSONS

GENERAL

- Work on **contingency and response plans** to identified problems.
- In the medium-term, companies will face as a priority the need to address an exhaustive analysis of the **impact and human rights** of the supply chain.
- Identify and measure the **social and environmental impact** of the end products and the materials they use.

PENDING EXPECTATIONS

- As a minimum, stakeholders expect **exemplary behaviour** in the management of the supply chain.
- Identify the **root of the points of conflict** in each stage of the supply chain, and audit them with solid indicators -not just with regard to the development of handsets.
- **Do not transfer the responsibility** of the supply chain to the main first and second level providers.
- **Increase the demand** that providers comply with regulations.

NUANCES ACCORDING TO STAKEHOLDERS

CIVIL SOCIETY

- Awareness of the **use of conflict area minerals** (Asia and Africa) to produce devices.

SOCIETY

- Incorporate this information into **standard purchasing criteria** and not just as an additional aspect.

SUPPLIERS

- Document the **demands of suppliers** with the same effort put into documenting those of customers.
- Promote **practices for salary systems, wellness programmes and benefits** in the suppliers that Telefónica works with.

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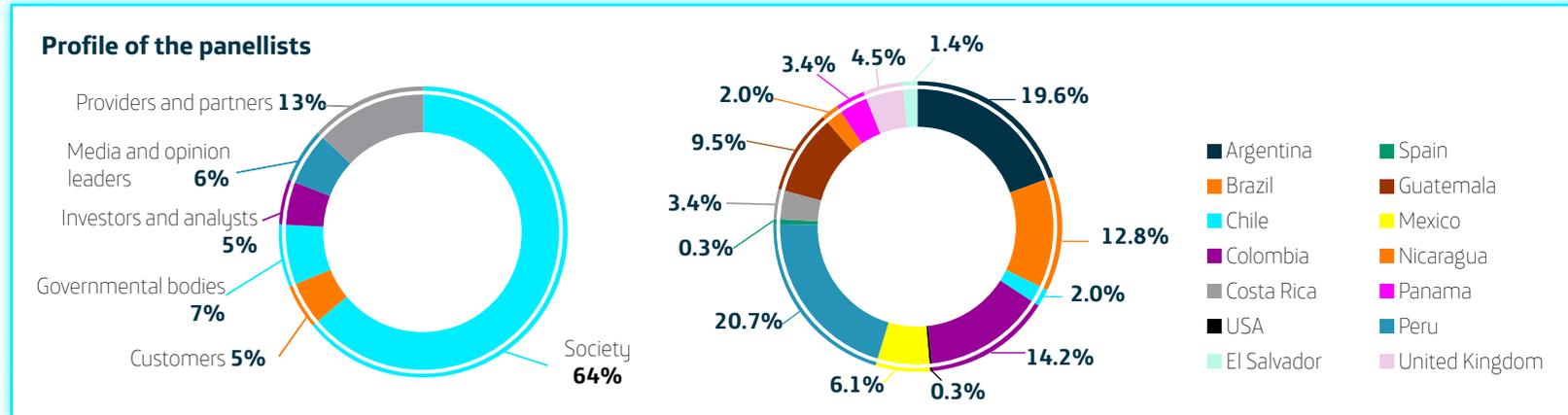
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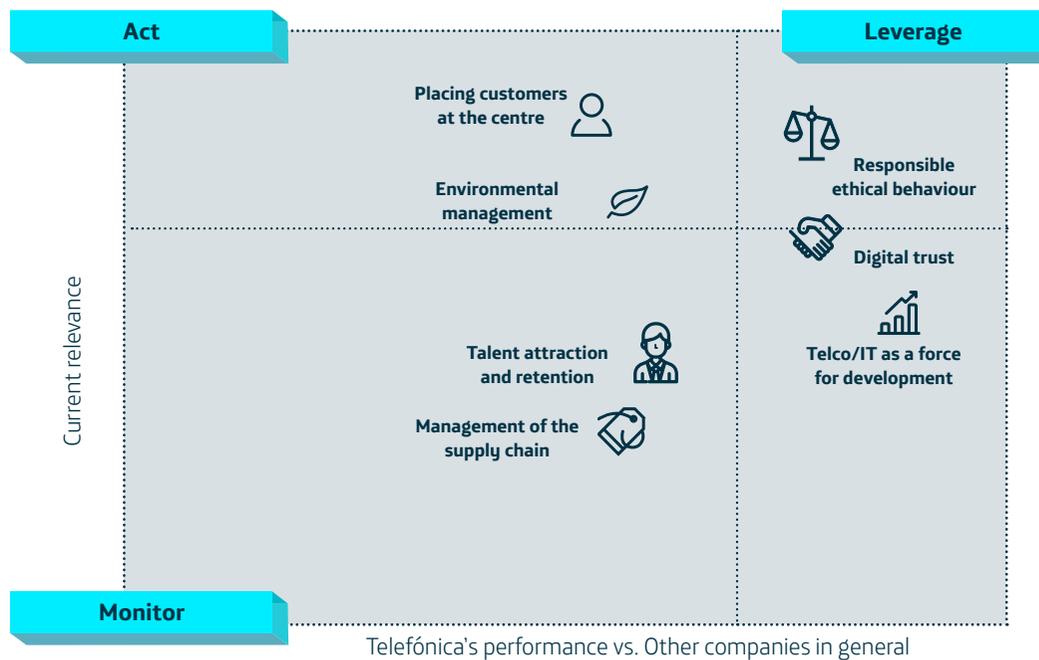
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Extended Panel: 1st Consultation - Assessment of performance in the key issues



Action levers



The perceived evolution of Telefónica



On a scale of 1 to 5, how do you perceive the evolution of Telefónica's performance related to [subject] in the past year, 1 being "Worse than expected" and 5 being "No change"?

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Extended Panel: 2nd Consultation

Our goal is to document perception and expectations for stakeholder management and involvement, and understand these in greater detail, as well as to identify the sustainability issues that are gaining relevance in the current context.

- This consultation identified critical topics in the field of sustainability, which were grouped around the three major axes of the Triple Bottom Line:

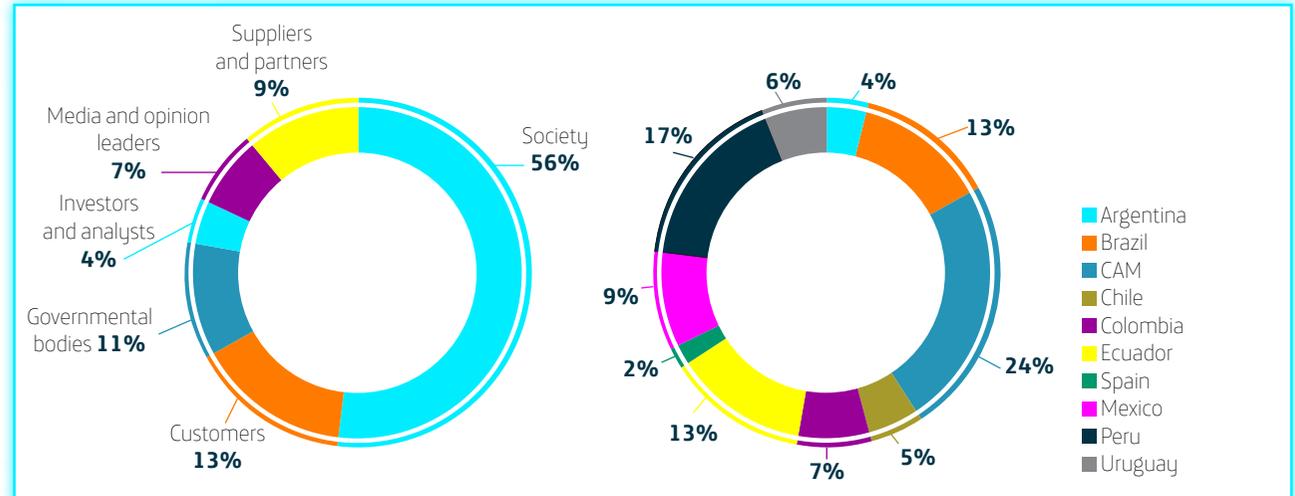
- **People:** human rights and social inequalities in general stand out, as well as corruption, on both global and country levels.

- **Results:** the creation of jobs and the reputational crises of large companies are central subjects both at global and country level. The value chain processes must be added to this. On this point, the panellists focused on the improvement of processes with respect to the control of providers, the creation of waste and compliance with regulations.

- **Planet:** this was one of the most widely-discussed subjects, highlighting climate change, environmental aspects, pollution, and even the deterioration of nature.

Furthermore, we also consulted the Panel on their expectations for a company to achieve an effective relationship with its stakeholders. The following values that at Telefónica we present and must reinforce, were underscored:

In-depth interviews - Profiles of the panellists



- Ethics and transparency. How? Keeping its promises.
- Reliable, providing a satisfactory and consistent customer experience.
- Close, facilitating frequent information and communication.
- Inclusive, involving the affected stakeholders.
- Open, being brave enough to discuss its activity with external partners.

Mauricio López
Executive Network Director of the Global Compact Colombia

"We are in the stage of accelerating the cultural leverage so that sustainability becomes an attitude, not just a word. (...) There is still work to be done to turn sustainability into an activity and a decision."

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ASSESSMENT OF TELEFÓNICA: REPUTATION AND SUSTAINABILITY INDICATORS

We measure the perception that our different stakeholders have of our performance through the RepTrak Pulse reputation indicator, provided by the [Reputation Institute](#), which includes trust as one of its components.

Trust, or reputation, is key to the continuity of our business, and the general public is one of the most demanding stakeholders, both for us and for the entire sector:

Telefónica was one of the most widely-mentioned companies in the Extended Panel interviews, both because of its actions regarding sustainability, and its good reputation among the informed public.



✓ Trust
 ✓ Good reputation
 ✓ Good impression
 ✓ Admiration and respect

DEFINITION OF STAKEHOLDERS

We understand stakeholders to be all those persons or entities that may be affected by, or that may affect, our activity in a significant manner.

Our stakeholders are classified according to the following categories:

Customers

Telefónica customers, from the general public and from businesses, as well as all the organisms that represent our customers.

Employees

Company employees, both active and former, associations and unions that represent the interests of our workers.

Strategic partners and Suppliers

Key companies in the development and provision of our services. As well as the companies, bodies and associations that represent the interests of the supply chain.

Shareholders, investors and analysts

Investors, analysts and companies that seek the sustainable profitability of companies

Government bodies and regulators

Local, national and international organisations.

Opinion leaders, the media and communications services

Influencers, the press, communications and brand and advertising agencies

Society

Includes communities, NGOs, organisations aimed at promoting sustainability, consulting and business associations, communities affected at a local, national and regional level, as well as special groups, companies, think tanks, business schools and universities.

(1) Business associations and organisations dedicated to promoting sustainability.

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Types of involvement and relationship with our stakeholders

Type	Description	Objectives - examples and development	What we are looking for?
 Report / Inform	Generally one-way communication from the Company to our stakeholders regarding practices or new developments that may have an impact on them.	Core Responsible Business Panel, Responsible Business Advisory Panel, letters, informative newsletters, reports, presentations, speeches, videos, interviews, open days, etc.	Transparency
 Consult	We ask for the perspective of our stakeholders for the identification of trends, assessment of impacts, identification of risks and decision making. The information mainly flows in one direction, although it has on many occasions resulted in more in-depth conversations.	Measure and assess: surveys, focus groups, assessments, public hearings, workshops, debate forums, direct telephone lines.	Transparency Listen Value the comments and points of view of the stakeholders
 Participate / Dialogue	A two-way and/or multi-partite conversation in which the stakeholders play a more important role in the decision-making process. The conclusions are implemented and/or taken up within the Company.	In-depth debate: established working groups, interviews, research and analysis work.	Transparency Listen Collaboration Debate regarding a common purpose
 Collaborate	Collaboration between two or more parties in an area of mutual interest. The Company and stakeholders achieve synergies and reduce risks by combining resources and areas of specialisation.	Active collaboration: the establishment of joint Committees, joint projects with stakeholders, alliances, collective bargaining.	Transparency Listen Commitment Positive relationship based on a common purpose
 Empower / Involve	Stakeholders have the formal means to influence the Company's corporate governance and decision-making process.	Shared responsibilities: representation of stakeholders on the Board of Directors, specific complaints channel for the reporting of policy non-compliances, the existence of guarantees.	Effective involvement: sharing purpose and responsibilities

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MAIN DIALOGUE INITIATIVES

-  **Customers:** in a company like ours that is focused on people, most of the dialogue with customers is performed at a local level. Spain, the United Kingdom, Brazil and Colombia stand out in this area, having been conferred several different customer service awards. (See chapter on 'Customers').

With regard to business customers, we launched the "Voice of the Customer" programme that makes it possible to measure and act on recurring experiences with the customer.

We have channels on Social Networks - Facebook, YouTube, Twitter, and Instagram - that are aimed at dealing with requirements more interactively, in the cases of both residential and business customers.

-  **Employees** we maintain fluent dialogue with our employees, regardless of their geography and language, through the global Yammer network.



In addition, our employees have had the opportunity to comment on those issues that have been on the agenda, debated and subsequently monitored by the 2017 Summit of Managers, with more than 47,000 responses being submitted.

This channel complements the multiple dialogue initiatives at a local level.

-  **Communities:** to which we provide telecommunications services. The following link describes the [best practices of the Group](#) in each of our different geographical areas.

In addition, we are members of the Global Compact, within which we report on the monitoring of compliance with the [Sustainable Development Goals](#).

-  **Suppliers:** at a local level we regularly celebrate forums where we share experiences and challenges. See 'Dialogue with Providers' section for more information. At a global level, worth mentioning is the "How to Work with Suppliers to Turn Risks into Opportunities" session (held at the beginning of 2018 in Madrid). In collaboration with the [Seres Foundation](#), this was a space where we shared experiences with our suppliers relating to the extension of sustainability policies to the supply chain, the perception that investors have of these actions, and how companies can join together to address the supplier evaluations.

Another significant conversation milestone that we observe with suppliers on an annual

basis is the [Global Workshop on Energy and Climate Change](#) (its eighth edition being held in Iguazú, Brazil).

The main communication channels are the Partner's Portal or the [Provider's Portal](#). This is where all of our global policies, as well as specific local level requirements, can be found. We also have a confidential communications channel for questions and complaints related to compliance with our minimum Responsible Business criteria.

-  **Shareholders and Investors:** in addition to regular and timely presentations published on our [website](#), we participated in the [SRI Global Conference](#), organised by JPMorgan, where we held meetings with a representative number of investors, in which we mainly addressed topics regarding the environment and privacy.
-  **Governmental bodies and regulators:** in addition to the different initiatives at local level, at a European level we actively participate in the events and forums organised in the European Union through our office in Brussels. Furthermore, we have created the Public Policies Blog, which gathers and publishes debates and opinions about subjects related to the Internet and the digital economy. This Blog is also on Twitter.

We are also members of global sectoral organisations, which are listed in the 'Business ethics and compliance' chapter.

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Materiality analysis

We understand materiality analysis as the process for identifying those issues that may affect our ability to create value in the short, medium and long term.

Therefore, every year, using the same methodology in all the countries in which we operate, we perform a materiality analysis to identify the relationship between the most significant aspects of the Company's strategic management and those which are given greater relevance in the evaluations and decisions of our corporate and local stakeholders.

We follow the indications of the [GRI Guide](#) and, in order to increase the comparability and completeness of the matters under study, we base ourselves on the materiality analysis conducted by the [Global e-Sustainability Initiative \(GeSI\)](#) in November 2014 covering the entire value chain of the ICT hypersector. This analysis establishes 55 potentially material issues, divided into 8 categories: digital inclusion, employees, climate change, supply chain, customers, privacy, governance and impact on communities.

In assessing the material impact of each topic on the sustainability of our business, we take into account both internal and external factors which correspond to the importance our stakeholders assign to the different issues and have an impact on the communities in which we operate.

ANALYSIS OF THE RELEVANCE OF THE ISSUES FOR OUR STAKEHOLDERS

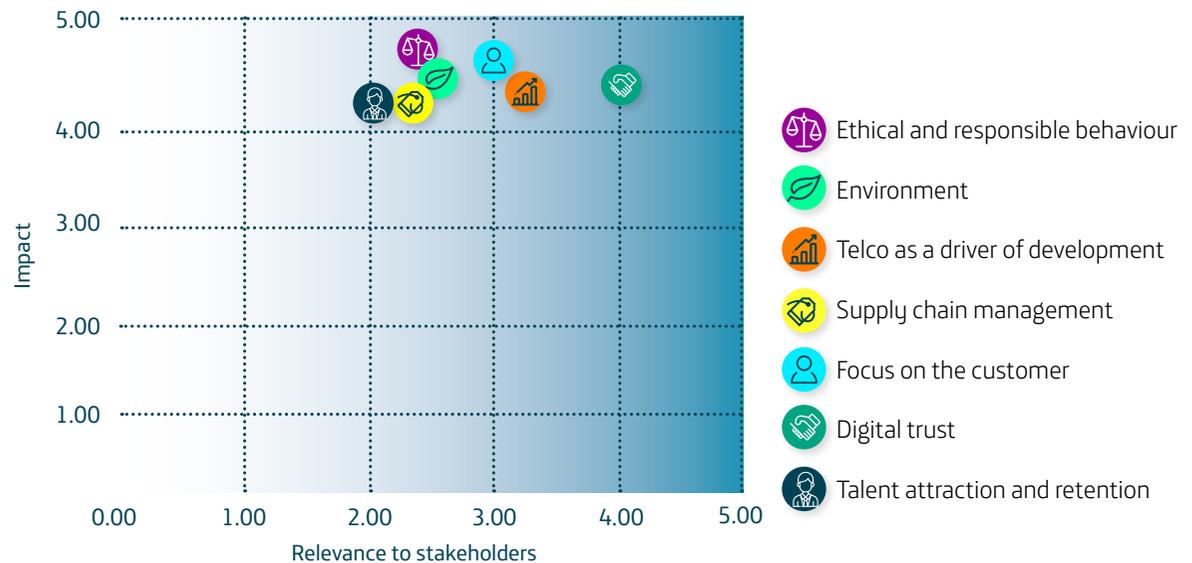
When making decisions on the content of the Report, we take into account the reasonable expectations and interests of our stakeholders described in the previous chapter of this Report.

Stakeholder participation processes are key to understanding the expectations, relevance and information needs related to our material issues. Such processes are carried out through biannual online consultations.

IMPACT ANALYSIS

For the materiality analysis, we considered "significant impacts" to be those effects on the economy, the environment and society that are a concern for our expert groups or that have been identified as fundamental to the purpose and the mission of the Company, our competitive strategy, and the expectations stipulated in the agreements and international standards to which we have subscribed, such as the United Nations' [Sustainable Development Goals](#) or [GSMA](#).

Materiality Matrix



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Therefore, the most significant aspects identified by the analysis, and which define our Responsible Business Plan, are as follows:



Ethical and responsible behaviour

Any Company action must be based on ethical standards and a responsible behaviour assumed by each and every one of the employees of the organization. In a context of uncertainty and mistrust, global society expects that large companies provide an example, and that they contribute to making the world a better place to live. This is achieved with a strong and committed company culture, but also with mechanisms and processes that prevent and sanction any improper action (see chapter on 'Business Ethics and Compliance').



Telco as a motor for development

Society increasingly attributes companies responsibility over the economic and social development. In addition, due to the nature of our business, our stakeholders are demand that we be active agents in the transformation in which the world is immersed. The possibilities of technology and the network are infinite, and we must act to contribute to social digitalization and increase our potential markets (see the 'Contribution to Progress' and 'Digital Inclusion' chapters).



Supply chain management

A very important part of the social and environmental impact of companies is directly related with the supply chain activity, a situation that is even more relevant for large companies. On a regulatory level, management and reporting requirements related to the supply chain are intensifying.

These requirements are also being put forth by our analysts and investors. In addition, from Telefónica we are also the providers of large customers that an important part of our business number, where sustainability is an increasingly key factor. As a result, we work to have a responsible and sustainable supply chain (see chapter on 'Supply chain management').



Focus on the customer

The success of any company depends on it being capable of generating a trusting relationship with the customer. In the digital world, customers expect us to provide all the information they need to understand the service; they expect us to adapt and anticipate their individual needs and to resolve any problems quickly and easily. Only by responding to these expectations can we build and maintain a sustainable relationship with our customers (see chapter on 'Customer promise').



Digital Trust

In the field of digital services, information privacy and security are considered critical issues by our stakeholders. In an environment in which companies have more and more personal information on their customers and customer concerns continue to mount, it is important that the way in which we manage data benefits our customers, guarantees their right to information privacy and security, and has a positive impact on society (see chapter on 'Digital Trust').



Talent attraction and retention

One of our most important assets are our employees. Innovation, key for the long-term maintenance of any company, is only possible if it has the best diverse and committed talent. The role of the People area is essential to help each of our employees grow personally and professionally (see the 'Attraction and Retention of Talent' and 'Diversity' chapters).



Environment

Climate change has been identified as one of the biggest global risk factors. Despite the fact that our environmental footprint is relatively small compared with other sectors, we have the challenge of reducing our impact and, at the same time, offering more solutions to environmental challenges every day through digitalisation. Our stakeholders' requirements in this area continue to grow, and we respond with an environmental strategy in line with our business.

The section on the environment also presents a specific materiality matrix for these issues (see the 'Commitment With The Environment' section).

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Identification and management of risks

Risks are inherent in all businesses and entrepreneurial activities. The identification and effective assurance of risks contributes to achieving our business objectives and strengthening the Company's commitment to its shareholders, customers and other stakeholders.

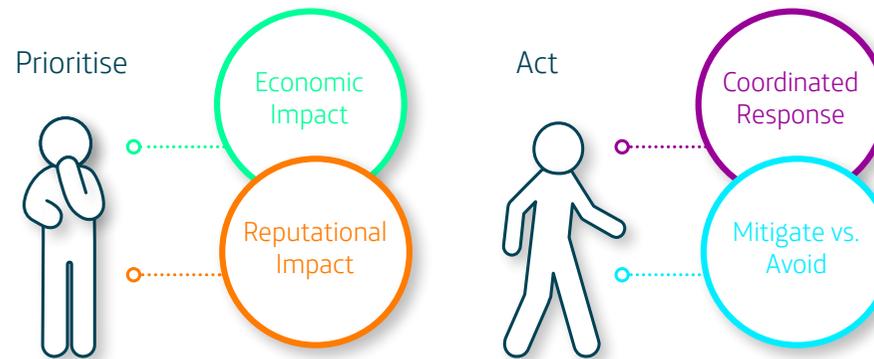
We have implemented a common Model throughout the Group's main operations so that the Company's directors can perform a timely identification, assessment, response, and monitoring of the main risks present within their scope of activity.

The Integrated Model of risk management, which is inspired by best practices, facilitates the prioritisation and development of coordinated actions against risks, both from a global Group perspective and a specific focus on its main operations.

RISK MANAGEMENT MODEL

We permanently monitor the most significant risks that may affect the main companies of the Group. To do so, the Company follows a Corporate Risk Management Model, which is based on the COSO (the Treadway Commission's Committee of Sponsoring Organizations). Alignment to the new requirements of the COSO ERM framework published in September 2017, "Enterprise Risk Management - Integrating with Strategy and

Prioritisation and action with regard to risks



ASSURANCE MODEL

Performance", will be continued under the framework of continuous improvement to the Risk Management Model.

An important feature of this Model is provision for a risk map, which makes it possible to prioritise risks according to their significance, as well as to facilitate management and a reasonable response. In accordance with this Model, and based on recognised risk management references and practices, we acknowledge four categories of risks:

- **Business:** potential losses in value or results owing to changes in the business environment, the situation of the competition and the market, changes in the regulatory framework and strategic uncertainty.

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■ **Operational:** potential losses in value or results owing to events caused by inadequacies or failures in the network and computer systems, security, customer service, supply chain, human resources and operational management.

■ **Financial:** potential losses in value or results owing to adverse movements of financial variables and the Company's inability to honour its commitments or liquidate its assets. Also included in this category are risks of a fiscal nature.

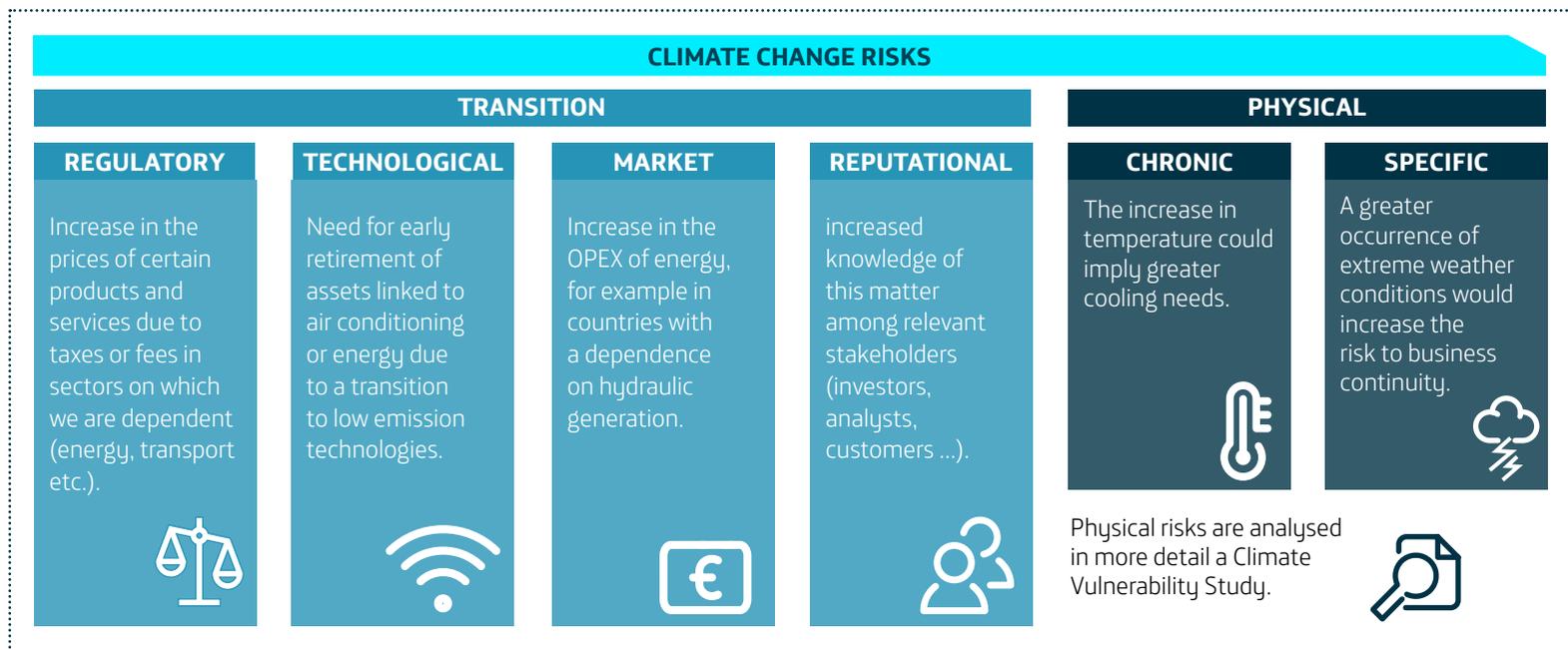
■ **Global:** potential losses in value or results owing to events that affect the entire Telefónica Group, including the issues of sustainability and compliance.

To create an Integrated Model that is focused on the needs and configuration of the Group itself, a risk assessment from two complementary perspectives, global (top-down) and local (bottom-up), should be considered.

Our model is adapted to the evolution of the different types of the main risks, observing an increasing relevance of those risks related to intangibles or sustainability.

Among the aspects of increasing relevance are factors such as talent or diversity, which are considered to be key elements for the digital transformation, as well as those that may stem from climate change, especially in cases of physical events related to extreme weather conditions or the increase in temperature (see chapter on 'Energy and climate change').

We are in the process of implementing the recommendations of the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#) in this area.



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GOVERNANCE OF RISK MANAGEMENT

Everyone in our organisation has the responsibility of contributing to the management of risks. Our Risks Management Policy establishes the following roles in regard to the coordination of these activities:

Supervision of the risk management system

The Board of Director's Audit and Control Committee oversees the risk management system and proposes the Risk Control and Management Policy to the Board of Directors for its analysis and consideration. This policy identifies: the categories of risk faced by society; the acceptable level of risk; the measures for mitigating the impact of the identified risks; and the control and information systems for monitoring and managing such risks

Parties responsible for the risks

The parties that are responsible for the risks actively participate in the strategy and in the important decisions regarding its management, preparing a plan for its mitigation and monitoring its evolution.

Risk management function

There is an independent management function within the Internal Audit area, whose objective it is to promote, support, coordinate and verify the application of the provisions of the Risk Policy, as well as support the Audit and Control Committee on specific issues and/or whenever needed.



RISKS MANAGEMENT PROCESS

The risk management process takes the Company's strategy and objectives as a reference for the identification of the main risks that may affect operations and results.

The risks are identified and assessed by the managers, not only to prioritise reporting and monitoring, but also, and especially, to determine the risk responses, generally through mitigation plans or strategies to avoid or transfer said risks.

Identification of the risks

The risks are identified by the managers, who consider both the factors that cause them and the effects they may have on the achievement of the objectives.

We also consider potential emerging risks that may eventually have a negative impact on future performance; although the result and temporal horizon of such risk is uncertain and difficult to predict, the idea is to anticipate impacts on increasingly relevant areas.

Assessment of the risks

The objective of the risk assessment is to establish the magnitude or relevance of risks, by considering both their eventual economic or reputational impact and their likelihood of occurrence.

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When assessing the risks, qualitative and quantitative factors are considered by applying techniques such as: the level of exposure, sensitivity scenarios or analysis of specific risks. Furthermore, the reputational impact of the risks and other additional factors, such as the historical trend or perspectives on the future evolution of said risks, are also considered.

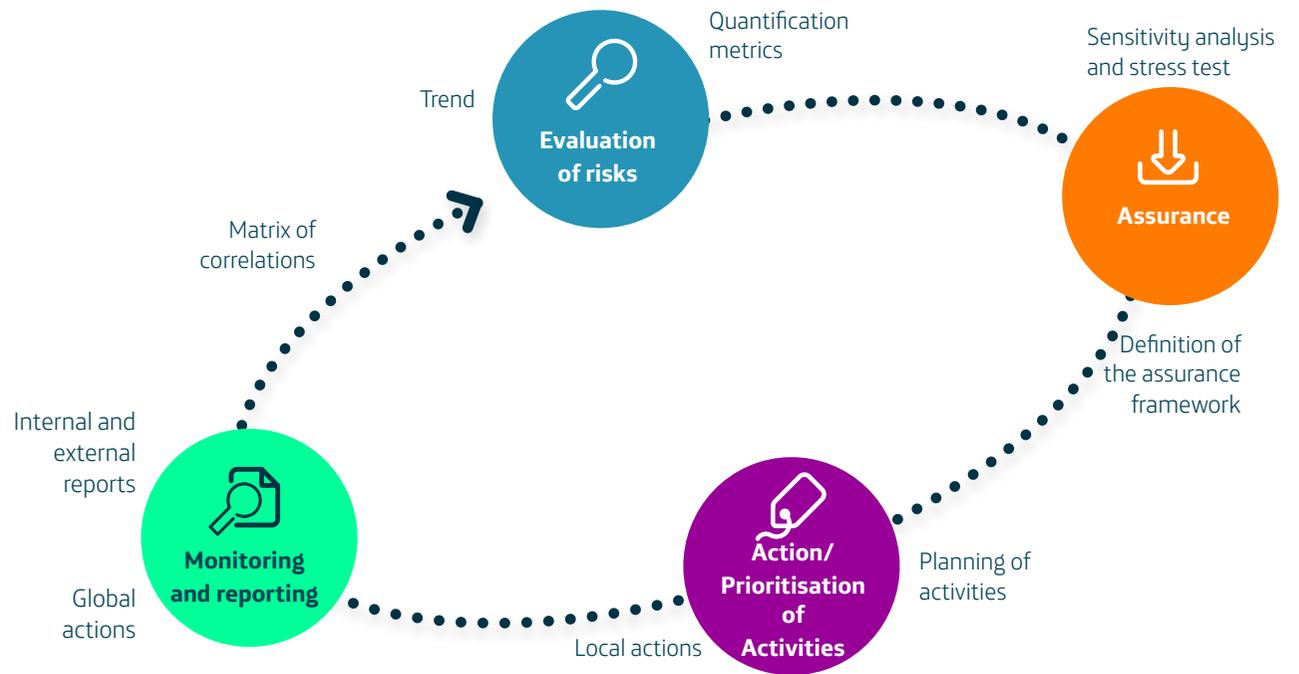
Response and monitoring of the risk

In addition to identification and assessment of the risks, the Risk Management Model considers reasonable response and monitoring mechanisms for said risks.

In accordance with the diversity of the types of risk that may arise, the risk response mechanisms include global initiatives, homogeneously promoted and coordinated throughout our main operations, and/or specific actions aimed at addressing particular risks in some of our companies.

For risks of a fiscal nature, the main issues are monitored; whereas for specific, operational type risks, multi-national insurance programmes or locally negotiated insurance policies in each country are available according to the type of risk and coverage.

Risk Management Model



Risk tolerance and acceptable risk

We have a risk tolerance level or acceptable risk, which refers to the willingness to assume a certain level of risk as long as this allows for the creation of value and the development of the business, achieving an adequate balance between growth, performance and risk.

Risks and uncertainties faced by the Company

Our business is conditioned by both exclusive Group factors, and factors which are common to any company of the sector. The most significant risks and uncertainties that we face and that may affect the business, financial situation, reputation, corporate image and

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brand, and our results, are presented together with the information contained in the Financial Statements [Management Report](#), the details of which can be found in the annex to the Financial Report:

- The deterioration of the economic or political environment may negatively affect our business.
- The results and financial situation of the Group may be affected if we do not effectively manage our exposure to foreign currencies or interest rates.
- The current conditions or the deterioration of the financial markets may limit the Group's financing capacity and, consequently, its ability to carry out the business plan.
- Changes in the accounting regulations may have an influence on the reported benefits and financial position of the Group.
- The Company operates in a heavily regulated industry which requires certifications authorising the provision of many of its services, as well as for use of spectrum, which is a scarce and expensive resource.
- We are exposed to risks regarding compliance with legislation against corruption and economic sanction programmes.
- The customers' perception of the services offered by the Company may be disadvantageous in relation to their perception of those offered by competing companies.
- The Company may not adequately anticipate or adapt to the technological changes and trends in the sector.
- We rely on a network of suppliers.
- Any possible Network failures may lead to a loss of quality or a service interruption.
- The telecommunications industry may be affected by the potential effects that electromagnetic fields, emitted by mobile devices and base stations, may have on people's health.
- Potential changes of a regulatory, business, economic, or political nature may lead to the possible restructuring of certain assets.
- Our networks transport and store large volumes of confidential, personal and business data, and their Internet access and hosting services may give rise to claims based on the illegal or illicit use of the Internet.

- Telefónica and the Group's companies are parties in litigations, claims of a fiscal nature, allegations of unfair competition, and other legal proceedings.





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Business ethics and compliance

RESPONSIBLE BUSINESS PRINCIPLES

The base of our compliance model can be found in our Responsible Business Principles. This document, approved by the Company's Board of Directors, constitutes our code of ethics and reflects the commitment of the Telefónica Group to ethics and compliance, as well as our commitment to three values on which we base our all actions:

- Integrity
- Commitment
- Transparency

More information is available in the 'Responsible Business governance and management' chapter.

In 2017, the Board of Directors approved a new version of the Principles, which includes updated commitments in matters of privacy and security, compliance and fiscal transparency, responsible communication, and the protection of minority shareholders, among others. The new version also includes the contributions made by the Responsible Business Advisory Panel.

To communicate this new version, a global communications campaign, which will be extended through regular initiatives, was launched for all employees. Last year, we

focused on matters of ethical and responsible management, as well as the management of our supply chain.

Worth highlighting is the approval of some internal regulations being developed, which apply to certain of our Responsible Business Principles, in matters such as integrity, diversity and inclusion, business continuity, purchases, and information security.

Training

A new course on the Responsible Business Principles is foreseen to launch in 2018. This course will replace the training that is currently in force, which has been mandatory for all employees since it launched in 2014.

Up to 31 December 2017, the percentage of employees registered on the corporate training platform, which provided the Responsible Business Principles course, totalled 90.8% of the entire workforce, representing 101,563 employees⁽¹⁾.

A total of **101,563** employees took the course on *Responsible Business Principles*, representing **90.8%** of the *entire workforce*

Best practices

'On Principle' global campaign

One of our main objectives is for all our employees to be aware of the Responsible Business Principles and to apply them in their day-to-day lives. To achieve this, during the last quarter of 2017 we launched a new internal global communications campaign called "On Principle". The campaign is aimed at professionals from all the countries in which we are present, and will continue into 2018.

Based on content marketing, "On Principle" uses humour to bring the Principles closer to employees in a fresh, striking, fun, interactive and educational manner, so that they are perceived as something inherent in their work - as something that is theirs.

The campaign started with a challenge for the personnel and a message from the Chairman, continuing with a more detailed exploration of integrity and responsible management.



(1) This data does not include Telefónica Germany employees.

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COMPLIANCE

On 16 December 2015, the Board of Directors of Telefónica, S.A. approved the creation of an independent regulatory compliance department, with direct dependency on the Board of Directors through the Audit and Control Committee. Later, in February 2016, the Board of Directors appointed a Chief Compliance Officer of the Telefónica Group. Their intended goal was none other than to continue, in an even more focused way, with the implementation of a Company compliance model, without prejudice to the compliance activities carried out until said date by other departments (internal audit, sustainability, legal, etc.).

It is worth noting that the compliance function covers and supports issues that may arise regarding certain matters identified as sensitive from a regulatory compliance point of view (privacy, competition, security, fiscal, regulatory, etc.), as well as the principal issue supervised by the compliance department, and on which most of its policies, procedures, and controls focus, which is integrity, a concept which covers matters related to corruption and bribery, among others.

Regarding the evolution over time of the compliance function, worth mentioning is the creation, particularly during 2017, of local units in those countries in which the Telefónica Group has its main operations, to reach a total of fifteen local compliance units (including the two local compliance units that

already existed in Germany and the United Kingdom). Deployment of these units has greatly contributed to a strengthened culture of compliance at Group level.

CORRUPTION AND BRIBERY

Among the policies and procedures that the Telefónica Group has implemented to fight corruption and bribery, worth noting are specific regulations (among which our Anti-Corruption Policy, approved in 2015, stands out), third party assessment protocols, a crime prevention model, risk assessment procedures, training and communications initiatives to reinforce the culture of compliance within the Telefónica Group, as well as complaints channels and tools to report potential conflicts of interest.

Particularly worth mentioning among the training initiatives is the programme on anti-corruption, and specifically the risks of international public corruption (Foreign Corrupt Practices Act), that was launched in 2017 and is being implemented (in different phases) throughout the entire Group. This training course is aimed at certain areas of the organisation that potentially have a greater exposure to the risk of corruption (target areas). During 2017, this training was deployed in the operations of Spain, Brazil and Mexico, as well as in Telxius, Telefónica, S.A. and the rest of the global areas.

The number of employees that were assigned to complete this training initiative over the

past year, both managers and non-managers, exceeded 35,000 employees. The training is presented in two formats: on the one hand, via on-site training, aimed at management committees, managers, and certain pre-management target areas; and on the other, via online training (available in Spanish, English and Portuguese) aimed at the rest of the employees in these target areas.

In terms of criminal liability, an online training course launched in certain Group companies in Spain⁽¹⁾ in 2016 stands out, and which, as of 31 December 2017 has registered a completion rate of 95%. This training initiative is framed within the existing crime prevention policy for those societies affected by it, without having prejudice to other training initiatives that may be defined and/or developed in other societies and/or in other countries in which we are present. All of this while respecting the applicable local legislation.

Furthermore, with respect to other integrity policies and procedures that have been approved and/or defined and implemented by the compliance department, worth mentioning are the actions carried out with respect to third party assessment protocols, as well as the reinforcement of the internal regulatory framework with new policies and regulations in this area.

In 2017 we delivered *anti-corruption* training to more than **35,000** employees

(1) Telefónica Spain and its subsidiaries are excluded.

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COMMUNICATIONS AND QUERIES

We have clear internal and external mechanisms for the reporting of unethical or illegal behaviours that may have an implication on the integrity of the organisation.

All of our stakeholders have the possibility of anonymously or personally making queries on subjects such as: accessibility, the supply chain, human rights, diversity and talent management, sustainable innovation, integrity, privacy, the environment and eco-efficiency. They can do so through the [Responsible Business Principles Channel](#) enabled on our website.

In 2017, we received 16 queries, 12 of which have been resolved. The issues that arose most frequently were privacy and the environment.

The Company has a Complaints Channel that, under the principles of respect, confidentiality, thoroughness and well-foundedness, constitutes a means to detect alleged irregularities. Through this channel, employees can anonymously, or not, communicate situations or contingencies which could possibly constitute acts contrary to law or established internal policies and procedures.

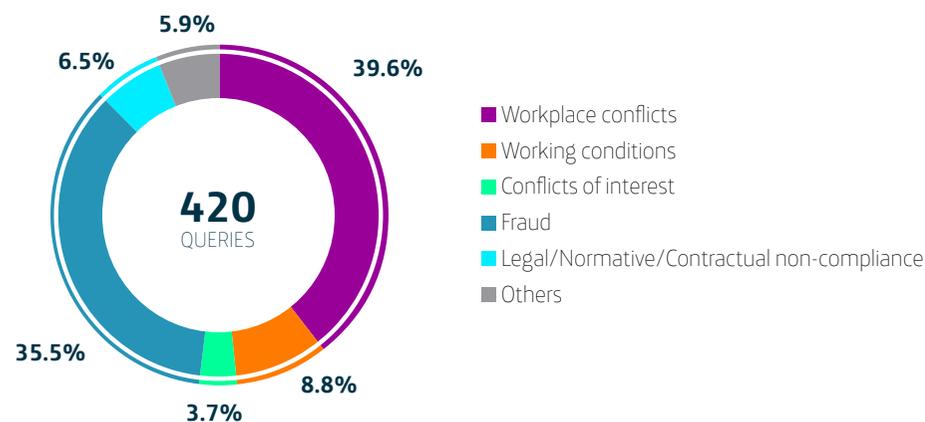
During 2017, we received a total of 893 complaints through the Complaints Channel and other reporting media, 490 of which were well-founded⁽¹⁾. Among the measures

adopted as a consequence of the well-founded complaints received, were 188 employment contract terminations. It is worth mentioning that, of the closed investigations, one is related to a case of discrimination and none are related to corruption.

Finally, with regard to the compliance department's preventive function of query resolution, worth noting are the 420 queries received and managed by the compliance department in its task of interpreting the Telefónica Group's internal regulations, of which an important number were in relation with the Anti-Corruption Policy.



Of the total number of well-founded complaints, the issues were:



(1) The term well-founded refers to the result of investigations into appropriate communications. Appropriate communications are those that meet the minimum requirements and present indications or reasonable data to proceed with the investigation.

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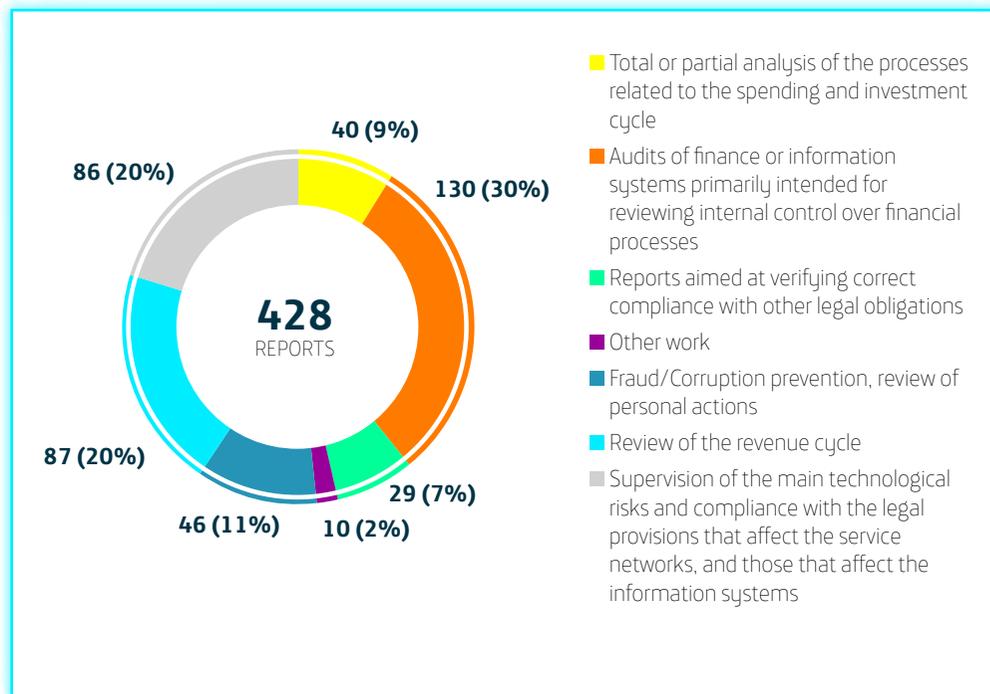
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INTERNAL CONTROL

The Company Bylaws and the Regulations of the Board of Directors of the Company establish that the Audit and Control Committee has the primary function of supporting the Board in its supervisory duties, and specifies among its competencies the supervision of the effectiveness of the internal control of the Company, the internal audit and the risk management systems, including fiscal risks.

During 2017, the Internal Audit department issued 428 reports throughout the Group, which can be divided into the following categories:



COLLABORATION WITH SECTORAL ORGANISATIONS AND LOBBY

Our spending on contributions to sectoral entities and organisations, and lobbyists, was approximately 3.3 million euros in 2017.

The Company remains politically neutral. At no time do we take a direct or indirect position in favour or against any political party, and because of this we do not make any donations to them. This does not prevent us from presenting our points of view regarding the issues that may affect the Company's management or sustainability through lobbying activities.

We provide transparent information on our activities through various transparency registers. We are registered as a lobbyist in the voluntary European Union registry, reporting costs linked to the activities covered by the registry of 2 million euros.

Within the activities entrusted to the Internal Audit department is the supervision, based on samples, of the key controls of the Group's exit funds.

In addition, we are members of the global sectoral organisations that are listed in the following table:

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Main organisations with which Telefónica collaborates:



The **AECA** is an institution that issues generally accepted accounting principles and standards, and studies of best business practices.



AENOR is a Spanish organisation, which conducts normalisation and certification (N+C) activities to improve the quality of businesses and the well-being of society.



The **Spanish Association for Investor Relations** has the purpose of promoting relations with investors in publicly listed companies.



ASIET is an association made up of the main telecommunications operators in Latin America.



The **Telephone Association for Assistance for the Disabled (ATAM)** has as its main purpose the support of preventive actions to disabled people and social integration of people with disabilities.



The **Broadband Forum** is a non-profit industrial organisation focused on improving broadband networks so that they can be faster and smarter.



Business Europe is an organisation of European employers, created by national organisations, and which currently represents 40 organisations from 34 countries.



CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.



The purpose of the **National Centre of Accessibility Technologies (CENTAC)** is to promote accessibility to Technologies of the Information Society in Spain.



The **CEOE** is the institution that represents Spanish businessmen.



The **Spanish Committee of Representatives of People with Disabilities (CERMI)** is a platform that represents people with disabilities in Spain.



The **European Commission** is the institution which embodies the executive branch of community power.



CAF is a development bank made up of 19 countries and 14 private banks in the region.



The **National Confederation of Deaf People (CNSE)** defends the interests of people with hearing disabilities and their families.



A significant group of leading Spanish companies, **Corporate Excellence** aspires to become a technical reference.



EcoVadis aims to improve the environmental and social practices of companies.



ERT is an informal forum which brings together up to 50 managing directors and chairmen of major multi-national companies with European affiliation.



ETNO is an association which encompasses the major European operators.



ETSI is the European Telecommunications Standards Institute.



The **FAO** is specialised agency of the UN that manages international efforts to end hunger.



The **Forum for the Future** is a non-profit organisation whose mission is to promote sustainable development.



The **Global Learning Network (GLN)** is a business partnership driven by the overall objective of promoting and linking entrepreneurial initiatives to skills and employment opportunities for young people.



The **Global e-Sustainability Initiative (GeSI)**, provides a source of information on resources and best practices to achieve integrated social and environmental sustainability through Information Technology companies.



The **United Nations Global Compact** is an international initiative which promotes the implementation of ten universally accepted principles in the areas of Human Rights, Labour Standards, the Environment and the Fight against Corruption.



The **Global Network Initiative (GNI)** is a non-governmental organisation for Internet censorship by authoritarian governments and the protection of privacy on the Internet and the rights of individuals.

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Global Reporting Initiative (GRI) is an organisation whose purpose is to promote the development of sustainability reports in all types of organisations.



Association whose purpose is to deal with environmental challenges by means of public-private collaboration.



The **GSMA** represents the interests of mobile operators worldwide.



ICT Coalition works for the development of services that deal with the challenges of online child safety.



IDB supports efforts in Latin America and the Caribbean to reduce poverty and inequality.



NGO that locates and reports images of sexual abuse of minors around the world.



The **ITU (International Telecommunications Union)** is a body of the United Nations specialising in Information and Communications Technology (ICT).



The aim of the **OECD** is to promote policies which improve the economic and social well-being of people around the world.



An **organisation** devoted to the social and labour inclusion of people with disabilities.



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



The **United Nations** is an international organisation founded by 51 countries committed to maintaining international peace and security, and promoting social progress, better living standards and Human Rights.



RE100 is a global initiative to implicate, support and highlight the major companies that have committed themselves to using 100% renewable energy, leading the way and providing an example in the fight against climate change and the development of a low-carbon economy.



The **Peruvian Network against Child Pornography (RCPI)** was established to fight the sexual exploitation of children.



An **organism** that promotes collaboration between public and private entities to promote the short and long-term well-being of people with disabilities.



Spainsif is a not-for-profit association comprised of different types of entities interested in promoting sustainable economic activity.



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



The **World Bank** is a vital source of financial and technical assistance for developing countries around the world.



A **UN agency** that works to defend children's rights.



The **World Economic Forum** is an international institution dedicated to improving the situation around the world by means of public-private cooperation.

2017 Milestones

- Publication and analysis of all the queries and complaints received through the Responsible Business Channel, available to all our stakeholders via our website.



- Execution of an internal communications campaign linked to the new Responsible Business Principles.



- We maintained workforce participation of 90% in the training course on Responsible Business Principles.



2018 Goals

- To develop a new course on Responsible Business Principles, which will replace the current one.

- To obtain approval of the Responsible Communication Policy.

- To obtain approval of the Human Rights Policy.

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Management of the supply chain

An important part of a company's social and environmental impact is directly related to their supply chains, a fact which is even more relevant for large companies that span different sectors.

During 2017, we awarded a purchase volume of more than €25,000 million⁽¹⁾ to almost 11,000 providers. We have the details of approximately 22,000 potential providers, registered in our systems. In total, the negotiated volume exceeds €35 billion, including multi-year contracts.

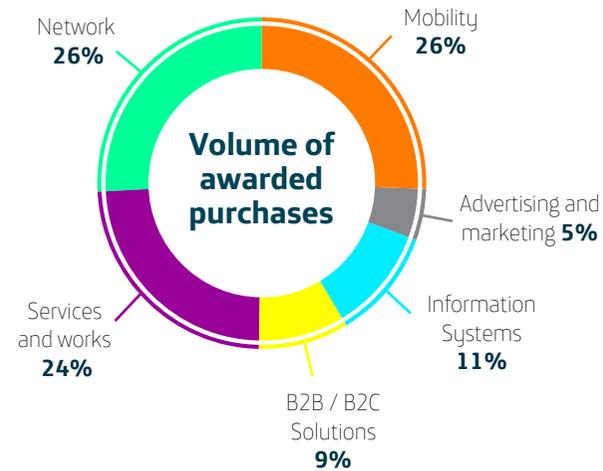
Telefónica Global Services (TGS) is the function that manages our negotiations with global providers, including the demand of the different operators of the Group, and leading the provider negotiation and relationship strategy across the different categories of global products and services: Network, Mobility, Services, B2B/B2C, IT, and Advertising and Marketing. This market experience and knowledge enables our different partners (operators from third countries in which we do not operate) to trust in TGS to improve the management of their purchases and/or to collaborate in specific negotiations in which we have consolidated experience.

At TGS we work in a coordinated fashion with the local procurement teams of our operators in the different countries in which we are

Impact on society



(1) Agreements with an impact in 2017



present. All of this is encompassed under a single Procurements Management Model, which is aligned with the Responsible Business Principles and therefore aimed at transparency and objectivity in decisions, commitments with third parties, and a sustainable management of our supply chain.

The entire "Source to Pay" process is digitalised, from the capture of the demand, to negotiations with providers, the awarding and formalisation of contracts and orders, reception/acceptance of services, and invoicing. The digitalisation of this process is managed by Telefónica Electronic Purchases in the same way as the automation initiatives,

Our critical *providers* are concentrated in the areas of network *infrastructure*, information *systems*, and *handsets*

on which specific focus was placed in 2017, principally in the area of low-value purchases.

Digitalisation and automation contribute not only to efficiency, but also integrity and traceability of the entire process, making it possible direct the focus of the purchasing area on activities of greater value.

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Digitalisation of processes:



- We received more than **1.2 million electronically issued invoices** (19% increase compared to 2016).
- We digitally **signed 992 contracts and 3,889 award** letters.
- We trained more than **6,500 providers** in negotiation management, requests, and electronic invoicing.
- We processed more than **170 thousand orders through the interconnection between the systems** of the Group companies and those of our providers.

(1) Includes multi-year contracts

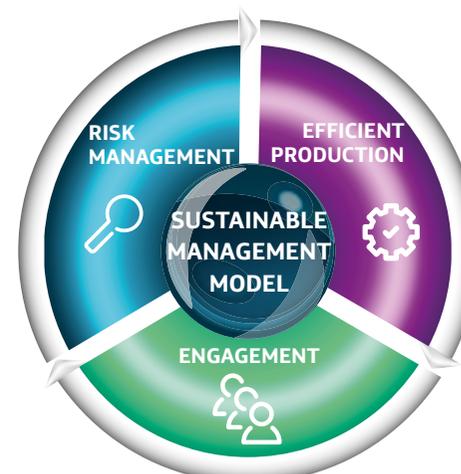
Furthermore, over the last two years, our global Supply Chain area dedicated to optimising operations, has identified ways of improving our levels of handset availability while simultaneously rationalising inventories and costs. At the end of 2017, we achieved an increase of five percentage points of in-store mobile handset availability, reducing the balance inventory stock by 37%. In addition, during 2018 we will focus on promoting the principles of the circular economy and unique

new business services. We will also transform the logistics model in Latin America and the United Kingdom through a series of contracts which have include requirements for environmental sustainability criteria, such as, for example, the maximum age of fleet vehicles and the reduction of their carbon footprint, monitoring their compliance through coordinated live programmes (see chapter on 'Environment').

Sustainable management model

Our sustainable supply chain management model is based on the following three pillars:

- Regulatory framework.
- Identification of risks.
- Risk management tools.
- Management of global and local issues.
- Internal and external training and sensitisation.



- Reduction of material and energy consumption.
- Greater efficiency in the procurement processes.

- Promote a close and open relationship based on best practices.
- Raise awareness among the end users.

In 2017, we organised a session of our *Responsible Business Panel* on management of the supply chain⁽²⁾

(2) See chapter on 'Stakeholders'

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RISK MANAGEMENT

NORMATIVE FRAMEWORK FOR PROVIDERS - MINIMUM STANDARDS TO BE MET

In accordance with our Responsible Business Principles, we request that all of our providers conduct their activities in line with ethical, social and environmental standards similar to the ones that govern Telefónica.

Thus, any company that wishes to be a provider of the Telefónica Group must, in the registration and renewal processes, accept the minimum requirements established by the following Policies:

- Supply Chain Sustainability Policy.
- General Conditions for the Supply of Goods and Services.
- Anti-Corruption Policy (Certificate).

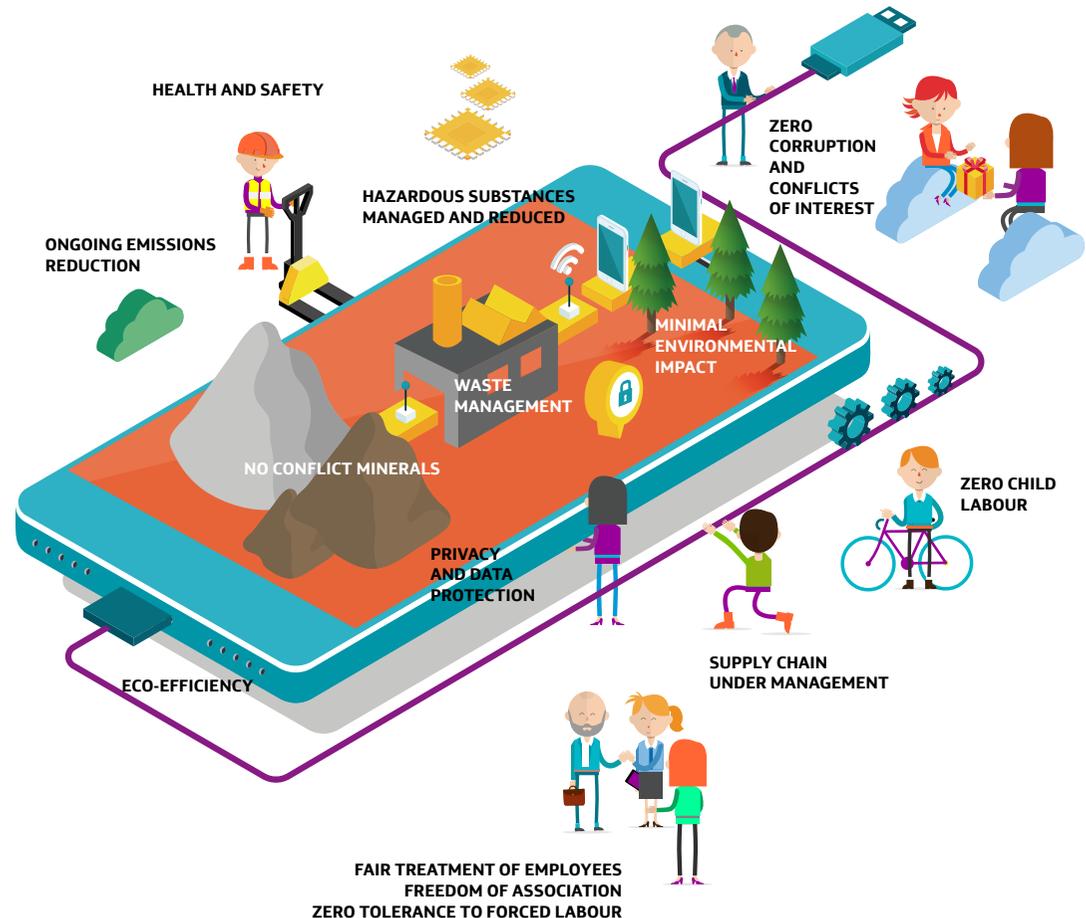
As of 2017, the provider's certification has a validity of one year.

If a provider does not meet the required standards or is not able to provide the information requested, we will initiate the processes necessary for securing a commitment to implement improvement plans that guarantee compliance with our standards.

In extreme cases where this is not possible, pursuant to the terms of the agreement signed by both parties, the relationship with the provider will be suspended until it can demonstrate that it has corrected the situation. At the close of this Report, 28 providers had been blocked in our database for reasons of non-compliance (0.25% of all awardees).

We require that 100% of our providers conduct their activities in line with ethical standards that are similar to ours, that guarantee compliance with all human and fundamental labour rights, and that they foster protection of the environment

Minimum Responsible Business Standards



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Best practices

Communication of the Supply Chain Sustainability Policy

Last year, we placed special focus on the communication, both internal and external, of the new version of this Policy, which was approved by the Board of Directors in 2016. We published a specific section on the Company Intranet on Responsible Purchases. In it, all employees can find information about the services or products that cause most risk to sustainability, what we demand from our providers, as well as the existing channels through which they may present queries or claims regarding possible non-compliances related to the minimum criteria.

Furthermore, we launched an internal communication campaign on our Responsible Business Principles and the policies associated thereto. One of the specific blocks was focused on the Supply Chain Sustainability Policy for providers, on which Company employee awareness was raised. In addition, the new version of the Policy was communicated externally, taking advantage of the channels established with providers – for example, the [Provider's Portal](#) or the Newsletter that is sent to Partners.

ASSESSMENT OF PROVIDERS OF RISK

To optimise management of our supply chain, we focus on those providers that are the most significant for the Company because of their level of risk and the impact they have on our business in view of the awarding volume.



GENERAL ISSUES

- Nature of the activity.
- Geographical location.
- Brand association.
- Visibility for customers.
- Visibility for other external stakeholders.

RISK ISSUES

- Working Conditions.
- Health and Safety.
- Environmental.
- Human Rights (Child / Forced Labour).
- Conflict area minerals.
- Data privacy and protection.
- Customer promise.

Where does it come from? How does it affect us?

We base ourselves on a prior analysis, which we annually review and update taking into account the different material aspects that we must monitor in our supply chain. Our methodology provides for us to begin with an assessment of the possible level of risk, according to five general issues, and the corresponding sustainability aspects established in our Minimum Responsible Business Criteria.

We then identify the possible high risk providers, taking into account the origin and reputational impact on the Company if said risk were to occur.

Thus, on the basis of our analysis of all of the awarded providers, 231 business groups and 1,269 providers provide us with products or services identified as having a possible high risk in the area of Sustainability.

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ASSESSMENT, VERIFICATION, AND IMPROVEMENT TOOLS

For another year we worked to improve monitoring of the possible risks associated with our critical providers that had been identified in our initial analysis. We have different programmes and initiatives which assist us to assess and verify their compliance. These allow us to jointly work with our providers to improve and promote the sustainable management in the entire value chain.

In this sense, it is fundamental to assess a priori the general level of compliance of our providers. To do so, we support ourselves on two external tools.

Dow Jones Risk & Compliance Service

In order to reinforce the mechanisms already established in the procurement process related to the Anti-corruption Policy, we contrast our database of providers with an international database of recognised prestige prepared by Dow Jones Risk & Compliance, known as Factiva, that is integrated with the Procurements platform and allows the online query of information. This review is done both in the certification process or the registration of the provider, and in the annual review of the already existing ones. Through this information we can identify possible risks related to ethical behaviour and corruption, and avoid any collaboration with providers that do not comply with our minimum requirements.

EcoVadis

We subject our main high risk providers to an external assessment of their general performance levels in the area of sustainability. For this purpose, we use the self-assessment platform [EcoVadis](#) which allows us to obtain a 360° assessment based on 21 sustainability criteria (including ethical, social, environmental and supply chain management issues, and conflict area minerals). This assessment is integrated into the procurements platform, which is accessible to our purchasers in the different countries.

At the end of 2017, we reached 305 critical groups or providers assessed (65% updated their assessment of the previous year). Of these, only 25% have shown any kind of weakness -average risk- in their responsible management, with the main weaknesses focusing on the management of their own supply chains for another year.

Among the critical providers, 83 have initiated improvement plans, equating to a total of 962 corrective actions. Of these, 77% were completed by the time of publication of this Report.

It is worth mentioning that an important part of the assessments of our critical providers performed have a Global scope; therefore, we reached a total of 794 assessed providers taking into consideration the different subsidiaries associated to said assessments.

Key assessment indicators



We identify the possible *ethical risks* and corruption risks in our *certification process* or *registration* of providers

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Annual audit plan

These assessments are complemented by our annual audit plan, developed based on the critical aspects identified according to the type of provider and/or the service or product provided.

Based on the risks of each region or country, as well as the type of provider, we focus on verifying their performance relating to the most critical aspects.

19,309
administrative or on-site audits

659
providers with improvement plans,
6% of those awarded

Audited risk aspects

TYPE OF PROVIDER	REGION/COUNTRY	AUDITS AND IMPROVEMENT PLANS	Ethical	Occupational	Security and Health	Environment	Supply Chain Management	Security, Privacy and PdD	Human Rights - Child and Forced Labour-	Conflict area minerals
PARTNERS PROGRAMME Collaborating companies that are labour intensive	8 countries in Latin America ⁽¹⁾ and Spain	LOCAL • 10,812 administrative audits • 7,190 on-site audits • 341 providers with improvement plans		👍	👍				👍	
		CORPORATE • 104 on-site audits • 102 providers with improvement plans	👍	👍	👍	👍	👍		👍	
JAC INITIATIVE ICT sector manufacturing centres	13 countries in Asia, Latin America, and Eastern Europe	• 76 on-site audits -64% to TIER 2 or 3 providers- • 75 providers with improvement plans	👍	👍	👍	👍	👍		👍	👍
TELEFÓNICA UNITED KINGDOM Network, Services, and works providers	Different countries	• 764 on-site audits			👍					
		• 33 on-site audits					👍			
		• 8 on-site audits • 6 providers with improvement plans	👍	👍	👍	👍	👍			
TELEFÓNICA BRAZIL⁽²⁾ per risk associated to the product or service	Brazil	• 199 administrative audits • 2 on-site audits • 81 providers with improvement plans				👍				
		• 64 on-site audits			👍					
		• 57 on-site audits • 54 providers with improvement plans						👍		

(1) Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela.
(2) Complement the audits of Brazil managed under the Partners programme.

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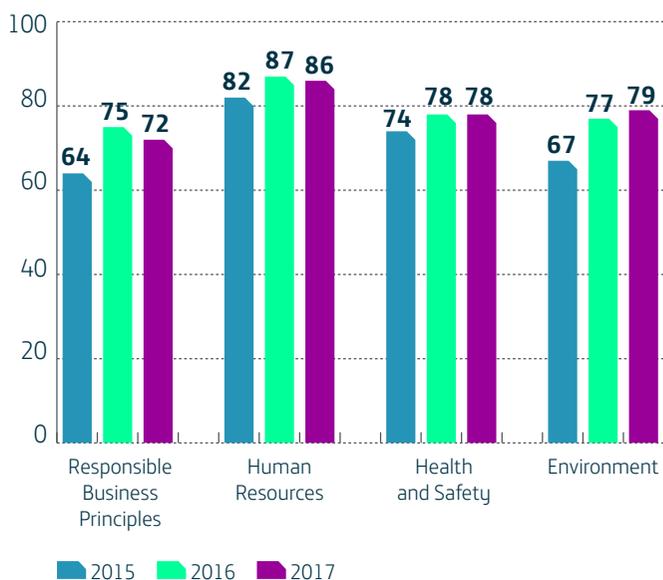
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Detail of corporate audits

We reached a level of general compliance of 80%, showing a distribution of the detected risks very similar to the previous year, with the Health and Safety section being the one with the highest number of findings found.

Some of the most common risks have been detected in:

- The Occupational Induction, Training, Climate process, and in the Personnel Bonding and Management process.
- In terms of the Health and Safety aspects, these have been concentrated on the sections of Industrial Hygiene and Safety, Implementation and Operation, and Verification. Notwithstanding the aforementioned, better compliance than in 2016 was seen in all of them.
- In the environmental processes, in the management of waste, and the environmental management system.



CONTINUOUS MANAGEMENT ACCORDING TO LOCAL NEEDS

Latin America

For the last nine years we have worked through the Partners Programme to transform the collaborating and third party companies of our Partners with the goal of them helping us reach our goals and to be able to guarantee an ideal service for our customers. This relationship has made it possible for us to promote a culture of sustainability, sensitising providers about the compliance of our standards, while simultaneously establishing mechanisms for the early detection and prevention of possible risks.

This management model is based on our policy of minimums for these types of services, which was reviewed and updated in 2017. In the Corporate Instructions for the Control of Occupational Risks and the Contracting of Works and Services, we include the general action criteria in the different phases of the process that makes it possible to comply in terms of labour and the prevention of occupational risks.

In addition, throughout the last year we carried out different initiatives in each of the countries, reinforcing the contractor control system at a general level. The following best practices are underscored:

Argentina

- We continued with the process of online declaration of payrolls to providers, and automated the access request to the internal systems, achieving greater agility and speed, through the Partner's Portal. At the same time, we continued with the implementation of the

documentation digitalisation process demanded by current legislation (with signatures certified by certified bodies) to be presented by the providers. As from this digitalisation, the delivery process is a self-management process by the provider. The goal is to complete the process in 2018, which implies economic savings and a reduction in our environmental impact.

- Obtaining the OHSAS 18001:2007 Standard Implementation Certificate, which also involves providers, leading us to, among other aspects, align the training plans and define the function of the party responsible for hygiene and safety on behalf of the provider in the labour legal regulations that applies to them.

Brazil

- Improvements in the procurement process to mitigate the possible risks associated to a new provider. Similarly, we transformed the monitoring model centred on the main providers and networks.
- New Third Party Committee structure and functionality for greater agility and responsibility in the decision making process.

Chile

- Formalisation of the Partners Management Model through the instructions that describe it and its operations, through the comprehensive contractor control platform.
- Financial and labour risks monitoring committees of strategic providers (Call Centre, network Loop and infrastructure).

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- Implementation of the Safety and Management System at work based on ILO guidelines.
- Accreditation of work competencies of workers who perform risky activities (loop, network deployment, maintenance, etc.), thus verifying that these workers have the health conditions, courses, and knowledge necessary to carry out their work.

Colombia

- Development of the automation of the administrative audits process which will, throughout 2018, make it possible to make a better analysis of the supports sent by the Partners in terms of the entire documentation that they must present (social security payments, payroll, or accident rate reporting of Partners that execute high risk tasks, among others).
- Two activities were executed in the assurance model in terms of occupational health and safety, and more specifically, in road safety: (i) diagnosis, through on-site reviews, of the state of the road safety area of those Partners who use vehicles in order to carry out their activities; (ii) technical round tables about road safety, a first one focused on the legal requirements, and a second aimed at the presentation of the results obtained in the diagnosis, identifying the most representative findings in order to define action plans aimed at closing the gaps.

Mexico

- Incorporation of the agencies (distributors in commercial centres) in the local audit plan regarding labour aspects and occupational health and safety, thus verifying the compliance of the standards established for the provider with regard to a return of high rotation of personnel.

- Internal and external sensitisation programme regarding occupational health and safety aspects through the training of contract administrators and on-site workshops with providers, where Partners are sensitised regarding the importance of having a healthy and safe environment to decrease labour risks and improve their work surroundings and environment.

Peru

- Internal communication and training regarding the new version of the global minimums policy, focusing in the commercial area, massive channel coordinators and formal commercial partners, in the first stage.

Venezuela

- We held on-site sessions about occupational health and safety with the goal of guiding and reinforcing the compliance of the current occupational regulations among the Partners.

Spain

During 2017, we reinforced the ethical aspects, and those related to the privacy and confidentiality of information, of all those contracts with our collaborating companies, updating and/or incorporating:

- Responsible Business Principles.
- Supply Chain Sustainability Policy.
- Penal Compliance and Anti-corruption Laws Policy, and the signing of the Anti-corruption Certificate.
- Confidentiality and Commission of Personal Information Processing Contract (adapted to the new European Data Protection Regulations).

In addition, some of these providers are beginning to start compliance programmes, which they make extendable to the rest of the countries in which they operate, including what is established in the Spanish legislation.

In the social field, focus has also been increased on occupational risk prevention (PRL for its Spanish original) aspects, promoting on-site audits to verify the compliance of these aspects. During the last year we were able to perform more than 6,800 PRL-related audits on providers.

United Kingdom

We continued to focus the management of the supply chain for another year on risks as an opportunity to exercise a strong positive influence on our providers within the field of sustainability. As for the risk management part, the main focus was the adoption of strong sustainability requirements included in all awardings and contracts; compliance of said requirements was guaranteed through the corresponding due diligence according to the risk (assessments and/or audits). In addition, and at the same time, we encourage providers to go beyond a basic compliance code, promoting the undertaking of specific social and environmental commitments in tender offers.

Furthermore, meeting the requirements of the UK Modern Slavery Act, and in line with the [declaration](#) we published in this regard, work was done to identify the areas of the supply chain where we believe the risk of labour exploitation is greatest, and we collaborated with the main distributor partners to identify which of them must comply with the Modern Slavery Act.

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KEY ISSUES IN OUR SECTOR

We place special focus in those subjects associated to the supply chain that are relevant to our sector and the Company's strategy. Because of this, we participate in sectoral initiatives that promote the sustainable management of the supply chain, such as the [Joint Audit Cooperation](#). In addition, we internally maintain continuous management over aspects such as data privacy and protection, the eradication of child labour (see chapter on 'Human Rights'), waste management (see chapter on 'Commitment to the environment'), and conflict area minerals.

Joint Audit Cooperation (JAC)

Since 2016, we are part of the Joint Audit Cooperation (JAC) sectoral initiative in which the 16 global level telecommunications operators (Orange, Telecom Italia, Deutsche Telekom, KPN, Swisscom, Proximus, Vodafone, Telenor, Telia Company, Verizon, Rogers, Telefónica, AT&T, MTS, Telstra, and VEON) join efforts to verify, assess and develop the implementation of standards of sustainability (with a focus on occupational and environmental conditions, and ethical principles) in the factories of common industry providers, fundamentally in areas of risk such as Asia, Latin America, and Eastern Europe.

By participating in this initiative, we reinforce our annual audit plan and the commitment with society, promoting long-term sustainability in the different levels of its supply chain.

The standards defended by JAC have been built taking into account the standards demanded by the same operators that constitute this initiative, together with the feedback received from its main stakeholders, as well as international initiatives in the ICT sector, and requirements already included by different international guidelines, standards and laws.

Furthermore, we participate in the "JAC Academy" pilot project together with Orange, Vodafone, Deutsche Telekom, and five common providers. Its main goal is to reinforce the application of the agreed and defined standards through a specific training programme for the auditors of these providers, thus serving to guarantee the application of these standards within their own supply chains.

Data privacy and protection

In accordance with the minimum privacy criteria included in our regulations framework for providers -General Conditions and Policy for the Supply of Goods and Services- we promote security measures that guarantee the compliance of our internal regulations in the area of the security and good use of personal information. In 2017, said measures were formalised in our Global Supply Chain Security Regulations, approved by the Global Security Committee, and which will be completed with the new Management Instruction of Security Risks associated to providers which, in accordance with the goals established in this matter, will be prepared in 2018.

Best practices

Direct feedback from the employees of our providers

Within the different initiatives promoted from the JAC, and with the collaboration of Good World Solutions, we executed together with Vodafone in several factories in China a pilot programme of providers that are common to both companies, inviting their employees to participate in a completely anonymous survey through their own mobile telephones. The purpose of these surveys is to fundamentally assess subjects related to their own working conditions, with special focus on subjects related to the number of hours worked, periods of rest, overtime, processing of chemical materials, etc.

Through these types of surveys, we have been able to receive feedback from more than 2,500 employees of these providers.

During 2018, we will continue to perform these types of surveys as a way of reinforcing the on-site audits that we perform regarding subjects of sustainability.

Throughout the past year, we performed specific compliance controls of some of our most critical providers due to the fact that they have access to, or manage, the data of our customers or employees. For example, in the manner reflected in the information about our annual audits plan, 90 audits were performed regarding aspects related to data security, privacy and protection. And given the results obtained, improvement plans were proposed to 54 providers.

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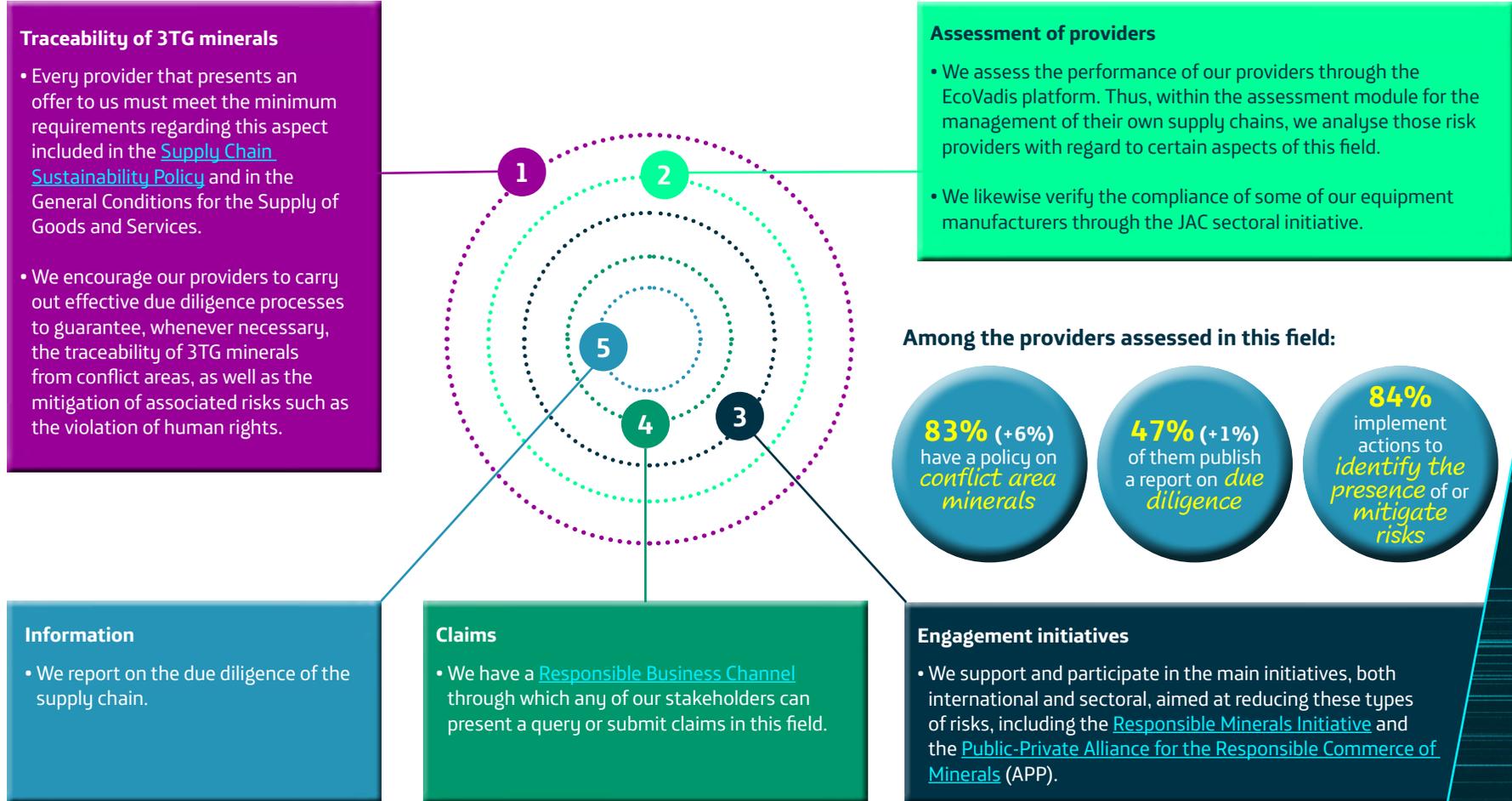
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Conflict area minerals

Although we do not have direct commercial relationships with smelters or refineries, we actively work to reinforce the control that is carried out over the use of these types of minerals in our entire value chain.

We have adopted a [Company policy](#) based on the guidelines included in the OECD '[Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#)' report. In this policy, we consider the five stages of the Guidelines and transfer them to our providers.

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 with the Consumer Protection Act.



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TRAINING AND SENSITISATION

During the past year, we maintained the on-site or online training (SuccessFactors, Academia Movistar, ICampus, etc.) of our internal managers and providers, considering the specific needs of each country.

- **Colombia.** Through the School of Contract Administrators, we carried out training sessions to said administrators so that they could complement their knowledge regarding the adequate way to execute the contracts. In addition, framed in its Strategic Road Safety Plan, we designed multimedia material that is shared with the companies that attended the technical workshops so that they can use it in the training processes of their direct employees and contractors.
- **Chile.** Through the “DUAL Training” and “Technical Training for the Telco Industry” programmes, we taught students specialised knowledge from the field of telecommunications, together with our Loop partner companies.
- **Mexico.** We developed a course on Occupational Health and Safety in order to sensitise their Partners about the importance of having a healthy and safe environment, and thus decrease occupational risks and improve their occupational surroundings and environment.

This sensitisation is even more relevant in our customer services providers where we specifically train those who have direct contact with our customers (call centre, home installation and maintenance, etc.).



EFFICIENT PRODUCTION

We continuously work on the improvement of our procurement processes through their digitalisation and automation, and with the clear goal of being increasingly efficient.

For many years now, we have advanced in the E2E digitalisation of the entire ‘Source to Pay’ process, not just in electronic negotiations (RFQs and auctions) but also in the entire subsequent formalisation process with providers, and even the bill. During 2017, we expanded the use of the digital signature in awarding letters and contracts, and the use of the electronic invoice has been expanded to capture the advantage of efficiency and traceability in the process that this functionality contributes, both to Telefónica and to our providers.

Digitalisation has also been promoted in internal decision-making processes (approvals and awardings), to which a greater automation in the administrative processes has also been added.

We also collaborate with our providers in specific projects that mean a reduction of costs for the Company.

MARCO POLO MODEL

During 2017, we consolidated the Marco Polo model even more, exceeding 20 million units of broadband equipment (GPON, xDSL, LTE) deployed following this methodology, which is

based on a much greater integration with our providers and the manufacturers that supply them. This allows us to work together to guarantee standards that are aligned with our strategy and commitment with sustainability.

In addition, we began the deployment of Set-top boxes, within the framework of a new project called Proteus, in which we intend to transfer the broadband experiences to the video environment. All of this in a market context in which the scarcity of some components has forced us to anticipate orders and reinforce our strategy of direct relationships, not just with the factories that are part of our teams, but also with the providers of the main components.

COLLABORATION WITH TECHNOLOGICAL PARTNERS

Through our Energy Efficiency Plan we collaborate with partners who provide us with the best technology and help us to identify energy consumption and emissions reduction opportunities.

In this sense, and in collaboration with said providers, during the past year we executed projects related with:

- Efficiency in power equipment (rectifiers, UPSs, and inverters).
- Improvement of efficiency in cooling and air conditioning equipment.
- Reduction of the consumption of energy in the base radio during low load periods.
- Lighting, selective shut-off, hybrid and renewable generation.

15,890
on-site courses
and **56,469**
online courses
that had more
than **453,200**
participants
from the Partner
companies in Latin
America

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ENGAGEMENT

We promote continuous communication with our providers in order to maintain a close relationship with them and to promote a culture of sustainability in our supply chain.

DIALOGUE WITH OUR PROVIDERS

We use different channels such as our quarterly newsletter to Partners (Colombia, Ecuador, and Mexico), the Partner's Portal, [eMarketplace](#), or the [Provider's Portal](#). In the latter, all of our global policies, as well as specific local level requirements, can be found. A [confidential channel](#) can also be found there for asking questions or presenting reports associated to the compliance of our minimum Responsible Business criteria.

On a local level, we also organise on-site events with providers, such as:

- The **4th Responsible Business Encounter in Ecuador**. Business space for dialogue where we shared the Group's corporate policies and internal practices (Responsible Business Principles, labour standards, health and safety, the environment, and the safety of information) with more than 80 businessmen, 75% of which were providers. In addition, we presented the new challenges that the 2030 Agenda presents us through the United Nations Sustainable Development Goals.
- The **5th "Meet The Buyer Fair" in the United Kingdom**. Event open to SMEs and social companies to meet with the procurement teams of our Company and six of the largest providers in the country. There, the 60 companies that attended learned what we purchase, how we do it, and how to be part of our supply chain. Through these encounters we promote the relationship between these types of companies and major organisations, thus encouraging their possible contracting that could help towards a positive social change, contribute to the economy and create jobs.
- Thematic workshops such as the **8th Global Energy and Climate Change Workshop** (celebrated in 2017 in Iguazú, Brazil), where together with our main providers we analysed different plans to promote energy efficiency and the decrease of our CO₂ emissions. In this edition, more than 30 different projects have applied to some of the Energy Efficiency Challenge Awards (see the 'Circular economy' and 'Energy and Climate Change' chapters).
- The **one-day "How to transform risks into opportunities together with your providers" workshop** (celebrated at the beginning of 2018 in Madrid). In collaboration with the Seres Foundation, and together with our providers and some of the main Spanish companies, we began the year with a work session in which we could get to know how companies extend their supply chain sustainability policies, the perception that investors have about these actions, and how companies can ally themselves to address the assessment of their providers.

REDUCTION OF CARBON IN THE SUPPLY CHAIN

After the "Carbon Trust Supply Chain Standard (Level 3)" certification was obtained in 2016 in the United Kingdom, we continue our efforts in the management of emissions in the supply chain. We have included the reduction of carbon in our main awardings as another aspect in the assessment of the offers, requesting an active reduction plan, or a proposal regarding this subject, from our providers.

During 2017, we agreed 17 carbon emissions reduction programmes with our providers in the United Kingdom. These programmes are another step towards reaching the goal set out to reduce the emissions of our supply chain, that we hope to decrease by 25% in 2018.

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SENSITISATION OF OUR CUSTOMERS

We continue to collaborate with our main mobile handset providers in order to offer our own customers environmental and social information about the devices that they are interested in purchasing, through the Ecorating project (see chapter on 'Circular economy').



In order to evaluate the terminals, [Forum for the Future](#), an independent organisation with which we collaborate in this initiative together with other operators, takes into account more than 100 criteria that make it possible to establish a rating system that grades each device according to its social and environmental behaviour. For example, among the analysed criteria is the production of its components and substances, the efficiency of the packaging and transport, and its energy consumption. The classification done by EcoVadis of the companies after assessing their performance degree in the area of sustainability is added to these very specific aspects.

This way, together with our providers, we make it possible for our customers to make a "better informed and sustainable" purchase decision. We currently offer this information in Germany, Brazil, Chile, Spain and the United Kingdom.

In addition, we work to facilitate the purchasing decisions of those customers with some sort of disability (visual, audio, or cognitive). To do so, in collaboration with the [ONCE Foundation](#) and the main manufacturers, we classify our

global catalogue of mobile devices according to accessibility criteria in Argentina, Brazil, Chile, Ecuador, Spain, Mexico, and Peru (see chapter on 'Accessibility').

2017 Milestones

- Approval of the Global Security in the Supply Chains Regulation. 
- Approval of the Corporate Instructions that define the Action Criteria for the Control of Occupational Risks in the Contracting of Works and Services. 
- Expansion of the scope of the EcoVadis assessment process, including more than 300 risk providers. 
- Integration of platforms for a greater automation of the critical providers' assessment process. 
- Sharing of best practices with our providers in the field of sustainable management through different events, workshops, and/or specific training. 

2018 Targets

- To continue to expand the scope of the EcoVadis assessment process, to cover 600 providers.
- To promote and reinforce the implementation of sustainability standards in our equipment manufacturers' supply chains.
- To digitalise and automate the monitoring of the improvement plans stemming from the corporate audits performed during the year on providers that are manual labour intensive.
- To develop internal Instructions regarding the management of the security risks (data privacy and security) associated with providers.
- To promote the participation of our providers in the different dialogue or sharing of best practices initiatives that we make available to them.
- To reinforce the management of the financial risk of our providers, homogenising the model in all the countries.

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Trends, opportunities and strategy

MEGATRENDS

The unequal impact of the crisis between countries, within each society and on public policies, is combining with technological change to transform the way we go about our daily lives.

The world is facing structural challenges, such as demographic trends and the scarcity of resources, that will make the next few years decisive. In this context, technology that focuses on collaboration (man-machine), ethics and transparency can facilitate and streamline solutions, improving efficiency.

The fourth industrial revolution, driven by data and automation, as well as the adaptation of education and the new labour market to a changing environment, are imperatives to achieving inclusive growth that takes into account the multi-polar nature of international relations and economic integration in complex value chains.

In this context, taking the [World Economic Forum](#) itemised analysis of the challenges of the future as a starting point, we focus on seven axes that we consider fundamental:

1. Changes in global governance:

The emergence of new actors on the world stage (private entities, developing countries, institutions and even new political movements) make international relationships increasingly complex, but also more legitimate.

2. Achievement of inclusive growth:

Long-term commitments between the different entities (government, business and society) are necessary to achieving more balanced growth in the future.

3. The fourth industrial revolution:

Technological advances in the physical, digital and biotechnology worlds represent an unprecedented opportunity, but also require a rethink of how economics and policies develop, especially those related to privacy and social development.

4. Behavioural change:

Socially responsible decision-making by governments, businesses and individuals, with greater empowerment of the latter as consumers, should contribute to improved living standards.

5. New competencies:

Consolidating a large number of basic competencies and specific ones relating to the changing digital environment is education's future challenge.

6. The future of work:

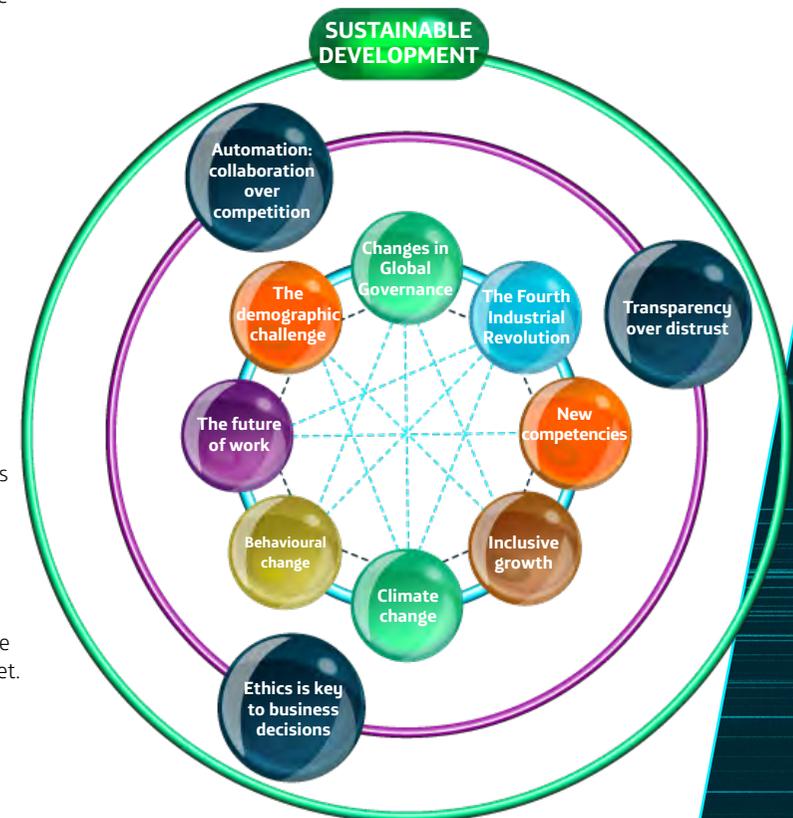
Retraining in the skills required for the work place and the new types of employment promoted by the digital society will define the future of the job market.

7. Climate Change:

We must improve efficiency in the way we use resources to avoid a more negative human effect on the climate. New digital tools, such as the Internet of Things, can have a very positive role in this area.

8. The demographic challenge:

Urbanisation, ageing, migration flows and the future of healthcare systems will lead to enormous social, economic, political and environmental challenges.



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We want to continue being a guarantor of connectivity and a provider of digital and innovative services that help to address these challenges from a privileged position.

BUSINESS STRATEGY



We have always been a key player in the transformation of the societies in which we operate, due to the impact that the telecommunications business, and more recently digitalisation, exercise on the other sectors. To continue being part of the social change:

- **We develop, deploy and disseminate** new information technologies and Internet access through networks of the highest quality, such as fibre optic and mobile networks.
- **We build** and provide millions of customers with a wide range of connectivity services, complemented by products with high added value, such as video, the Internet of Things, the cloud, Big Data and innovative security systems, which facilitate the lives of all our users.

- **We promote** the execution of multiple lines of action relating to those social challenges in which digitalisation plays a fundamental role, fostering universal access to education, health and the protection of the environment.

This transformation, driven by millions of devices connected through networks of ultra fast broadband that generates unprecedented volumes of data, is having a tangible and transversal impact on society, the environment and the economy.

1 IMPACT OF DIGITALISATION

- **On a social and environmental level:** Digitalisation is revolutionising the manner in which people live, work and interact.

It enables new forms of management and organisation that include more possibilities for combining different activities, transforming the opportunities of each space and context to, for example, balance family and professional lives thanks to new dynamics such as remote working. This helps us to save time and distance, and offers us the possibility of reducing the environmental impact of our daily activities.

Not only have digital technologies made it possible to create and access information and content on a global scale, from anywhere in the world, but they have also driven the

For these opportunities to be achieved in full, *digitalisation* must be developed in a way that is truly *focused on people*

adaptation and personalisation of all kinds of services. In addition, the development of new realities (virtual and augmented) has brought new ways of seeing, perceiving, contacting and interacting with people and organisations.

- **On an economic level:** It makes it possible to increase productivity and efficiency through, for example, the automation of business processes or the implementation of smart elements in the management of cities. Furthermore, it is helping to generate new competitive advantages and innovation in all business sectors.

Specifically in the telecommunications sector, digitalisation catalyses very significant opportunities with strong potential to generate value in the mid- and long-term, translating into the development of software-based smart networks which allow greater efficiency and integration, as well as a complete transformation of the operational model. This makes it possible for operators to be able to provide a better and more interactive experience, with more simple and flexible packages that are better adapted to the growing demands of customers.

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However, the full achievement of these opportunities requires digitalisation to be developed in a way that is truly focused on people. To do so, we need to address new challenges.

2 CHALLENGES

- **Digital inclusion:** It is necessary to guarantee universal access to information networks and technologies, extending the benefits of digitalisation to as much of society as possible, without exception, and ensuring diversity in the widest possible sense (cultural, social, gender, age, capacity, etc.).
- **Social inequality:** Technology cannot be an accelerator of social differences; its availability and the asymmetrical use of digital capabilities could lead to an increase in the economic divide between the different layers of society, making some differences increasingly permanent.
- **Threat to personal privacy:** The mass generation of data, and a greater number of exchanges and points of contact between people and organisations, significantly increases the risk of data capture and use for illicit purposes.
- **Ethics and Artificial Intelligence:** The application of Artificial Intelligence algorithms with a lack of built-in ethical criteria in different decision-making processes in companies and public administrations has also begun to give rise to

the need to control Artificial Intelligence to avoid taking decisions with unwanted bias, for example, at a racial, cultural, or gender level.

- **New jobs:** The new social landscape poses a challenge on an educational and training level, as a result of the birth of new jobs and professional profiles that we cannot yet even begin to imagine. The real challenge will be to attract the best talent to meet the challenges of the market.

In this context, our main goal is to help both customers and the rest of the society to get the most out of the digital revolution, in a way that is sustainable and supports achievement of the Sustainable Development Goals established by the United Nations in their 2030 Agenda.

These challenges represent, for us, new opportunities to continue moving forward.

3 OPPORTUNITIES TO CONTINUE MOVING FORWARD

- **Advanced and efficient networks and infrastructures:** These structures enable social innovators to start their own technological revolution. Networks are already a strategic asset, essential for ensuring the basic needs of any society, such as rural development or access to information and education.

- **Control in the management and development of services and customer data:** We want customers to be the owners of their own data. This is the best way to ensure both personalisation and privacy of their data and information security.

- **Access to ecosystems of platforms, applications and devices:** Whether Company or third party-owned, these facilitate interoperability and allow maximum exploitation of the services and capabilities that we provide to our customers.

- **New capabilities and tools:** These improve access to, and interpretation of, the ocean of digital data, and facilitate access to Artificial Intelligence in an ethical and transparent manner, as well as its integration in the production and innovation processes. In this way, we contribute to the sustainable digital transformation of the countries in which we operate, while striving to prevent the opening of new digital divides.

To achieve these goals, we are transforming all Company platforms, based on Artificial Intelligence and guided by solid values.



More information is available in the 'Company purpose and values' chapter

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This transformation includes the following elements:

4th platform: Cognitive Power

■ **100% integrated**, this platform forms an ecosystem that connects data, devices, networks and people. Designed as the basis on which we substantiate our relationship of trust with customers, it gathers internal and external data, and allows secure connections between Telefónica and third party services that are

relevant to our users. We are strengthening our capabilities to capture, store, analyse, interpret and use information in the most appropriate way in real time, in order to provide more effective interfaces that are better adapted to the characteristics and needs of our customers.

3rd platform: Products and Services

■ **100% personalised**, this platform refers to the products and services we make available to our customers, and which make up a distinctive, personalised and simple offer that takes advantage of

the capillarity of our physical assets and systems. We want our services to adapt to our customers, giving them new forms of management and interaction.

2nd platform: Information Technologies and Systems

■ **100% automated**, this platform consists of our support and commercial systems, linking the data generated by the first platform with the business module. It encourages end-to-end

digitalisation and allows connection with the other platforms, ensuring we are a real-time, automated and customer-oriented Company.

We are looking to fully automate the back office and totally digitalise the front office; to do so, we are carrying out the largest Fullstack deployment of systems worldwide.

1st platform: Physical Assets

■ **100% virtualised**, our first platform is made up of all our physical assets, which generate a large amount of real-time data. From networks and base stations,

to shops and customer teams. This platform makes us relevant and accounts for most of our investment.

We are building a flexible, programmable, software-based Network. We are the number one telecommunications Company in terms of network virtualisation, and

manage our legacy in a social and environmentally efficient way.



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Physical assets

Connectivity is one of the main driving forces of digital transformation. Therefore, we want everyone to benefit from digital life and the economic development that stems from new technologies. Specifically, our goal is to build the networks of the future, which allow us to offer Internet access through the best technology, at all times.

Network assets are a key source of customer knowledge, which helps us to prioritize the deployment of our Networks in ways that are increasingly efficient and in line with customer needs.

PHYSICAL ASSETS

We invest heavily in infrastructure in order to get closer to the needs of our customers, so that every day more and more households have the opportunity to access the digital world. As a result, by the end of 2017, total accesses reached 343.5 million worldwide.

We deploy telecommunications infrastructures that guarantee high quality end-to-end connectivity and allow us to provide a full range of services, from the most basic communication services to video and content services.

It is our responsibility to ensure the stability of these deployments, offering the best Network capabilities so that all our customers

have excellent connectivity and can enjoy our services from any device at any time.

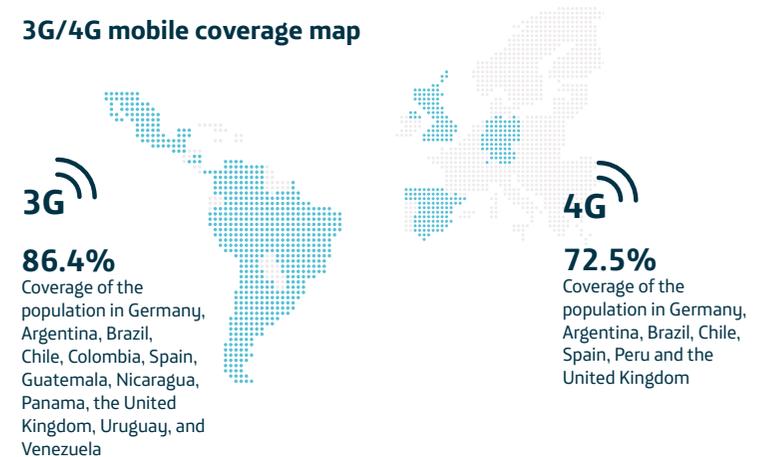
To achieve this goal, we have invested 45,000 million euros in the development of our fixed and mobile Networks since 2012, dedicating most of the investment funds to ultra-fast and next generation networks in Europe and Latin America. Our [Business Solutions](#) and [Telxius](#) infrastructure and services companies are responsible for promoting this growth, together with our local operators.

In order to start meeting the needs that new and future services are going to raise, in 2017 we pushed forward with the virtualisation of our Network and the use of Artificial Intelligence to manage it.

Mobile networks

As part of our Network, we offer 2G, 3G, and 4G mobile network services. In LTE we reached a coverage of 91% in Europe and 66% in Latin America in 2017, when smartphones reached a penetration of 63%. During this last year, we worked to improve the LTE/4G Network by offering the VoLTE service which enables high definition voice and video calls.

3G/4G mobile coverage map



Best practices

5G Technological Cities

In 2017, we made progress in the adaptation of our infrastructures, in preparation for the arrival of 5G. The new mobile generation will allow speed increase and to obtain peaks from 1 to 10 Gbps (more than three times the current speed of fibre in homes), and reduce the latency for calls. In addition to providing high capacity, 5G makes it possible to have up to 100 times more connected devices. As a pioneer in this technology, we selected two Spanish cities (Segovia and Talavera de la Reina) to be the technological benchmarks in mobility for the next three years.

See chapter on '[Innovation](#)'.

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Fixed networks

Our fixed networks have a powerful presence in our overall physical assets portfolio. Over the last year, fibre coverage (FTTx) expanded to 44 million cabled households, 13% more than in 2016. Our network infrastructure includes a total of 24 data centres, 17,000 satellite stations, and 8 teleports.

TELXIUS

Telxius is Telefónica's telecommunications infrastructure company which currently brings together some of our main physical assets and has become one of the main providers of cable infrastructure and towers in Europe and America.

Its main objective is to increase the services provided to other operators, and to participate more actively in the growth opportunities that exist in the sector.

Telxius has more than 16,300 towers installed in Spain, Germany, Argentina, Brazil, Chile and Peru, and 65,000 kilometres of underwater optical fiber cable, with 11,000 kilometres of high-speed BRUSA cable which links Brazil, Puerto Rico and the USA (available in 2018).

Our [Business Solutions](#) division offers international telecommunications services in over 170 countries, to fixed and mobile voice operators, ISPs and content providers. We offer these services to the entire Latin America region, Europe, North Africa and the Middle East via satellite.

Since 2008, we have been working to improve our processes, reduce deployment costs and improve quality. Thus, we have consolidated an industrialisation model which has allowed cost reduction ratios per cabled home and per connected home, as well as the failure rate and the need for operational efficiency improvements. We have also taken advantage of the best practices in processes, which has made it possible to improve the operation of the Network as a whole.

We understand that fibre and technology are not enough by themselves. Therefore we broaden our offer to provide our customers with a complete portfolio of home equipment which guarantees the availability of the best Wi-Fi. We manage this diverse offer through our Device Development Centre, which oversees the customer home equipment industrialisation process from start to finish, basing itself on an innovative, high quality and cost efficient service in which the Smart Wi-Fi router has become an iconic device.

NEW PARADIGMS IN OUR NETWORK MANAGEMENT

We want to offer the best experience to our customers. To do so, we are continuously trying with new ways of managing our Networks.

In 2017, we worked to improve our connectivity through the virtualisation of our Networks, and the use of Artificial Intelligence and Big Data. These activities led to the launch of edge computing projects, such as Onlife Networks and the UNICA Network virtualisation programme, and the deployment of service operations centres (see the 'Innovation' and 'Emergencies' chapters).



Best practices

UNICA

We keep making progress in the area of network virtualisation through our UNICA project. This project offers a common network and services architecture, which is key to versatility when it comes to the incorporation of new functionalities, including 5G.

Through the deployment of this architecture, we are seeking the capacity to offer new services and applications, as well as an increase in traffic and connected devices, which are hard to manage with the existing architectures. Virtualisation technologies enable the redistribution of the capacity of the existing infrastructure whenever necessary, improving the elasticity of the network, and thus streamlining the provision of services.

In 2017, thanks to our UNICA network virtualisation programme, we made significant progress in this area, implementing the project in Germany, Argentina, Colombia and Peru, and working on its expansion in seven more countries.

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65,000 km of underwater optical fiber cable



44 million cabled households



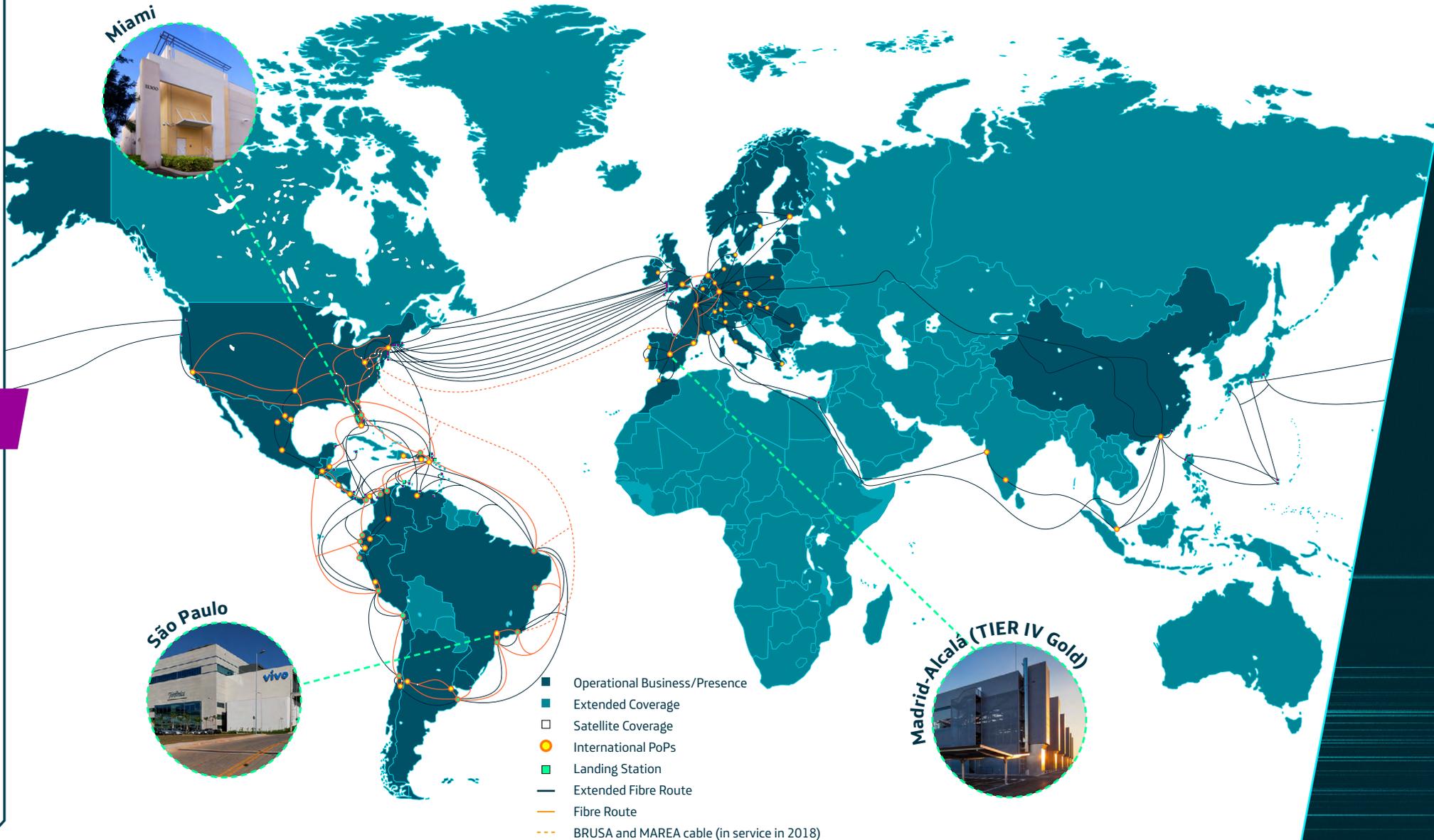
>17,000 satellite stations
8 satellite teleports



127,711 mobile coverage sites



24 data centres



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SERVICE QUALITY

The [International Telecommunication Union](#) (ITU) defines quality of service as the total effect of the functioning quality of a service that determines the degree of satisfaction of a user of the service. At Telefonica, our greatest commitment to customers is to guarantee a seamless service of the highest quality. This is why we endeavour to provide maximum information about the state of our Networks at all times, even during adverse situations.

The association of the different functions of an electronic communication service, such as the management of recruitment, maintenance, connection or billing and the different criteria that users apply to evaluate the functioning quality of these functions (speed, accuracy, availability, reliability, etc.) provide a set of observable and measurable parameters. In this way, an objective and comparable representation of the quality of service being delivered to the user can be provided.

On this premise, we regularly publish a report on the quality of service, and make real time online mobile Network testing services through our portals (see more on our [Telefonica website](#)).

Furthermore, we are aware that natural phenomena, external factors, electricity failure, etc., can lead to occasional, identified outages. In order to reduce the downtime as much as possible, we are continuously working

in improving our resilience, with the goal of being able to restore connectivity as quickly as possible (see chapter on 'Emergencies').

Network quality focused on customer satisfaction

The work carried out by the Network and Operations areas has a very high impact on the quality levels perceived by our customers. This is why, in addition to the basic indicators that monitor the quality of our Networks, from 2017 the global and local teams in these areas have been actively working in identifying the key factors that allow us to offer a higher quality experience (EC for its Spanish original).

Through Artificial Intelligence and advanced analytics models, we select the projects that have the most impact on customer satisfaction. This allows us to focus on meeting the annual challenges to improve the quality experience from the Network point of view.

2018 will see the teams in Peru, Chile and Colombia being the first to apply this new methodology.



Best practices

O2 Network Status

Our English brand, O2, offers an online verification service of the real time status of our entire mobile Network, allowing customers to identify any problem or ongoing maintenance activity which could affect the service.

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Connection speed test

Through our online channels, customers can verify the upload and download speeds of their connection to the fixed or mobile Internet Network from any computer, tablet or

smartphone. This provides the user with real time information, allowing greater efficiency in use of connectivity, as well as an early identification of potential incidents in the Network (see more on our [Movistar](#) website).

2017 Milestones

- Reinforcement of the fibre coverage in Brazil, reaching 18.8 million cabled households, and expansion of 4G coverage to 80% of the population.
- Extension of 4G coverage in Europe to up to 90%.
- Expansion of the deployment of VoLTE technology in Latin America and Europe.



2018 Targets

- To advance with the fibre deployments in Latin America.
- To continue improving our 4G coverage and advance towards 5G.
- To optimise the 2G and 3G spectrum.
- To advance with the deployments of VoLTE and VoIP.
- To extend the UNICA project throughout our entire footprint.

Best practices

Management of Network interruptions during the earthquake in Mexico

In September 2017, a magnitude 8.2 earthquake struck Mexico and Central America. A few days later, this same region was hit by the arrival of hurricane Katia, which affected more than 800,000 people. Some of the most affected cities, such as Juchitán and Matías Romero, reestablished their activities in record time, restoring the connectivity to 80% the same day the earthquake struck, and 100% the day after. We also took measures to reinforce our infrastructures in the Northern region of the country in order to withstand the high winds brought by hurricane Katia.

The success of the Network service was made possible because of the communication and team work of the different areas involved in the Network restoration tasks.

Management of Network interruptions in Spain

In October 2017, we worked intensely to reestablish the fixed Network connection after an IP connectivity failure was experienced by users in some areas of Levante and Madrid. Thanks to our efforts, the service was completely re-established in approximately half an hour.

The Company's customer service area carried out a comprehensive information exercise through its social networks, conveying data regarding the resolution status to users affected by the incident.



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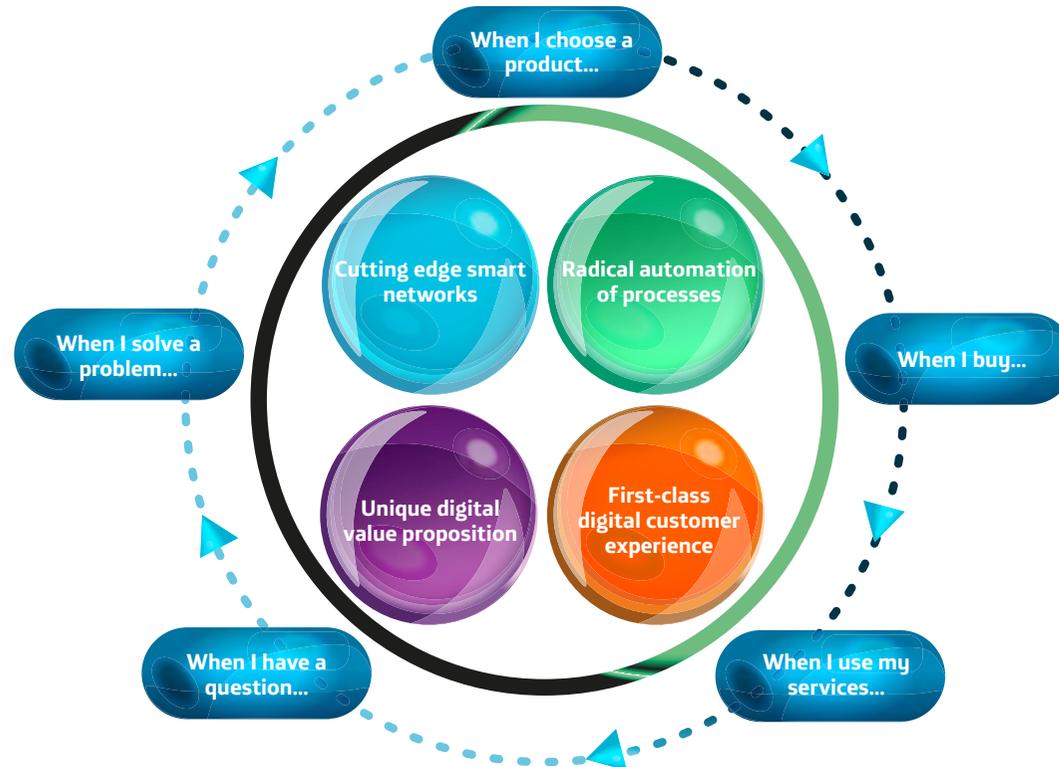
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Information Technology and systems

We define “the Digital Transformation” as the change associated with the application of digital technologies in all aspects of society: the way in which we live, do business, work, and maintain relationships. Digital technologies are the main drivers of change in economic models, and the key tool for addressing the major social and environmental challenges in which we are immersed. In this context, we were one of the first operators to identify the new market conditions and to promote the transformation of processes in order to adapt to the new needs of society.

We are convinced that digitalisation creates value, and we therefore believe in a digitalisation that is focused on people (human – centric), and based on values which allows them to protect their digital lives. We are aware that it is Telefónica’s responsibility to achieve this, and we therefore lead transformation right from the development of our systems, with the aim of becoming a digital and convergent company. It is this digitalisation of our systems and processes that we call the 2nd Platform.

Digitalisation is necessary in order to satisfy the demands of our customers, allowing us to offer the best, most distinctive experience, and preparing the Company for a hyper-connected world. Therefore, at Telefónica we are transforming our business in pursuit



of automation and real time management of processes, promoting multi-channel capabilities and reducing costs associated with customer service, while improving their experience and satisfaction with our offer.

At the same time, we deploy an increasingly advanced and efficient Network and information systems, which are adding value to society and reducing its impact on the environment.

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INTERNAL DIGITALISATION PROCESS

In 2017, we made significant progress in the process of internal digitalisation throughout the entire Company. To do so, we worked to simplify and automate all of our operations, and now most of our processes are already digital.

In some countries, such as Argentina, Mexico, Uruguay and Ecuador, this transformation process is particularly advanced, and has begun to register its first results in terms of customer experience, management and administration of products and services.

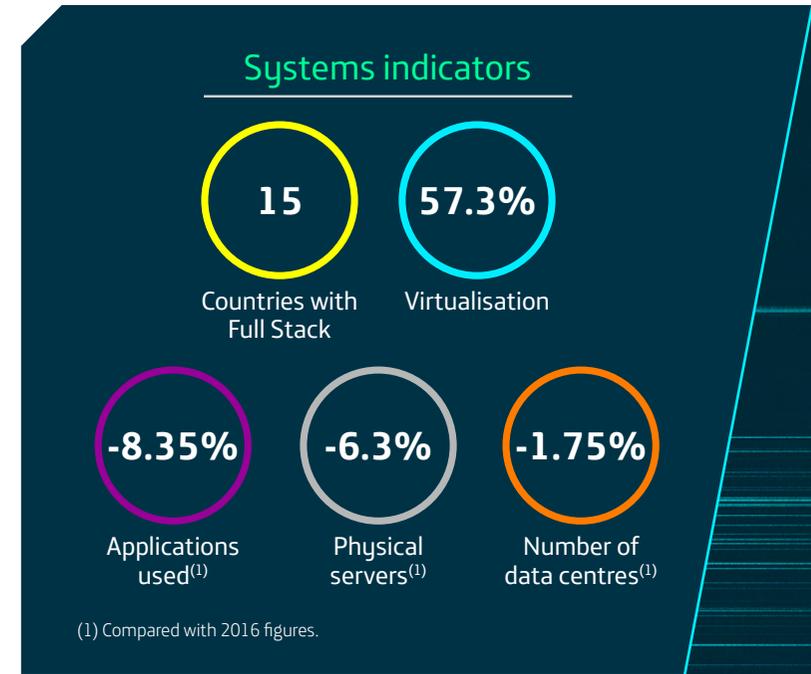
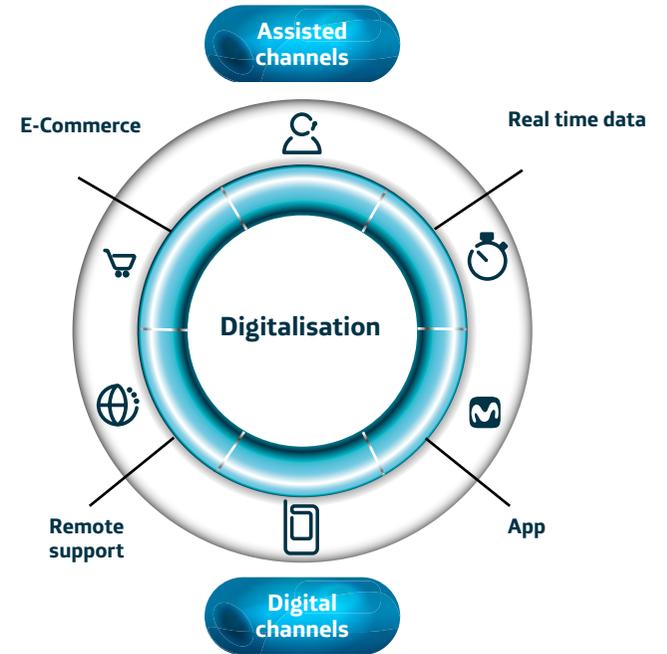
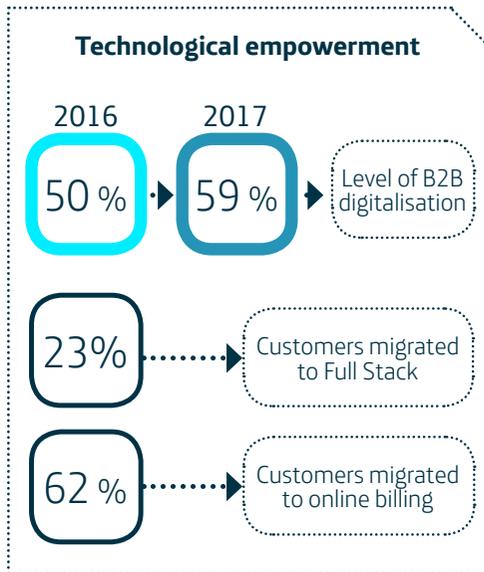
At a global level, the number of incidents resolved remotely increased by 10% in 2017. In Uruguay, the rate of issue resolution in the first call is now 90%, which has led to a 16%

decrease in average numbers of phone calls per month. In Argentina, the average duration of calls to the call centre decreased from 5.3 to 3.5 minutes between 2015 and 2017.

Our customers now have access to a multidirectional service experience via several operational service channels. We have promoted the online channels and personalised self-management services, enabling our customers to buy, manage and solve problems easily and independently.

Progress has also been made in the digitalisation of the after-sales service and the billing processes. By the end of 2017, 62% of our customers had already migrated to the Online Change System (OCS), benefiting from precise information on their balance and consumption in real time. At the same time, we have been able to reduce the needs of the back office, thereby reducing errors and increasing efficiency.

We have developed a digitalisation framework which is focused on the transformation of customer processes with a global, end-to-end, structured vision. As a result of this framework, this year, for the first time, all our operators built a complete digitalisation strategic plan, covering tactical and structural initiatives, measurement of the operational impact on indicators and cost estimations.



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ASSISTING THE DIGITAL TRANSFORMATION OF OUR CUSTOMERS

On top of our commitment to internal transformation, we also accompany our customers in their own evolutionary process towards the new digital society.

Today, the majority of the production sectors and industries have invested in new technologies to improve their processes, to increase efficiency and security, and even to better predict the needs of their businesses. Our goal as a Company is to help businesses to be more efficient, assisting them with data-based decision-making and digitalising their processes to make them more streamlined.

Solutions such as Living Cloud enable companies to adapt to the current market through digital workplace tools and Multicloud processes, as well as through solutions for the digitalisation of the communications such as FlexWAN, which incorporates SDN (Software Defined Networks) technology in WAN (Wide Area Network) services, provides agility, automation and real time responses, as well as advanced connectivity functionalities.

All this makes products, services and Big Data fundamental allies in the quest to help our customers with their digital growth and transformation processes.



Digitalised *companies* are **10%** more productive, *they export twice as much*, and *they double* the creation of *jobs*





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Products and services

The set of products and services that we offer to our customers constitute what we call the 3rd Platform. These products make up a diverse and customised offer, benefiting from the capabilities and capillarity of our connectivity and the information technologies.

Digital solutions drive the transformation of society and make it possible to add value to a hyper-connected world by creating a business and social fabric that is more dynamic, natural and able to exploit the benefits that communication and digitalisation offer.

As a result, our customers demand a comprehensive package of products that goes beyond traditional communications to give them access to a wide range of services and content. Our digital solutions therefore include services offered to home users, small and medium-sized enterprises (SMEs), large enterprises and public administrations.

Included within the different groups of solutions that we offer are: mobility management tools, television and video platforms and services, IoT solutions, security and cybersecurity tools and cloud services, among others.

DIGITAL SOLUTIONS FOR PEOPLE

Communication is the basis of human interaction. Due to new technologies, we are able to take these communications to a new level, offering added value and ensuring they are managed in a way that guarantees privacy and security.

Our customers demand a comprehensive package of products and services. Therefore, we develop solutions that make it possible for them to take control of technology and take advantage of the new capabilities that digitalisation offers.

Among these solutions are new tools such as Personal Cloud, which allows our customers to securely store and synchronise their information so that it is accessible from any of their devices, at any time.

Digital solutions for families

In addition to commercial plans that allow for the sharing of data consumption between different members of a home, we work on products that facilitate the lives of families. This is the case of the [Familia Online](#) service launched in Brazil and Argentina, which offers a collaborative solution that integrates tools that localise and share day-to-day activities between family members, such as calendars and family notice boards.

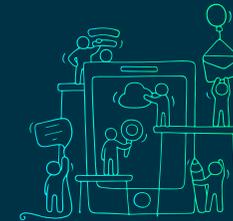
These solutions are complemented by security products that seek to guarantee secure browsing on multiple devices through antivirus tools and parental control solutions. More information under the heading Protection to Minors and Responsible Use of Technology.



Best practices

SMART WiFi

Our Smart WiFi solution not only improves the Internet coverage in homes, but enables simple management of the connectivity and security of the home network. By the end of 2017, this platform was available in Spain, Chile, Colombia, Peru, Argentina and Brazil, and its application had been downloaded more than 200 thousand times.



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Video and content

Audiovisual entertainment is constantly changing, and so are the ways of enjoying it. Television is no longer king, having given way to other, fundamentally digital, content consumption options.

Because of this, in 2017 we focused our efforts on expanding our video and content solutions, reaching 8.5 million pay-TV customers by the end of year and almost 3 billion euros in revenue, which indicates a strong acceleration of our growth rate. It is important to highlight the scope of the IPTV (internet television) system, which has increased by 14% as a result of growing adoption of fibre in Spain, Brazil and Chile, and which already represents 41% of our total television offer (+4 p.p. year-on-year).

It is worth highlighting our new online platform, Movistar Play, which forms part of this strategy. Through this platform, we offer access from multiple devices to a large amount of audiovisual content - video, films, series and online television content - in 9 Latin American countries.

We have earmarked **70 million** euros towards original production, **generating 1,500 direct** jobs

In addition, in our commitment to unique and exclusive quality content, we have strongly invested in our own original productions.

The exclusive Movistar+ channel, #0, has produced more than 1,400 hours of footage per season, and has launched 9 new programmes in a single quarter. In addition, we have more than 30 fiction projects in different stages of development. Among the series that premiered in 2017 were: Velvet Collection, La Zona (The Zone) and Vergüenza (Shame), with great success in terms of audience and customer appreciation.

At the beginning of 2018, access to these series was extended to customers in Latin America through a new dedicated TV channel. Various distribution agreements in the rest of the world are making it possible for millions of viewers to enjoy these products.

We want to create a **television of reference** in which the customer has the **freedom to choose**



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The transformation of the Movistar+ service has revolved around improvement of the user experience, granting customers a special role in which they can feel unique and different. The service has been personalised and segmented according to the customer's profile, to improve awareness of its functionalities and content.

In another step to improve the customer experience, we give the customer the ability to control how and where they view content. This is the case of the "Launch and see" functionality, which makes it possible to choose content from a mobile phone or tablet to be displayed on the television, without having to use the decoder's remote control.

We value our capacity as *content creators* and the importance of *multi-platform access*



Thus, more than 2 million Movistar+ customers enjoy its content from other devices. The recording service and the 'last 7 days' service are used by more than 3 million households, while on-demand video represents more than 18% of the consumption of our content. The simplification of the package and a strong commercialisation capability have also contributed to this.

Faithful to our commitment to facilitate the accessibility of content, we have improved the 5S functionality in Spain, offering accessible television content for individuals that are visually and/or hearing impaired. In this section of the platform, the films, series and documentaries have three accessibility options: subtitles for the deaf, Spanish sign language and audio description (see chapter on 'Accessibility').

A different Advertising concept

In 2017, Movistar+ consolidated its advertising model, reaching a 54% investment share of total pay-TV in Spain.



It uses qualitative positioning that transfers a new form of advertising to the market, offering a less saturated environment where brands become more relevant and the user feels the impact of the new capabilities offered by the platform, at its optimum consumption time. All this while simultaneously incorporating interactive capabilities that reinforce the user connection to the brand.



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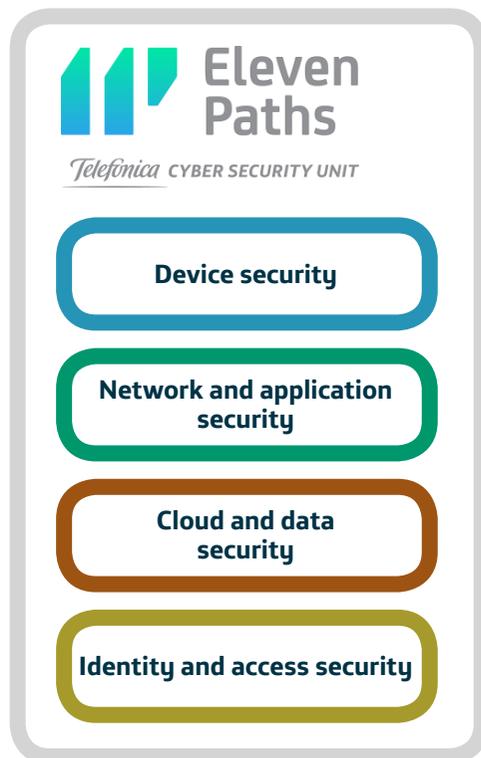
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Security

We live in a digital society where the guaranteed security and privacy of our solutions are key for our customers.

Threats are becoming increasingly frequent and sophisticated, affecting organisations, companies and individuals, and putting their economy, reputation, privacy and trust at risk. For this reason, we have established a unit that specialises in the commercialisation of security solutions ([Eleven Paths](#)), which focuses its activities on the following:



- **Electronic Security:** Products and services that guarantee the security and integrity of the customer's physical assets.

- **Information security:** Tools that protect the end customer's information and digital identity in fixed and mobile devices.

Through these solutions, we have been able to position ourselves as the leading cybersecurity provider in Spain and Latin America, with more than 2,700 professionals, 9 Security Operations Centres (SOCs), and an Advanced Global Centre (Telefónica Advanced Global SOC). The latter is a centre of excellence that aims to help our customers improve their cybersecurity capacities through the prevention, detection and response to all types of virtual threats.

In addition, we are the only telco in the [European Cybersecurity Organisation \(ECSO\)](#) with decision-making power.



Best practices

Digital Signature

Launched in 2017, this service makes it possible to digitally sign documents that have total legal validity. The service operates through a secure process that uses the registration of biometric parameters on devices such as smartphones or tablets, identifying the author of the signature and guaranteeing the integrity of the document.

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Internet of Things (IoT)

In the beginning, Telefónica started out by facilitating communication between homes, in time expanding to cover communication between people on the move. Now, technological developments and our commitment to innovation allow us to go even further, and manage communication between millions of objects.

The solutions that we develop for the Internet of Things (IoT) have the aim of connecting people with the things that matter to them. The IoT enables us to stop dedicating time to routine tasks - to what machines can do for themselves - and allows us to focus instead on what distinguishes us as humans; to do what really makes us special, as people, as companies, as a society.

Through the Internet of Things Telefónica commits to both excellence in its offer of managed connectivity and devices, and vertical solutions for companies in areas such as mobility (fleet management), energy management, retail, smart cities, and industry 4.0.

We also work in the residential market to bring the Internet of Things into the hands of individuals, mainly via connected cars and location and monitoring trackers.

The common denominator in all these solutions is security and advanced data analysis capabilities.

Customers demand a *comprehensive offer*, which is why *we develop solutions* that allow them to take *control of technology*

For the fourth year running we are *world leaders in the Gartner magic quadrant of M2M managed services*



Best practices

New IoT laboratory - The Thinx

The Thinx is a space for experimenting with new mobile network technologies aimed at IoT (such as NB-IoT, LTE-M...). Here our partners, developers, start-up innovators and other stakeholders can test their IoT services and devices. In this integrated space Telefónica offers access to the technology, support, and testing environment necessary for confirming how best to satisfy the needs of our customers.

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Thanks to our [Things Matter](#) study, which explores how people use connected things, we can clearly see which aspects of our society are, to a greater or lesser extent, impacted

by the Internet of Things. According to the results, the six major Internet of Things environments are:

The six major environments of the Internet of Things

THE CONNECTED VEHICLE The connected car, hourly car rental, advanced leasing, vehicle localisation, remote software updates, etc.		THE CONNECTED INDUSTRY Fleet management, energy efficiency, position locator and product status, inventory management, etc.	
	THE CONNECTED SHOP Localisation in closed spaces and open areas, in-store personalised offers, smart fitting rooms, etc.		THE CONNECTED CITY Waste management, Smart Parking, smart traffic lights, efficient lighting, etc.
THE CONNECTED INDIVIDUAL Wearable technology, object and pet locators, smart footwear, smart clothing, etc.		THE CONNECTED HOME Connected appliances, smart meters, remote lighting control system, etc.	

The Internet of Things is the *technology* that establishes *smart communications* between things, facilitating the gathering of *information and the remote control or automation of processes*, to help companies offer a better service while improving the quality of life of their employees



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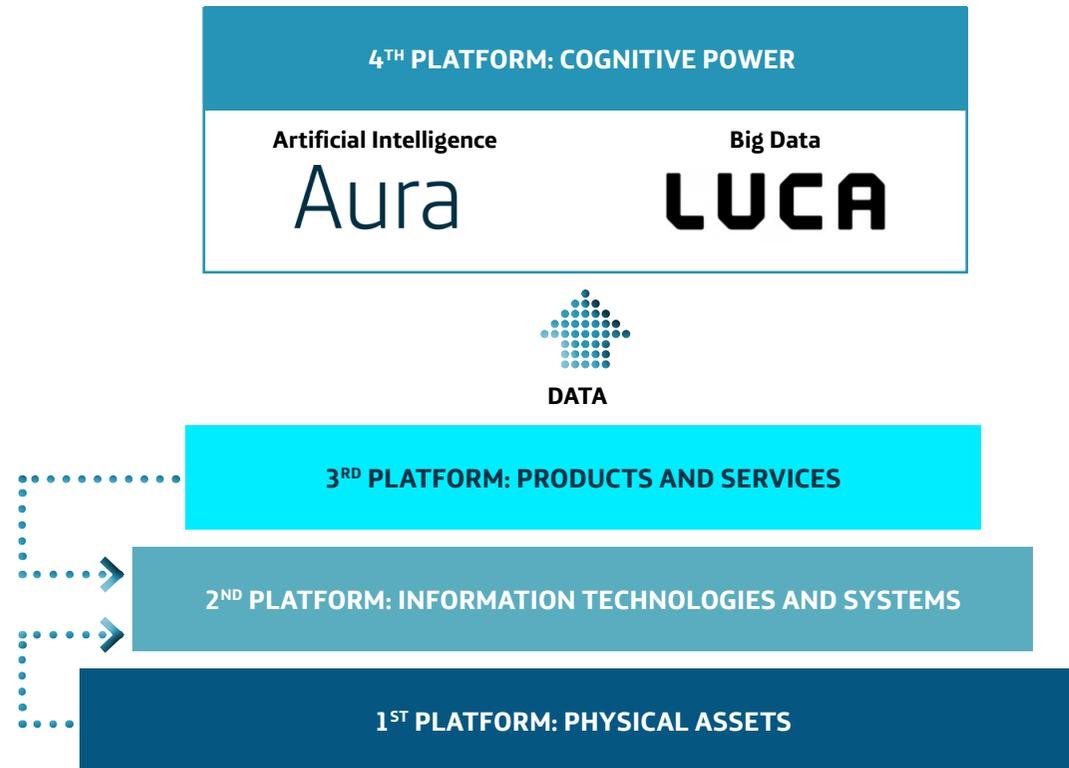
Cognitive power

In recent years, we have strengthened and expanded our data collection, storage, analysis and understanding capabilities, and are also able to act in real time based on the information obtained from all our services and systems (platforms 1, 2, and 3), as part of our internal transformation process.

However, we want to go further in the management and exploitation of Big Data, and are therefore working to standardise these capabilities, with the goal of them forming a solid basis on which to establish and build, through Artificial Intelligence, new management and customer relationship models.

This is what defines our 4th platform, the purpose of which is to improve the relationship with our customers and offer them innovative solutions based on the collection of large amounts of information and data from the different markets in which we find ourselves.

We believe that giving people and businesses control of their data is essential in the context of the transition to the digital economy. Therefore, we have developed an ethical framework for the processing and privacy of information (see chapter on 'Digital trust').



We seek to become a data-driven Company and to take advantage of all of this information to establish a more natural and trusting connection with our customers. We want to offer useful information to enable them

to make the best decisions. We are also committed to using Big Data to improve our efficiency and hence achieve better results from more efficient processes.

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THE VALUE OF DATA AND INFORMATION - LUCA

LUCA (Data Driven Decisions) is the specialist Big Data unit that provides our customers with the information necessary for making decisions, managing their resources and optimising results.

This unit, launched in 2016, is currently running more than 150 projects in 8 different countries, on topics such as transport, trade, tourism, finance and advertising. LUCA plays

Best practices

Big Data in London transport

We analyse the data generated by users of London public transport to obtain useful conclusions on how to relieve traffic in the most congested areas and which investment decisions to make.



a key role in Telefónica's position as one of the leaders in the Big Data market, due to our multi-sectoral offer.

Thanks to the solutions we offer, both public and private sector organisations can take advantage of the value of their own information to become data-based organisations.

Our services make it possible to:

- **Transform transport services:**

By analysing the combination of citizens' transport and mobility data, we help to improve public transport infrastructure and planning projects in cities, which contributes to a significant economic impact, improved efficiency and a reduction of traffic, positively impacting air quality.

- **Facilitate access to financial services and prevent bank fraud:**

Through the analysis of mobile data we can optimise credit score information through LUCA Scoring. This solution makes it possible for people who do not have a bank account or lack basic financial knowledge to access financial services and protect their privacy. This enables local economies to grow, especially in Latin America where most of our customers do not have access to financial services.

In addition, through real-time services that verify the identity and location of the client at the time of a financial transaction, we help to protect the transactions of our customers by preventing SWIM Swapping fraud.

- **Transform tourism services:**

We help all stakeholders (private companies, public administrations, local agents, technology centres, etc.) to create synergies and work together to define the type of tourism destination that they wish to become; the quality of life of residents being the key point to take into account.

We believe in the potential of *Big Data* to *reduce social divides* and *address environmental challenges*

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ARTIFICIAL INTELLIGENCE - Aura

It is under the name of [Aura](#) that our commitment to revolutionising the way we connect with our customers materialises. Aura is our new model for a digital relationship based on trust, privacy, and ethical and responsible Artificial intelligence that listens to customers and enriches their experience as users of our services.

Aura offers us a new way of relating to consumers and, through use of the functionality, provides us with a better understanding of their needs and demands.

This model allows us to render data management more transparent and thus empower the customer, because Aura shows the customer what information is stored and what information is to be shared, and also offers new services based on available data generated through our platforms. In this way, customers gain autonomy and decision-making capacity, being able to choose what to do with their information. In addition, it facilitates a better relationship with the Company, by answering questions, making proactive proposals and helping the customer to discover new ways of putting their information to work for their own benefit.

Our customers will not only be able to speak with Aura through the Telefónica channels, but also through third-party platforms like Facebook Messenger and, in the future, Google Assistant and Microsoft Cortana. Aura

is available in Argentina ([Mi Movistar](#)), Brazil ([Meu Vivo Mais](#)), the United Kingdom ([O2 Ask](#)), and Spain ([Movistar+ Habla](#)) through Telefónica applications.

Customers will be able to communicate with the Network in real time via multiple channels to ask about their bill, contracted services, the use of data, and other issues. Our aim is to offer our customers a simple and natural way to connect with the Company.



The main features of Aura are:

- It learns the language of people so that our customers don't have to learn the language of machines.
- It helps our customers to manage their digital lives with us in real time.
- It transforms data into information to offer personalised experiences.

With Aura we seek to help our customers *get more* from the services we offer



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Innovation

INNOVATION IN TELEFÓNICA

We are committed to innovation as a fundamental tool for becoming one of the main players in the new digital universe.

We have the capacity, and provide the resources necessary, to generate competitive advantages and unique products, and, through them, help to create a more sustainable world.

By introducing new technologies, and developing new business models and processes, we want to become a more effective, efficient and customer-oriented Group.

In doing so, we base our innovation strategy on the balance between:

- **Internal innovation:** which promotes internal innovation capabilities, and for which we have created a model that makes it possible to apply technical research in the development of commercial products and services, and in our operations, thereby making use of the knowledge acquired in research centres, technological institutes and universities, among other sources.
- **Open innovation:** which creates open innovation ecosystems that connect entrepreneurs, start-ups, investors, venture capital funds, and public and private organisations around the world,

	2016	2017
R&D+i investment (millions of euros)	6,568	5,970
R&D+i investment / income	12.62%	11.48%
R&D investment (millions of euros)	906	862
R&D investment / income	1.74%	1.66%
Patents granted	577	643
Start-ups funded	700	769
Start-ups accelerated	1,500	1,700

Note: Figures have been calculated using the guidelines established in the OECD manual.

with the goal of promoting innovation and entrepreneurship. It complements internal innovation by identifying and supporting start-ups with the goal of bringing the best of the digital world to our customers and our business.

We promote the model of sustainable innovation throughout our Company, developing innovative solutions which have the goal of generating a positive impact on the environment, and on the social and economic progress of the regions in which we operate. In addition, we promote the accessibility of our products through technology, to ensure access to the digital world for all sections of society.

Evolution of our patents portfolio



Innovation has a *direct impact* on customers, society and the environment

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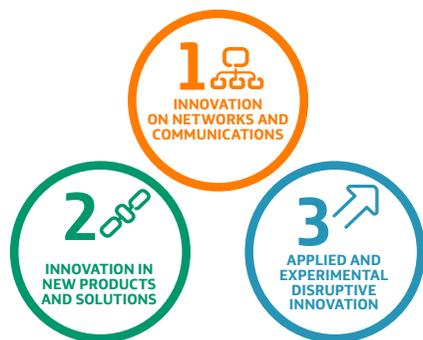
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INTERNAL INNOVATION

We firmly believe that our competitive advantage cannot solely be based on technology purchased from external suppliers, and this is why one of the pillars of our strategy has always been to promote internal innovation activities, in order to ensure our models are sustainable over time.



An important part of our innovation activities and projects are managed by the Product Innovation department. Its mission is focused on improving our competitiveness through improvements in networks, communications, and data, the development of new products, and experimental and applied research. In performing its duties, this unit collaborates with other external organisations and universities who share our goal of promoting technological innovation.

More specifically, during 2017 we carried out numerous projects focused on sustainability, process efficiency, the creation of new sources

of revenue, improving customer satisfaction, the consolidation of our presence in new markets and technological leadership.

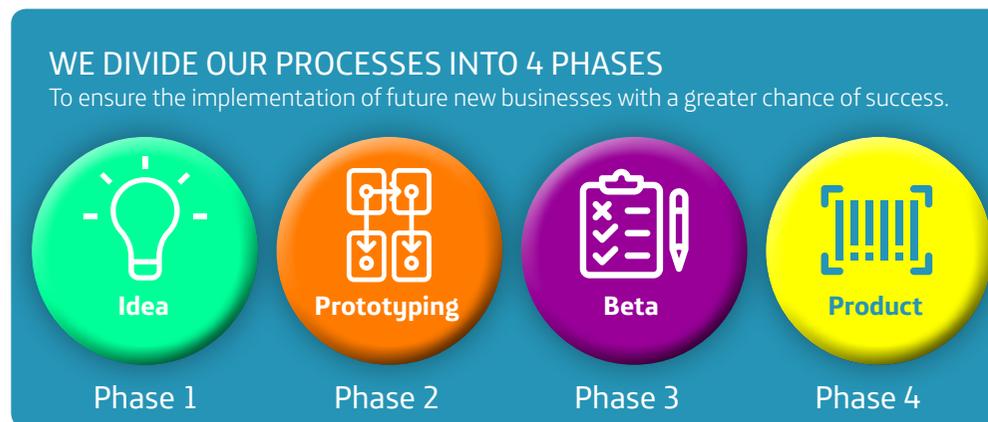
One of the key elements of our innovation activity is the pioneering Lean Elephant methodology, an adaptation of the Lean Startup model that aims to streamline innovation processes within large companies and make them more effective. Developed by the Product Innovation teams, this model has generated business cases in prestigious universities such as Berkeley and Harvard, demonstrating its value for promoting innovation in an efficient and effective way.

The model divides the design process into 4 phases, from the initial idea through to its commercial launch. Each phase works towards a milestone, at which point the continuity of the project, and its suitability or its rejection, is evaluated.

We are the *best European operator* for *innovation* according to Fortune magazine's 2018 ranking of the world's most admired companies

Another of our main internal pillars is the search for ideas among our employees and the creation of a culture of innovation. Through the global "IN_Prendedores" (IN_Trapreneurs) programme, we combine all of our assets dedicated to innovation in order to finance and provide resources to the best ideas presented by employees.

Within this framework, during 2017 we facilitated projects related to security, sustainability, the Internet of Things, connected homes and online channels, among others.



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In addition, we have developed specific courses and training in innovation and entrepreneurship for all those employees willing to contribute to our digital transformation, with the goal of stimulating generation of innovative ideas and guiding their execution.

1 INNOVATION IN COMMUNICATION NETWORKS

The main objective of this line of activity is to guarantee market leadership in one of the key pillars of our business, seeking to have more flexible and efficient systems of networks and communications that are capable of meeting the new demands that stem from the digital transformation. For this reason, we promote pioneering projects in coordination with the rest of the industry and international bodies of standardisation.

In 2017, we placed extra emphasis on the study and development of the new 5G networks, demonstrating our commitment to the advantages that this technology will offer communications in the coming years. The evolution towards 5G will bring important developments and improvements, not only with regard to capacity, latency, connection density, quality and user experience, but also in terms of flexibility, efficiency, scalability and degree of openness of the network. This will create a wide range of possibilities to offer new services.

In this regard, we have developed a network programming strategy based on SDN (Software Defined Networks), and have advanced in virtualisation and Network Slicing processes. Network slicing is a key technology for 5G; it will transform the fixed and mobile networks and make it possible for operators to offer multiple virtual networks.

We thus focus on preparing our infrastructure for the future, building a high capacity, programmable, flexible, scalable and open, multi-service network that is capable of offering the features that the new services will need, in an economically sustainable manner.

Another of our lines of activity focuses on the optimisation of connectivity in the home, through projects based on plastic optical fibre (POF), which makes it possible to guarantee speeds of up to 1Gbps. Testing with 60GHz wifi technology, which allows bandwidths of up to 4600 Mbps, is also underway.

All our efforts to offer the best communications networks are aligned with our commitment to guaranteeing economic and social progress, helping unconnected people to become connected, in what we term the "Internet for All" (see chapter on 'Digital inclusion').

Best practices

5TONIC

We continue to work on the new networks that connect the devices of the Internet of Things (IoT), and which focus on covering connectivity and battery consumption requirements. Together with our partners at the 5TONIC research centre, of which Telefónica is a founding member, we have actively worked on the new NB-IoT and LTE-M standards that make it possible to reduce the complexity of communications chips, minimising the cost of devices and the energy consumed.



Onlife Networks

Through this project we are exploring the rearchitecture of our central offices into data processing centres through the deployment of servers and end-to-end digitalisation.



Among its advantages, it is worth underscoring that it will enable connectivity to be personalised in such a way that our customers will be able to have a personal Internet, configured and adapted to their needs, the services they use, and the devices available in their homes, prioritising what is important to them. In addition, virtualisation makes it possible for connectivity to be programmable and open, so that both internal and external developers can deploy their own services in our cloud. It provides very low latencies, which will be key to autonomous cars, virtual and augmented reality, and industry 4.0 services.

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2 INNOVATION IN NEW PRODUCTS AND SOLUTIONS

Beyond new networks and connectivity, we are working on the development of solutions and applications for the digital world, such as advanced user interfaces, the distribution of TV and multimedia content, and other added value services, taking advantage of the potential of the deployed telecommunications infrastructures.

Specifically, the main lines of activity carried out during 2017 were related to the development of:



Best practices

IOT Innovation Centre - Chile

This centre acts as an open ecosystem for the technologies of the Internet of Things (IoT). It currently serves to support the performance of sectors such as agriculture, mining, or the smart planning of cities through technology.

- **Customer-based network services**, identifying and building innovative products, services and experiences for our customers that are based on our key asset: the Network.

- Services related to **Big Data and information analytics** that return the value associated with customer data back to them.

- **Multimedia and video services** with one user experience across all connected devices.

- **Advanced solutions for businesses**, such as cloud computing or security.

- Management of **Internet of Things (IoT)** services, related to mobility, energy efficiency, or Smart Retail.

- **Cognitive digital marketing**, applying Artificial Intelligence to companies' sales processes to personalise their relationship with customers.

3 APPLIED AND EXPERIMENTAL DISRUPTIVE INNOVATION

We have innovation teams whose work it is to analyse the future possibilities of technology. These are the Product Innovation Discovery teams. Among the initiatives to emerge from their activities and innovation lines are the Internet of Things (IoT) and Artificial Intelligence business units; units that have become strategic areas of development of our business. Elsewhere in this field, collaboration activities are conducted with universities, providers and international bodies in areas such as networks, the future of the Internet, or machine learning.

In addition, through our Telefónica Alpha subsidiary, we continue to work on the research and development of disruptive solutions to tackle social and environmental challenges.



Best practices

Blockchain

We are positioning ourselves as a pioneer in the development of blockchain technology, which guarantees the privacy of all parties involved in different types of transactions.

We are researching the possibilities of applying this new technology in

communications networks, transport and distribution, security matters, or for transparency. In addition, we participate as founding member of Alastria, the first blockchain-based regulated national network in the world, and have become a pioneer in the use of this technology for the issuance of corporate debt, thus diversifying our financial structure.



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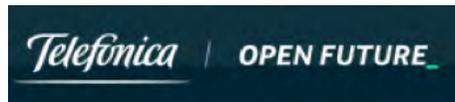
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OPEN INNOVATION - TELEFÓNICA OPEN FUTURE_

Telefónica's [Open Future_](#) unit is a global and open programme designed to connect entrepreneurs, start-ups, investors and public and private organisations around the world, bringing together all our activities, initiatives, and projects in the field of open innovation.

The main goal of this programme is to develop and strengthen technological-digital talent and entrepreneurship in the local environments of the 16 countries in which it is present. For this purpose, it promotes, accelerates and invests in the growth of ideas, projects, initiatives and enterprises, and detects talent in all phases of maturity.



Through this programme the Company invests in the technologies that are most demanded by users - those that are directly related to our business. This is the case of networks (fixed and mobile), cybersecurity, the Internet of Things, video, virtual reality, Artificial Intelligence, machine learning and advanced data analytics.

A transforming and open nature is one of the main characteristics of Open Future_, whose initiatives enjoy the cooperation and participation of public and private organisations, universities, co-investors and

Telefónica Open Future is a unique, open innovation network

We encourage global talent by transforming innovative ideas into successful businesses

Programme initiatives

- ▶ Crowdfunding
- ▶ Wayra
- ▶ Telefónica Ventures
- ▶ Amerigo
- ▶ China Open Future
- ▶ Finland Open Future
- ▶ Korea Open Future



Telefónica is the number two corporation in Europe for support of *start-ups*, according to the European Commission's “*Start-Up Europe Partnership*” initiative

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other stakeholders in the telecommunications sector and in other industries.

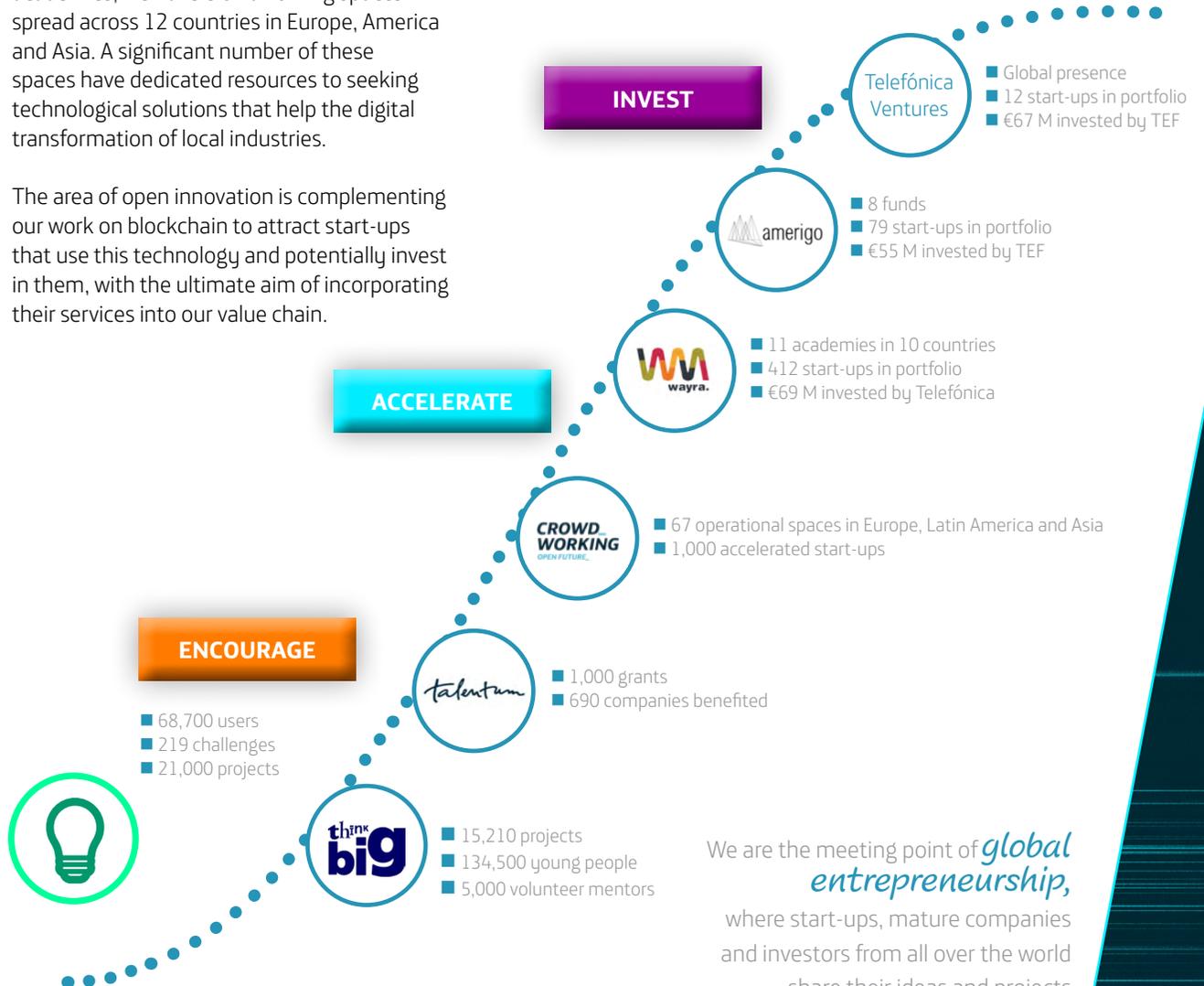
This integral character makes it possible for us to develop innovation in different stages, which are articulated in 6 initiatives and have the following objectives:

- **To encourage entrepreneurial ecosystems:** To encourage young people to undertake and develop technical careers (STEM) through the [Think Big](#) social entrepreneurship and innovation programme and the young professionals support platform [STEM Talentum Start-ups](#).
- **To accelerate start-ups:** Through the collaboration spaces in which crowdworking collaborative innovation and the Wayra accelerator network are promoted.
- **To invest in start-ups:** Through innovation funds (the Telefónica Ventures corporate fund and the Amerigo third party funds network).

Among the companies in which Amerigo funds invested in 2017 are KDPOF, Aerial and Vilnyx. Important exits were also executed in this period, either through the successful sale of the company to third parties, as in the case of Upplication (by Wayra), Review Pro and Mindmeld (by Amerigo funds), or through an initial public offering, as in the case of Quantenna (previously funded by Telefónica Ventures).

The presence of Open Future_ in the different innovation and entrepreneurship ecosystems grew over 2017. In addition to the 11 Wayra academies, we have crowdworking spaces spread across 12 countries in Europe, America and Asia. A significant number of these spaces have dedicated resources to seeking technological solutions that help the digital transformation of local industries.

The area of open innovation is complementing our work on blockchain to attract start-ups that use this technology and potentially invest in them, with the ultimate aim of incorporating their services into our value chain.



We are the meeting point of *global entrepreneurship*, where start-ups, mature companies and investors from all over the world share their ideas and projects

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Several alliances and global calls for participation were effected in 2017, serving to highlight the dynamic role of Open Future_ in the international sphere. Among these, worth mentioning is the 2nd global call for participation in [Go Ignite](#), the alliance between Deutsche Telekom (hub:raum), Orange (Orange Fab), Singtel (Singtel Innov8), and Telefónica (Telefónica Open Future_), to find market-ready solutions in the fields of Artificial Intelligence applied to the consumer experience, connected homes and IoT cybersecurity. We can also highlight the opening of two new spaces for entrepreneurs in the Peruvian regions of Ica and Piura that have the goal of supporting and promoting social entrepreneurship, and which were the fruit of the agreement reached between the [Fundación Telefónica](#) and the [Inter-American Development Bank \(IADB\)](#).

DEVELOPMENT OF A SUSTAINABLE INNOVATION MODEL

With products and solutions that reach more than 300 million customers, companies and public administrations, we are committed to guaranteeing that, in addition to complying with the criteria of high quality, our services have a beneficial impact for society as a whole. We are aware of the potential of innovation

We are progressively integrating *sustainability* principles into our innovation activities to *maximise their social value* and to seek solutions to environmental challenges



to achieve this, and therefore we continue to commit to innovation, ensuring that our investments have a real, positive value in society and our environment.

A transversal pillar of the internal innovation and open innovation processes developed by Open Future_ is the investment in initiatives that address the main social and environmental challenges worldwide, and translate them into business opportunities. We maintain our long-term strategy of seeing sustainability as a business opportunity, which enables us to invest in innovation as a tool for social good.

In 2017, our Sustainability Advisory Panel, through which we interact regularly with our main stakeholders, actively collaborated in an exercise to discover which topics are most relevant to Telefónica's Sustainable

Innovation strategy. Thanks to this panel, we have analysed the main opportunities that arise from the 4th industrial revolution and the challenges that we need to address to be able to contribute to a more sustainable future.

Best practices



GHCQ Cyber Accelerator

In 2017 the [GCHQ Cyber Accelerator](#), the cybersecurity accelerator of the Cheltenham Innovation Centre of the Government of the United Kingdom, was launched as a result of the alliance between the British Cybersecurity and Signals Intelligence Agency (GCHQ), the National Cybersecurity Centre (NCSC), the Department of Culture, Media and Sports (DCMS) and Wayra United Kingdom. This is a project that in just one year has launched two calls for start-ups specialising in cybercrimes.

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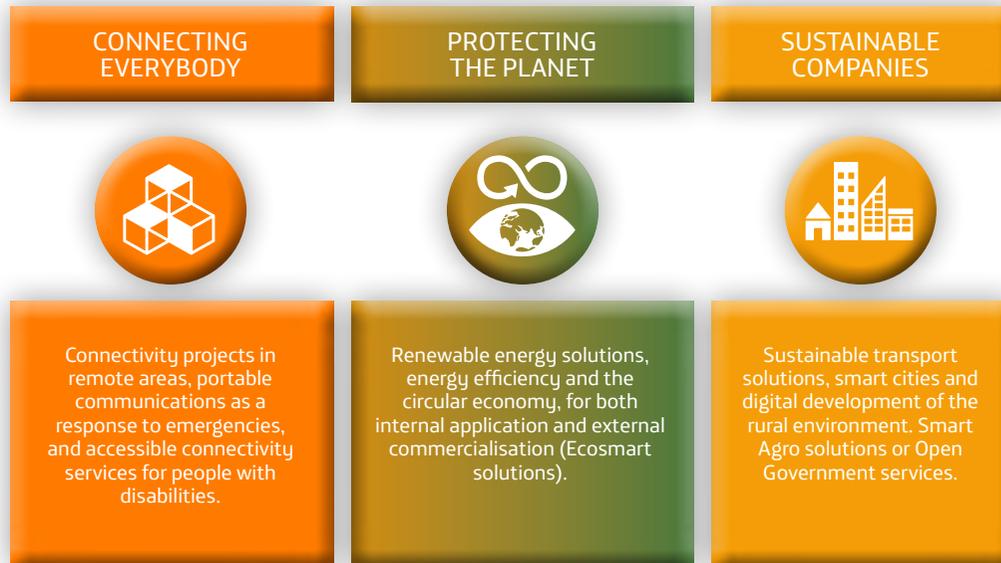
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As a result of this analysis, focus has been placed on a group of products and services that have a clear, positive impact on society and the environment, in the following thematic areas:



(See chapter on 'Digital inclusion').

In 2017 we continued to promote the development of Sustainable Innovation solutions through investment programmes that finance new business lines and initiatives with a potentially positive social impact.

Among the different activities we have conducted in this area, we can highlight the III Sustainable Investment Initiative, which, in line with the Sustainable Development Goals of the United Nations, analysed 100 projects

being carried out by teams and employees in the countries where we operate, which aim to address some of the major challenges established in the SDGs, identified as priority areas for the Company: Connecting everybody (connectivity and accessibility), Protecting the planet (circular economy, efficiency and climate change) and Sustainable companies.

This Initiative promotes solutions that address these global challenges, where our assets may



have a positive impact, as well as generate new business opportunities or improve internal efficiency. On this occasion, members of the [Global Compact](#) (United Nations), academia and multilateral agencies collaborated on the jury, helping to select the best existing projects.

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Projects driven by the Sustainable Investment Initiative in 2017



Fire-prevention drones

This project enables the early detection of fires in forest areas through the use of autonomous drones at our base stations (antennas) to provide images, measurements and information from the air.

Connectivity in remote areas

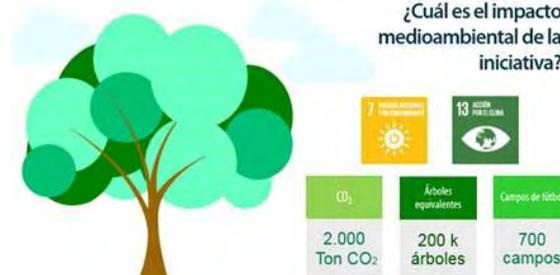
This project provides 3G/4G LTE coverage through the deployment of a drone and a hot air balloon containing communications equipment. This facilitates connectivity in remote areas in the event of natural disasters or large-scale events.

Renewable energy generation systems in remote mobile antennas

This project delivers renewable or hybrid solutions in remote areas, to generate sufficient power to deploy mobile broadband services where this has traditionally not been possible due to a lack of energy.

Smart Energy for SMEs

This project uses energy meters adapted for small and medium-sized companies to register energy consumption and subsequently analyse the data, with the aim of achieving significant reductions in energy consumption.



2017 Milestones

- We retained our position as a leader in R&D investment in Spain, and remain among the top 5 Telcos in global R&D investment.
- We have continued to be a renowned investor in technology companies in Spain and Latin America.
- Aura was launched commercially in several of the countries in which we operate.
- We strengthened employee entrepreneurship and spirit of innovation through the IN_Predadores programme.

100%

100%

100%

100%

2018 Targets

- To maintain our leadership in investment in Spain and remain among the top 5 telcos in global R&D investment.
- To remain a benchmark investor in start-ups in Spain and Latin America.
- To promote Innovation among employees through intrapreneurship programmes.
- To invest in Sustainable Innovation to address social and environmental challenges.

We drive projects that address the *Sustainable Development Goals* of the United Nations

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👤 Commitment to our customers

The customer is and must be the starting point in everything we do, and, therefore, any initiative that we undertake from the point of view of sustainability, must have the customer at its centre.

Customers are our most important stakeholders, and they expect us to offer them a service that they can trust.

GOVERNANCE

The experience of our customers, the quality plans to improve it, and the results of the measurement of their satisfaction are strategic for all Group operators, and, therefore, are reported to the highest level of the management committees of each company.

In addition, at a Group level, the Board of Directors has a specific Committee dedicated to Quality and Customer Service that meets five times a year to review, among other subjects, the evolution of our customer's satisfaction, together with the main initiatives developed in this area at a local and global level.

We want our Customer Promise to reflect a *commitment, transparency, simplicity and integrity*

PRIVATE CUSTOMER (B2C) Customer Promise

We work on keeping a Customer Promise that reflects our firm commitment to act with transparency, simplicity and integrity.

We know that the aspects that most concern our customers are our offer of products and services, and integrity. In short, they want a reliable and simple quality service; they want us to tell them how much and how we are going to charge them; they want to have

different channels available for them to top up their balance; they want to have different channels through which to get in touch with us (both to ask for information and to express their dissatisfaction); they want us to quickly solve their problems; they want us to keep our word, to be honest and transparent, and for us to process their personal data in a secure manner. And we at Telefónica are working for all of this to be a reality.



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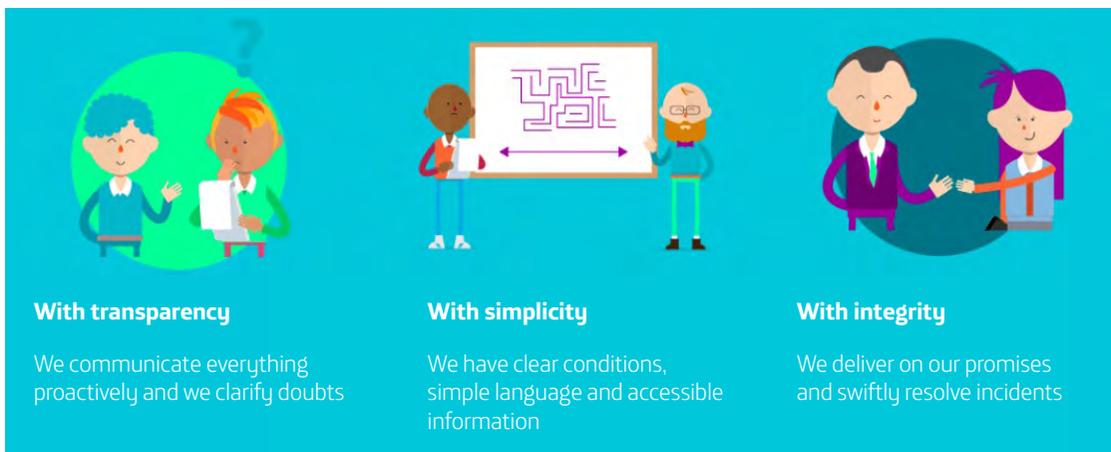
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Customer Promise Project - This is how we earn the *trust of customers*



With transparency

We communicate everything proactively and we clarify doubts

With simplicity

We have clear conditions, simple language and accessible information

With integrity

We deliver on our promises and swiftly resolve incidents

Transparency

Above all else, customers demand transparency, because if we are transparent, we give them peace of mind. For this reason, we work to ensure they have all the information that is relevant to them through the Mi Movistar/Meu Vivo/My O2 applications.

In addition, we aim to offer them services that adapt to their needs and, at the same time, allow them maximum possible control over their invoices. For example, during 2017 we launched the new Yo-Yo flexible rates in the United Kingdom, which make it possible for customers to adjust their mobile rate on a monthly basis, depending on their consumption of data. Furthermore, in several Latin American markets we also offer daily or weekly prepaid plans that include mobile data, known as recurrent comprehensive plans, and that contribute to the democratisation of the use of mobile data in the region.

Simplicity

For several years, we have been making important efforts to simplify our commercial offers, applying *neuopricing* techniques that scientifically analyse customer reactions to certain ways of presenting them. In 15 of our markets we have already carried out this simplification, and we are working to make it a reality in all our markets throughout 2018.

In Colombia for example, in order to give current and potential customers greater clarity regarding our commercial offer, we have simplified the post-pay plans in recent years, reducing the dozens of options to only five. With the same goal, comprehensive "All-in-one" offers were launched for both high value customers and the rest of the segments. These offers are simple, economic, and make it possible to enjoy mobile voice, mobile Internet, SMS, Facebook and WhatsApp.

Integrity

We deliver what we promise and swiftly resolve incidents. We are striving to reinforce the invoicing and charging processes to minimise errors through the E2E digitalisation of processes. We are also working to quickly resolve the incidents of our customers. Thus, in Uruguay, the rate of problem resolution in the first call to a call centre is now 90%, with the number of monthly calls decreasing by 16% on average. Similarly, between 2015 and 2017, in Argentina the average duration of calls to the call centre decreased from 5.3 to 3.5 minutes.

We want to earn the trust of our customers. To do so we are working to ensure we do not fail them in the invoicing processes when they contract a service, and especially not when we handle their personal data. That is why we work on our Telefónica Customer Promise, a project with multiple initiatives that has led us, for example, to reduce the time it takes us to install a fixed broad band line in Spain by half.

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CUSTOMER SATISFACTION INDEX

The customer is the starting point in everything we do, and therefore we strive to document their opinions, understand their needs, anticipate them and measure their degree of satisfaction with our products and services.

Because of this, each of our operators performs monthly satisfaction surveys on their customers in order to obtain their opinion about the service we provide. We ask them about the most relevant aspects of the business: the Network, our commercial offer, the service that we provide through different channels, invoicing, top-up, the price, to name some examples. It is from this survey that we extract one of our main quality indicators: the CSI (Customer Satisfaction Index).

Telefónica CSI - Total customers



Spain presents the best historical data on customer satisfaction. This is a result, on the one hand, of its "More for More" proposal, which updated rates to include more content, and, on the other, of the improvement of processes which has increased service agility and issue resolution in the contact points.

The plans aimed at improving the post-sales service (provision, failures and complaints) for companies and individualised plans of major accounts, deserve equal relevance in the result of the CSI.

2018 will be the year to advance with the digitalisation of processes and improve the relationship with customers through Aura, facing the challenge of continuing to improve the offer while simultaneously promoting excellence in quality towards customers. To do this we will use a Company Plan that will be regularly monitored from the highest level of the Management Committee (see chapter on 'Cognitive Power').



20% of the variable remunerations of all employees is tied to the degree of satisfaction of our customers

Offering the best experience to our customers in order to meet their expectations is part of the DNA of Telefónica employees. For this reason, for several years now 20% of the variable remuneration of Group employees is directly linked to the degree of satisfaction of our customers.

Our Customer Promise demands that we also measure the trust that our customers have in us; in other words, the likelihood that our customers will recommend our products and services to friends and family. In this sense, we are giving greater importance to the monitoring and analysis of the Net Promoter Score (NPS) on a global level.

We closed 2017 with our best ever CSI score of 7.58 (on a scale of 1 to 10), mainly thanks to the good performance of our operations in Brazil and Spain.

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United Kingdom

showed a positive evolution throughout the year, obtaining the best CSI score and the lowest level of dissatisfaction for the past six years. As a result of a Company strategy that focuses on root causes in order to reduce dissatisfaction, we have managed to improve the perception of the quality of the Network and the roaming service, and avoid invoicing surprises thanks to improvements to the "My O2" app and communications with the customer.

The organisation carries their focus on the customer experience improvement strategy through to 2018, with the goal of reducing the level of dissatisfaction as much as possible, and with an eye on the auction of network spectrum in order to continue improving the service, the offer, and the customer experience.



Germany

maintained its customer satisfaction throughout the year, following the migration of brands which had an impact on the perception of the quality of the Network and customer service. We have launched several initiatives, such as an increase in the number of agents in the customer service centre and the digitalisation of service processes, which have resulted in a decrease in the level of customer dissatisfaction.

In 2018, the operation will face the challenge of finalising consolidation of its Network, as well as the challenge of improving its customer service systems, both within a business transformation strategy which involves promoting simplification and digitalisation as levers for improving the customer's experience. We will work on improving the experience at the points of contact, adjusting the brands, products and offers, to the needs of customers.

In **Brazil**, following positive trends in customer satisfaction, we have immersed ourselves in solid and constant improvements to processes and services.



In 2017, we implemented 94 quality actions in different areas of the Company, including customer service, invoicing or collection, and network. These actions have improved the main quality indicators by 72%, reducing complaints, calls from our customers, and the time slots for technical home visits.

Furthermore, important work has been done to simplify and provide more content in our commercial offer. This is the case of "Vivo Turbo" with an expansion of data and bonuses, and "Combo Digital" (Digital Combo) with the inclusion of value-added services for all customers at no additional cost.

The challenge for 2018 is to maintain the current levels of customer satisfaction in a year whose objectives are based on the growth of the Network and fibre, the implementation of 4G+, and the improvement of business processes. All this while Fullstack is simultaneously implemented and we face greater aggressiveness from the competition.

In **LatAm**, after a tough start to the year, the region has shown continuous improvement, shortening its distance with the main competitor, and facing the challenges stemming from the implementation of new systems, the entrance of aggressive competitors to the market, the subsequent development of their networks, and adverse weather.

In 2018, they will continue with the digital transformation of their processes, as well as the consolidation of the Network, the improvement of the relationship with customers through digital channels, and the improvement of commercial offers.



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E2E DIGITALISATION

As part of our commitment to the customer, we are implementing a digitalisation strategy on a global scale, to enable an automatic, omni-channel and real time experience. All of our operators have a plan that is focused on improving the customer experience, as well as becoming more efficient.

For this reason, we are transforming all the processes and core systems that support the customer value chain: the way we launch our products, how we sell and bill, resolve requests and problems, and even how we terminate the service. Digitalisation allows us to enrich the experience we offer throughout this value chain, and it also makes it possible for the customer to self-manage itself through the digital channels that we make available for them.

Therefore, thanks to digitalisation, by 2020:

- Sales from online channels will multiply by more than 2.5.
- The number of users who will be able to benefit from our applications will multiply by 5.



More information is available in the 'Information Technology and Systems' chapter.

Novum and Aura

In an environment in which people have grown accustomed to managing services through a mobile application, even by using their voice, it is a priority for our customers to be able to do the same. The digital interface that they have must integrate all our services and be connected to all their information so that we can offer a seamless and complete experience, managed by a powerful artificial intelligence engine that interprets their needs and offers them services that are really of use to them.

The launch of our new application, under the Novum project, allows our customers to manage their voice and connectivity services, consumption, top-up, download an invoice, call their contacts through the app, or resolve queries and problems via chat or voice. It also makes it possible to access the list of contracted products and services or see their interaction history with the Company.

This application allows for interactions using natural language. In this way, it responds to customer queries in a personalised manner. Thanks to the cognitive capabilities of Aura, the more that customers interact with the app, the better we will be able to anticipate their needs.

Already present in 5 countries under our second brand Tuenti (Argentina, Ecuador, Spain, Guatemala and Peru), the new app has been launched in the following markets under the following brands:



■ **Meu Vivo Mais**, in Brazil (iOS and Android)



■ **Mi Movistar Argentina**, in Argentina (iOS and Android)



■ **Mi Movistar Negocios**, in Argentina (iOS and Android)



■ **O2 Ask**, launched in the United Kingdom in February 2018 (iOS and Android)

Best practices

E2E digitalisation: Colombia

Within the framework of the E2E digitalisation initiative, it was identified that one of the least satisfying experiences for customers in Colombia was the renewal and replacement of handsets. To streamline and improve this process, we implemented an efficient waiting time, which makes it possible for customers to manage their requests while waiting for their orders to arrive.

When users arrive at a Movistar experience centre and request a renewal and replacement appointment, they receive an SMS on their handset that redirects them to a portal where they can view the available handsets, see their credit line if they want to make a purchase in instalments, or reserve the selected handset. All of this from within the application and without consuming any data from their plan.

Once called by the service agent, the process is more agile. The implementation of these practices has made it possible to decrease the service time for this transaction by an average of 14 minutes.

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Digital trust

Generating trust with customers in relation to their digital lives - the protection and security of their data, the use we make of said data, the options that customers have to control the use of their information, etc. - is a very important component of our Customer Promise (see chapter on 'Digital trust').

Sustainable products and services

We consider it very important to bring sustainability closer to customers, not only by informing them of our goals and achievements when carrying out our activities in a responsible manner, but also by providing them with information about products and services that make it possible for them to incorporate sustainability criteria into their purchase decisions. In this sense, we have continued with our deployment of the Ecorating standard (see chapter on 'Circular economy') and the adaptation of our catalogue of mobile phones to accessibility criteria (see chapter on 'Accessibility').

MAJOR CUSTOMERS (B2B)

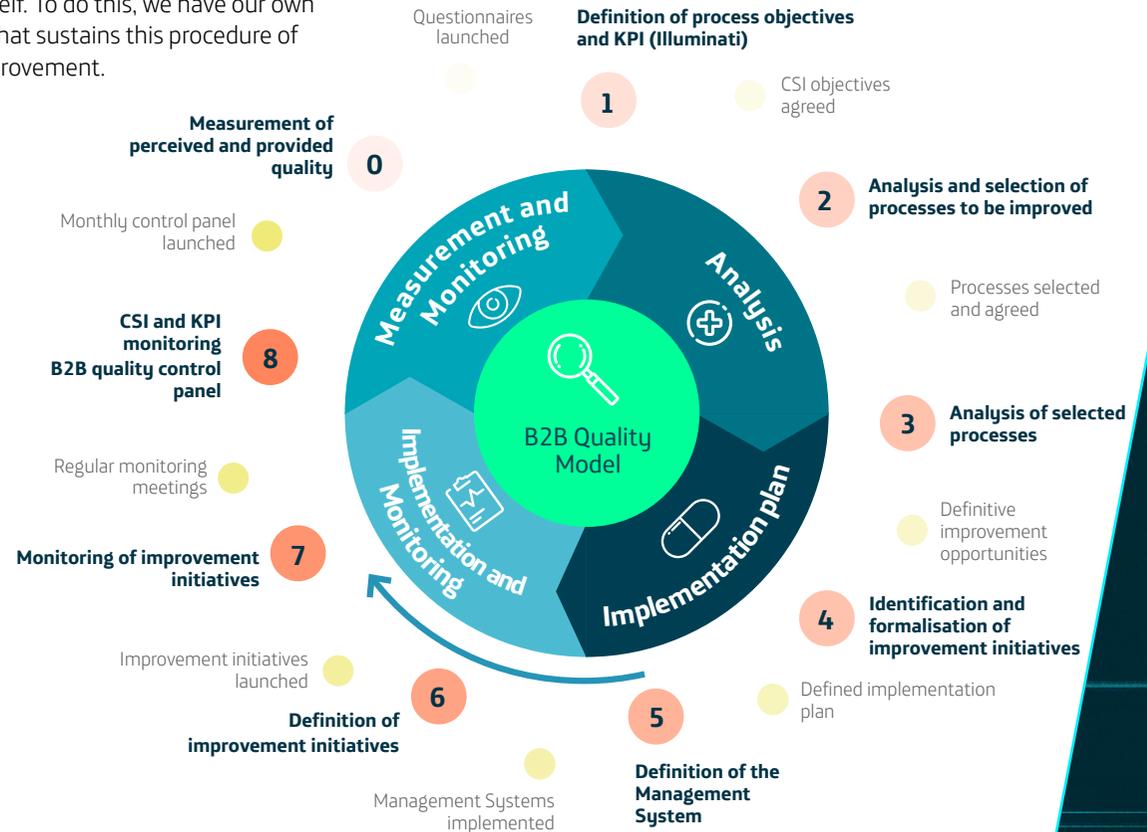
[Telefónica Business Solutions](#) is the division responsible for offering comprehensive communications solutions to the B2B market, and for managing the businesses of companies (multi-nationals, large companies and SMEs), wholesalers and roaming at a global level.

We strive to be simple, consistent and relevant to our customers. For this reason, our comprehensive operational improvement programme, designed around the set of interactions that a customer has with our Company throughout its life cycle, identifies opportunities and designs agile and efficient solutions.

This operating model is based on three pillars:

1. Optimisation of processes:

We define and implement improvements to processes, systems, people, KPIs, and the organisation itself. To do this, we have our own quality model that sustains this procedure of continuous improvement.



Life cycle of the customer (Customer Experience)



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2. Optimal design of functional processes

We classify and monitor key interactions with our customers, making it possible to identify the most relevant contact points and, therefore, work to improve these contact points through the Lean methodology of process redesign.

3. Digitalising daily interactions with the customer

We incorporate smart automations of processes, and provide Artificial Intelligence to facilitate decision-making. In addition, we are working to integrate the points of view of the customer and the Company in order to achieve a better overall experience.



Best practices (SME)

Global Technical Support Model

2017 was a year of expansion and consolidation of the Global Technical Support Model in the main convergent operations of Latin America. The transformation of this critical process in the customer life cycle is centred on the new needs of the B2B customer. The dynamism of the current market makes it important for us to offer unique experiences and solutions through which we can increase and extend the MRR (Monthly Recurring Revenue) of our portfolio over time.

Over the course of 2017, on the one hand, tools that enable enable issue resolution in the first instance, and optimally manage field technicians to ensure 100% of customers are covered, were implemented in the operations of Brazil, Chile, Argentina and Colombia.

On the other, we reduced the technical failure resolution time in several countries:

- In Peru, the number of technical failure resolved in less than 12 hours increased by 39.2 p.p.
- Resolution in less than 6 hours improved by 17.4 p.p. for VIP customers of Colombia.
- In Chile, we achieved a 20.4% reduction in the end-to-end resolution time (from the moment the customer gets in touch with us until the time the failure is resolved).

In 2018, we will continue to strengthen these processes through new incorporations, digitalisation and Artificial Intelligence.

Operational Service Model

Throughout 2017, the Global team accompanied the local teams of Brazil, Chile and Peru in the transformation of their Service Model, with the goal of improving customer satisfaction in this segment. The initiative was conducted under the premises of personalisation, convergence, and an E2E perspective, thanks to which we recorded significant improvements in the post-sales service experience.

- Chile: improvement of 0.96 p.p. in service process satisfaction (small and medium sub-segments).
- Peru: increase of 0.44 p.p. in SME Service process satisfaction.
- Brazil: improvement of 0.37 p.p. in the SME Service process satisfaction.

Claims Management Model in Peru

In October 2017, we implemented a Company model for SME claims management in Peru, with the goal of improving SME satisfaction through an agile and personalised service.

Main actions implemented:

- Formation of an E2E supervision team and an exclusive Back Office for SME customers.
- Automation of the metrics report to deliver an E2E view of the process.
- Prioritised assignment of claims, ensuring compliance with the agreed upon service deadlines.
- Reinforcement of online resolutions.
- Execution of continuous improvement projects and identification of root cause problems.

We were thus able to reduce the claims and adjustments made, improve compliance with resolution deadlines, decrease operating costs, and contribute to the improvement of the CSI.

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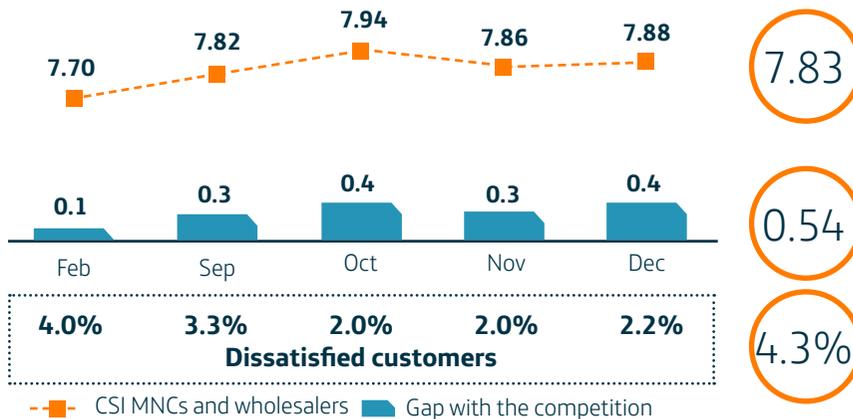
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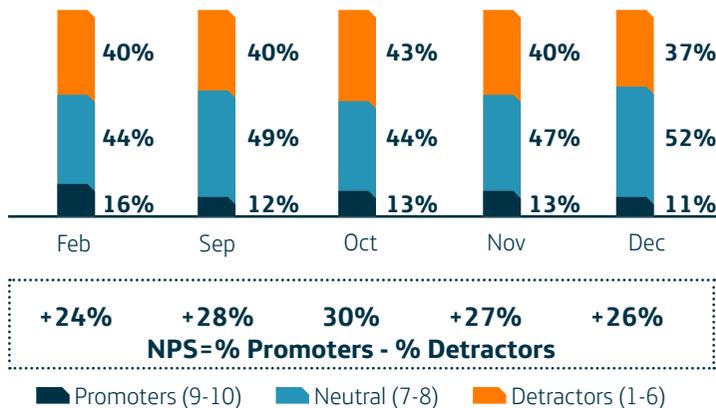
In the B2B sector we lead in satisfaction and in NPS

CSI for multi-nationals and wholesalers

Objectives



NPS



Best practices (multi-national corporations)

Listening Programmes

In order to improve the experience of our customers, we have designed a programme that delivers a 360° view of our relationship with multi-national corporations. To do this, we integrated a more operational level to the current Listening Programme that enables us to measure and act on the recurrent customer experience. In this way, and through the continuous management of the Programme, we have achieved a positive impact on global satisfaction and improved our relationships. The Programme has been implemented among those customers with VPN services, and we are now extending it to those with UCC services (mSIP).

The main objectives of this initiative are to improve satisfaction, reduce churn and, with this, also improve the working environment for our employees. Customer loyalty or fidelity are, today, essential factors in all aspects of the Company.

The improvement of personal communication between customers and operations has allowed us to collect relevant information, on an individual level, which helps us to respond more effectively to customer needs in future. This implies a competitive advantage that will allow us to improve customer loyalty, launch personalised offers, reduce drop-out rates, and extend the customer relationship.

2018 Targets

- To apply commercial initiatives that allow us to earn the trust of our customers through transparency, simplicity and integrity
- To simplify the offer by applying neuropricing techniques in all our markets.
- To implement the new Telefónica app, which enables greater customer self-management, in the rest of our markets, with the aim of multiplying the number of app users by 5 by 2020.
- To digitalise the relationship with our customers and automate processes to provide a better experience for the B2B segment.



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Digital trust

We want our customers to feel confident using our services, that they trust that we protect their communications and data, and that we contribute towards the responsible use of technology.

We live an increasingly important part of our lives through connectivity and digital services; we therefore know that the responsibility we assume in this field conditions future success. This is how our stakeholders, specifically investors and analysts, also see it, considering that security and privacy is one of the most important issues in our commitment towards the customer (see chapter on 'Materiality').

The protection of privacy rights, data security and information security, as well as the protection of the right to freedom of expression, together with the protection of human rights in general, are issues that fall under the supervision of the Board of Directors through the Regulations and Institutional Affairs Committee. This Committee is in charge of driving and supervising the implementation of our Global Responsible Business Plan, which includes specific goals on these matters.

Digital trust is an issue that, in recent years, has created a growing interest among regulators, specialised stakeholders and analysts. There is also a growing concern in society concerning potential negative impacts that could lead to an inappropriate or

irresponsible use of technology. Considering this situation, we focus our efforts on three lines of action:



■ **Compliance with the law:** In an environment of increasing regulatory pressure, especially in Europe, our dialogue with the national and European actors needed to guarantee a correct adaptation of all our processes and actions to the applicable legislation has been very important.



■ **Transparency:** With regard to customers and other groups that represent their interests, we have made a significant effort to increase the transparency of how we manage the security and privacy of their information, increasing and simplifying the communication with the customer. Digital trust constitutes an important element of our customer promise, and it is important that the customer can see the importance that we give to this subject.



■ **Engagement and protection of minors:** The adoption and use by society of digital services has increased at a speed that is so dizzying that it is important that we are in continuous contact with customers, experts, other sector companies and the authorities to detect risks, analyse challenges and propose solutions.

From the Responsible Business Channel we have received two queries/claims on data protection issues, one of which has been satisfactorily resolved and the other has yet to be solved. We have not received any query on security and the protection of minors via this channel.

However, we have specific channels for privacy and security so that our customers can contact us regarding the respective subjects (see section on Privacy and Security).

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PRIVACY Strategy

The search for trust is turning into a business and regulatory challenge not only for us, but also for legislators, regulators, and, in general, for all the participants in the digital ecosystem.

Increasingly more countries have realised that they have to have new regulations on data protection to adapt to the new digital economy.

Specifically in Europe, we find ourselves in the complete implementation of the General Data Protection Regulations (GDPR), with total application as of 25 May 2018.

Regulations for the protection of data have also been strengthened in Latin America:

- **Mexico:** On 26 January 2017 the Decree of Issuance of the General Law of Protection of Personal Data in Possession of the Mandatory Subjects (LGPD for its Spanish original) was published. The standard establishes the bases, principles and procedures for guaranteeing the right to the protection of personal data.
- **Chile:** On 10 March 2017, the Government of Chile signed the Personal Data Protection Law project. This project seeks to modernise law No. 19,628 of 1999 regarding the Protection of Private Life, and update the current legal framework considering the advances in technology and the need to balance the interests of people with the free flow of information.

This regulatory context is the reflection of a reality in which digitalisation and the use of data has become the basis of new business models, where the rules of the game aren't written. The responsibility assumed by each company regarding how they incorporate the values and rights of people to their value proposals is critical so that the customer can continue to have confidence in us. Not only must we incorporate in the design of the entire service the respect for the rights of people, but we must also be increasingly transparent towards the customer about what data we use, to what purpose, and how the customer itself can authorise or modify this management.

Governance

To strengthen the Corporate Governance of the Company, the Telefónica S.A. Board of Directors has Committees to which it entrusts the study and monitoring of areas of particular relevance. Thus, the Regulations and Institutional Affairs Committee is responsible for promoting the development of the Global Responsible Business Plan, which includes goals regarding aspects of digital trust (privacy, security and promotion of the responsible use of technology).

The head of the personal data protection function is the Data Protection Officer (DPO), who reports directly to the Board of Directors of Telefónica, S.A. through the Audit and Control Committee.

At Telefónica, S.A., parent company of the Telefónica Group, this responsibility was assigned to the Group's Compliance Directorate, who in this matter has the support of the Data Protection Technical Directorate and the Data and Compliance Coordination Directorate, with a double corporate and global role.

We also have a Chief Data Officer who is part of the Executive Committee. Their principal objective is to define the Company's global strategy on data. In other words, the cognitive intelligence services associated with Big Data. This strategic function guarantees that the privacy and security of the data are priority elements to keep in mind in all our services, wherever we are.

The Committee responsible for coordinating all the actions in terms of data protection compliance is the Privacy Committee, which will be reformulated by the approval of a Data Protection governance model on a global level during 2018.



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Policies

Our commitment to privacy is reflected in the principle of "Respect for the Rights of Privacy and Freedom of Expression", which is part of our Responsible Business Principles. It is embodied in internal policies and regulations which establish common guidelines for all our companies:

- The global **Privacy Policy** approved by the Board of Directors establishes the guidelines that all Group companies must follow in order to protect the privacy of our customers and that of all the stakeholders that entrust us with their data. During 2017, work was done to update the policy and adapt it to the new digital context and our strategy.

- Instructions for the Protection of Personal Private Data.

Lines of action

During 2017, one of our main objectives was to improve transparency towards our stakeholders. Thus, in Spain the framework offered by the regulation was used for launching other projects in order to facilitate transparency towards the customer and offer solutions to concerns that they may have, as well as to establish the adequate policies and procedures for its compliance.

An example of the latter are the following initiatives:

- **Customer Focus Group:** Done with 8 discussion groups over 2-hour long sessions, with 8 participants in each group. In had 2 groups in each city: one of Fusion customers, and the other of mobile customers.

The sample included all Movistar Residential Fusion and Mobile customers, 4 segments of customers according to life cycle (young mobile users, only mobile users, Fusion customers, Fusion customers with children and the rest of Fusion customers).

The objectives were:

- To assess and understand their perception of the new regulations.
- To study to what extent they believe that it will affect their relationship with the different companies of which they are customers, and what was their position.
- To learn about how they would like these changes to be communicated to them and how they would like them to be implemented.
- To test with them different proposals regarding consent.



PRIVACY BY DESIGN

We work on including the privacy of our customers in the development of all our products and services, from the initial idea to its final implementation, providing customers with security, transparency and control over how they treat their personal data. This is what we call privacy by design, as a result of which we take into account not only the guarantees provided by the applicable legislation on the matter but also the customer's expectations with regard to their privacy when using our products and services.

Thus, for example, in our Artificial Intelligence proposal called Aura, the experts on matters of data protection are involved with the product team from the start, with the definition of the digital experience of customers with the Company, with the definition of cases of use, and with proposals for the management and control of their data. New, more intuitive, closer, and understandable transparency and informed consent mechanisms are incorporated, promoting the generation of a space of trust where the customer, in a conversational manner, can manage new proposals and cases of use that allow them to enrich their digital experiences.

■ Communication to Customers:

- Pilot tests on different channels regarding the collection of express consent to test which is the best way to inform and collect them.
- Communication of the change in policy through our different channels (invoice, web, TV...) with focus on legitimate interests.

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■ **Voluntary mediation system with AUTOCONTROL:** In operation since January 2018 to give a quick answer to claims in matters such as identity theft and the receipt of unwanted advertising. The procedure, developed by the [Association for the Self-regulation of Commercial Communications](#) (AUTOCONTROL), in collaboration with the [Spanish Data Protection Agency](#) (AEPD for its Spanish original), includes the participation of Orange and Vodafone as well as our own, and is open to other entities. This information can be found in the [Movistar Privacy Centre](#).

We have different communications channels in every country for issues related to the protection of data, in accordance with each legislation.

During 2017, at Telefónica Spain we were assessed within the [Ethical Foundation](#) and [Electronic Frontier Foundation \(EFF\)](#) Who defends your data? project, and whose report was published in January 2018. The analysis takes into account the public information of organisations and websites on the following aspects: privacy policies, guidelines according to the law, notification to customers of the demands of governmental data, reports of transparency, and the promotion of user privacy.

Movistar leads the ranking of companies analysed in this first Spanish Edition, with 6 stars and a score of 10 criteria out of a total of 12.

Open procedures and sanctions

During 2017, we reported 43 penalties in the entire Group, 22% less than in 2016. Furthermore, 262 procedures related to topics on data protection were opened during the year. The total sum of penalties was €1,339,778.86. Most of these procedures were initiated in Spain, where legislation is stricter than in other markets.

Relationship with institutions and opinion leaders

In order to contribute to international cooperation between governments and the private sector, and to improve transparency in issues affecting national security, human rights and privacy, we are members and active participants in international and regional working groups that promote respect and protection of privacy, security and freedom of expression. In 2017, the principal initiatives were:

■ **Centre for Information Policy Leadership:**

We are members of this group whose goal is the reflection on privacy and security policy. With offices in Washington DC, Brussels and London, it works with industry leaders, regulatory authorities and policy-makers around the world to help contextualise and promote privacy and cybersecurity policy on a global scale.

■ **Rightscon:** We participated in the Rightscon edition in Brussels from 29 to 31 March, the theme of which was digital human rights. This event brings together stakeholders on a global scale.

■ **Internet Governance Forum in Spain:**

Participation as speakers and attendees in different round tables in the IGF Spain on 28 and 29 November 2017. Edition dedicated to digital rights.

■ **IGF:** Participation as speakers and attendees in the Global Governance Forum held in Geneva from 18 to 21 December. Edition dedicated to digital rights.

■ **Eurodig:** Participation in round tables in Tallin, on 6 and 7 June 2017.

■ **GSMA:** Taking part in work sessions for the elaboration of the mobile ecosystem responsibility principles.

■ **European Council:** We signed an agreement between digital companies and the European Council for the promotion of digital rights in Strasbourg, on 8 November 2017.

■ **Data Transparency Lab:** We are members of this laboratory that works to move forward in the transparency of online personal data through scientific research and design.

■ **Mapping project:** We participated in the round table on 12 September in Paris through the European Mapping project led by the United Nations Special Rapporteur on Privacy, Joe Canatacci.



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SECURITY Strategy

The Global Strategic Security Plan, created in 2017 and approved by the Global Security Committee in January 2018, has the support of the Company's Management Committee. It has a three-year scope and the goal is to define and establish our Group's security objectives during its period of validity through different Action Plans (2017-2019).

It was prepared in collaboration with global areas, such as Internal Audit, the Global Chief Technology Office, the Global Innovation Office and Human Resources, to align ourselves with the rest of the plans. This plan is reviewed annually to coordinate it with the Company's Global Strategy and Strategic Plans.

This Plan complements the efforts made by the different parties responsible for designing, deploying, maintaining and operating each of the four platforms described in the 'Business Model' chapter, provides direct support to the business, and increases the security perimeter, strengthening the prevention and control of threats without neglecting the reaction to, and containment of, incidents. It is made up of action plans, each of them coordinated by each of the different areas of the Global Security Directorate.

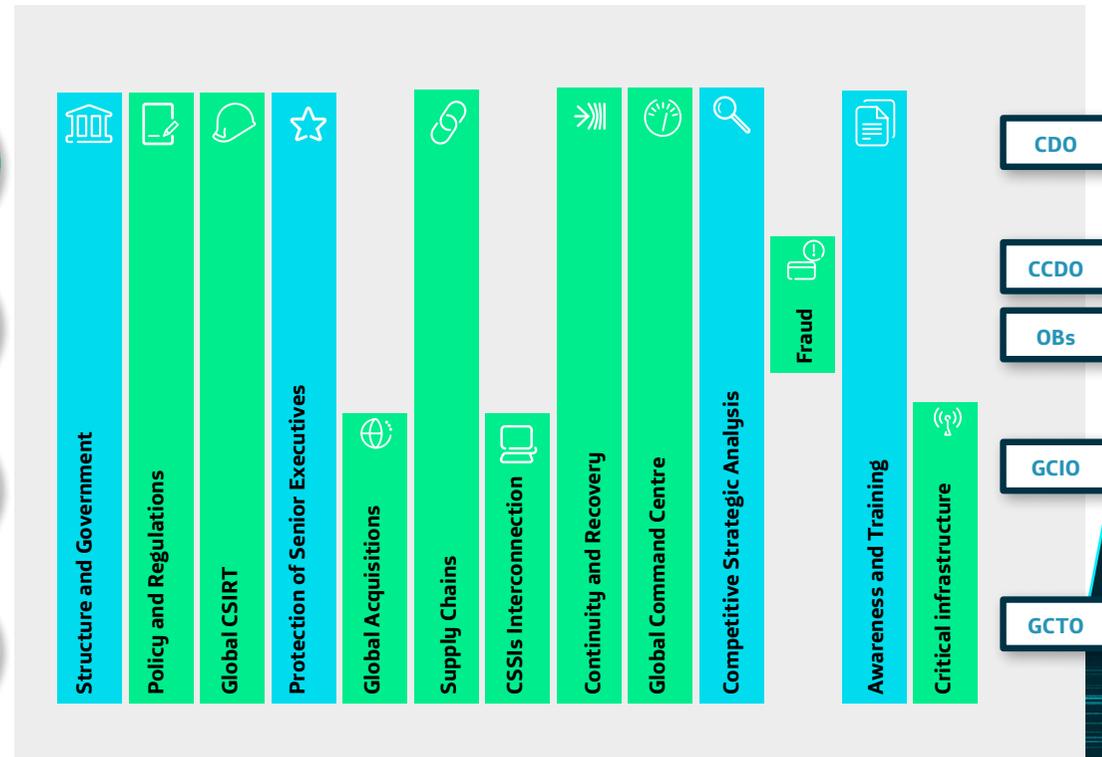
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4

Product and Services
3

Systems and Technologies
2

Infrastructures and Assets
1

GLOBAL SECURITY STRATEGIC PLAN 17-19



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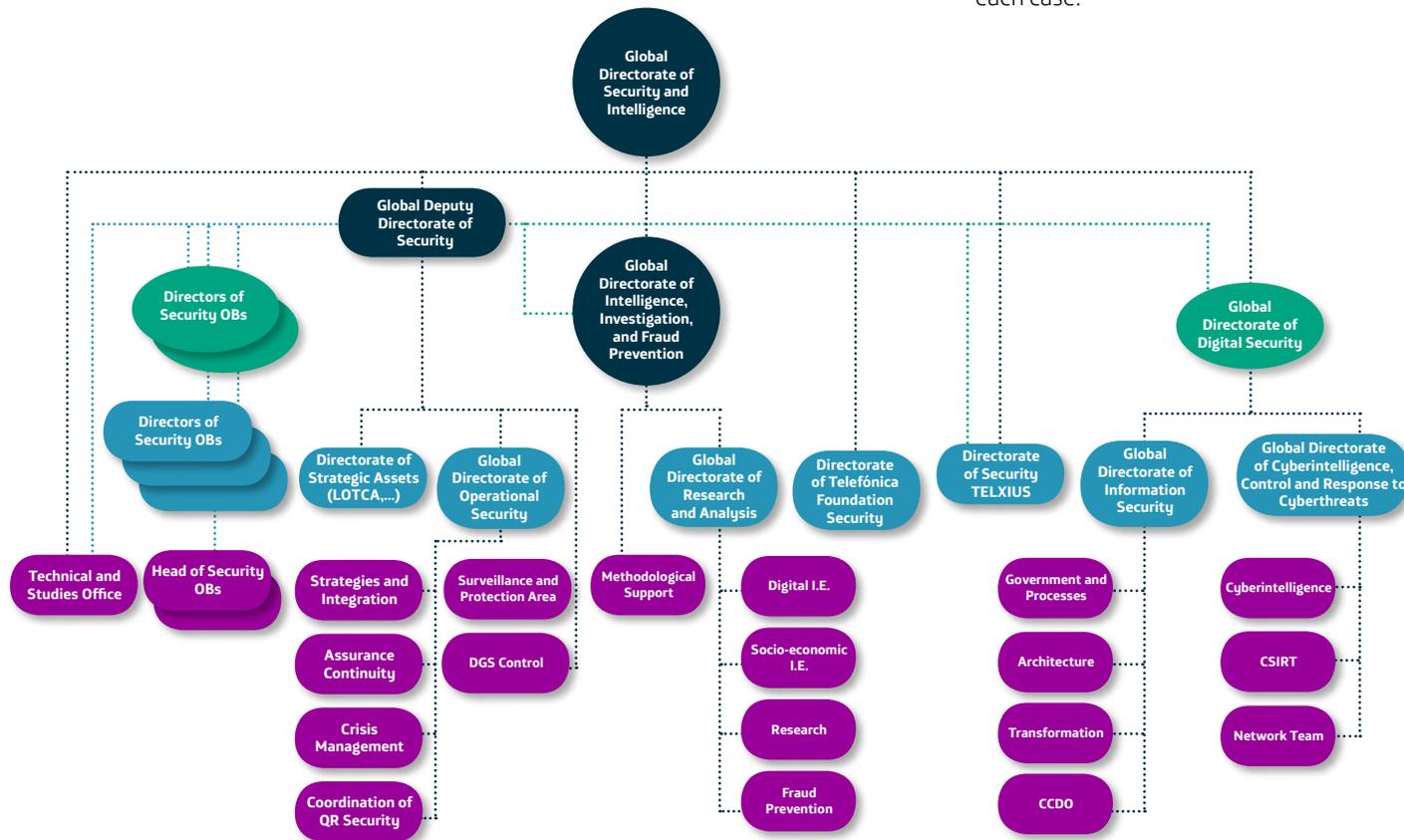
Our Global Security Organisation was built after the updating of the Global Security Policy in 2016. The purpose is to preserve the Company's assets, and to protect the strategic interests and objectives both in the vertical organisation (including our business units), and in the transversal dimension (applicable to the three platforms):

- Network Infrastructure and Assets
- Information Technologies
- Products and Services

The Global Security Director is the maximum representative of the security Organisation in the Telefónica Group. Its mission is the efficient and effective protection of our assets

and is aimed at ensuring the viability of the business.

Within the security Organisation there are Security Officers both on the global and local levels. Their obligations and responsibilities are defined and coordinated by the Global Security Director. Each Telefónica Group company will have one of these Security Officers assigned to it, depending on what is the most efficient and effective solution in each case.



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In order to guarantee the cohesion, collaboration and correct management of the Strategic Plan and Action Plans, we have defined a new model based on working groups within the framework of the Global Security Committee.

This Committee, with a new design and format, is completely executive and will therefore have the capacity to submit proposals to the Company's Executive Committee.

Policies

Work has been done to update and publish standards and safety regulations based on best practices of the [Information Security Forum](#) [ISF], which has several regulations that strengthen the global security of information, and has been developed to guarantee that the data of our customers and services is kept safe and sound.

Lines of action Quality management

An adequate set of controls has been established for the purpose of achieving the control objectives established by the security regulations and the strategic plan. These are continuously implemented, supervised and reviewed to ensure that these objectives are reached. The regulations, instructions and security manuals define the criteria, requirements, procedures and technologies that must be taken into account to establish these controls for each specific setting.

SUBJECTS	STANDARDS
Policies and Regulations	Global Security Policy Global Security Regulations Audit Regulations
Regulations	Management of Incidents and Emergencies Analysis of Security Risks Business Continuity Security of the Development Life Cycle IT Infrastructure Security Networks and Communications Security Cybersecurity Change Management Classification and Processing of Information Asset Management Access Control Physical Security Security of People • Traveller's Manual Supply Chain Security Use of Internet Services

To perform this task, Information Security Management Systems (ISMSs) based on the ISO/IEC 27001 standard have been implemented.

Regardless of the aforementioned, an updated analysis of risks must be considered, as well as an action plan (see chapter on 'Identification and management of risks') in which the projects and budgets aimed at implementing the most adequate security controls that allow for fulfilment of the control objectives are identified and prioritised, as well as reduction of security risks to a level acceptable to the organisation.

Certifications and Standards that are certified or in the process of certification:

- Management of Information Technology Services: ISO 20000-1
- Business Continuity Management: ISO 22301
- Managing Information Security: ISO 27001
- Data Security Standard for the Prepaid Card Industry: PCI DSS (Payment Card Industry Data Security Standard)

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Network security

Our focus on networks and communications is based on the adequate knowledge of our assets and sites, their characteristics and their importance for the business, in such a way that the networks are properly planned and executed, always maintaining the applicable security requirements to minimise the risk of unavailability, unauthorised access, and the destruction of said networks.

The Global Security Regulation establishes the control objectives needed to reach a homogeneous level of security and meet business needs. These objectives are:

1. To ensure protection of the information in the networks and the processing resources.
2. To maintain the security of the information transferred within one organisation and to any external entity.

The following security controls are established to ensure the compliance of said objectives:

■ Network architecture and configuration of devices

Establishment of a security architecture that makes it possible to manage the complexity of the networks and different devices of the organisation, and provide homogeneous security levels throughout the organisation.

This control allows network administrators and security operators to make more effective decisions, helping to implement consistent and easy-to-use security in the different networks of the organisation.

■ Management of the physical network

Protection of our internal networks (including voice networks) through exact and updated documentation and labelling, as well as the application of physical controls to ensure that all the networks are accurately and securely configured, and provide security disciplines to employees.

■ Wireless access

Assurance that wireless access to our networks and systems is subject to authorisation, that users and computer devices are authenticated, and that the wireless traffic is encrypted.

In this way, we ensure that only authorised people and computer devices obtain wireless access to the networks. We also reduce the risk of wireless transmissions being monitored, intercepted, or altered.

■ Access from external networks

All connections from external networks to Telefónica Group company systems and networks must be individually identified, verified, registered and approved by the owner of the system or network to prevent unauthorised users from gaining access to the systems and networks of the organisation.

■ Network protection devices

Ensure the secure traffic of our networks through the use of protection devices such as firewalls, IDS or IPS, to avoid unauthorised traffic gaining access to or from the network.

■ Monitoring of networks and network devices

Monitoring of our networks and the network devices that support them to reduce the probability that a degraded performance, temporary unavailability, or a security breach have an impact on the business.

■ Workstation connectivity

Provision of secure connection measures for the devices used by our workers (laptops, tablets and smartphones).

■ Telephony, voice over IP and conferencing

Protection of our telephony and conferencing resources through a combination of physical and logical controls, restricted access and awareness of the users, to guarantee the availability of resources, and protect the confidentiality and integrity of the information, as well as preventing and detecting the unauthorised or improper use of the available resources.

■ Email

Protection of emails through a combination of policies, sensitisation, and technical security procedures, and controls to guarantee their availability, protect the confidentiality and integrity of the messages and minimise the risk of incorrect use.

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■ **Instant messaging**

Protection of the instant messaging services through the definition of management policies, the implementation of technical controls and the correct configuration of the security elements of their infrastructure.

Cybersecurity, management of vulnerabilities, and breaches

Our approach is based on proactivity, applying the knowledge and technology to achieve the required levels of protection, quickly detecting infractions or active attacks, and building the technical and human capabilities necessary for effectively and quickly responding to any breach or incident. Our goal is to minimise the window for attacks and the consequences of such attacks.

The global function of Cyberthreat Control and Response, which reports to the Global Security Director, is responsible for defining, promoting and coordinating the human and technological processes and capacities necessary in the companies of the Group.

The local functions are coordinated and follow the lines set forth by the global function, depending on the corresponding local Security Officers.

The local Security Officers, in turn, may appoint a person in charge of a cybersecurity team for the exercise of this function.

We have a network of Response to Incidents Centres (CSIRT for its Spanish original), at

a global level, which work in a coordinated way to understand and analyse the risks of potential cyberthreats; to monitor the serious vulnerabilities that exist in the most critical technological assets; to establish the relationships with other national and international CSIRTs/CERTs in both the public and private sector; to detect the potential security incidents that are affecting the organisation's technological assets; and to respond to the security incidents that affect the organisation.

We have a public inbox at a global level that is available to any user, for the purpose of reporting any vulnerability or threat that could affect our technological infrastructure. This inbox is located in the [Global/Security Privacy Centre](#).

When the impact or consequences of an incident and/or vulnerability threaten the continuity of one or several processes or critical services, or the reputation of the organisation, we turn to our Business Continuity Plan and a Global Crisis Management System. This allows us to be prepared to face these situations, facilitating the coordination, communication and collaboration of all the areas involved until operational normality is recovered in the shortest possible time and with the least possible impact.

In addition, in the 2014-2017 period we had several insurance programmes, both at a

local and global level, for cases of incidents. Our challenge in 2018 is to consolidate this information to be able to notify it a global level. At a corporate level, we have cybersecurity coverage in the event of incidents that cause a loss of revenue, additional expenses, or the recovery of digital assets, among others, and 'Technological Professional Indemnity' coverage in case of third party claims, based on the highest standards of the insurance market in terms of limits, sub-limits and coverages.

During 2017, six security incidents that had a minimal impact thanks to the existing incident response protocols, were managed. In one of them, a very limited number of personal information was involved without notable consequences. Proof of this is that we have not had any fines related to security breaches.

 More information is available in the "Emergencies" chapter

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Security services

Thanks to our cybersecurity services unit, ElevenPaths, in 2018 we are celebrating five years of offering disruptive innovation to provide confidence and privacy to our digital lives and that of our customers.

Nowadays, we are exposed to increasingly frequent and sophisticated attacks that threaten not only the business, but also our reputation, privacy and trust. For this reason, we need to be increasingly receptive to cybersecurity measures and redefine our strategy towards cyber-resilience. With this goal, we dedicate all our experience and effort to the creation of innovative products, always managing to be one step ahead of our attackers. During the unit's five year lifespan, we have combined the development of innovative patented technologies with the technologies of the main players in the market (partners) to provide unique solutions. We want to achieve a more secure future for people and companies, and therefore chose to be the provider of smart security services of the market (Intelligent MSSP).

Our global security services are designed to continuously improve the efficiency of our security infrastructure.

We are working to develop new security services and capabilities that help to protect businesses and people from threats and vulnerabilities present in the environments in which they operate. We collaborate and exchange information in real time about threats with the main bodies and entities such as the European Commission, the [Cyber Threat Alliance](#) (CTA), [ECSO](#), [EuroPol](#), [Incibe](#), and the [OAS](#).

In addition, we have ten security operations centres (SoCs) and a new Advanced Global Centre (Telefónica Advanced Global SOC-TAGS) that make it possible for us to face the threats and security problems with a global approach, but without distancing ourselves from our customers.

At ElevenPaths we promote the entrepreneurial spirit through the investment in cybersecurity start-ups such as [CounterCraft](#), [4iQ](#), [BlueLive](#), [LogTrust](#), [IMBox](#), and [Alise Devices](#). Thanks to these collaborations, partnerships and our own experience, we can offer a portfolio of comprehensive security solutions for the Internet of Things (IoT), identity and privacy, anti-fraud, industrial cybersecurity, safe mobility, digital exposure, risks management and regulatory compliance, with the goal of providing our customers with a solution adapted to their specific needs.

Wannacry

On 12 May 2017 an international ransomware cyberattack occurred, affecting more than 150 countries and countless companies and public bodies. In the case of Telefónica, this did not affect or compromise the telecommunications Network, the associated services, or the personal data of our customers in any way whatsoever.

However, during the initial hours, our internal systems of sensor bots detected that some PCs located in certain work places in Spain were potentially at risk of being contaminated by said ransomware and, for this reason, we

immediately implemented the detection and response protocols for this type of security incident. These functioned in a robust and continuous manner from the beginning of the attack and during its most critical moments.

Our values guided each and every one of the decisions taken from the beginning, aware of what we are, together with our unwavering commitment to customer service and our inescapable social obligation of civic responsibility. For this reason, we were the first to raise the alarm and collaborated with government agencies and public bodies.

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TRANSPARENCY

Aware of the importance of earning the complete confidence of our customers and users, during 2017 we worked to improve the Global Privacy Centre and implement local centres in the commercial web of the countries where we operate. To date, four privacy centres have been created in Spain, Brazil, Argentina and Colombia.

The goal of these centres is for our users to be able to find all the information about privacy, security, and the responsible use of technology in a simple and understandable manner.

We take advantage of these centres to bring our policies and processes closer to a more understandable language towards the customer; thus, for example, in Brazil we incorporated a video about the privacy centre, and in Colombia an explanatory infographic of the conditions of privacy.

In addition, we have published our second Report on Telecommunications Transparency as an exercise of essential transparency in a world where spaces of responsibility are shared when it comes to preserving and guaranteeing the rights of people, by companies, on the one hand, and by States, on the other (see chapter on 'Human Rights').

Colombia

Política de Colombia Telecomunicaciones S.A. ESP, para el tratamiento de datos personales

Como parte de nuestro compromiso con la transparencia y la privacidad a continuación podrás conocer la **Política de Colombia Telecomunicaciones S.A. ESP**, para el tratamiento de datos personales, en la cual se explican los condiciones a las que están sometidos los datos personales recolectados en ejercicio de las actividades comerciales y legales.

¿Qué tratamiento se hace de los datos personales recolectados?
El tratamiento a cual son sometidos los datos personales recolectados en ejercicio de las actividades comerciales y legales de Colombia Telecomunicaciones son:

- almacenar
- usar
- actualizar
- conservar
- suprimir
- compartir
- circular

A terceros

¿Para qué fines se usa la información?

- El suministro de información relativa al cumplimiento de las obligaciones de los titulares de los datos.
- El cálculo de riesgo económico o crediticio.
- La publicación de directorios telefónicos.
- La prevención y control de fraudes.
- Para beneficio propio o de terceros con los que Colombia Telecomunicaciones haya celebrado convenio para envío y recepción de cualquier tipo de información, con fines comerciales o publicitarios en Colombia o en el exterior.

¿Cuáles son los derechos de los usuarios y cómo se pueden ejercer?
Los titulares de los datos recogidos en las bases de datos de la empresa tienen derecho a:

conocer actualizar rectificar suprimir revocar

sus datos personales mediante comunicación dirigida a la Gerencia Gestión y Soporte de Colombia Telecomunicaciones y/o a través de la página web www.movistar.co por medio del enlace o correo electrónico "contáctenos".

¿A quién se le pueden presentar peticiones, consultas y reclamos?
Colombia Telecomunicaciones, a través de la **Gerencia Gestión y Soporte**, atenderá las peticiones, consultas y reclamos relacionados con datos personales que formulen los titulares de los datos.

¿Por cuánto tiempo se conservan los datos personales?
Las bases de datos de Colombia Telecomunicaciones tienen vigencia indefinida. Los datos personales recolectados se conservarán por el tiempo que dure la relación existente entre la empresa y el titular de los datos, y por el tiempo necesario para el cumplimiento de los deberes legales o contractuales que Colombia Telecomunicaciones deba observar. Las bases de datos de Colombia Telecomunicaciones tienen vigencia indefinida.

Cambios de esta política
Colombia Telecomunicaciones podrá modificar en cualquier momento la **Política de Tratamiento de Datos Personales**. Cualquier cambio sustancial en la Política será comunicado antes de su implementación a través de la página web de la empresa.

UNA MARCA DE **Telefónica**

Argentina

movistar Televisión Tienda Atención al cliente Acceso MI Movistar

Centro de privacidad Movistar

En Movistar consideramos que nuestra actividad debe basarse en el respeto absoluto a la confidencialidad y privacidad de tus datos personales, de tal forma que puedas saber en todo momento como hacer uso de ellos. En el Centro de Privacidad podrás encontrar las Condiciones de Privacidad de nuestra web y nuestros productos y servicios así como los mecanismos de los que disponemos para que puedas gestionar tu Privacidad.

Áreas de privacidad

- Portal
- Condiciones de privacidad
- Política de cookies
- Contratos
- Fusión
- Telefonía Fija
- Móvil
- Internet
- Televisión
- Aplicaciones y Servicios
- Garantía de venta de equipos
- Cómo gestionar mi privacidad

Condiciones de privacidad

Como parte de nuestro compromiso con la privacidad reflejado en la Política Global de Privacidad de Telefónica, las presentes condiciones explican cómo recogemos, utilizamos y protegemos tus datos de carácter personal cuando accedes a Movistar.es, con el fin de que puedas decidir si deseas facilitar tus datos personales a través de los formularios habilitados al efecto.

ALCANCE DE LA POLÍTICA

Cuando accedes y usas Movistar.es te comprometes a aceptar estas condiciones de Privacidad, así como las disposiciones contenidas en el Aviso Legal, la Política de Cookies y, en su caso, las Condiciones Generales de Contratación que puedes encontrar en la sección de Contratos de movistar.es

En Movistar.es te proporcionamos información para que, con carácter previo a la cumplimentación de tus datos personales, puedas acceder a las Condiciones de Privacidad y a cualquier otra información relevante en materia de Protección de Datos.

Estas condiciones son válidas únicamente para los datos de carácter personal que se obtienen en movistar.es, y no son aplicables a aquella información recabada por terceros en otras páginas web, incluso si éstas se encuentran enlazadas en Movistar.es

Brazil

vivo Meu Vivo CPF ou e-mail Senha **Acesso** Solicitar Login via Facebook

Você está em: A Vivo > A Vivo > Centro de Privacidade

Centro de Privacidade

A confiança é a chave para as pessoas poderem tirar o máximo da tecnologia.

Em um mundo cada vez mais digital e interativo, as pessoas precisam ter certeza de que os seus dados permanecem privados e seguros, sendo geridos de um jeito transparente.

Entenda o Centro de Privacidade

- Entenda o Centro de Privacidade
- Informações coletadas
- Políticas de Segurança
- Direito de Acesso, Retificação, Oposição e Cancelamento
- Menores de idade

Por isso, a Vivo leva a sério a sua privacidade e segurança.

A Vivo quer garantir a sua privacidade e promover a transparência nos seus direitos de usar os nossos produtos e serviços. Tudo isso em um ambiente de segurança e dando a

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INTERNAL CONTROL

In order to meet the legal provisions of each country regarding Data Privacy, in our Annual Audit Plan of 2017 we carry out specific projects to ensure that these provisions are met, and to identify best practices in data protection.

In 2017, we continued with the personal information protection reviews, performing a total of 19 internal audits on this subject in the entire Group.

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

19 *Internal audit data protection reviews of personal information*



In addition, within our Annual Internal Audit Plan we focus on issues related to Cybersecurity and the Security on Information Technology Networks and Systems as a fundamental basis to protect the access and integrity of said elements, verifying that the logical access security is the correct one. These audits are based on the execution of technical work that encompasses, among other aspects, the logical security of information technology networks and systems, cybersecurity, the management of incidents, as well as the review of perimeter security controls. In this regard, during 2017 a total of 51 audits that provide coverage to the aforementioned subjects were performed.

TRAINING AND AWARENESS

In 2017, we continued with our global training plan on data protection. A total of 47,278 professionals completed the training this year, 85% more than in 2016. This represents 34% of all Group employees.

At a corporate level, we carried out different awareness initiatives, among which the publication, tutorials and security tips can be highlighted through emails, the Intranet and Yammer to all Group employees.



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PROTECTION OF MINORS AND RESPONSIBLE USE OF TECHNOLOGY

The familiarity of the youngest at home with connected tools is nothing new. They are the clear example of how our way of living, interacting, learning, etc. has changed. This also extends to the way adults live, our way of working, sharing information, or consuming entertainment.

With the aim of promoting a safe environment on the Internet and raising awareness in society about the importance of learning to take full advantage of the digital tools in our day-to-day lives, we have defined a global strategy based on the promotion of the responsible and smart use of technology in all areas of our lives, but with special emphasis on the protection of a more vulnerable group such as children and young people.

Our lines of action and commitments to the protection of minors on the Network, and the promotion of the responsible use of technology, can be grouped into six key lines of work:

- Alliances with stakeholders
- Content blocking
- The audiovisual environment
- Products and services
- Work with providers
- Education and awareness

Alliances with stakeholders

Ensuring a more secure Network is a task that we cannot address alone, and that is why at

Telefónica, we work together with sectoral and civil society allies with the goal of making sure that children and young people are aware that the Internet is an open window full of opportunities, but that it is also important to know that there are risks that they must learn to manage.

Along these lines, we would like to underline our collaboration with:

- State Security Forces and Bodies, as well as the support for different national lines of crime reporting (Children's Team, ASI, Safe on the Internet, Safernet, Te Protejo, Centre

for Child Protection on the Internet, among others).

- NGOs, national associations (Friendly Screens, Safernet, UNICEF, Digital Lighthouse, NSPCC, RedPapaz, Argentina Cybersafe, among others).
- Actions with key stakeholders in the protection of minors online (Inhope, Insafe, ANATEL, RCPI, CONNA, UNODC, Network of Allies for Childhood, Zentrum für Kinderschutz im Internet, INAI, ITAIPUE, Network Against Child Pornography, Governments, among others).

GUATEMALA

At Telefónica Guatemala we participated in the online Security working group for children and adolescents with the goal of implementing measures for the online protection of children.

PANAMÁ

At Telefónica Panama we are part of the Network of Allies for Childhood. The participating organisations have assumed compliance of ten commitments with the goal of working in favour of the rights of children.

PERU

At Telefónica Peru we are part of the Risks on the Internet for Boys, Girls, and Adolescents working group, in which UNODC, the Interior Ministry, the High Technology Crimes Division of the National Police of Peru, UNICEF, and InfoTrata also participate.

EL SALVADOR

In El Salvador we are part of the National Council for the Protection of Childhood and Adolescence (CONNA for its Spanish original) working group to enable a complaints line for boys and girls to report violations of their rights.

In addition, since 2015, we signed the Charter of Commitment with UNICEF and the GSMA to promote actions for the protection of minors in the online world, as well as actively participating in the committee that monitors what is agreed in said letter.

NICARAGUA

In Nicaragua we are part of the National Working Council for the Safe Use of the Internet led by the Vice-president of the Republic through the Nicaraguan Council of Science and Technology, in which the Ministry of Education, the Nicaraguan Chamber of Telecommunications and the Internet, private companies, universities, and NGOs also participate.

COLOMBIA

We are part of the Te Protejo working group, a working council whose goal is to promote initiatives regarding the protection of children and young people in the Network.

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Furthermore, we participate in the following alliances with the goal of globally promoting the exchange of best practices and the promotion of specific actions regarding the correct use of the Internet:

- Alliance with the GSMA to fight against content involving sexual abuse of minors.
- ICT Coalition.
- Alliance for the better protection of minors online.

At a local level, we also participate in numerous working groups that promote the responsible and smart use of technology among children.

Content blocking

To proactively fight against the contents and images of sexual abuse of minors on the Network, at Telefónica we proceed to block these materials following the guidelines and lists provided by the [Internet Watch Foundation](#) in the following countries: Chile, Costa Rica, Ecuador, El Salvador, Spain, Guatemala, Nicaragua, Mexico, Panama, Peru, the United Kingdom, Uruguay and Venezuela. In Telefónica Colombia, we do the same thing through the MINTIC and the DIJIN.

The audiovisual environment

Children and adolescents increasingly use our products and services in general, and the specific audiovisual contents, in a more intensive manner. Screens also constitute an essential part of their personal, social and civic development, which is why at Movistar+ we

Techno-addiction is a reality that affects the new generations, and it is therefore especially necessary to inform families, educators and minors themselves of the importance of *using the Internet and technology in a healthy and responsible manner*

believe the following to be fundamental:

- Ensuring that our programming protects children from potentially inappropriate content.
- Establishing the tools needed to make good use of television, guaranteeing that parents have effective technical means of exercising their responsibility over the programmes their children watch.
- The promotion of digital literacy among minors and their families to take advantage of the potential of audiovisual media and make them aware of the need for a responsible and smart consumption and leisurely use.

In this sense, in our different operations we have the following initiatives:

- Labelling of content by age or type of content.
- Parental controls, parental pin and purchase pin in the device that allow the customer to block channels and content to minors on demand.
- The specific content for adults is presented in a section that is separate from the other contents, and it is necessary to introduce a special pin to enable them.
- Information about the responsible use of TV or audiovisual content on TV itself and on the commercial web.
- Awareness-raising activities on the responsible use of screens.



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Products and services

Although we really think that nothing can replace the mediating job of an adult when talking about education in the responsible use of digital tools, we will always have the support of technology when this is not possible. As a result, we wager on promoting and developing products and services that promote the responsible and safe use of the Network and connected devices:

- **Parental controls:** [Movistar Protege](#) (Spain), [Vivo Filhos Online](#) (Brazil), [Parental Control](#) (United Kingdom).
- **Security solutions with parental control functionality:** Movistar Shield ([Colombia](#), [Ecuador](#), [El Salvador](#), [Peru](#), [Uruguay](#)), Multi-device Security ([Argentina](#), [Chile](#)), Mcfee Total Security ([Argentina](#), [Chile](#), [Peru](#)), and Mcfee Security Centre ([Colombia](#)).
- **Other services** (anti-viruses, personalised packs...): Gurú, O2 Protect (Germany), [Vivo Família Online](#) (Brazil).

Working together with our providers

Together with our providers, we study the possibility of promoting basic protection parameters for minors to ensure the best possible development in children. Some of the initiatives we are working on are:

- **Security from the design:** from the area of innovation in ecosystems we work closely with the main manufacturers of handsets, as well as with the operating systems, to include functionalities for the protection of minors that are part of the operating system itself.
- **Safety through operating systems:** We are fully committed to our customers' security and privacy. As a result, we work with the principal players in the industry to improve the level of security updates in the handsets our customers use, as well as to improve transparency on the type of data that can be shared through mobile handsets.
- **Collaboration in the development and implementation of initiatives that promote the responsible use of technology and the protection of the user:** we maintain fluid communication with the responsible parties of products of the different digital ecosystems to improve the use of these by customers and to promote the correct use of technology.

Education and awareness initiatives

The responsible and smart use of the Internet and technology is present today as a challenge for everyone, and not only for children. The world of social networks, mobile applications, smart devices and virtual reality... evolves so

fast that it can be difficult to keep up to speed. However, we are aware of this reality and therefore are committed to the development of training and awareness initiatives for everyone - initiatives that promote coexistence in an increasingly digital society.



The [dialogando.com](#) portal is an example of this, and the initiative has already been implemented in 15 countries of the Telefónica Group: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Spain, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela.



On the web, a committee of experts reports through articles, videos, campaigns, interviews, etc. on the aspects that currently worry society the most in order to grow successfully and without fear as good digital citizens.

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In addition, we have carried out different initiatives, among which the following stand out:

LGTBfóbico School Bullying Workshop:

Organised by Dialogando in the Telefónica FlagShipStore Madrid, its goal was to raise awareness in society about the new forms of bullying that are on the rise. Professionals from different areas who are fighting against cyberbullying participated, and attendees were informed about the keys to understand it and deal with it, as well as the impact that the use of information and communications technologies can have on school co-existence.

The Movistar #RodamosJuntos initiative communications drive:

An awareness campaign with the goal of reminding us of the importance of mutual respect between cyclists and drivers on the road, which Dialogando supported with sensitisation content on the responsible use of mobile phones while driving and when riding a bicycle.

Publication of the “WhatsApps, video games, and mutants heads” children’s story. It can also happen to you”:

Aimed at children between the ages of 4 and 8. At Dialogando we seek to promote a good education in the use of connected technologies; both the regulations and limits are as important as the accompaniment and monitoring of the digital activities of children by adults. An accompaniment which is also desired by minors seeking the complicity of their parents in the use of digital devices. This is an opportunity to strengthen the relationship and communication between parents and children.



#ContraseñaSegura awareness campaign - 8 keys to guard the entrance into your digital life:

In collaboration with [Pantallas Amigas](#) (Friendly Screens). The activity, which is part of the “Pilar and her cell phone” educational programme, offers children basic guidelines for defining a robust password for Internet services.

Ciberexpert@ project: Its goal is to provide a higher digital education for families and to provide a positive vision of the safe and responsible use of the Internet through different awareness activities and talks in schools, in addition to a view of the risks and problems that minors can face on the Network in a real manner. Created by the

Citizen Participation Unit of the National Police, it has the support of Telefónica and the Cybervolunteers Foundation.

2017 Milestones

- Local Privacy Centres in 4 countries.
- Voluntary mediation system for Claims regarding the Data Protection in Telefónica Spain.
- 85% more trained individuals in Privacy and Security compared with 2016.
- Implementation of Dialogando in 15 countries.



2018 Targets

- To extend the local Privacy Centres.
- To update the Global Privacy Policy.
- To organise awareness campaigns on responsible use with providers.
- To develop tools to promote the proper use of audiovisual content by minors.

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Good practices

BRAZIL

We carried out "Safe Internet Week Workshops", with a double objective. On the one hand, we wanted to raise awareness about the responsible use of technology by presenting the Dialogando portal, and, on the other hand, to address the importance of using the Internet in a more conscious and positive manner, highlighting the responsibility that each user has when he/she publishes a comment, a post, or gives a 'like' on any social network.

In addition, on Safe Internet Day, Vivo Brazil participated in an event organised by SaferNet in which large companies presented the initiatives that they are working on regarding the responsible use of technology. Similarly, throughout the week debates were held with employees on the topics of greatest interest in the use of the Network by children and adolescents, with the support of Safernet Brazil.

GERMANY

At Telefónica Germany we published a secure Internet guide for children on the occasion of "Children's Day", with the collaboration of Deutschen Kinderhilfswerk, FSM (Freiwillige Selbstkontrolle Multimedia

Dienstanbieter) and FragFINN e.V. This guide offers minors and their parents assistance with better media literacy and greater security

in the digital world. Furthermore, the brochure provides useful information on how children can benefit from the Internet, and what they have to take into account in the event of receiving unwanted emails, advertising, or viruses. In addition, the Internet Guide contains tips for the correct use of their smartphone.

ARGENTINA

At Movistar Argentina, during 2017 we launched the safe and responsible use technology programme, "Choose to take care of yourself", and the "Dialogando" web platform, a space of information and reflection on the use of ICTs. The inauguration of the portal was supported by the launch of the "Choose to take care of yourself like you take care of your mobile phone" road safety campaign which sought to raise awareness about the risks of talking, sending messages, or chatting while driving. Said campaign received the award from the Let's Strive For

Life organisation.

During the second part of the year, work was done on a campaign for the prevention of Grooming or sexual harassment to minors through the Internet, the "Love Story" campaign, driven together with the Digital Lighthouse Civil Association, which registered more than five million visualisations in its central spot, and received an award from Argentina CyberSafe. This initiative was complemented by face-to-face talks for Company employees, through the Telefónica Foundation for the general public and schools.

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NICARAGUA

The musical duet Nina and Sebastian accompanied the Telefónica Foundation in the presentation of the Dialogando website with the goal of sensitising children and young people with messages on the correct use of the Internet. Their participation was shared with great success on social networks. Similarly, the musicians promoted the positive use of technology in their concerts, launching messages between songs and inviting the young people to enjoy the Internet in healthy and responsible way.

SPAIN

We carried out a workshop on the responsible use of the “#DialogandoConectados EPIC WIN or EPIC FAIL?” technology which, together with the support of the Telefónica Foundation, was organised in Madrid with the goal of discussing and analysing with experts from many areas the issues that most worry society about the use we are giving to the Internet and connected devices in our day-to-day lives: do we know how to take advantage of the full potential

offered by technology? Are we capable of transferring the basic rules of education and respect to the digital world? How can we prevent cases of gender cyberviolence or school cyberbullying?

Furthermore, Dialogando also presented the “Ten epic fails of the Spanish” study with the goal of confirming that education and a deep knowledge of the networks are necessary to be able to take advantage of the Internet without risks.

ECUADOR

At Telefónica Ecuador we have organised spaces for dialogue in schools and universities on the occasion of the launch of the responsible use platform of the Dialogando technology. In the workshops, the following subjects were addressed, among others:

- Inter-school Recycling of mobile telephones campaign: E-waste lecture.

- Environmental training in electrical and electronic waste material.
- Training in the responsible use of technology: correctly learning the management of the digital identity, privacy, social networks...
- Smart cities and climate change.

COLOMBIA

In Colombia, we participated in “Connected to Protect Them”, an encounter organised as part of the activities of the Te Protejo partners network’s virtual complaint channel, which served as backdrop for presenting the We Protect model against the sexual exploitation of boys, girls and adolescents in the country, also seeking to install a commitment

between the government, the authorities, companies and NGOs for its immediate implementation in the country.

We Protect is a tool that enables comprehensive and coordinated responses among the countries to prevent, mitigate and fight the online sexual exploitation of boys, girls and adolescents.

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MEXICO

We launched the "Love Story" campaign which seeks to raise awareness and prevent children and adolescents from accepting strangers in their social networks, preventing them from being victims of abuse such as bullying, sexting, or grooming. This campaign also won the "Silver Sun" award in the TV and Consumer Electronics Film category during the 32nd edition of the Ibero-American Festival of Advertising Communication.

Also during 2017, at Telefónica Mexico, we presented the "Privacy Adventure" video game, available free of charge for Android and iOS devices, which promotes matters of privacy and security for the use of tablets and mobile phones, such as blocking, labelling, instant messaging, downloads, geolocation, bluetooth, and wifi, raising the complexity in each level so that children and adults adopt good habits regarding the responsible use of technology.

GUATEMALA

Through the "Chose to take care of yourself" communications campaign, at Movistar Guatemala we seek to raise the awareness of our customers regarding the need to make good use of the Internet and social networks. The campaign is based on the Love Story video in which two young people meet through social networks and whose main goal is to prevent children and young people from accepting requests from strangers on the Internet, and to avoid falling into grooming networks.

PERU

We launched the "Whatsapp, video games, and mutant heads" story together with digital leaders and influencers.

With the aim of promoting the responsible and safe use of the Internet for children, at Telefónica Peru we presented this story within the framework of the Company's actions for the correct use of information and communications technologies. During the presentation, the children and parents enjoyed a theatrical representation of the story which presented the effects of not using devices such as tablets, computers, or mobile phones responsibly.

PANAMÁ

At Telefónica Panama, we launched the #YoElijo (I Choose) campaign on the responsible use of mobile phones, aimed at promoting a culture of responsible use.

This campaign invites us to reflect on the small things that we can do to avoid risks and help build a better society.

The campaign was based on four key tips:

1. #YoElijo not to accept strangers on social networks.
2. #YoElijo not to chat while driving.
3. #YoElijo not to perform acts of cyberbullying.
4. #YoElijo not to share crude images.

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VENEZUELA

We organised workshops on our digital footprint and cyberbullying. In them, we sought to create on-site spaces with students (children and adolescents), teachers and parents to transmit practical contents and tips on the proper use of technology. The interesting thing about these workshops is that debates are held about real situations and how they affect professionals, young people and relatives.

URUGUAY

We launched a campaign on the responsible use of mobile phones in the car. Thus, we published in magazines and newspapers, as well as on social networks, several graphic pieces with the following "claim": A voice message can also cause an accident. Don't use your mobile phone while driving. The graphics were awarded as the best advertisement in the press of the year at the Advertising Campaigns Festival.

UNITED KINGDOM

At O2 United Kingdom we collaborated with the leading charity organisation for children in the country, the NSPCC, with the goal of helping parents to understand the online lives of their children and how to keep them safe. The project, visible through a section of the commercial website, includes initiatives for raising awareness, counselling and training as well as the NET AWARE web, a site on which advice and recommendations on the responsible use of technology can be found. In addition, O2 United Kingdom offers a toll-free online security helpline (0808 800 5002), and a specific chat to answer questions on responsible use, which gives parents access to online security experts to whom advice about social networks, and the configuration of privacy and parental control can be requested seven days a week.

Furthermore, families who wish to can subscribe to an email service for obtaining information, advice and activities sent directly to their inboxes, which will help them to maintain regular conversations with their children about how to stay safe on the Internet.

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Commitment to our team



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Evolution of the workforce

At the end of 2017, the Group had a total of 122,718 employees, with an average age of 39.7, and of which fewer than 1% held executive positions. This total figure represents a reduction in absolute terms of 3.6% compared to the workforce of 2016. Part of this decrease is due to the sale of TGSC Peru, which took place at the end of October.

The organic variation of the workforce (without taking into account the above-mentioned movements) resulted in a fall of 2.8% compared to 2016, mainly due to voluntary simplification plans which have been adopted particularly in Spain, Latin America and the United Kingdom.

Diversity is very important to us, as it enriches the culture of the Company and brings us closer to our customers and society in general. Our employees currently represent



more than 91 nationalities and work in 24 different countries. With regard to gender diversity, in 2017, 37.7% of our professionals were women (see chapter on 'Diversity management').

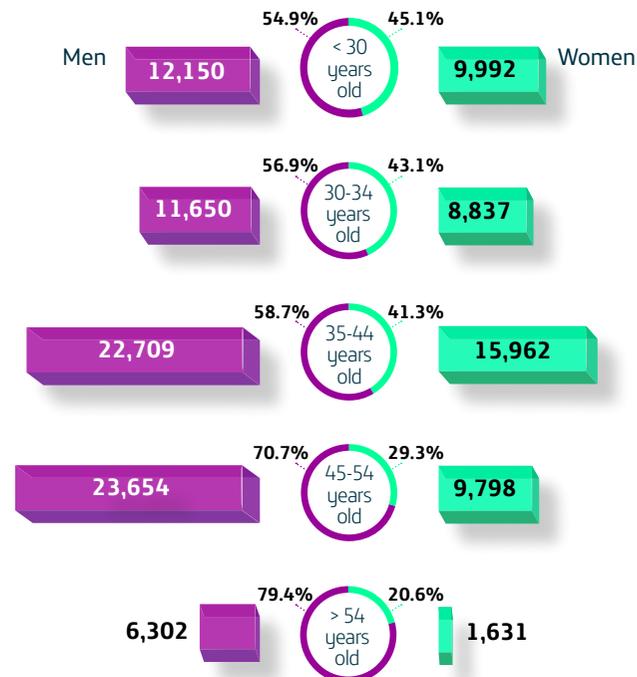
As regards job security, it is worth highlighting that 97.9% of all of our staff have permanent employment contracts (97.8% of women), thereby demonstrating our commitment to sustainable employment policies.

In 2017, 82,526 of our employees had negotiated work agreements (67.2% of the total), which amounts to a slight decrease over the previous year (82,444 employees in 2016). This has been strongly influenced by simplification plans.

Turnover

	Total turnover rate	Voluntary turnover rate
Germany	22.1	14.1
Brazil	23.0	6.2
Spain	21.5	3.5
Latin America	19.1	5.8
United Kingdom	26.1	18.5
Total	21.5	6.6

Employee age pyramid



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Employees by country

Millions of euros	2015	2016	2017
Germany	8,738	8,720	8,739
Argentina	17,255	15,591	15,094
Brazil	35,512	34,918	35,031
Central America	1,677	1,703	1,558
Chile	4,495	4,569	4,476
Colombia	4,984	5,065	5,022
Ecuador	1,417	1,307	1,262
Spain	38,130	33,440	32,064
Mexico	2,479	2,829	2,650
Peru	8,777	7,929	6,697
United Kingdom	7,807	7,344	6,868
Uruguay	604	616	614
Venezuela	5,083	2,582	2,041
Others	461	710	602
Total	137,419	127,323	122,718

Types of contract by gender and country

Millions of euros	Fixed contract		Temporary contract		Part time
	Men	Women	Men	Women	
Germany	4,818	2,928	565	428	1,508
Argentina	10,265	4,829	0	0	21
Brazil	20,592	14,439	0	0	8,044
Central America	1,041	517	0	0	0
Chile	3,013	1,429	34	0	2
Colombia	2,548	2,397	30	47	2
Ecuador	749	495	0	0	0
Spain	20,176	11,068	453	344	1,985
Mexico	1,806	892	0	0	0
Peru	4,055	2,055	418	169	1
United Kingdom	4,163	2,626	42	37	0
Uruguay	301	313	0	0	136
Venezuela	1,007	1,032	0	0	0
Others	432	179	0	0	11
Total	74,952	45,199	1,542	1,025	11,710



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Talent attraction and development

TALENT MANAGEMENT

In a changing environment marked by dynamism and digital transformation, attraction and retention of talent is one of the key issues for the profitability and sustainability of the business. At Telefónica, we firmly believe that our employees are our most important asset, and therefore, we work every day to encourage development of their capabilities, as we understand that only by obtaining our employees' maximum potential can we deliver on commitments to our customers.

Our current talent model, which follows the employee through the different stages of their career, identifying the key skills and expertise that will help them to take on our transformation process, is aligned with our strategy and the Company programme "We Choose Everything_".

Performance evaluations

All non-union employees are subject to a performance evaluation process. Currently, of the workers who have to go through this process, around 59,360 are already registered

in the internal Success Factors talent management tool. This is a global evaluation process that has a common system, calendar and guidelines throughout the Company, although the evaluation is conducted on a local level.

In 2017, 85% of these registered employees carried out this process successfully. They set goals, monitored them throughout the year through conversations with their managers, and completed the process with a final evaluation, in which they received a grade for their performance during the year. Only 15% of registered employees are pending finalisation of the process.

In general terms, the results are very positive, but we still need to continue promoting implementation, to achieve a 100% completion rate for all employees who are registered on Success Factors.

Development programmes

Last year we continued to drive forward with global and local talent development programmes, which contributed to the professional progress of our teams. In this way, we managed to improve implementation of the strategy on its different levels and segments, from the young professionals to the directors, and encourage the diversity of the workforce:

Global Young Leaders

Programme: A 2-year development programme that aims to develop digital, transformational and leadership skills among the best young professionals in the Company. In 2017, a group of 86 young people from 11 countries took part in the programme's second edition. It should be noted that, of the total participants, 57% are women. Through this initiative we retain and strengthen young talent, and ensure that we have leaders and allies who respond to the characteristics of an environment in constant movement.

57% of participants of the *Global Young Leaders* programme are *women*

■ **Talentum:** An initiative that brings together all the proposals related to Company talent development and employability. This programme offers different types of scholarships and grants, for different ages, from school to a first job. Noteworthy in these programmes are: Talentum Mood, Talentum Startups, Talentum Universities and Talentum Schools.

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■ **Women in Leadership:** A development programme that aims to strengthen female leadership within the Company (see chapter on 'Diversity management').

■ **Women who lead:** In 2017, for the first time, the 'Women who lead' event was held in several countries in Latin America. Over the course of one day, the event explores the social, cultural and personal barriers that women face, and how to overcome them to encourage female leadership. Through this training, 7 countries were visited and 462 women were reached.

■ **International rotations:** thanks to this global programme our employees can enjoy an international and multi-functional experience in any other of the companies within the Group.

TRAINING

A fundamental aspect of managing talent in a company like Telefónica is the continuous training of employees, providing management skills and ongoing training programmes, which promote the employability of workers and support them in the management of their careers.

We provide our training programmes through:

■ **In-person training:** In 2017, Universitas Telefónica, our corporate university, delivered on-site leadership and business strategy programmes to 1,933 executives on its campus in Barcelona. Furthermore, 1,934 executives were trained through 'On the Road' programmes, which bring content to 10 countries and business areas (on demand programmes). The average evaluation of these programmes is 4.72 out of 5.

■ **Online training:** The training process has been integrated into a Company-wide model supported by Success Factors on a single platform. Students can access the training courses from any device, and from any location.

Global package

We offer a comprehensive package of courses to all employees at all levels of our Company. This includes training in compliance, culture and languages. We should highlight the launch of new courses in 2017, such as 'Welcome to Telefónica', 'Design Thinking', 'Privacy and security', 'FCPA certificate', 'Anti-corruption certificate' and our language training programme, in which employees of the Company can learn English, German, Portuguese and Spanish.

We reinforce *compliance with the Principles of Action* through *dynamic activities* and *positive reinforcement*

In addition, courses taken by students via external platforms, such as Learn4Sales, DatAcademy, Miriadax and Branding School have been recognised in Success Factors, so that these achievements can also be included in our corporate tool.

Learning takes place in real time. Given that we use the full potential that micro-learning offers, this means that we can update the courses and the tools to include the latest themes of the digital economy. As a result, we instill a culture of self-service learning for employees, allowing them to choose what they want to learn, when, how and with whom.

The key to the success of the model is the people; employees, managers and administrators interact to detect needs, plan, manage activities and monitor, so that all learning happens and is improved under a single, common, global tool.

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Local package

Our local packages offer courses and resources for improving the competitiveness of our Company where we operate, guaranteeing the updated knowledge of all our professionals.

In 2017, we published more than 1,000 learning modules in different formats, through the different communities of the SAP Jam tool: "technology", "sapiens", "digital leader", "business world", "customer" and "regulatory framework".

We would like to highlight the creation of the HR Academy group in SAP Jam. Via this group, all those responsible for human resources meet to address topics of importance and relevance for the Company.

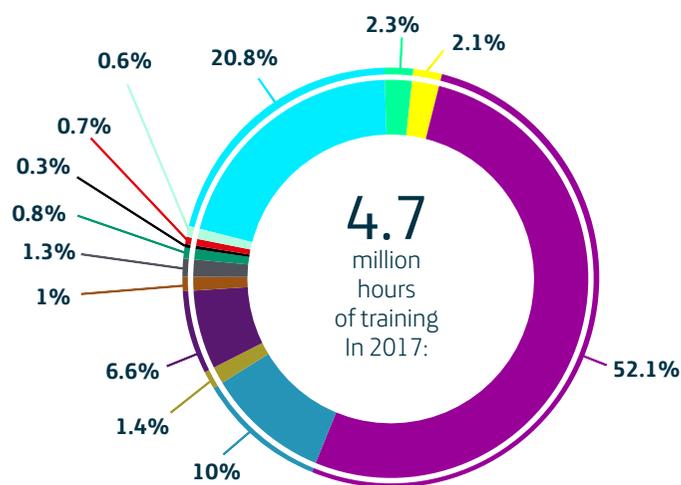
In 2017, we recorded a total of 34,443 members in the different groups of SAP Jam, with 547,146 viewings of content by the end of year.

Across the two packages (global and local) a total of 4.7 million hours of training have been registered, with an average of nearly 39 hours of training per employee, which represents an increase of 2% compared with 2016.

Hours of training per employee

	2016	2017
Germany	8.0	10.6
Argentina	36.1	27.0
Brazil	74.4	60.8
Central America	11.4	15.9
Chile	23.1	12.8
Colombia	65.8	54.0
Ecuador	0.9	33.9
Spain	27.9	26.5
Mexico	22.9	20.5
Peru	12.9	4.6
United Kingdom	0.1	12.7
Uruguay	22.9	19.7
Venezuela	17.0	14.5
Total Group	38.2	38.9

Average hours of training per employee



- ▶ Germany
- ▶ Argentina
- ▶ Brazil
- ▶ Central America
- ▶ Chile
- ▶ Colombia
- ▶ Ecuador
- ▶ Spain
- ▶ Mexico
- ▶ Peru
- ▶ United Kingdom
- ▶ Uruguay
- ▶ Venezuela

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Best practices

PERU

Women's Network Telefónica (WNT)

The main target of this initiative, which falls within the framework of 'Women's Age', is to facilitate the management of the diversity of profiles in the workforce, with the ultimate goal of connecting with our diverse customers, strengthening innovation, being more efficient and moving forward on our path towards digital transformation, at the same time as helping to empower our employees.

More than 130 executive women participated in the initiative over the last year.



BRAZIL

Leaders Academy

With more than 160 classes, this programme has trained more than 2,800 participants from 10 cities in the country.

Self-development week

with 4,626 on-site and 6,581 remote participants, this activity promotes digital transformation through seminars and conferences.



CHILE

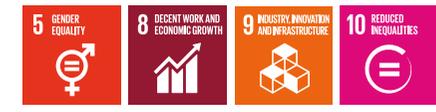
Leadership Acceleration Programme for Millennials (PALM)

This initiative is conducted on an annual basis, and is composed of a series of activities for young people. In 2017, 29 young people took part. The aim is to analyse and understand what is expected of a leader, explore their own professional added value and which aspects they need to work on, enhancing self-knowledge.

Millennials Challenge

A day-long workshop designed to foster networking among the generation of young professionals who have an increasingly stronger presence in our organisation.

We encourage the identification of key skills in young people with high potential (persuasion and influence, collaboration, leadership, results driven and courage).



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Diversity management

We understand diversity as a lens through which to identify, develop and promote talent. Diversity in the Company is, therefore, a source of talent, and as such we incorporate it as a transversal and key element of the global strategy and our Responsible Business Plan.

BEYOND THE DEMOGRAPHIC DIFFERENCES

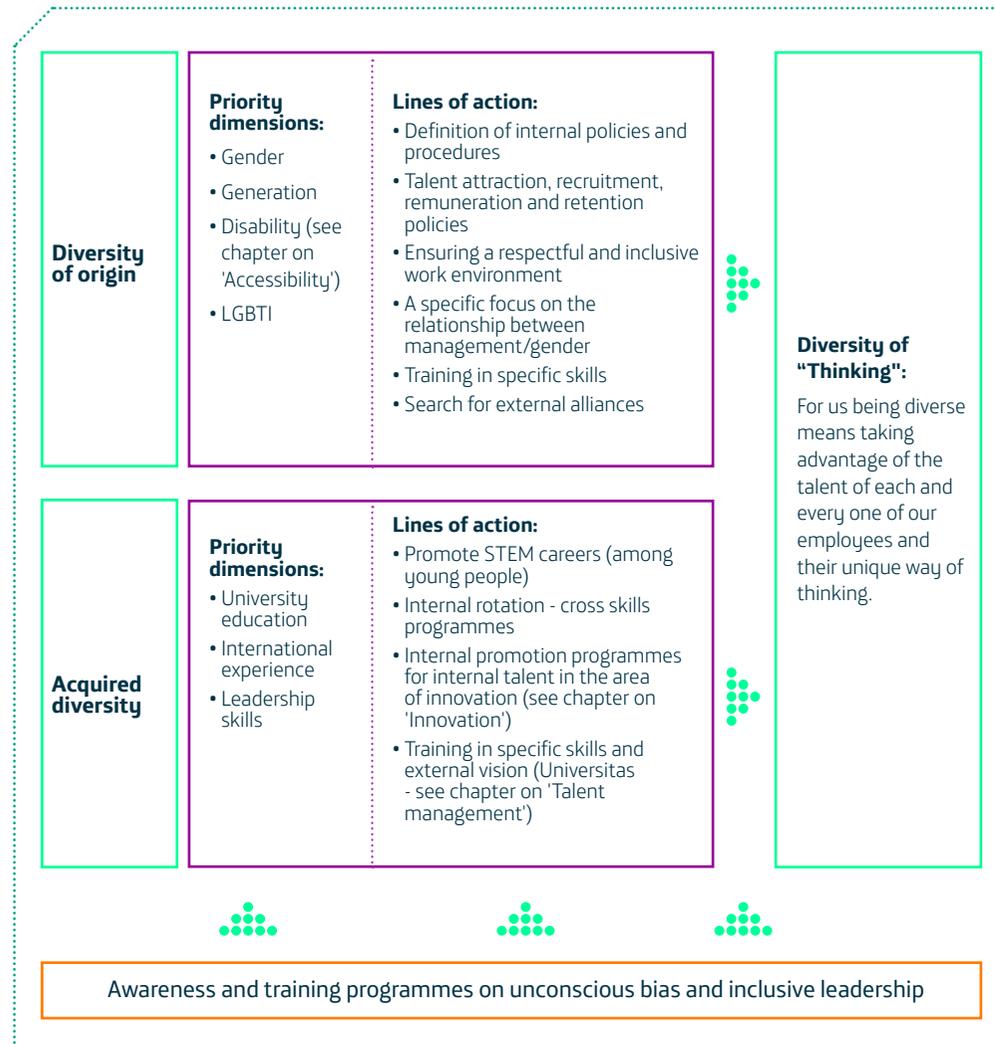
At Telefónica we believe that diversity is not just a matter of demographics, but rather, a diverse company can be built from the mental map of each of its employees. This vision covers, firstly, the "diversity of origin", which implies the characteristics with which one is born: sex or ethnic origin, for example.

Beyond this "inherited" diversity is "acquired diversity", which relates to the character traits that people incorporate throughout their lives: academic background, work experience abroad, learned skills or their own personality and attitude to life.

The sum of the two previous levels of diversity leads us to what we might call "diversity of thought", which refers to what a person, as a unique human being, can offer to their team.

Incorporating the diversity of origin into the organisation responds to the principles of social justice. However, beyond these principles, the diversity of thinking can offer greater benefits for the Company, boosting its

Corporate approach to diversity at Telefónica



In the highest executive body of the Company, **17.6%** of members are **women**, **6 different nationalities** are represented and **75%** of the country Chairmen and CEOs are local

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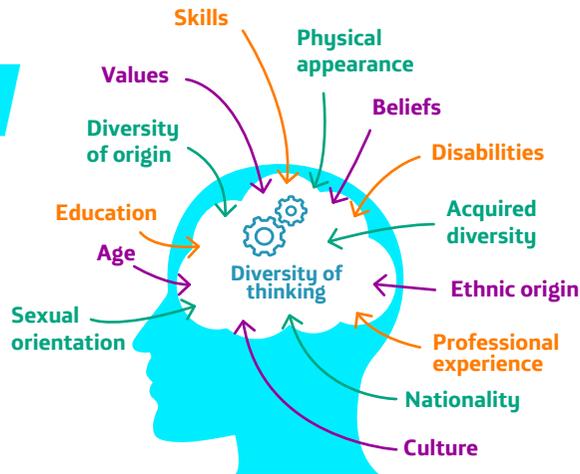
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capacity to innovate through the sum of the capabilities and skills of our employees.

This type of diversity, and good management of it, is, therefore, key. However, we cannot deliver this if we do not remove barriers and work, firstly, on the diversity of origin.

To ensure internal coherence and avoid management of diversity based on broken initiatives, it is also necessary to define which variables are relevant to our business. Some of them will be common throughout the Company, as is the case of gender and age, but others will necessarily have a local component, according to the reality of each country or community.



Specific policies and support programmes

Our commitment to diversity as a strategic element of our Company materialises through various policies and tools:



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In addition to these elements, we have implemented different diversity programmes in each area of operation, which represent an undisputed lever for moving forward in making better business decisions.

In Spain, for example, we have designed a Plan to Promote Diversity that aims to promote a culture of equality, diversity and inclusion, to enhance the management of talent, and develop an inclusive leadership style. This Plan was awarded the prize of best Strategic Plan for Diversity and Inclusion in the Diversity and Inclusion (D & I) awards.

We also have an Equality Plan that includes the commitments signed by the management and the representatives of the workers on the maintenance and development of policies of equality and conciliation. It also includes a protocol of action in cases of labour, sexual or gender based harassment at work.

Similarly, in Brazil, we have the Diversity and Inclusion programme, which aims to promote the representation of minorities, both internally and externally. It is an ambitious plan to promote the Company's commitment from the highest levels of management, and to inspire, train and raise awareness in terms of inclusive leadership and unconscious bias.

All these plans and measures ensure our Company is aligned with and moving towards achievement of the United Nations Sustainable Development Goals,

and specifically the achievement of gender equality and reducing inequalities (SDG 5).

Partners

Collaboration with organisations that are committed to and specialise in diversity, from different perspectives, helps us to implement our strategy more effectively and broaden its scope. Such activity is also key to the internal transmission of our equality principles, ensuring that all areas of our Company are working in the same direction.

Some of the organisations with which we collaborate are the [United Nations](#), the international organisation for the empowerment of young women interested in technology careers [Girls in Tech](#), the [State Federation of Gays, Lesbians, Transsexuals and Bisexuals](#) (FELGBT) of Spain, the [Royal Academy of Engineering](#) in the same country, the business movement [Mulher360](#) and the [Instituto Ethos](#) in Brazil, the organisation [Rails Girls](#) in Argentina, as well as the governments of the different countries in which we operate, in very different subjects. Other companies and foundations that we have partnered with in the field of diversity are the business school [Instituto de Empresa](#), the consultancy firm specialised in the field of diversity [INTRAMA](#), the magazine [Compromiso Empresarial](#), the leadership consultancy firm [Talengo](#), the professional women's network [Woman Talent](#), [Bloomberg](#) and the [Adecco Foundation](#).

122,718 employees



46,224
37.7%
of the total
workforce



76,494
62.3%
of the total
workforce

Best practices

ECDI Network

We are the lead partner of the [Network of Companies Committed to Diversity and Equality \(ECDI\)](#), composed of Spanish companies and institutions that join forces and share knowledge to promote these principles.

Main indicators

	2016	2017
Women in the workforce	37.6%	37.7%
Women in management positions	20.5%	21.5%
Percentage of women on the Board of Directors.	17.6%	17.6%
Percentage of women in middle management	-	30.7%
Number of nationalities in the workforce	106	91
People with disabilities in the workforce ⁽¹⁾	855	842
Percentage of young people under 30 years of age ⁽²⁾	19.1%	18%
Percentage of women in all new recruits <30 ⁽³⁾	47.5%	47.1%

(1) The reported percentage of people with disabilities in the workforce in Spain (previously LISMI) is 2.25%.

(2) Percentage of the total workforce.

(3) Percentage of the total number of young people under the age of 30 years recruited into the workforce.

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EMPLOYEES

■ We manage selection processes:

We implement policies and practices for selection, hiring, remuneration, promotion, training, professional certification, retribution and other working conditions, that follow only the criteria of merit and capability in relation to the requirements of the position.

In 2017, the number of professional women rose to 46,224, or 37.7% of the total workforce, while the number of men stood at 76,494, or the remaining 62.3% of the total. The percentage of women at management level stood at 21.5%. Furthermore, we should highlight that our professionals originate from more than 24 countries (4 of which are represented on the Board of Directors) and belong to around 100 nationalities.

We have communication and internal complaint channels to eradicate discrimination in the organisation in cases of breach of the aforementioned policies and practices.

We set the corporate objective of having a minimum of **30% female managers by 2020**

■ Remuneration systems and criteria:

We guarantee an objective performance measurement system that has the goal of evaluating the capabilities of Group employees. This talent assessment mechanism aims to enhance the career of all Company professionals. Furthermore, we have a Talent Committee which analyses the results of these assessments and implements specific promotion and improvement plans.

To avoid having a wage gap between the different groups that make up our workforce, we developed a Global Remuneration Policy which aligns practices throughout the Group, as well as an Appointments and Remuneration Committee on the Board of Directors to ensure compliance with the principles of equal pay between managers (see chapter on 'Freedom of association, social dialogue and fair remuneration').

■ We promote female talent:

We have a professional career acceleration and increased visibility programme for female employees called "Women in Leadership". The initiative aims to give leadership training, provide participants with digital skills and enrich their network (see chapter on 'Talent attraction and development').

In parallel, the Talentia programme has been developed in Spain to strengthen the leadership skills of our employees in middle management, in order to help prepare them for future promotion opportunities.

Along these same lines, and on a global level, we encourage the promotion of female talent in middle and executive management roles, ensuring that both genders are present on the list of finalist candidates for internal selection processes.

The same requirement applies in Argentina and Brazil, while in the United Kingdom we agree to having 50% of women in the last phase of the selection processes; and in Uruguay, with women present in all previous processes. In Brazil, in addition, there must be at least one female interviewer on the panel.

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

Best practices

Principles of Women's Empowerment

In Brazil, Argentina and Colombia we adhere to the [Women's Empowerment Principles](#), drawn up by UN Women and the United Nations Global Compact,

which aims to help companies with the examination of the applicable policies and practices in order to encourage gender equality. At the same time, in Colombia, we signed an agreement with the [United Nations Development Programme](#) (UNDP), in order to contribute to improving employability, entrepreneurship and the economic situation of women in the country.



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■ **We encourage young talent:**

With regard to new recruits, we encourage the selection of female talent through our "[Talentum](#)" [internships](#). In 2016, 36% of new additions with STEM degrees (Science, Technology, Engineering and Mathematics) in Spain were women, which is a significantly higher percentage than the applications received.

We also promote the incorporation of young talent into the Company. Thus, in the past 4 years, 71% of new employees at Telefónica Spain have been under 34 years old.

We want to retain and enhance this talent. Therefore, in 2017 we launched the second edition of the Young Leaders Programme. This global initiative to develop digital skills in young people was attended last year by 86 participants (see chapter on 'Talent attraction and development').

In the last 2 years we have recruited almost 15,000 young people to our global workforce, and our goal for the next 3 years is to incorporate 25,000 more young people.

In 2017, **47.1%** of our recruits **under 30** were **women**



■ **Senior talent:**

We are also committed to those groups of older professionals and, therefore, we collaborate with the Instituto de Empresa (Business Institute) in its "Demographics and Generational Diversity" Observatory, with the ultimate aim of exploring new models of senior talent management in companies, which offer opportunities to professionals over 55 years old.

■ **Awareness:**

We believe that training and awareness are the seeds that are necessary to advancing and becoming an increasingly diverse and inclusive company. The value of difference, unconscious prejudices and bias, as well as the importance of inclusive leadership are some of the topics we deal with in our workshops, MOOC and online courses.

Thus, in the global corporate arena we have the online "Diversity management" course, which is available to all our employees.

In addition, on our Intranet we have designed a space to provide employees with a reference and meeting point for all topics related to diversity, called "We Choose Diversity". This site gives access to our Plan to Promote Diversity, as well as all the relevant activities and additional information.

In Spain, in order to encourage internal responsibility and commitment to diversity, we expanded our "We Choose Diversity" course, to reach more than 11,500 employees. Similarly, the "We Choose Inclusive Leadership" course, which explains the essential guidelines for encouraging

Best Practices



Guide for managers and pregnant women

In Brazil, we have developed a guide to foster support from middle management to future mothers before and after the birth of their baby. The guide also aims to improve the conditions for managers and pregnant women to appropriately coordinate the period of absence and return to work.

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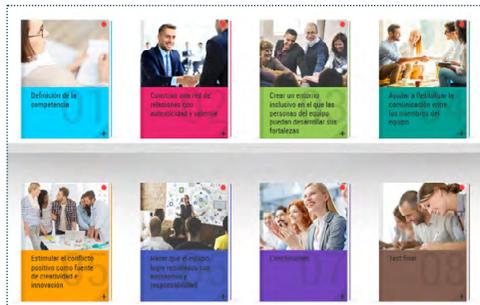
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and promoting diversity in work teams, has already been given to more than 1,200 middle managers.

In this regard, we conducted workshops on unconscious bias for managers and directors, with the aim of ensuring that in selection processes decisions are always made exclusively on the basis of the skills and abilities of the candidate. The selection teams and evaluation committees involved in the intern recruitment process have also been trained in this matter.

In Colombia, employees were able to empathise with the real stories of immigrants, indigenous people and members of the LGBT community through the virtual platform "In other shoes", which aims to eliminate prejudices and promote full inclusion.



■ **Other local initiatives:**

In Brazil, with the aim of eliminating racial discrimination, we have developed a mentoring programme for employees of colour with high promotion potential. Furthermore, in this country, and within the framework of the Diversity and Inclusion Programme, we apply the "blind curriculum" method when recruiting external candidates to positions of managers and superiors, in order to avoid discrimination and bias in the stages prior to the face-to-face interview. Thus, the curriculums do not include personal information such as name, address, age, nationality, gender or photo.

In Peru, we encourage the hiring of talent from both public and private universities, to achieve a balance between the two groups of employees.

Our vision of diversity as a source of talent is intimately linked to the balance of work and personal life, the design of flexible work models that are adapted to individual circumstances, and the needs of each person. We have numerous initiatives in all our operations that deal with these issues (see chapter on 'Work environment, balance and compromise').

CUSTOMERS

We are aware that only with a diverse workforce can we truly empathise with our customers, understand their specific needs and innovate to meet them, thus generating an emotional connection with our customers. Through diversity we can successfully reinforce a digitalisation that is focused on customers and people in general.

We believe that through this concept, in addition to identifying, developing and promoting talent, we can facilitate a mutual understanding between the Company and all its stakeholders. Therefore, diversity is a tool for generating more stable and higher value commercial relationships.

SUPPLIERS

Our Responsible Business Principles, which incorporate diversity as a transversal element of our strategy, are also directed to all our suppliers and partners, who must adopt them in their entirety or develop their own similar principles, to ensure that the Principles are fulfilled throughout our value chain. To achieve this, we collaborate with our suppliers on the continuous improvement of their processes, and assess their compliance through monitoring or independent verification. In addition, our suppliers must transfer this obligation to their subcontractors at all times.

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We automatically exclude from our list of suppliers those companies with illegal or immoral practices of discrimination which infringe the principles of equality, in accordance with our Responsible Supply Chain Policy. This policy also establishes the obligation for the supplier to not discriminate on hiring, training and promotion for reasons of colour, gender identity, pregnancy, family situation, origin, religion, age, disability, sex, marital status, sexual orientation, or political or trade union affiliation.

Our sustainable supply chain management model promotes the purchase of goods and services from social suppliers who seek to include people at risk of social exclusion in the labour market. In order to enhance their participation in our purchasing processes, we allow these suppliers to access our e-commerce platform free of charge (see chapter on 'Management of the supply chain').

SOCIETY

We believe in the potential of technology to achieve a more egalitarian, diverse and inclusive world, and we are aware of the potential we have as a provider of telecommunications to achieve this.

To this end, the III Sustainable Investment Initiative, organised in 2017, seeks to invest in innovative ideas proposed by teams in the countries in which we operate, to enhance the generation of products and services, internal transformation projects or commercial actions that have a positive social impact, with

diversity being one of the topics (see chapter on 'Innovation').

Furthermore, we carry out different actions to advance the careers of girls in STEM areas:

- In 2017, in Argentina we organised two new editions of the event #mujeres4tech, which brought together women from different areas who have a common relationship with innovation, entrepreneurship and digital communication, to display their projects and share their vision of the role of women in the advancement of technology.
- We collaborate with the international non-profit organisation [Girls in Tech](#), to educate and empower girls and women with STEM degrees who are passionate about technology, and give them a place in the labour market.
- We participate in the annual Women and Engineering programme, organised by Spain's Royal Academy of Engineering, through which Telefónica managers mentor university students just before their entry into the job market, thus promoting female entrepreneurship.
- In the United Kingdom we support the Step into STEM mentoring programme, in collaboration with Vodafone, Ericsson and BT.
- We are part of the [STEM Talent Girl](#) project to inspire and empower high school students and detect and develop their talent in

technical areas. The geographical scope of this project expanded in 2017, now reaching young people from different autonomous communities of Spain.

- We encourage girls to advance in the field of programming through the workshops 'Rails Girls' in Argentina, and in Mexico through the UN Women and the Mozilla Foundation.
- We identify leaders in technological entrepreneurship in order to inspire other women under the umbrella of 'WomensAge', the Telefónica Open Future_ initiative dedicated to entrepreneurial women.



Best practices

Girls in ICT day

At Telefónica Uruguay we organised, within the framework of the Girls in ICT day promoted by the United Nations, an intergenerational meeting of professional women in the field of technology. The aim of the day was to motivate and empower young women, encouraging them to enter into STEM careers.

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As a company that provides telecommunications services, we have the opportunity to actively collaborate in the eradication of gender violence. Therefore, we ensure gratuity and anonymity in the billing of calls that are made from any line to telephone support services for female victims of gender violence:

- The 016 freephone number in Spain.
- The 100 family violence help line in Peru.
- The 144 number in Argentina, a telephone service provided by the Ministry of Social Development to give information, guidance, advice and containment for women in situations of violence.

Beyond this, we work with our mobile handset providers to ensure that calls are completely anonymous, and cannot be recorded by the mobile handset itself.

We have also developed the "[LIBRES](#)" mobile application that offers tools and information to help end situations of gender violence. This technology is offered by Spain's Ministry of Health, Social Services and Equality, as one of the public resources provided to address this issue.

In line with the management of the Table of Diversity Promotion of Argentina, and in collaboration with ELA, expert organisation on gender research in Latin America, awareness actions regarding violence towards women have been developed. The training is aimed



at around 50 people from the organisation, who collaborate with employees to generate internal tools to fight against this problem. In addition, an internal microsite was created to provide assistance and support to collaborators that may suffer from gender violence.

In the field of LGBT, in 2017, we participated in the [Madrid Summit](#), the largest conference on LGBT human rights in the world, where

we organised presentations, debates and workshops on the rights and problems of the community.

We also collaborated in the organisation of WorldPride Madrid 2017. Within the framework of this event, we held a day-long Workshop on LGTBphobic School Bullying in order to raise awareness on the subject (see section on 'Protection of minors and responsible use of technology' in the 'Digital trust' chapter).

2017 Milestones

- We raised awareness in priority areas, through specific workshops on unconscious bias.
- We increased the percentage of women in management.



2018 Targets

- To increase the percentage of female executives to achieve 30% of women in management positions by 2020.
- To recruit 25,000 young people in the next three years.
- To raise awareness and educate all employees through workshops and communication campaigns.



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Freedom of association, social dialogue and fair remuneration

By virtue of the agreement reached with [Union Network International \(UNI\)](#) we are committed to the basic ILO labour standards, chiefly referring to freedom of association and the right to collective bargaining in all the countries and jurisdictions in which we operate.

The agreement, renewed in late 2014, remains in force and takes into account developments in matters of corporate responsibility, as set out in the [Guiding Principles on Business and Human Rights of the United Nations](#), which clarify that companies must respect human rights in all their operations.

Within this framework, the Group's Human Resources department held its annual meeting with the UNI in January 2017 in Buenos Aires.

In general terms, we are currently going through a simplification process, and as such have continued with voluntary severance schemes, which, in general, have been well-received by the workers.

Maintaining a neutral position with respect to trade union activity is essential to ensuring a free and open environment that allows employees to exercise their rights of association. For those workers wishing to join a union, Telefónica will recognise unions that

comply with the conditions for organising according to ILO Convention 87, and always respecting the local legislation. Furthermore, we guarantee that worker representatives are treated fairly, are free from discrimination and that they will, in turn, have access to all the resources necessary for performing their functions of representation.

FAIR REMUNERATION

We include our commitment to our employees within our Responsible Business Principles, guaranteeing fair pay that is in line with the labour market in which we operate. We ensure that our remuneration policies and practices guarantee equality of salaries and opportunities for men and women.

The aim of our remuneration policy is to attract, retain and motivate professionals so that, together, we can take on the challenges posed by the transformation that is taking place in the sector. These remunerations come in the form of payments (base salary, variable remuneration dependent on objectives, sales incentives, long-term benefits and share programmes) and by means of specific benefits (pension plans, holidays, life and health insurance, company cars, etc.), as well as other forms of compensation, such as career development and opportunities.

Our employees have access to a personalised remuneration system that allows them to

voluntarily allocate part of their fixed financial payments to the purchase of a series of products and/or services and, therefore, to adapt their salary to their personal and family needs at all times. Within the concept of total remuneration, Employee Share Plans play an important role, as they align the interests of the employees with those of the shareholders and, at the same time, generate a sense of belonging and more direct involvement in the results of the Company. As a result of these Plans, 25% of employees were Company shareholders in 2017. Moreover, we have a Global Remuneration Policy which has the aim of achieving homogeneity and alignment in remunerative practices throughout the Group.

In turn, the local remuneration teams ensure alignment with established practices in each area of activity. All our systems include one Responsible Business target (at the very least) for employees: customer satisfaction.

In 2017, **25%** of employees were *Telefónica shareholders*

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We have designed and implemented several measures to improve the social benefits that our employees across the Company enjoy, such as:

- Health, life and accident insurance.
- Pension plans with contributions made by the employee and the Company.
- Child and school aid that varies depending on the age of the children.
- Financial compensation in cases of redundancy due to declaration of the worker's permanent total disability for his or her usual occupation.
- The option to work from home.
- Advance payments of up to three monthly salaries.
- Holiday and study plans for the children of employees.
- Aid for children who study in a different location to that of their family home.
- Supplements during maternity leave.
- Social assistance.
- The possibility of continuous working hours in summer and each year for one part of the collective, voluntary split working days and unpaid leave.
- Flexibility in the use of different permits.
- Transition aid programmes to facilitate ongoing employability and the management of the end of professional careers due to retirement or dismissal.

Minimum wage in Telefónica's main operators with respect to the minimum wage in each country

	Argentina	1.00
	Brazil	1.01
	Chile	1.67
	Colombia	1.41
	Spain	2.23
	Mexico	4.35
	Peru	1.41
	United Kingdom	1.52

The minimum wage in Telefónica companies is specified by convention, so it is the same for men and women in the Company.
Note: Data on Telcos in the Group.

In all countries in which we carry out telecommunications operations, the agreed minimum salaries are above the local minimum wage and are the same for men and women.

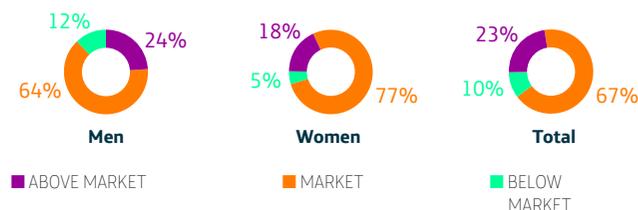
We publish information on the salary gap between men and women in each country and in each employment category, for both the base salary and total remuneration.

In terms of salary differences in executive positions, the statistical sample of this category by countries is much smaller than for managers and middle managers. For this reason, the results could be distorted due to exchange rates and strong deviations that are typical of the analysis of averages by gender in reduced samples (primarily due to the impact

of personal factors such as age, years of experience, specific qualifications, continuous performance and the time in the position). At Telefónica, the executive team's remuneration packages are set according to the following principles:

1. A position-by-position comparison against the market, using Willis Towers Watson as an external provider.
2. Performance of an annual internal equity analysis, ensuring a solid governance model.
3. Basing our salary review policies on the principle of performance.
4. Remuneration of our managers for the value they bring to the business, their experience, their skills, knowledge and time in the position, among others.

Total compensation versus local markets - (executive team)



The Appointments and Remuneration Committee of the Board of Directors ensures that the remuneration packages are determined according to the above principles.

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Average wage gap between men and women

 Germany	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	104.1%
Middle management	83.4%
Rest of workforce	82.9%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	103.4%
Middle management	80.8%
Rest of workforce	79.8%

 Argentina	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	96.4%
Middle management	93.8%
Rest of workforce	91.6%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	95.8%
Middle management	93.4%
Rest of workforce	88.2%

 Brazil	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	95.8%
Middle management	103.9%
Rest of workforce	88.3%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	95.7%
Middle management	103.9%
Rest of workforce	88.0%

 Chile	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	95.3%
Middle management	90.1%
Rest of workforce	85.6%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	95.3%
Middle management	90.0%
Rest of workforce	85.2%

 Colombia	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	99.1%
Middle management	86.4%
Rest of workforce	78.2%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	100.5%
Middle management	85.1%
Rest of workforce	77.2%

 Ecuador	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	87.1%
Middle management	96.9%
Rest of workforce	90.7%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	87.7%
Middle management	96.9%
Rest of workforce	90.7%

 Spain	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	97.5%
Middle management	96.4%
Rest of workforce	98.9%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	96.4%
Middle management	96.8%
Rest of workforce	98.4%

 Mexico	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	97.8%
Middle management	89.9%
Rest of workforce	99.3%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	97.8%
Middle management	89.9%
Rest of workforce	99.3%

 United Kingdom	Comparison between Men and Women % Basic Annual Salary
Directors / Managers	95.2%
Middle management	93.2%
Rest of workforce	103.3%
	Effective Annual Compensation (Base + Bonus)
Directors / Managers	92.9%
Middle management	90.5%
Rest of workforce	102.8%

Note: Data relating to non-union workers.

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Work environment, balance and compromise

A crucial aspect in the attraction and retention of talent is the promotion of a good working environment and a culture that is aligned with the Company's strategy. Likewise, understanding expectations and identifying areas for improvement are a fundamental part of keeping our professionals motivated, which in turn is essential to achieving a high level of commitment and providing an excellent service to our customers.

To achieve all this, we maintain a constant and continuous dialogue with our employees through several different channels, and we carry out an annual study on the working environment which provides the basis for our objectives in this area.

This analysis applies quantitative and qualitative criteria that are both measurable and manageable in order to identify trends and objectives within the different categories of staff training, motivation and resources.

During 2017, a total of 90,172 professionals from 38 different countries took part in our environment and commitment study, returning a commitment score of 80 out of 100. Venezuela (94 points), and Colombia and Uruguay (91 points) received the best results.

With regard to the data diversity study, the results show that commitment and motivation are slightly higher among younger

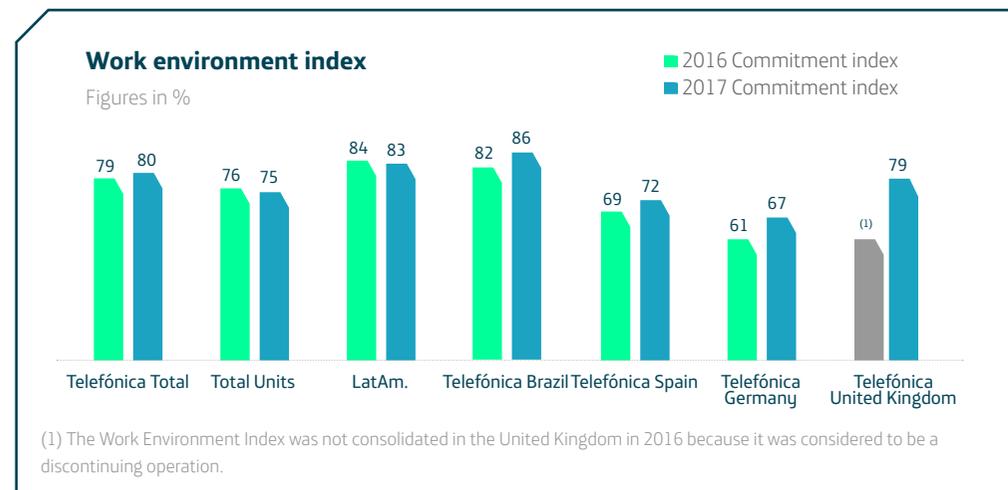
employees than among those aged over 30, with a difference of just two points (81 and 79, respectively). The results separated by gender were the same (80 points in both cases). In the global analysis, the three items that received the highest scores from staff are:

- "I feel energised to always try to give my best at work" (87 points).
- "I recommend my company as a good place to work" (85 points).
- "The ideas that we contribute to improving the ways of working are taken into account in my workplace" (81 points).

It is important to highlight that the item "My company acts ethically and responsibly" obtained a score of 83 points, three more than the global average and higher than that of last year.

In 2017, the Korn Ferry [Employee Engagement Awards](#) placed us among the top three employers in Spain, Mexico, Argentina and Chile. This award is designed to publicly acknowledge the organisations that have demonstrated high levels of commitment in the measurement of their working environment studies.

Our principal objective is to create diverse and collaborative working environments where staff feel motivated to develop all of their talents.



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Balance

We encourage the search for new ways of working that allow our employees a better balance between their professional and personal lives; we look for greater flexibility in timetables and to facilitate the adoption of new ways of working.

Besides this, we have already implemented a set of measures and provisions aimed at work flexibility, with services and benefits tailored to their needs. At a corporate level, in matters of the working day and timetables, a large percentage of the workforce has opted for a continuous working day in the summer months, thereby encouraging the new forms of flexible working permitted by new technologies.

To enhance the work-life balance, our employees enjoy flexibility when taking their holidays and also benefit from daycare vouchers. In some cases, as at the Company headquarters, we have a daycare service available for children of staff.

At Telefónica Spain there is also an Equal Opportunities Committee made up of Company and staff representatives that exists specifically to put even stronger emphasis on these, and other, measures that favour a better work-life balance.

 More information is available in the 'Diversity management' chapter

Best practices

"Gente de Valor" Acknowledgement

This acknowledgement programme completed its second edition in 2017. The goal of the initiative is to promote and maintain a culture of meritocracy through personal acknowledgement of our leaders within teams and among colleagues throughout the Telefónica Group.

The programme gives visibility to those who stand out, either because of their exceptional contribution or because their way of working particularly reflects Company values. It also recognises the Volunteer or social contributor of the year.

In 2017, a total of more than 100 thousand acknowledgements were awarded through our internal Success Factors platform. At the end of the programme, visibility as a Person of Value on our global intranet is given to a total of more than 30 individuals from all over the Company, 7 of which are especially honoured with the presentation of an award from our President at a global Company event.

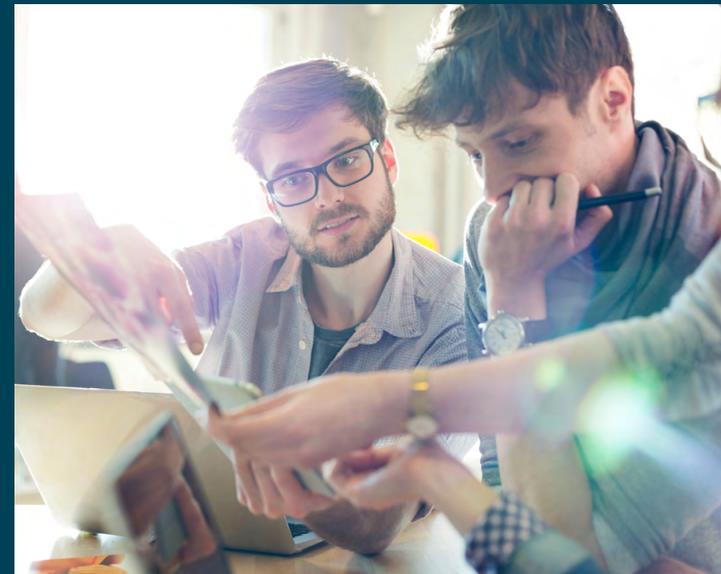
Teleworking

Teleworking programmes have been launched throughout Latin American in the last few months. Thus, generalization is being completed in Brazil, and pilot programmes are moving ahead in LatAm (12 new countries).

Such initiatives demonstrate a clear correlation between the answers

to the work-life balance question in the environment survey and the availability of this means of working. Additionally, specific polls on this topic show very high levels of satisfaction.

Among other measures for promoting this initiative, a global course will be launched in 2018 with the goal of fostering culture among leaders.





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Occupational health, safety and well-being

Promoting the health, safety and well-being of our employees and the staff of our supply chain is one of the critical commitments laid out in our Responsible Business Principles. We integrate preventive actions into the Company's operations and adopt as many measures to prevent occupational hazards as necessary, so that our employees can perform their activities in safe and healthy work places.

HEALTH AND SAFETY MANAGEMENT SYSTEM

85% of our operations incorporate a health and safety management system, which has been certified in 50% of the countries where we operate. In 2017, Colombia, Germany and the Telefónica Group in Spain (39 companies in total) renewed the certification of their systems.

At Telefónica Spain, we also obtained renewal of the Healthy Business model certification, for which we reviewed the Comprehensive Healthy Management model (Spanish initials: SGSI), based on our physical and social work environment, personal health resources and participation in the community.

In 2017 we launched a coordination project to harmonise our work standards throughout the Company, which go beyond national legal requirements in the countries in which we operate. The objective of the project is to define an Employment Welfare Policy that acts as an integrating and universal element

constituting the declaration of the Company's commitment to the health, safety and well-being of its employees.

TRAINING

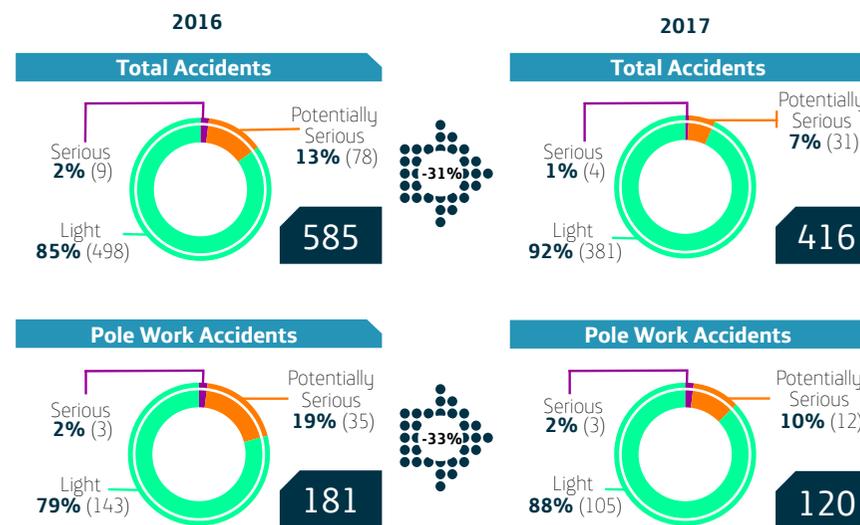
Training in this area has been bolstered through the global online tool SuccessFactors, which makes several different, multi-lingual training courses available to employees in accordance with the level of risk identified for their position.

Argentina

With the objective of spurring a cultural transformation in health and safety, and migrating from a culture of reaction to a culture of prevention, in 2017, Telefónica

Argentina implemented the project "I choose to take care of myself". The project aims to establish a working model in which taking care of oneself and others becomes part of the personal, work and organisational culture of the Company. To this end, several workshops were carried out: 'I can prevent an accident! How?', 'How do I talk about safety with my team?', 'Handling "problem" situations' and 'I am in charge of my own safety'.

Thanks to this project, in 2017 there was a 31% drop in accidents recorded (to 166 accidents) and a decline in the occurrence of pole work accidents (33%), as can be seen in the charts below.



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Spain

In order to standardise training content in the telecommunications sector, we led a working group made up of the different industry companies, partner companies and suppliers, in which we defined the contents and duration of the health and safety training activities that workers should have access to before initiating their assignments.

In addition, we have begun an audit of training companies, in order to ensure these have the human and material resources necessary to provide certified, quality training.

At Telefónica we also participated in the definition of telecommunications industry guidelines on the prevention of occupational hazards for our different stakeholders.

Germany

In 2017, we implemented a pilot project on psychological risk assessment. The "Office Building Nuremberg" and "Shop Regensburg" projects provided the bases for a practical analysis, with the end goal of verifying a new risk assessment model for office buildings and stores. Our goal is to replace the current, very complex approach to carrying out these risk assessments, and implement a new, more efficient approach that can be applied throughout Germany over the course of 2018.

ROAD SAFETY

We are committed to promoting employee awareness of road safety. For this purpose, the Telefónica Spain Joint Service has published various informative videoclips which provide clear and concise recommendations on safe driving habits, whether travelling by car, motorcycle or other vehicle. They have also organised talks on road safety at the Centre of Innovation in Madrid, inviting important guests from the world of journalism.

In Ecuador we sent all our staff defensive driving and response tips in the internal newsletter "Día a Día", which contains information on all health and safety issues, including health bulletins, safety concepts and prevention campaigns. In addition, an annual training course in effective driving is given to employees in the departments of corporate, commercial and mobile sales points nationwide.

No fatalities occurred during the year (Telefónica only considers those accidents occurring in the workplace).

WORKER REPRESENTATION ON JOINT HEALTH AND SAFETY COMMITTEES

The model established in the different countries in which we operate promotes worker representation and participation in health and safety issues through involvement in the corresponding Committees. These enable implementation and consolidation of established health and safety objectives by means of continuous

Día a Día

Boletín Electrónico

Telefónica

Martes, 20 de Marzo del 2018

▷ INTRANET ▷ DIRECTORIO ▷ HISTORICO ▷ PRODUCTOS

"Elegimos todo". Éste es el nuevo programa de compañía en el que trabajaremos internamente y también hacia fuera, hacia nuestros clientes, hacia la sociedad y hacia las personas, en un contexto de seguridad, privacidad y libertad." - "Elige todo".

Cumple con lo dispuesto en el parqueadero de Ekopark y evita accidentes



El parqueadero **NO** es una pista de carreras

Respetar el límite de VELOCIDAD



REALIZAMOS MONITOREOS PERMANENTES

analysis and monitoring of scheduled preventive measures. In 2017, we had approximately 265 Committees representing more than 88.5% of the employees of our telecommunications businesses.

All of the Company's Health and Safety Committees are run jointly by the business and staff. Unions are also represented, thereby ensuring their involvement in all Company health and safety issues.

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OUR PRODUCTS AND SERVICES ARE SAFE

We have painstakingly worked to ensure the security, safe functioning, accessibility and traceability of our products and services.

We apply the required protocols to guarantee that 100% of what we sell complies with international standards and with the legislation in each country. Such guarantees have an impact, in one way or another, on safety, and always affect quality and the user experience of our customers.

No country was found to have been in breach of any of these regulations in 2017.

PARTNER COMPANIES

Our concern for worker health and safety extends to our partner companies. Several Group-level initiatives are being carried out in this area:

■ Aliados Project

Through this project we seek to reinforce our commitment to health, safety and well-being in our supply chain (see chapter on 'Management of the supply chain').

■ Responsible procurement processes in the value chain

In 2017, we developed responsible procurement processes in the value chain in Colombia. We strengthened the process for contracting services, defining operational controls applicable at all stages of the procurement process and during delivery of

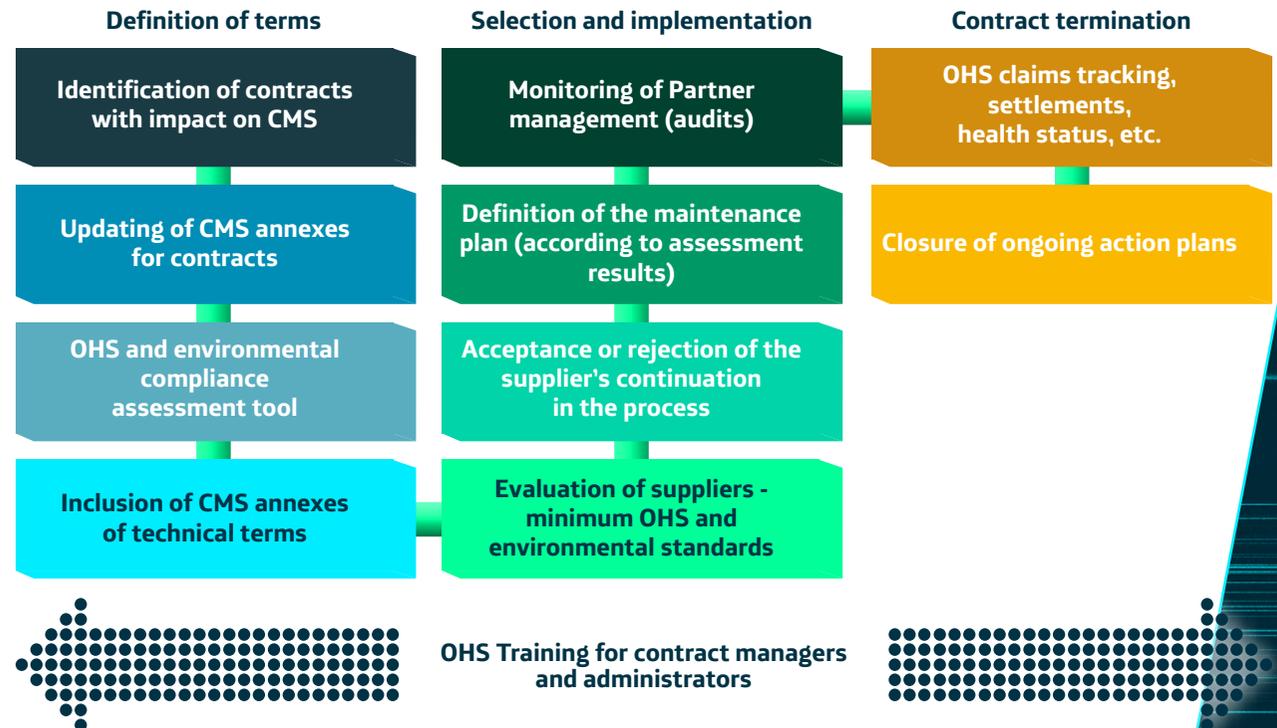
the contracted service, as can be seen in the diagram below.

To do so, we first had to identify which types of contract had the most significant impact on the Company Management System (CMS).

■ Corporate Activity Coordination Procedure

In 2017, we updated the Corporate Activity Coordination Procedure in Spain, which defines the coordination of preventive

measures for both Telefónica and partner companies. The improvements encourage more careful coordination planning, avoiding failures and improvisation, and allow us to both streamline and ensure awareness and compliance with protocols, in accordance with the regulations and in a way that guarantees implementation of the necessary prevention measures for all workers.



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Welfare Programme

Feel good

This programme was launched with the aim of promoting staff motivation and well-being. Between all the operators we implement more than 100 initiatives every year, which are organised according to the four cornerstones of the programme: physical activity, nutrition, health, and the person (emotional well-being).

One of our main objectives is to create healthy eating habits, for example, through the "Fruit basket campaign".

We also encourage physical exercise through programmes such as "Movistar running", "Movistar league" and "Exercise and active breaks". In the field of emotional well-being and personal leadership, we organise workshops on stress management and personal growth, among others.

Best practices

Work-life balance

We enable our employees to strike a good balance between their work and private, family lives. We offer specific assistance with teleworking, flexible working hours and family support services via the website www.famPLUS.de.



We organise

In Germany we organise an annual Company children's day, as well as other activities. Since 2016, we have been providing advice and assistance with various life situations through famPLUS, our new family service available throughout Germany.

Preventing exhaustion

In 2017, we focused on preventing exhaustion by promoting sports activities and managing staff reintegration after prolonged absenteeism due to illness.

As a result, we recorded a decrease of 11% and 23% compared to the previous year.

Integrity

In Central America we have created a comprehensive space that helps to safeguard physical and psychological wellness at work by implementing strategies that help to maintain balance and improve quality of life. Because of this initiative, our employees take active breaks during business hours and have access to nutrition advice from specialists, among other initiatives.

Among the professional activities that are carried out within our Company, no particular incidence or risk of work-related illnesses is apparent.

GRI indicators

	Injury rate (GRI)						Occupational diseases rate						Lost day rate						Absentee rate					
	Total		Men		Women		Total		Men		Women		Total		Men		Women		Total		Men		Women	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Germany	0.19	0.83	0.24	0.89	0.12	0.74	0.00	0.00	0.00	0.00	0.00	0.00	1.83	9.56	2.60	12.28	0.71	5.24	0.06	0.06	0.05	0.05	0.07	0.07
Brazil	0.48	0.56	0.69	0.82	0.17	0.18	0.00	0.00	0.00	0.00	0.00	0.00	4.46	39.28	6.15	53.44	2.02	19.23	0.01	0.04	0.01	0.03	0.01	0.05
Spain	0.67	0.58	0.66	0.53	0.70	0.70	0.00	0.00	0.00	0.00	0.00	0.00	21.23	28.69	21.62	28.10	20.33	30.05	0.03	0.04	0.03	0.03	0.04	0.05
Latin America	1.90	1.36	2.45	1.86	0.86	0.50	0.02	0.01	0.01	0.00	0.02	0.02	53.25	47.60	71.62	66.79	17.87	14.00	0.02	0.02	0.01	0.02	0.01	0.03
United Kingdom ⁽¹⁾	1.56	0.40	1.09	0.39	2.39	0.43	0.46	3.20	0.31	2.03	0.73	5.08	26.31	155.30	19.98	90.53	37.70	259.20	0.01	0.04	0.00	0.03	0.01	0.07

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.

Injury rate (IR): total number of accidents in the workplace with leave / total number of hours worked in the period*200,000

Occupational diseases rate (ODR): total number of occupational diseases / hours worked per year x 200,000

Lost day rate (LDR): total number of days lost due to accidents in the workplace and illness leading to absenteeism / hours worked per year)*200,000

Absentee rate (AR): total number of days lost due to absence for the period / total days worked in the period

The difference with 2016 figures is a result of changes in the calculation method used and updated reporting criteria.

(1) In 2017, there was an exceptional increase in the number of occupational diseases, which meant an increase in the ODR and LDR rates. United Kingdom labour laws include a larger number of occupational diseases than the other regions where Telefónica operates.

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Commitment to society



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Digital inclusion

We consider technology as an opportunity for people to access a new world of possibilities. However, a large part of the world's population is still not connected to the Internet, and therefore does not have access to a wide range of social and economic opportunities.

In Telefónica we see connectivity as a necessary ally in the effort to overcome the major challenges we face as a society, and this is why we are committed to promote digital inclusion – understood as the democratisation of global connectivity and the adoption of Internet services –. Our objective is to bring the benefits offered by digital services to everyone.

We are aware that the benefits offered by digital inclusion can reduce poverty, improve basic infrastructure and give access to cultural, educational and financial services. Therefore, we are committed to deploy a strong network that will enable a growing number of people to be part of the digital society. 45,000 million euros have been invested in this goal since 2012.

In addition, we believe that reducing the digital divide and bringing the possibilities of connectivity to everyone requires collective action, from public sector bodies, to non-governmental institutions and private companies. In Telefónica we take an open approach to this challenge, collaborating with a variety of organisations involved in achieving

Digital inclusion has a direct impact on communities, allowing them to build *fairer and more sustainable societies*

these objectives: national and international telecommunications operators, start-ups and entrepreneurs, public administrations, international organisations, etc.

In addition, we invest in technical and human resources to propel new programmes such as 'Big Data for Social Good' and 'Internet for All', aiming to address digital inclusion.

We want to overcome the difficulties that some citizens and communities face to become connected:



Main management indicators

	2016	2017
Telefónica investment (millions of euros)	8,928	8,697
Coverage for internet access		
4G/LTE mobile coverage (%)	62	72
Fibre (millions of households covered)	39	73
Universal Service (millions of euros)	343	342.5
Investment in education (millions of euros)	86	81
Penetration of smartphones (%)	57.1	63

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However, although connectivity is the basis, it is not the only important aspect in enabling access to digital services. Other factors are also relevant in driving adoption and use:

- **Lack of knowledge or relevant content:** Defined as a lack of skills to access the Internet or use the necessary devices, partially because of ignoring the possibilities offered by the Internet. The lack of relevant content adapted to users' local is another factor that hinders the access to digital services.
- **Accessibility:** Technological solutions and tools that enable all groups suffering from some kind of disability the possibility of accessing the digital world (see chapter on 'Accessibility').

- **Affordability:** Development of new business models that allow all segments of the population to access our products and services, regardless of their financial resources.

- **Development:** Solutions and services aiming to reduce the social divide through the use of technology (financial inclusion services, e-health solutions, etc.) and Big Data. These solutions have the potential to promote the social and economic development of societies, thus addressing the main global challenges (Big Data for Social Good).

CONNECTING EVERYONE

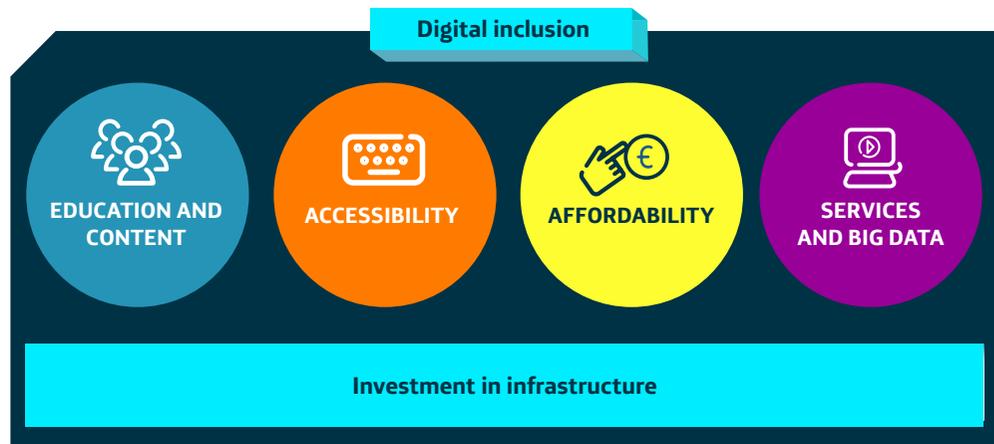
Connectivity is a key part of the digitalisation process and an essential element to ensure digital inclusion. However, around 100 million

people still do not have the coverage they need to get connected to the Internet in the markets where we operate, mainly in Latin America.

We seek to solve this problem through our programme, 'Internet for All'. This programme rethinks the way in which the networks are designed, deployed, operated, maintained and marketed, with the goal of extend our Internet coverage and connect the rural areas of the markets where we operate.

Among the activities we carry out to overcome geographical limitations and bring the network to the entire population, we can highlight:

- Adaptation of network infrastructure for low population density areas.
- Definition of a more open, simplified, virtualised, ecological and programmable network.
- Analysis of disruptive (stratospheric satellites, balloons, etc.) network deployment models.
- Search for new business models based on communities and local entrepreneurs.
- Use of Big Data and Artificial Intelligence to optimise deployment models.



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Universal Service

Telefónica actively funds Universal Service, the public investment fund aimed at providing services to all users, regardless of their geographic location, respecting standards of quality and at an affordable price.

Our Universal Service contributions focus on 7 countries: Argentina, Brazil, Colombia, Ecuador, Spain, Peru and Venezuela. The investment is under the control and monitoring of the public bodies appointed for such purpose by each country.



Best practices

Telefónica Rural

A project offering a new approach to the deployment of communication networks in remote environments of Latin America, where infrastructure is currently unavailable.

We want to bring *connectivity to 100 million people* who still do not have access to the Internet *in the regions where we operate*

In addition, within the framework of ensuring our commitment to ensure connectivity for all, we guarantee maintenance of the 2G network until users can be adequately migrated to new technologies, thereby preventing them from losing their communication services.

Contributions to the Universal Service	
(millions of euros)	2017
Argentina	101.4
Brazil ⁽¹⁾	147.6
Colombia ⁽²⁾	51.6
Ecuador	4.8
Spain	20
Peru ⁽³⁾	16.9
Venezuela ⁽⁴⁾	0.2
TOTAL	342.5

(1) Includes 2017 figures: FUST 353.797.228.24 and FUNTTEL 176.898.615.76; 2016: FUST 316.161.466 and FUNTTEL 158.057.748.

(2) includes 2017 landline, mobile and TV payments and use of spectrum.

(3) Includes services provided by Telefónica del Perú S.A.A., Telefónica Multimedia S.A.C., TIWS and Media Network S.A.C. Does not take into account pending annual adjustment.

(4) Timetrac: 2.700.107,49/Telefónica: 9,127,986,002.64. In total (adding both companies), there is a significant increase in constant terms of approximately 661%, mainly due to the adjustment of prices in the last quarter of 2017. This led to an increase in revenue and, in consequence, the taxable base for the calculation of this tax. However, it is appropriate to mention that in real terms these payments decreased, owing to high levels of inflation in the country.

AFFORDABILITY

As part of our efforts to bring connectivity to the entire population, we are aware how important it is for the services we offer to be affordable,

for all the social strata of the societies. The adoption of fixed broadband, and especially mobile broadband, has improved significantly during the last decade. However, despite progress, there are still some sections of the population that do not have access because of economic reasons, especially in Latin America, in spite of the fact that we registered a year on year reduction of 46% of income per Gb in 2017. To solve this problem, we are working on new business models that allow us to offer lower rates. The pay-as-you-go mobile service, an exclusive broadband package and service packages for small businesses and entrepreneurs are key tools for increasing penetration low income sectors of population. These affordable rates, as well as the connectivity of our customers, serve as a stimulus for the economy.



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DIGITAL KNOWLEDGE AND RELEVANT CONTENT

Despite broadband connectivity and tariff reductions, around 20% of people do not access the Internet because they do not know how or do not see the need to do so.

Therefore, one of the main barriers to Internet penetration in developing countries is ignorance of its usefulness and functionality, owing to a lack of digital skills in certain sectors

of the population, as well as an insufficient amount of relevant content in local languages.

For this reason, through the Fundación Telefónica and Telefónica Digital Education, we are developing programmes that aim to promote knowledge of digital tools and enhance their penetration in the academic sphere (see chapter on 'Social and cultural action').

SERVICES AND BIG DATA

The disparities in economy, geography, health and education have a direct impact on the quality of life of a large part of the world's population. Through technology, we can help mitigate them.

Technology and connectivity allow health solutions to be brought to people living in remote areas by remote patient management services. Besides, they provide access to financial services, among other functionalities.



Best practices

FONO YA service

Wireless landline phone service aimed at low-income urban households. Thanks to this service, more than 50,000 households have landline telephones at a monthly cost of 20 soles (US \$ 6.13).

A Charity Home for All

Affordable landline service in Venezuela which includes national calls at a monthly cost of 113.31 bolivars.

Charges per application

Movistar Peru offers Social Networks (WhatsApp, Facebook, Instagram, Snapchat, Spotify) for 1 new sol per day (US \$ 0.31).

Best practices



I-LINC

Together with the University of Dortmund and the All Digital and European Schoolnet organisations, we are a driving force behind this European Commission-funded project, which provides a platform for promoting the use of ICT in education and the improvement of the digital skills of the population. www.i-linc.eu

Venezuela Digital Rooms

The aim of these rooms is to introduce ICT and bring digital educational tools to children, adolescents and adults in the most vulnerable communities. In three years we have benefited more than 130 thousand people through 50 digital rooms in 11 Venezuelan states.





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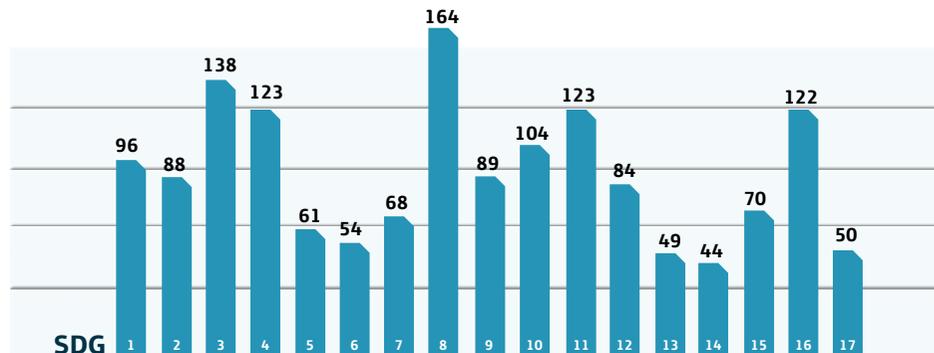
Big Data for Social Good

In addition to connectivity services, data has become a key tool for reducing inequalities and addressing major social challenges. Therefore, at Telefónica we have a pioneering work line called Big Data for Social Good, which makes use of anonymous data and public information to address projects such as:

- **Natural disaster impact analysis:** Evaluates population movements to optimise rescue operations and improve the quick response to these situations.
- **Prediction of the spread of pandemics:** Evaluates the expansion and spread of infectious diseases such as the Zika virus or ebola, which allows for improvement of health care and pandemic response programmes.
- **Study of the impact of the refugee crisis:** Monitors the migration impact of armed conflicts.



Up to now 1,185 data sets have been classified



1 End poverty. • 2 Zero hunger. • 3 Good health and well-being. • 4 Quality education. • 5 Gender equality. • 6 Clean water and sanitation. • 7 Affordable and clean energy. • 8 Decent work and economic growth. • 9 Industry, innovation and infrastructure. • 10 Reduced inequalities. • 11 Sustainable cities and communities. • 12 Responsible consumption and production. • 13 Climate action. • 14 Life below water. • 15 Life on land. • 16 Peace, justice, and strong institutions. • 17 Partnerships for the goals.

Best practices

Data República

In 2016, Cepei and Telefónica, as members of the *Global Partnership for Sustainable Development Data*, signed an agreement to strengthen the open data ecosystem with the aim of contributing to the sustainable development of Latin America. This alliance gave birth to the Data Republic project, an initiative that seeks to strengthen the ecosystem of entities and data to promote the sustainable development agenda in Latin America, the most unequal region in the world, through a collaborative platform where the ecosystem's players are invited to find the data, analyse them, make connections, write stories with them and learn their value.

ConectaRSE para Crecer

Developed in Telefónica Peru, this programme is dedicated to identify, recognise and promote initiatives that generate a positive impact on rural communities through the use of information technologies and telecommunications.

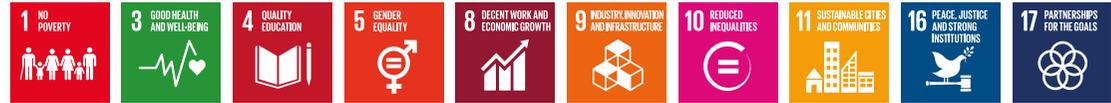
2017 Milestones

- To pursue and reinforce initiatives to facilitate Internet access in lower-income households.



2018 Targets

- To develop the 'Internet for All' programme in Latin America.
- To develop new rates and business models for more affordable Internet access.
- To develop products and services that use Big Data and technology to reduce social divides.



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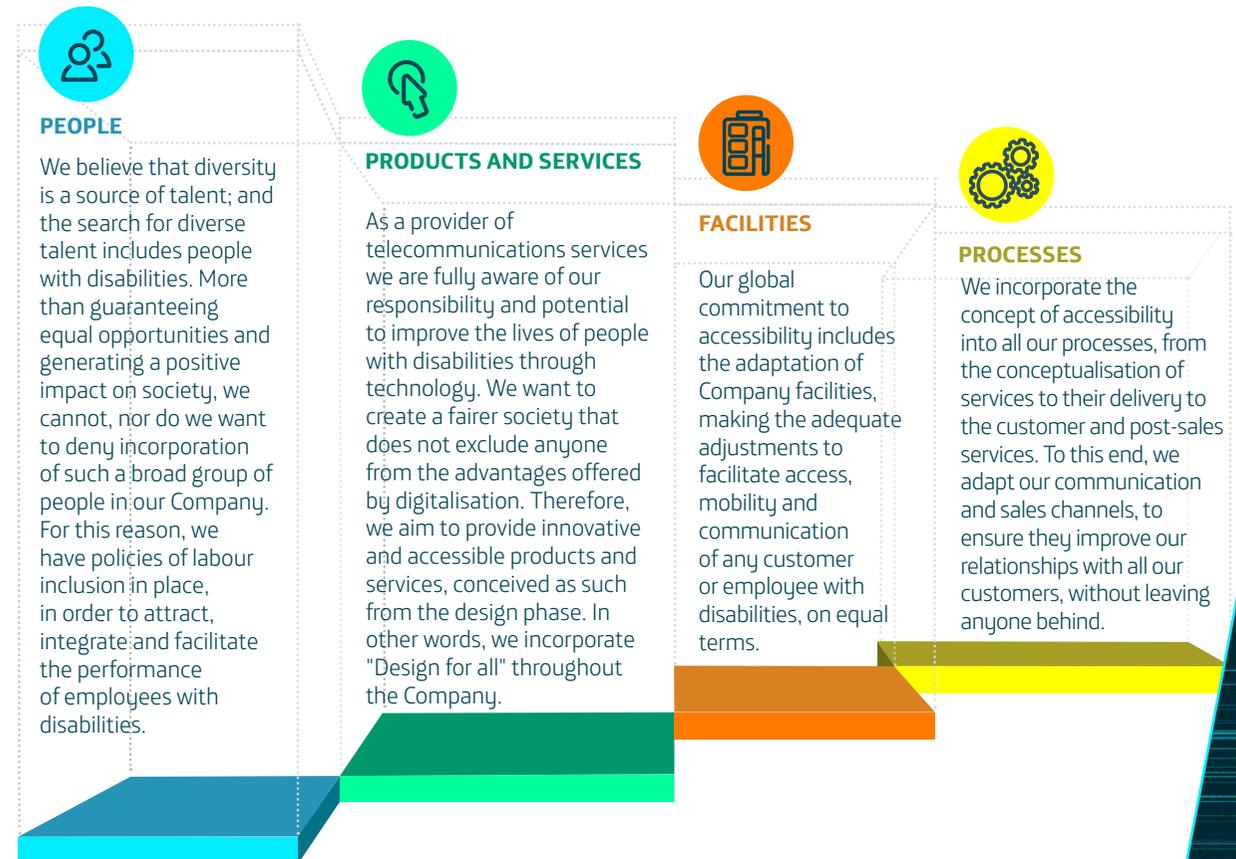
Accessibility

We want to ensure that everybody can access the benefits of the digital transformation, and that no one is left behind. Not only do "We Choose Everything" but "We Choose Everyone". We are aware of the potential that new technologies have to improve the lives of millions of people with disabilities. Therefore, we are developing the "Accessible Telefónica" project, which incorporates accessibility as a transversal element to be applied to the whole Company.

We are committed to being increasingly more accessible and able to actively contribute to equal opportunities. To achieve this goal, we work on raising awareness among our employees and in society in general.

We also cooperate with prominent organisations in the field of disability, which help us to understand the specific needs of this group of people and adapt our products, services and channels of interaction with customers, so that all our areas incorporate accessibility criteria.

Our strategy focuses on four areas of action:



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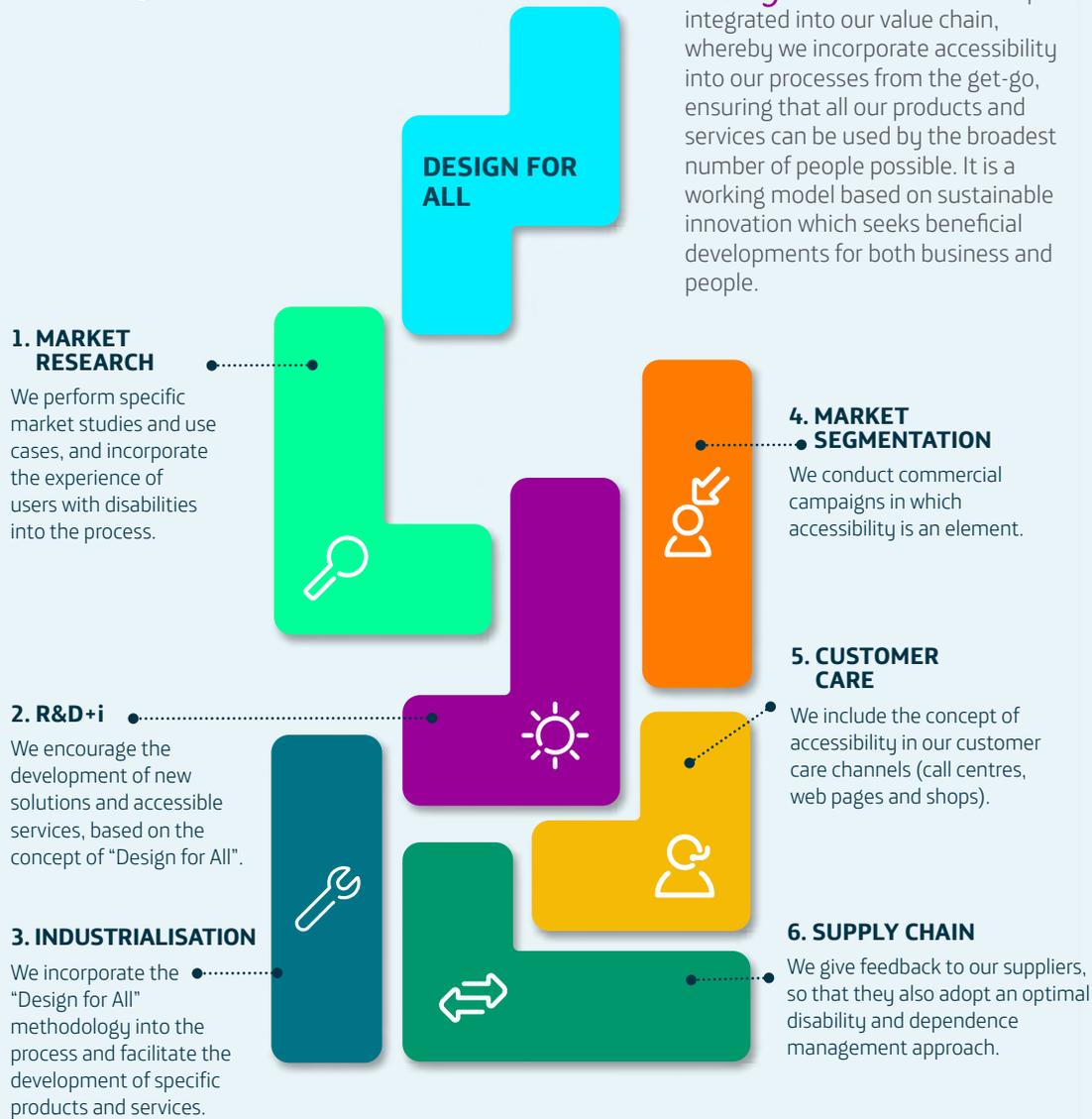
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The Design for All process



"Design for All" is a concept integrated into our value chain, whereby we incorporate accessibility into our processes from the get-go, ensuring that all our products and services can be used by the broadest number of people possible. It is a working model based on sustainable innovation which seeks beneficial developments for both business and people.

Accessible Telefónica



This is the icon we use to identify all of the Company's accessible projects, regardless of the target stakeholders.

The growing presence of this logo shows our commitment to incorporating accessibility throughout our operations, so that our functions can be used by everybody and no one is discriminated against.

We are convinced that including accessibility criteria in our offering of products and services will deliver, in addition to a positive social impact, a business opportunity and a competitive advantage, which allow us to position ourselves as a leading company in the field of inclusion and disability.

We try to respond to the demands of customers and society, employees and suppliers through four strategic pillars which form the foundations of our accessibility strategy:

- People
- Facilities
- Processes
- Products and services

Through these pillars, we adapt our activity to facilitate the lives of all those who have different capabilities and improve our relationships with them.

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	Customers and society	Employees	Suppliers
People 	Promoting the integration of people with disabilities into work.	Attracting the talent of people with different abilities and raising awareness of the issue among our employees.	
Facilities 	Adapted shops and training for our sales staff on the equal treatment of customers.	Corporate offices and events which are accessible to all our employees and visitors.	
Processes 	Sales and customer service channels adapted to the different abilities.	Training of our employees in the performance of their functions according to accessibility criteria.	Generalisation of the "Design for All" concept in our value chain.
Products and services 	Development of multiple solutions to facilitate the training, entertainment, communication and health care of people with disabilities.		Adoption of "Design for All" in all phases of our products and services for universal use by customers and suppliers.

People



We believe that it is necessary to ensure equal opportunities for all the groups that are part of the Company, regardless of their socio-economic situation. One of the most vulnerable groups are people with disabilities and, therefore, we are working to advance towards their full incorporation into the workplace. In this sense, we encourage the participation of young people with disabilities in our Talentum grants, ensuring the visibility of opportunities for this group and giving them priority on equal terms.

We also support initiatives linked to other grants and collaborations in the fields of academia, among which we can highlight our relationship with the University of Comillas, within the framework of the [Department of Family and Disability: Fundación Repsol-Down Madrid](#). In addition we support study scholarships for the Tecnodemos programme, which trains young people with intellectual disabilities, who later join Telefónica as interns.

We also subscribe to the [INSERTA programme](#) of the ONCE Foundation, the aim of which is to promote integration of people with disabilities

Atam

ATAM

Although our commitment to being a 100% accessible Company has intensified in recent years, our commitment to facilitating the lives of our employees and their family members with disabilities has an extensive backstory. Evidence of this is [ATAM](#), Telefónica's association for the care of people with disabilities. Since its Foundation almost 45 years ago, it has striven to put technology to work for the well-being of the people who need it most.

ATAM promotes comprehensive strategies for the social, economic and labour inclusion of people with disabilities through a unique network of clinical and social care that has already reached more than 50,000 families in Spain.

It should be noted that ATAM has driven the solution for employees, [VIVELIBRE](#), which promotes the autonomy of dependent people with a personalised service that is available 24 hours a day through a mobile application.

into the workplace. This relationship allows us to reinforce our commitment to improving the accessibility of our goods and services, include disability in our social responsibility plans and strategies and coordinate resources, experiences and knowledge of projects aimed at achieving social and labour inclusion.

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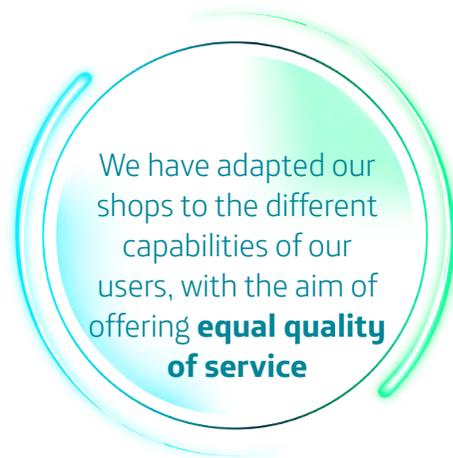
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We believe in the value and the importance of employee and executive awareness activities to encourage empathy with people with disabilities. We seek to achieve an understanding of the reality of life for this collective, to break down prejudices and stigmas and place value on the opportunities their talent offers.

In this sense, on 19 December 2017, in the central Auditorium of Distrito Telefónica in Madrid, we held the "Connect with Diversity" event to raise awareness and inspire more than 800 employees who followed the day's activities, and to advertise our commitment and concrete pledge to advance the inclusion of people with disabilities, both inside and outside the Company. Participating in the event was the Paralympic swimmer Teresa Perales, 2015 Ambassador of Fundación Telefónica, who represents the will to succeed, courage and enterprise that we share and want to promote.



We also promote the integration of people with disabilities into work, encouraging recruitment in special employment centres.

All our efforts seek to move towards a working environment that is fully inclusive and beneficial for all parties. With this goal in mind, we monitor the potential cases of discrimination reported through our internal complaint channels in detail (see chapter on 'Ethics and compliance').

Facilities



Our Distrito Telefónica headquarters in Madrid has carried out an audit with AENOR, which has allowed us to detect and implement the improvements needed to create an accessible environment, with the aim that any employee or person who visits us can move around freely and autonomously. These measures are spreading to our offices in other locations, such as, for example, those of Ecuador.

We also adapt our shops to different users' capabilities to provide an equal quality of service to everyone. In Spain, the number of architecturally accessible shops increased to 547 in 2017. In addition, we introduced the concept of Premium Accessible Shops, which are available in 45 provinces of the country. These shops have a magnetic loop

that allows people with hearing disabilities who wear hearing aids to amplify sound and eliminate background noise, which allows fluid communication with shop staff. This functionality is also present in our shops in the United Kingdom.



The shop search function on our website has also been adapted to reflect this new reality, so that the customer can easily see where to find his or her nearest accessible or Premium shop. In Chile, a sign language video-interpretation service has been introduced in our shops in all regions of the country.

Best practices

Inclusive Telefónica

In Argentina, we launched the project "Inclusive Telefónica" to identify and understand in greater depth the reality of the situation for people with disabilities who are part of our workforce, and to build policies to promote their talent and well-being at work.

In this sense, we organised the first workshops of the project and invited executives from key areas of the Company, with the aim of empathising and raising awareness of the need to attract and integrate talent with different abilities.



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In addition, we have trained our sales agents in Argentina, Colombia, Spain, Mexico and the United Kingdom on the provision of service specifically to people with disabilities, with the aim of giving empathetic, respectful and uniform treatment that translates into a positive experience for any customer. In this last country, the option to book an appointment with a specialist in this service has also been enabled.

Finally, and to achieve our goal of creating a 100% accessible environment, we have included accessibility criteria in our General Meeting of Shareholders, under the ISO 20121 certification. We have sign language interpreters and a magnetic loop for people with hearing disabilities, all in an environment free of architectural barriers.

Processes



We have improved the accessibility of our communication channels, especially our websites, by following the Web Content Accessibility Guidelines 1.0 established by the W3C, to double-A level.



In Brazil, we are going a step further and, in addition to adapting the content of our web pages for people with visual disabilities, have included an avatar that translates the text of the [web page](#) to sign language (VLibras), facilitating access

to information for people with hearing disabilities.

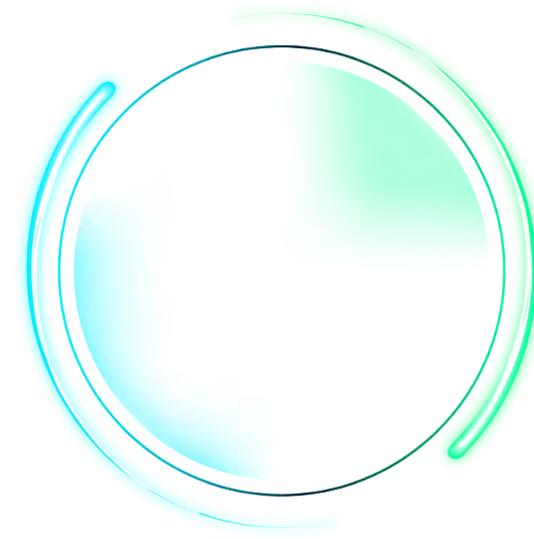
In Spain we are training our developers to adapt all sales channels to accessibility criteria. Our team is also trained to incorporate accessibility criteria, both online and in person, from the moment new web pages are created.

Added to the transformation of sales channels are our efforts to adapt the customer service channels. The United Kingdom, for example, uses the NGTS service, which allows people with hearing and visual disabilities to communicate easily with sales agents by (web and app) text messages.

Products and services



We convert innovative ideas into reality in order to progress in the field of accessibility through new technologies. This is the case of the [Movistar + 5S](#) service, launched in 2016, which has enabled us to become the first private television company in the world to provide accessible content.



This free service allows people with hearing and visual disabilities to access the content of the Movistar+ television platform through 3 accessibility systems:

- Spanish sign language (LSE).
- Subtitles for the deaf (SRD): distinguishes the dialogue by colour and subtitles the sound effects.
- Audio description (ADS): provides narrative description of scenes, respecting the dialogue and original soundtrack.

Since the launch of the service, we have worked with the different groups to incorporate improvements and gradually adapt to their needs. Thus, among the changes introduced in 2017: people with hearing disabilities can enjoy accessible

The Movistar + 5S catalogue already has more than **350 films**

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entertainment directly on the screen of their TV, which improves their user experience. In addition, we have included improvements to the Movistar + 5S application, available on [iOS](#) and [Android](#), so that people with visual disabilities can use their phone as if it were an accessible remote control that can be used independently. These efforts have earned us the title of 'solidary company', conferred by the National Organisation of the Blind in Spain (ONCE for its Spanish original).

Furthermore, we ensure optimum high-quality translation into sign language, subtitling and audio description, through collaboration with expert organisations in this area, in particular the CNSE and ILUNION. In this sense, we can say that Movistar + 5S is a service created for and by people with disabilities.

We have a catalogue that is growing month by month, and that by 2017 exceeded 350 accessible films and 50 accessible series (with more than 1,000 episodes), demonstrating Telefónica's ambitious commitment to adapting its entertainment platform for people with disabilities.

In addition, we organise various activities both inside and outside the Company to raise awareness and to publicise 5S. For example, last December, in collaboration with Super8, we organised an accessible cinema session for children. In addition, we supported culture created by and for people with hearing disabilities, through sponsorship of the II Short Film Festival, El Grito (The Shout).

Beyond entertainment, we actively collaborate on the creation of services that facilitate the study of people with disabilities in the academic sphere. This is the case of the Breaking Sound Barriers solution, designed in collaboration with Ericsson and the Adecco Foundation, which simultaneously translates the teacher's explanations into subtitles, using a mobile application.

On an internal level we work on solutions such as Vivo Libras, which enables people with and without hearing disabilities to communicate with each other through a Brazilian sign language interpreter (Libras), via smart phones and tablets, in B2B, B2C and C2C modalities.

We collaborate with institutions to launch new products and solutions. This is the case of the pioneering [GoAll](#) application designed in conjunction with the UC3M, which enables blind and deaf people to receive and enjoy, without intermediaries, television content in real time via a Braille line. In addition, through the global programme Open Future we have sponsored technological start-ups such as [Showleap](#), a two-way sign language voice and written word translator that operates in real time from any mobile device.

In order to improve the personal and working lives of people with disabilities, we organise the hackathon [Gamificación4Social](#) in collaboration with the Adecco Foundation and Ericsson. In the 2017 edition, which welcomed over 50 participants, awards were given to mobile applications which promote the

independence of people with different abilities. The creators of these applications were offered the possibility to develop these pilots through Talentum scholarships at Telefónica.

Finally, the EPSILON project, headed up by ATAM, deserves special mention. It seeks to develop a personalised medication model based on Big Data and Artificial Intelligence capabilities. EPSILON uses different solutions and tools to give clinical professionals and users access to predictive models that enable a significant step forward in the diagnosis, prevention and determination processes of clinical intervention plans.

We want to facilitate the lives of people with disabilities through *accessible technologies*

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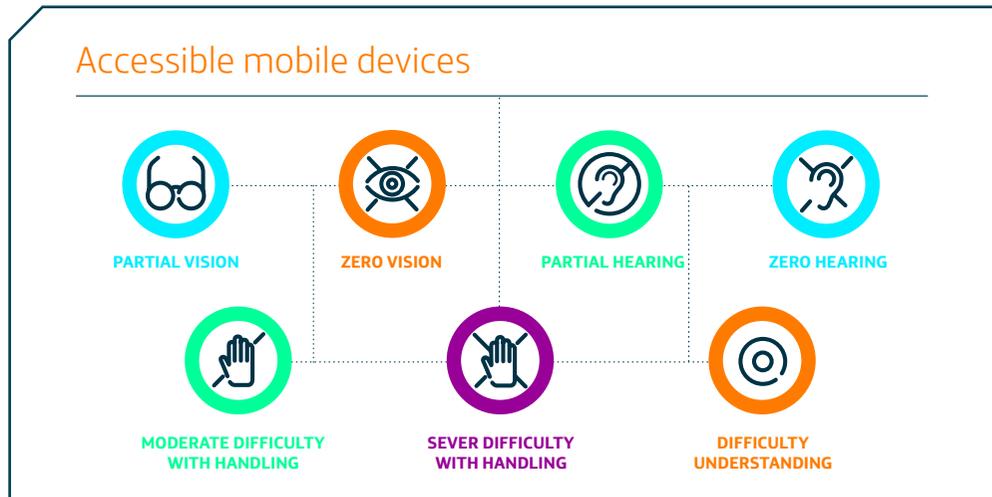
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Accessible mobile devices



We integrate the 'Design for All' concept into our entire catalogue of handsets, so that customers with disabilities can make informed decisions about their purchases that are tailored to their needs. One activity we have carried out with this aim is to provide information about the accessibility conditions of mobile devices in Argentina, Brazil, Chile, Ecuador, Spain, Mexico and Peru. Thus, special icons help the customer to identify the best handsets for overcoming visual, hearing, cognitive or dexterity difficulties. We collaborated with the ONCE Foundation and major handset manufacturers on the elaboration of this classification.

The strong investment of Telefónica financial and human resources in technologies to improve the lives of people with disabilities is reflected in the invitation from the [Centre of Research, Development and Application](#)

[Tiflotécnica](#) (Cidat) to one of the most important accessible technology fairs in the world: [TifloInnova](#).

Telefónica regularly participates in events to raise awareness and promote technological advances in accessibility throughout the world. In 2017, the principal initiatives were:

- Invitation to the I Social forum for women with disabilities, organised by the Spanish Committee of representatives of people with disabilities (CERMI).
- We were part of the campaign #YoTrabajoPositivo for non-discrimination against people with HIV in the workplace and their inclusion as a source of talent.
- We participated in the 2017 CNLSE Congress for the standardisation of Spanish sign language.

- We are part of the Ibero-American Network of Inclusive Companies, for the exchange of best practices between companies which defend an inclusive work culture in Spain and Latin America.

2017 Milestones

- We improved the accessibility of the Movistar + platform.
- We introduced Premium Accessible Shops in Spain.
- We created a global catalogue of handsets that include accessibility features for all our operations.



2018 Targets

- To incorporate more improvements to the accessibility conditions of our TV platform.
- To provide more accessible customer service channels.
- To ensure the integration of accessibility criteria in key projects such as MiMovistar/Aura.
- To ensure that inclusion and accessibility are part of our digital transformation strategy.



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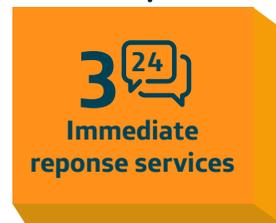
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Emergency management

We understand the importance of communication in people's daily lives. This importance takes on another dimension in emergency situations such as natural disasters, cyberattacks or fires, among others. For this reason, we have defined a process for monitoring certain different variables, establishing contingency plans and reinforcing our infrastructures, in order to be prepared for any adverse situation that might arise. This allows us to respond quickly to emergencies, ensuring the continuity of our business, offering support during the recovery process, and bringing our communications services to the affected population.

Since 2016, we have been a signatory of the [Humanitarian Connectivity Charter](#), promoted by the GSMA. The Charter seeks to improve coordination between mobile network operators before, during and after a disaster.



1 MONITORING AND PREPAREDNESS

In the telecommunications sector it is crucial to prepare for and monitor risks associated with the availability of infrastructures. Variables monitoring such as mobility, climate change and state of communications equipment makes possible for us to improve our response capacity, and be more efficient and effective when faced with potential crisis situations.

We are permanently exposed to a series of threats during the course of our operations. These should be managed in a preventive manner, so that, should they occur, we can avoid conceding losses that are so serious as to affect the viability of the business.

To do so, we have developed a set of processes, mechanisms and techniques which mitigate the risks to which we are exposed, and guarantee a high level of availability in the Company's operations (see chapter on 'Energy and Climate Change').

By setting up early warnings, providing teams with specific preparation and training, and conducting simulations of different types of emergencies, we can assure that our business is perfectly prepared to cope with such events, thus increasing resilience throughout the entire ecosystem.

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Use of data in a smart way can yield important added value for society. Thus, use of Big Data as a tool to monitor statistics and analyse certain variables related to climate change or migration patterns allows to define increasingly exact models and scenarios that are more useful for emergency response and natural disasters. In this way, we can define early warnings and response plans not only for our business, but also for governments and local administrations, thereby contributing to a better management of resources required to respond to emergency situations (see chapter on 'Digitalisation and the Environment').

2 ENSURING BUSINESS CONTINUITY

We must be able to maintain all our business operations active when faced with any serious contingency. By doing so, we can better satisfy customer demand as guaranteeing compliance with increasingly restrictive regulatory requirements.

For this purpose we have implemented our Global Business Continuity Regulations which prescribe preventive risk management, thus ensuring the maximum possible resistance of our activities in the face of any interruption in our systems. Efficient distribution of security investments according to our previous risk analysis process allows us to focus our efforts and budget on the most critical tasks.

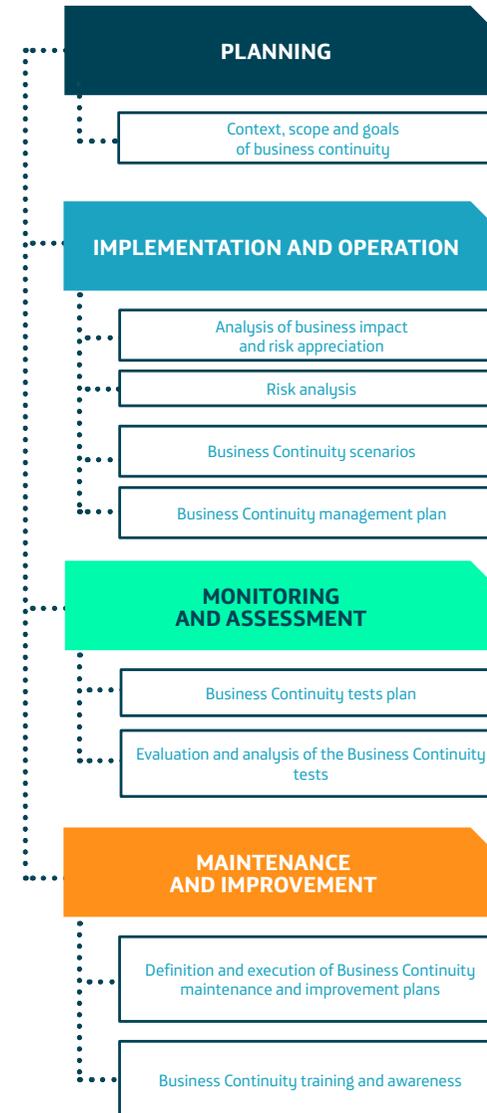


These regulations provide necessary controls for guaranteeing security within our processes by defining the management, roles and responsibilities for the Company's Business Continuity. The following are articulated as part of this strategy: a Business Continuity Plan, a Global Crisis Management System, and the creation of Resilient Technical Infrastructure.

Business Continuity Plan

This is a logistics plan for determining how our organisation should recover and restore essential functions that have been partially or totally interrupted within a predetermined period of time after an unwanted stoppage. Our Business Continuity Plan is implemented in four phases: planning; implementation and operation; monitoring and assessment; and maintenance and improvement.

Business Continuity Plan



 More information is available in the 'Digital Trust' chapter

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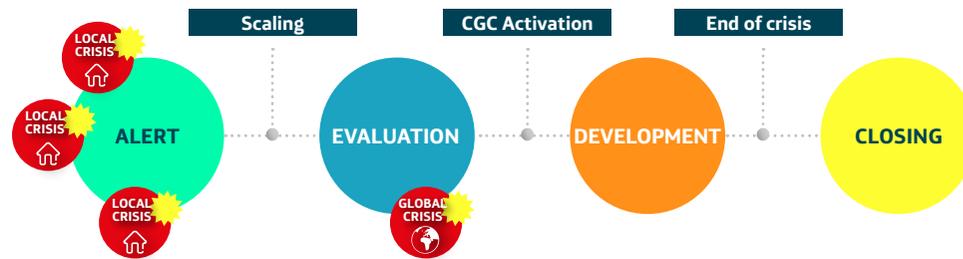
Global Crisis Management System

This is the process by which we manage the threat of high impact incidents. The system defines a Global Crisis Committee (CGC for its Spanish original), made up of a president,

permanent members and specialists that participate according to the type of incident being discussed (a natural disaster, a human incident, a cyberthreat, an incident in networks, an incident in systems, etc.).

The Committee acts in four phases: local level crisis alert; assessment of the impact on a global scale; development and implementation of response procedures; and the closing of the crisis for a return to normality.

Action phases of the Global Crisis Committee



Resilient Technical Infrastructure

In order to be prepared for any emergency situation, we ensure that our infrastructure is resistant to failures and protected against interruptions. This allows us to minimise single points of failure and enable alternative connection methods in the event of a crisis situation.

Best practices

Service Operations Centres for the Network smart management based on real time analysis of customer's experience

In 2017 we launched our first Service Operations Centres (SOC) in Argentina, Chile and Germany for the smart management of our Networks as a first step towards real time capture of data generated by our customers' service experiences. The objective is to guarantee excellent connectivity and performance,

so that the customer can always enjoy the services he/she wants, whenever and however he/she wants.

SOCs use anonymous and aggregated information on how customers use the Network, enabling us to anticipate possible incidents and blackspots. This allows us to proactively identify actions that guarantee a better use of services, predictive maintenance and network optimisation, as well

as the execution of faster and more personalised answers to customers when encountering technical problems.

This new way of using data in operations management allows us to make decisions using homogeneous criteria and calculations, in real time, and on the basis of accurate and comparable data. This switches our network maintenance practices from "programmed" to "proactive" and "predictive".



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3 IMMEDIATE RESPONSE SERVICES

Technology and telecommunications are key tools in emergency situations, improving their management, increasing response speed and optimising the coordination of rescue actions and logistics.

We are aware of the importance of our Networks and of the potential of our new solutions to address these challenges in a more efficient manner. Therefore, rather than working to guarantee the continuity of our Network, we offer innovative services that aim to improve our response capacity in emergency situations, helping the civilian population and local administrations to react more effectively.

Connectivity in emergency situations

Satellite equipment makes it possible to maintain communications during the process of reactivating infrastructure affected by a natural disaster. We use Cellular Backhaul, BGAN (Broadband Global Area Network) and Satellite Telephone services to secure voice



and data communications in affected areas during an emergency situation or natural disaster.

We also promote the development of new tools that help us to respond more efficiently, for example:

- **Project Fénix:** A portable kit that can be quickly assembled in order to establish a 2G/3G network via satellite connectivity, to provide coverage in an area affected by a disaster until communications are reestablished.
- **LTE Nano:** A system that makes it possible to deploy a mobile, portable, and miniaturised network that offers voice and data communication. It consists of a backpack that generates 4G communication coverage in a matter of minutes. In the case of rescue work, this 4G portable backpack can provide voice and data communication coverage, and, through a connected drone, it can also stream what is seen during the flight and transmit it to rescue workers.



- **Pigram:** This solution, launched in 2017, offers people affected by a natural disaster a tool to publish alerts or notifications about their status on their social media accounts, even if data coverage is not available at that time.

Use of Big Data

The use of data generated during an emergency situation is crucial to acting more effectively and saving lives. Thus, solutions such as Emergency People's Tracker, which is part of Telefónica's Smart Steps platform, use Big Data to analyse real time movements of potentially affected population. Among its different functionalities, the possibility for emergency teams to locate those affected and provide early alerts to the population concerned, is worth highlighting.

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New solutions for social and environmental emergencies

We are constantly assessing new systems, applications and solutions in order to improve the service that we offer to emergency teams, administrations and government organisations, to assist with activities related to the prevention, monitoring and management of emergency situations.

- **Antifire Drones:** Winner of the 2017 III Sustainable Innovation Investment Initiative (see chapter on 'Innovation'). This project aims for the early detection of fires by using IoT (Internet of Things) sensors installed in communications towers. The moment an alarm is triggered, a drone performs a sweep of the area, thus making it possible for emergency teams to act quickly and to improve the preservation of our natural ecosystem.

Other solutions seek to react to cases of social emergencies in which a quick response time is crucial to saving lives, as in the case of My112. The emergency services can use this app to

locate the affected person, thanks to a record it makes of the geographical coordinates from where the call is made.

4 RECOVERY SUPPORT



We actively collaborate with governments, administrations and humanitarian organisations in order to strengthen emergency response strategies.

Our response policy focuses on the organisation and execution of a timely deployment of telecommunications technology to assist and support preparation and response efforts. We also provide an early warning channel, facilitate the coordination of emergency teams response and logistics, and support vital communications between, and to, those who are affected.

Finally, in the subsequent phase, we collaborate with actions that support and aid the recovery of the affected areas.



From the [Telefónica Foundation](#), we perform activities that aim to help reconstruct and improve infrastructures, especially schools, as well as to provide spaces for the educational and psychological care of affected children. We also launch projects from the Foundation and [ProFuturo](#) that seek to facilitate educational solutions in the affected communities. In 2017, for example, we launched the Chatbook initiative in Ecuador.

As part of this support for victims, the Telefónica Foundation has organised donation campaigns at both local and international levels, which seek to collect contributions not only from our employees, but also from any person interested in assisting with the recovery of the affected areas.

In the event of natural disasters, *we collaborate* with governments, administrations and humanitarian organisations in order to *strengthen* response strategies



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Our response to emergencies in 2017

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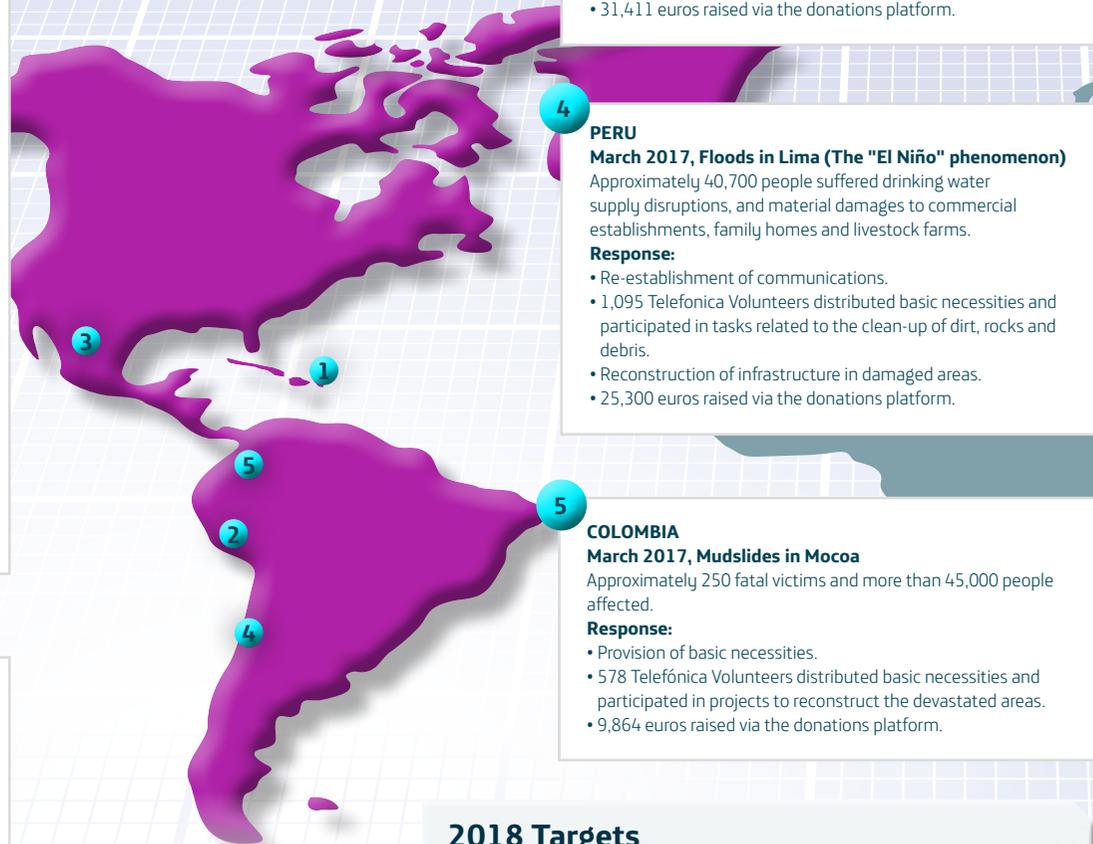
PUERTO RICO
September 2017, Hurricane Maria
 Approximately 70 fatal victims and substantial material damages.
Response:

- Distribution of satellite telephones and BGAN telephones to public and private entities.
- Provision of a telephone channel for the affected population.
- International communications output towards the USA via the Telxius network of underwater cables.
- Computing and virtual storage services made available in the Miami KeyCenter cloud.
- Provision of basic necessities and reconstruction of homes for children and female victims of gender violence.

2

CHILE
January-February 2017, Forest fires in the centre and south
 14 fatal victims and 596,000 burned hectares.
Response:

- 36 Telefonica Volunteers carried out different reconstruction projects in the devastated areas.
- 4,766 euros raised via the donations platform.



3

MEXICO
September 2017, Earthquakes
 Approximately 450 fatal victims, 5,500 injured, and substantial material damages.
Response:

- Restoration of 98% of networks 24 hours after the earthquake.
- Voice, SMS and Whatsapp browsing provided for free.
- Nearly 1,000 Telefonica Volunteers distributed basic necessities and participated in reconstruction works.
- 31,411 euros raised via the donations platform.

4

PERU
March 2017, Floods in Lima (The "El Niño" phenomenon)
 Approximately 40,700 people suffered drinking water supply disruptions, and material damages to commercial establishments, family homes and livestock farms.
Response:

- Re-establishment of communications.
- 1,095 Telefonica Volunteers distributed basic necessities and participated in tasks related to the clean-up of dirt, rocks and debris.
- Reconstruction of infrastructure in damaged areas.
- 25,300 euros raised via the donations platform.

5

COLOMBIA
March 2017, Mudslides in Mocoa
 Approximately 250 fatal victims and more than 45,000 people affected.
Response:

- Provision of basic necessities.
- 578 Telefónica Volunteers distributed basic necessities and participated in projects to reconstruct the devastated areas.
- 9,864 euros raised via the donations platform.

2018 Targets

- To promote the development of policies and solutions aimed at increasing preparation capabilities in the face of emergency situations and natural disasters.



Best practices

Telefonica Volunteers in emergency situations

In 2016, the Telefonica Foundation launched a response plan to be carried out by Telefonica Volunteers in emergency situations caused by natural disasters. Its first response was to the 7.8 Richter scale earthquake that shook Ecuador in April 2016.

Throughout 2017 we continued to implement different responses to the natural disasters that have occurred in some of the Latin American countries in which we are present, specifically Chile, Colombia, Mexico, and Peru.



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Human Rights

GOVERNANCE

The protection of human rights falls under the supervision of the Board of Directors, through its Regulations and Institutional Affairs Committee. This Committee is in charge of driving and supervising the implementation of our Global Responsible Business Plan, which includes specific goals on this matter.

The General Secretariat for the Board, Legal Affairs, Public Affairs, Regulation and Responsible Business, which is part of the Executive Committee, oversees the implementation of policies, commitments, and due diligence, in collaboration with the corporate areas involved, with regard to each human rights issue. The department of Corporate Ethics and Sustainability Management coordinates the work of identifying, assessing and addressing the risks and opportunities related to human rights, and promoting stakeholder dialogue on these issues.

OUR DUE DILIGENCE IN TERMS OF HUMAN RIGHTS

Our due diligence system is based on the [Guiding Principles on Business and Human Rights of the United Nations](#) (UN).

We initiated our due diligence process in 2013, by publishing a specific commitment to human rights and identifying the priority issues for the Company and our stakeholders. Taking into account our context, and understanding and analysing its impact, we are investing in the resources and infrastructure necessary to adapt our risk management framework to due diligence in the field of human rights. All areas, both business and support, are responsible for this process, each within its specific remit.

Currently we, like the whole telecommunications and digital services sector, are undergoing a transformation: the technological revolution, digitalisation of the economy and the market, demographic

changes, scarcity of resources and increasing concern for the responsible use of information, data and technology in general. All this is encouraging companies to commit themselves to taking a proactive role in the analysis and management of the the impact that these trends may have on society.

Digital services are making increasing use of Artificial Intelligence, which anticipates great advances in customer care and the development of new services that promote positive change in the areas of accessibility, the environment and education, among others. However, the use of these new technologies is also causing concern in regard to privacy, information security, the transformation of the labour market, the loss of control over machines which become over-intelligent and the need to include ethical values in the processes of development and programming, to avoid undesired consequences.

Our due diligence management model



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In this context, we have decided to update our human rights impact assessment, analysing the progress made in regard to the potential impacts that had been identified in the previous assessment and delving more deeply into the new challenges related to technological advances and new proposals for Company value.

We carried out this update in 2017, in collaboration with [Business and Human Rights \(BHR\)](#). We defined the priority areas of impact on human rights, the gaps in the assessment and opportunities for improvement by applying the criteria of the Guiding Principles according to the relationship with Telefónica: 'causes', 'contributes to causing' and 'is related to'.

The conclusion is that the main focal points should be:

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

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For each of the identified issues we analysed the possible causes, impacts and main rights affected, to what extent it is covered by our risk map, the due diligence that we have carried out, gaps in this due diligence, recommendations and, finally, an analysis of opportunities, where appropriate.

On the basis of these results, and with the aim of establishing clear guidelines for action in the first quarter of 2018, the issues are being re-classified to reflect those which need immediate attention, monitoring and follow-up.

This report serves as a basis for our new Human Rights Policy, which will be approved in 2018. As such, the conclusions of the report shall also be subject to our Responsible Business Advisory Panel, to document their perception of the trends, management and commitment of Telefónica in this area, in such a way that their recommendations on the wording of the policy can be taken into account.

A more detailed analysis of some of the issues highlighted in the report will be performed in 2018, with the aim of establishing processes and controls for their management.

POLICIES AND INITIATIVES

Respect for human rights is established in our Responsible Business Principles, and more explicitly in a series of policies, standards and procedures which ensure compliance with, and implementation of, internationally recognised human, social, economic and cultural rights.

- [Commitment to human rights](#) (2013)
- [Diversity Policy](#) (2016)
- [Fair and equal promotion and remuneration policies](#)
- [Transparent recruitment procedures](#)
- [Personal professional development](#)
- [Guaranteeing a healthy balance between work and personal life](#)
- [Telefónica Group Supply Chain Sustainability Policy](#) (2016)
- [Anti-Corruption Policy](#) (2015)
- [Global Procedure for requirements on the part of competent authorities](#) (2016)
- [Privacy Policy](#) (2016)
- [Security Policy](#) (2016)
- [Principles of privacy and freedom of expression](#), general commitment as a member of the Global Network Initiative to work together to protect and promote the rights of freedom of expression and privacy in the ICT sector.
- The Global Health and Safety working group (2017), which aims to coordinate the activities that are carried out by each country/operator in this area, with the objective of approving a Global Health and Safety Policy.
- [The Electromagnetic Fields working group](#) (2015), which coordinates global monitoring of medical and scientific developments in this area. It organises a workshop on the subject and has published a Manual of Best Practices in regard to relationships with the local communities.
- [Publication of the 2016 and 2017 Transparency Reports](#)
- [JAC sector initiative](#), which carries out audits and monitors improvement plans in the suppliers of greatest risk in terms of product procurement, with a special focus on labour issues, health and safety, child labour and minerals.
- [The Partners initiative](#), which carries out audits and monitors improvement plans in the suppliers of greatest risk in terms of the provision of services, with a special focus on labour issues and health and safety.
- Public-Private Alliance for the Responsible Trade of Minerals.
- Implementation of a third-party institutional Responsible Business Channel, which can be accessed by any interested party that has a query or a complaint related to any topic regarding the Company's handling of human rights or responsible behaviour.

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In addition, during 2017 we worked to update our Human Rights Policy in accordance with the Guiding Principles on Business and Human Rights of the United Nations (UN). With this update we intend to establish a commitment that is more aligned with the new challenges, dilemmas and risks posed by the current context of our Company, the sector and trends in these matters.

COMPLAINTS AND CLAIMS MECHANISMS

Even with the best policies and practices, in some cases, we cannot avoid causing or contributing to an adverse impact on human rights. At present, consultations and reports on these activities may be made through the [Responsible Business Channel](#) available on our website.

This channel was created at the end of 2016, with the aim of establishing a communication system with our stakeholders that is directly linked to our Responsible Business Policy and commitment to human rights, in accordance with the principles of respect, confidentiality, diligent response and thoroughness.

We have a procedure in place to guarantee that the Channel works as it should. Upon receipt of a communication, we analyse it, reply to the sender and, where necessary, forward it to the appropriate department.

Once this department resolves the issue, we communicate the solution to the person concerned, thus closing the query.

During 2017 we have not received any query/claim on human rights issues.

2017 Milestones

- Priority impact matrix of Telefónica human rights issues.



2018 Targets

- To review the Human Rights and Privacy Policies.
- To implement a Responsible Communication Policy.
- To implement a Health and Safety Policy.
- To evaluate the impact of human rights on a local level.
- To launch an initiative in the field of Artificial Intelligence.
- To publish the third Report on Transparency.



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FREEDOM OF EXPRESSION

Guaranteeing people's fundamental rights - privacy and freedom of expression in particular - acquires a new dimension in the digital world, where personal data is collected and managed through new technologies.

Telecommunications operators have the duty and legal obligation to respond to the requirements of the competent authorities to ensure the safety of their citizens, always in compliance with the law and fundamental rights and freedoms.

When updating our impact matrix in 2017, the following issues were identified as material in terms of privacy and freedom of expression:

- Safety of products and services supported in the Network.
- Neutrality and respect for the right of freedom of expression in the dissemination of information in the Network.
- Disclosure of sufficient information and transparent mechanisms for the collection and processing of data.
- Legitimate use of personal data.

The United Nations Guiding Principles on Business and Human Rights have served as fundamental guidance in the work we have been doing over the last decade to promote the guarantee of and respect for people's

rights in these areas, and particularly as regards freedom of expression. Sectoral and multi-stakeholder partnerships, and their associated principles, have strengthened our work in this area.

In 2013, we took a very important step in this direction with the establishment of the [Telecommunications Industry Dialogue Group for the Freedom of Expression and Privacy](#) (TID), and the signing of its principles.

On 28 March 2017 the merger between the [Global Network Initiative](#) (GNI) and the Telecommunications industry Dialogue Group for the Freedom of Expression and Privacy became effective. This has meant that the GNI currently groups operators and manufacturers such as Millicom, Nokia, Orange, Telenor Group, Telia Company, Vodafone Group and Telefónica together with Facebook, Google, LinkedIn, Microsoft and Yahoo, in a unique collaboration on the promotion of human rights and, more specifically, the rights of privacy and freedom of expression. More than 1.5 billion people in over 120 countries may benefit from this Association's support for the development of standards and principles of action in the companies and associations which comprise it.

GNI participates, on a global scale, in many forums and events (ICT4Peace, Rightscon, Eurodig, IGF and Internet and Jurisdiction events). In addition, it organises working sessions with all stakeholders in the field, to



Internet Freedom and the New Era of Censorship and Surveillance, 21 June 2017, Washington. Christoph Steck, Director of Public Policy & Internet at Telefónica.

share best practices and influence the decision-making and opinion creation processes. Among the most relevant, we can highlight:

- Internet Freedom and the New Era of Censorship and Surveillance, 21 June 2017, Washington.
- A Conversation on Controversial Content with Cloudflare, 2 October 2017, London.
- UNICEF Presentation: Draft principles and guidance on the freedom of expression and privacy of minors, 3 October 2017, London.
- Event: Reform 702 and Reauthorisation: Different visions, 30 November 2017, Washington.

Implementation of the Global Network Initiative principles of privacy and freedom of expression

We have carried out a first self-assessment, in accordance with the principles of the GNI, in which we describe the policies, systems and internal procedures that we have implemented, including the requests we receive from the competent authorities, evaluation of impact on human rights and communication with users.

Global Network Initiative

Protecting and Advancing Freedom of Expression and Privacy in Information and Communications Technologies



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Moreover, in 2017, GNI has made public its position through joint statements on: State interference with the network; the restrictions on Internet access in Cameroon, Sri Lanka and Iran; and the German law to improve the the legal accountability of social networks (Netzwerkdurchsetzungsgesetz). It has also made proposals for improvement to institutions through public inquiries, such as those submitted to the European Commission in the report "Improve cross-border access to electronic evidence in criminal matters"; to the United Nations on "Regulation of content in the digital age"; or to the U.S. Senate on the Reform of Section 702.

As members of the organisation, this year we want to go a step further, reporting our progress on implementation of the Principles that declare the general commitment of members, taking as a foundation the implementation guidelines that we prepared in 2017.

Governance, supervision and leadership

The department of Corporate Ethics and Sustainability Management, together with the General Secretariat and the Secretariat of the Board, design, coordinate and lead the implementation of the Principles of Privacy and Freedom of Expression (see 'Governance' in this chapter).

Our new human rights impact matrix identified the potential risks to the rights to privacy and freedom of expression, in relation to the following issues:

Direct action

- Conditions of service: the right to freedom of expression and non-discrimination.
- Use, data management and development of Artificial Intelligence-based services: privacy, non-discrimination and other rights that may be affected by the inappropriate use of this technology.

Indirect action

- Supply chain (all the rights that may be at risk as a result of our direct activity).
- Due diligence in human rights matters in the context of acquisitions or strategic agreements, joint ventures and corporate expansion processes (see 'Our due diligence', in this chapter).

Thanks to the first human rights impact assessment and the update made in 2017, we are promoting and reviewing different policies and procedures to ensure the protection of the rights to privacy and freedom of expression:

- [Global Procedure for requirements on the part of competent authorities.](#)

- Update of the [Security Policy](#).
- Review of the [Privacy Policy](#).
- Creation of a new Model of Governance of the Protection of Personal Data.
- Update of the Human Rights Policy.

Implementation of the principles Procedures

Both the updating of the Global Privacy Policy and the global procedure for requirements on the part of competent authorities, which have been included in the Company's 2018 internal auditing process, establish our commitment and the process to be followed in response to the requests we may receive from the authorities in the countries in which we operate. In this way:

- We guarantee a balance between legal compliance and respect for fundamental human rights.
- We ensure verification of the legality of the request.
- We reject any requests that do not comply with these regulatory requirements.
- The areas responsible for receiving and processing requests consolidate (for the purposes of monitoring audit and control) all requests received.

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Training and awareness in the areas of privacy and freedom of expression

Meetings were held with the main business areas as a result of the update to our human rights impact matrix. In addition, we hold regular meetings with the legal and security areas to adapt our policies and processes to the expectations of the stakeholders in matters of privacy and freedom of expression.

Following approval of the new version of the Responsible Business Principles, which establishes specific principles in regard to both rights, we launched a new Company-wide internal communication campaign, which will be maintained through regular initiatives.

In addition, a new course on the Responsible Business Principles, which explicitly sets out our commitment to freedom of expression, is foreseen to launch during 2018 (see chapter on 'Ethics and compliance').

A total of 47,278 employees were trained in privacy and security, which is an 85% increase compared with 2016.

Claim mechanisms

The Responsible Business Channel has not received any query/claim in regard to the Right to Freedom of Expression.

Transparency

We have a [Global Privacy Centre](#) and four local centres which provide a point of public reference on our position and our approach to matters relating to privacy, freedom of expression, security and minors, and through which we publish our [Report on Transparency in Communications](#), and make the previous version available.

In this second edition of the [Report on Transparency in Communications](#), the indicators reported for the 17 countries in which we operate are:

- Lawful interceptions.
- Communication-associated metadata access.
- Blocking and filtering of certain content.
- Geographical or temporary service suspensions.

We contextualise the legal framework which empowers authorities to issue these types of requests, and record the amount and different types of requests that we receive. The specific legal instruments of each country also set out limitations on the provision of information on these requirements. When we fail to deliver data, we explain why.



We also go one step further, adding two more sub-indicators to each of the reported indicators. In cases where it is technically possible, we extend our report, indicating the number of customers who are affected by each request and the number of rejected applications.

We should highlight that we reject requests or only fulfil them partially in the following circumstances:

- The type of request does not comply with local legislation.
- The request does not contain all the necessary elements to enable fulfilment (necessary signatures, competent authority, technical description of the requirement etc.).
- There are technical issues which prohibit fulfilment of the request.

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CHILD LABOUR AND FORCED LABOUR

Employees

As established in our Responsible Business Principles, we guarantee that all employees enjoy their full labour rights, and we do not tolerate under any circumstance forced labour, threats, coercion, abuse, discrimination, violence, intimidation, or child labour in our workplace.

We have maintained a relationship with UNI Global Union for many years, since signing the code of conduct in 2000. This document was renewed and updated in 2014 to cover developments in matters of corporate responsibility, as established in the Guiding Principles on Human Rights and Business. This agreement is still in force.

We are fully committed to the abolition of child labour in the communities in which we are present. In this regard, the following aspects are recognised:

- Only those workers over the age of 15 or of legal age (ILO Convention 183) will be employed.
- Young people under the age of 18 may not carry out work that by its nature or the conditions in which it is performed, could be harmful to their health, safety or education (ILO Convention 183).

Supply chain

Our Supply Chain Sustainability Policy promotes compliance with labour standards which explicitly state that work done by the employees of the supplier will not be carried out in conditions of slavery, nor will it be involuntary or forced. In addition, the supplier must ensure that there is no child labour within its company, nor its supply chain. These provisions are also established in our general contracting conditions.

We focus on verifying the performance of our most critical suppliers in terms of potential risks associated with the different products or services.

Among the different audits carried out during 2017, we carried out, within the framework of the [Joint Audit Cooperation \(JAC\)](#) initiative, 76 audits *in situ* on ICT suppliers' manufacturing centres. In these audits we scrutinise child and youth labour conditions, verifying that, in cases where the local legislation allows for the employment of persons under the age of 18, they work appropriate shifts (no night shifts), and their duties do not involve the use of materials or dangerous machinery. The hiring age of all employees is checked, and whether they have passed all the required medical controls.

The JAC audits also focus on the prevention of forced labour, asking for evidence from suppliers, such as, for example, a record of contracts signed, proof that employees have the freedom to terminate these contracts



with reasonable notice, and that workers' original documents, such as identity cards or passports, are not retained.

In the event of detecting any non-compliance, the supplier will be required to implement an improvement plan to rectify the situation as soon as possible, according to the severity of the detected risk.

In 2017, we renewed the Public-Private Alliance for Responsible Minerals Trade, or PPA, launched by the Secretary of State for Democracy and Global Affairs of the United States in collaboration with private companies, trade associations and civil society at the International Conference of the Great Lakes Region. The objective is to support the development of supply chain solutions to challenges posed by conflicts, and the resulting situations (among others) of child and forced labour, relating to extraction of minerals in the Republic of Congo and the Great Lakes region.

At O2 United Kingdom we publish an [Annual Declaration against Slavery](#).

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Best practices

Mechanism for complaints and claims regarding human rights, environment and reputation at Telefónica Colombia

We are part of a multi-stakeholder initiative, Guías Colombia, which came into being in 2006, and was publicly launched in 2010. Its goal is to provide tools to help companies manage human rights issues. Therefore, for more than 7 years, Telefónica Colombia has been adjusting policies and processes in accordance with these guidelines. In 2016, within the framework of this initiative, we began to design a mechanism for complaints and claims relating to human rights, aimed at improving the response to these types of deviations.

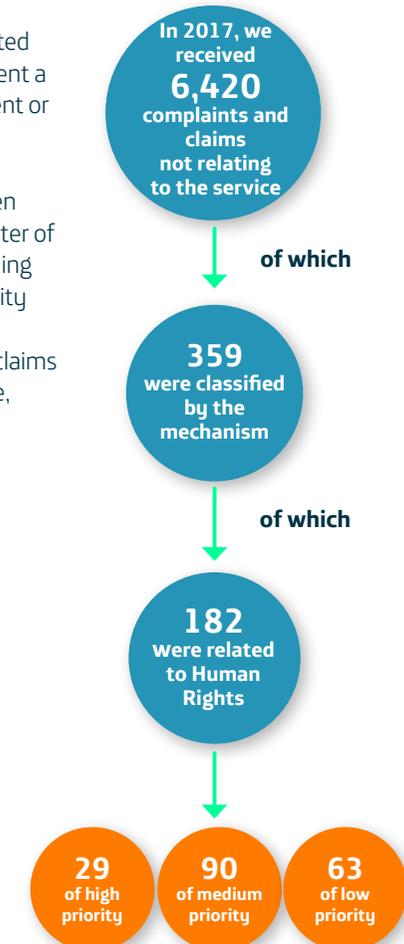
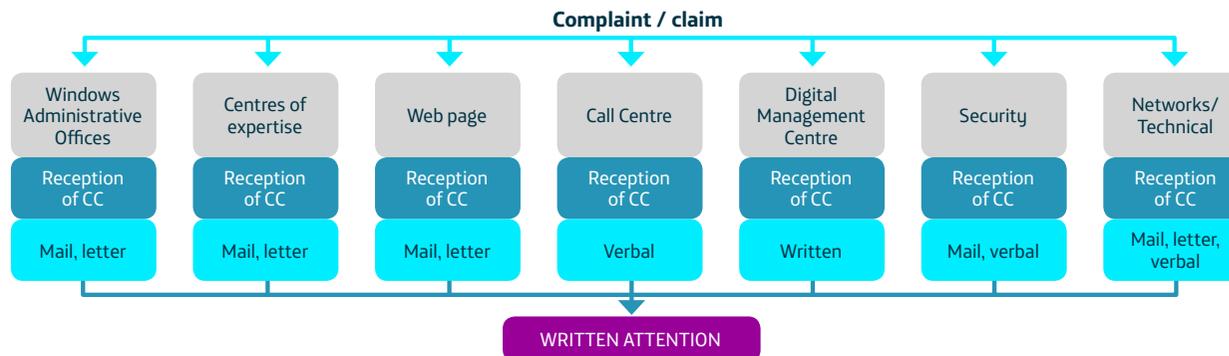
The first step in the creation of this mechanism was a review of documentation (policies, processes and systems), to determine which channels could receive these types of claims and which procedure was being followed. The next step was to establish a system for receiving, processing and resolving claims, with a view to providing a timely response to certain facts and to anticipating potential problems.

This mechanism provides a way to reduce risks related to execution of the organisation's activity, and offers communities an effective way to express concerns and to achieve solutions, thereby promoting a constructive and trusting relationship with these stakeholders.

In 2017 progress was made with implementation of the mechanism, with a view to reviewing effectiveness. Design began on a procedure to allow this mechanism to be used also for complaints and claims (CC) not related to the service and that could represent a risk to human rights, the environment or reputation for the Company.

At the same time, the area of Written Attention, sends the complete register of all those CC received that have nothing to do with the service to Sustainability Management, which validates the applicability of the complaints and claims mechanism, and, where appropriate, classifies it according to type.

Procedure for handling complaints and claims regarding human rights and environment





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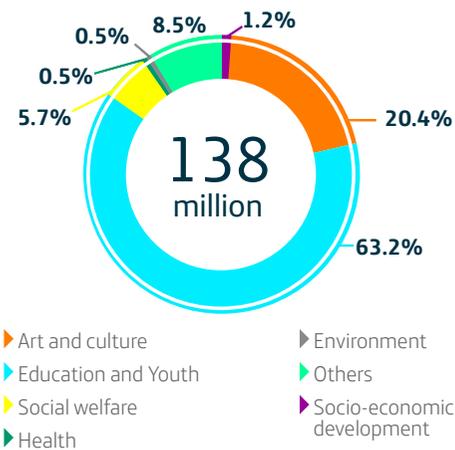
Social and cultural action

We are aware of the influence that a company like ours has, and should have, on the promotion of knowledge, culture and solidarity in the communities in which we operate. Therefore, we form an active part of the social and cultural lives of those who live in them.

During 2017, we allocated 138 million euros to social and cultural initiatives. This amount represents 0.27% of Group revenue, which is a slight increase compared to last year, thanks to greater involvement of employees in volunteer work and the record participation of the Company in different collaboration projects, especially in education and employment, in the countries in which we operate. Most of our social action is undertaken by the [Fundación Telefónica](#), [ATAM](#) and through different social sponsorships given by the Company.

Note: Fundación data are in the process of external verification.

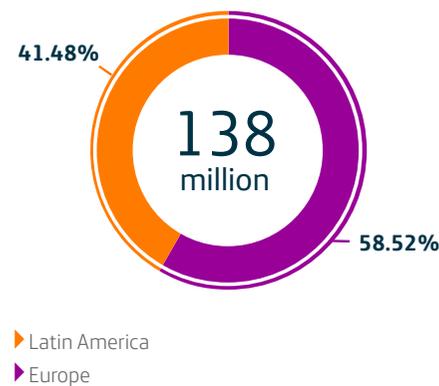
Contribution to social and cultural initiatives



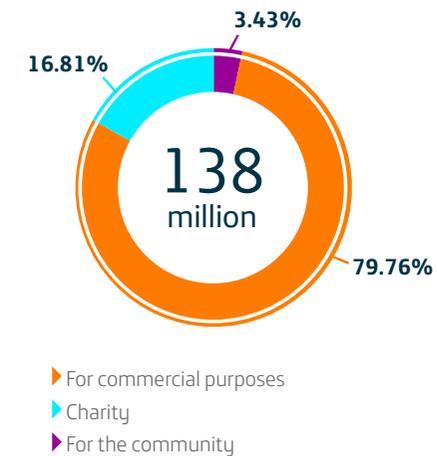
Form of contribution



Contribution by geographical area



Contribution by type of activity



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EDUCATION

Today technology allows us to learn and expand our knowledge, opening up a world of possibilities. Digital education allows us to constantly update and upgrade ourselves, it democratises access to quality knowledge and lays the foundations for the construction of a global and inclusive society.

That's why, at [Telefónica Digital Education](#), we promote education as a driving force of development through various initiatives:

MIRÍADAX

- **Miríadax, the first Ibero-American MOOC platform**

Since June 2017, we have reinforced our commitment to open training and have taken on the entire management and development of the project.

Currently, the platform has a library of more than 700 courses from nearly 100 associated universities and institutions, with more than 2,000 teachers and has 4,364,686 registered students.

It should be noted that Miríadax has a 23% course completion ratio, compared to the 8% average of the Anglo-Saxon MOOC platforms.

SCOLARTIC

- **Scolartic, an online educational community for teachers**

This is a social learning space that is open and free to the Ibero-American educational community. It currently has 512,000 teachers, educators and parents, who have taken 1,178,210 hours of training on the latest international and educational trends.

STEMBYME

- **Stembyme, the portal where science is fun**

This fun, learning environment seeks to promote the development of scientific skills in children and young people aged 14 to 18, and has 338,150 users who have racked up more than 400,000 hours of training aimed at awakening their interest in science. The process of teaching and learning in Stembyme takes place through MOOC courses and real time virtual classes.



- **SIELE, the online Spanish certificate**

Promoted by the Cervantes Institute, the University of Salamanca, the National Autonomous University of Mexico and the University of Buenos Aires, SIELE is the only internationally recognised online certificate that accredits fluency of communication skills in the Spanish language, according to the levels established by the Common European Reference Framework for languages (CERF). There are currently nearly 575 authorised SIELE examination centres distributed across 70 countries worldwide.

Best practices

Telefónica Technological Institute

Instituto Tecnológico Telefónica

In October 2017, we created the [Telefónica Technological Institute](#), with the aim of fomenting official online training and promoting the new digital professions, which are already highly in demand from both companies and society.

Authorised by the Ministry of Education, Youth and Sport of the Autonomous Region of Madrid, the 2017/2018 year began with two Higher Level Vocational Training Courses: Technical Level Web Application Developer (DAW) and Technical Level Multi-Platform Application Developer (DAM). There are already three groups taking this official training.

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FUNDACIÓN PROFUTURO

The reduction of inequalities in the world is one of our main social objectives. To achieve it, in 2016 we partnered up with the "La Caixa" Banking Foundation to create the [Fundación ProFuturo](#).

This new digital education proposal seeks to close the educational divide, through quality education for boys and girls, as well as teacher training in vulnerable environments in Africa, Latin America and Asia.

ProFuturo also offers an integral education solution which allows the teacher to progress in their professional work and manage their classroom, thereby improving children's learning. In addition, it adapts to teacher contexts and profiles, and works in any environment, with or without connectivity.

Thus, we aspire to become a leader in the field of educational transformation and innovation, using data analytics to improve teaching and learning.

In 2017, ProFuturo started to work in 13 new countries, reaching a total of 23 and benefiting 5,836,986 boys and girls since 2016.



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EMPLOYABILITY

Among the challenges that we face, the fight against unemployment has become a backbone of Company strategy in recent years.

The Fundación Telefónica has launched or consolidated different training initiatives, grouped together within the [Conecta Empleo](#) programme, that aim to increase the employment offer and detect the needs of a market in constant evolution.

Thus, for one more year we have continued driving the [Think Big Youth](#) programme, which encourages entrepreneurship; and the [Solidarity Employment Launchers](#), in which active and retired employees, as well as those approaching retirement, give their knowledge, time and enthusiasm to solidarity activities that respond to social needs and channel the values of the Company.

VOLUNTEERS

2017 was a record year for innovation. The Telefónica International Volunteer Day 2017 was the largest ever organised, registering the participation of 21,000 employees, retirees and employees approaching retirement, in 31 countries (across America, Asia and Europe), during which we coordinated a total of 1,074 activities with a social impact.

In this way, we are focusing on areas as diverse as the digital divide, education and children, social inclusion, assistance for people with disabilities, protection of the environment, health care, support to those affected by natural disasters, employability and entrepreneurship.

In addition, this year a new strategic Digital Volunteering line has been launched. After years working on specific projects in which technology is the lynchpin, we have begun to actively promote it, bringing value to position ourselves as a leading company in the digital transformation at a social level.

Telefónica International Volunteer Day 2017

Participation of

21,000

employees, retired employees and employees approaching retirement in 31 countries



1,074 activities with a social impact



Best practices

Digital Employment Project

This initiative aims to build a bridge between technology companies and young people, between 18 and 35 years old, who are looking for employment or who want to improve their employability.

We offer them training in the programming languages and technologies most highly-demanded by companies, including: Big Data, cybersecurity, web programming in different languages, mobile application creation, video game design, etc.

More than 300,000 young people have attended our courses, both in person and online.

Fundación Telefónica Space (Madrid, Spain)

In 2017, nearly 800,000 people attended different events and exhibitions organised within the [Fundación Telefónica Space](#).

Norman Foster, 3D printing, the Leica camera and Mars are some of the protagonists of exhibitions held over the past year. In parallel, the Youtubers cycles, There is life on Tuesday, The Almighty and The App Date, bring to life to a centre through which have passed personalities such as Paul Auster, Mario Vargas Llosa and Mary Beard.

What is more, this initiative is being extended to other countries in which we operate: Buenos Aires, Santiago de Chile, Lima, and this year Quito as well.



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Commitment to the environment





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Environment and Digitalisation

Our activity, like that of any other company, is dependent on the environment. Therefore, we work to ensure that our impact on the environment is kept to a minimum, committing ourselves to breaking the link between business growth and our environmental footprint.

Digitalisation is becoming a key tool in the management of environmental challenges. Climate change, waste, water, air pollution, fires and biodiversity; solutions for these issues can already be found among our products and services. For us, these products and services are just the beginning, as the opportunities for growth in a green economy are becoming increasingly relevant to the Company.

A digital world offers more opportunities for eco-efficiency and a carbon-free and circular economy.

We reduce our impact and facilitate solutions to the major environmental challenges through digitalisation

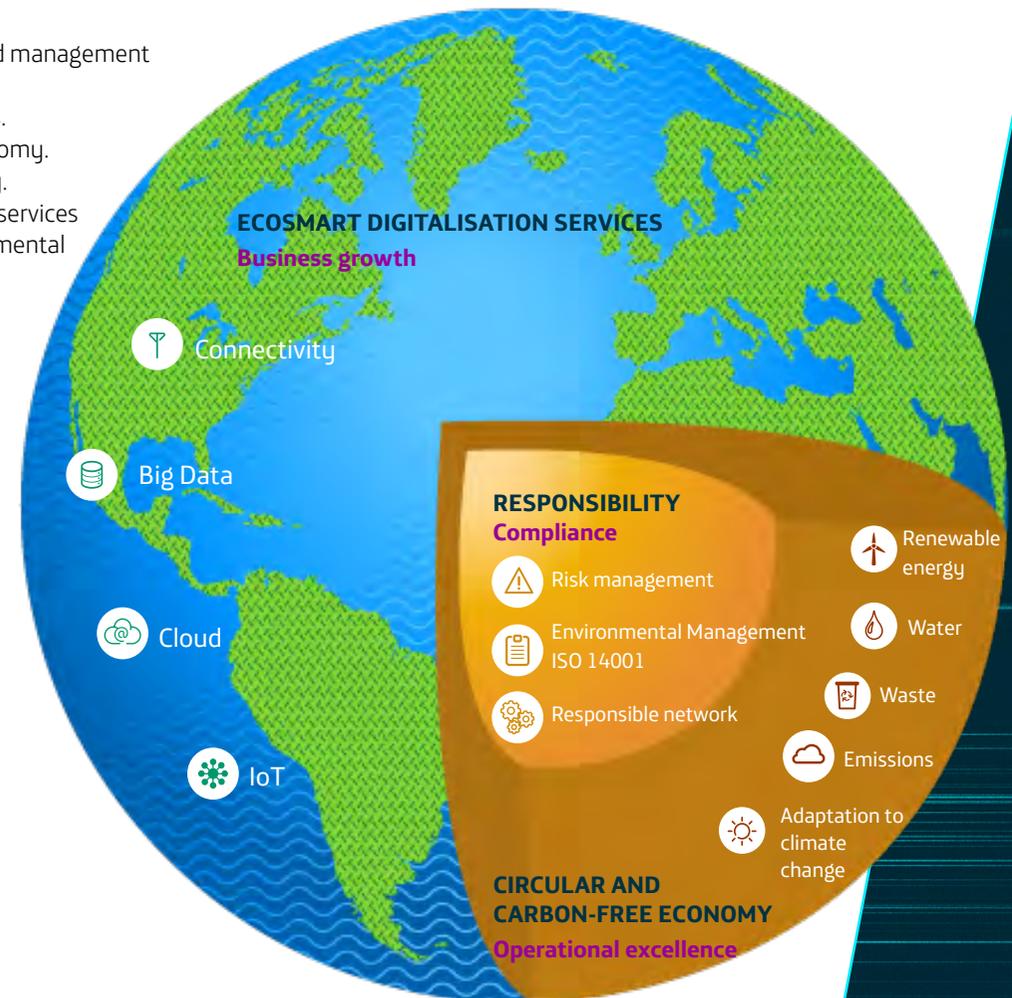
We have a global environmental strategy aimed at achieving these goals, which we implement at different levels, and always in line with our business strategy:

- Environmental compliance and management established under ISO 14001.
- Use of internal eco-efficiencies.
- Promotion of the circular economy.
- Decarbonisation of our activity.
- Development of products and services that offer solutions to environmental problems. For example, products that reduce resource consumption and greenhouse gas emissions, or services that help our customers to adapt to climate change.

ENVIRONMENTAL STRATEGY

$$- \text{Risks} + \text{Efficiency} = + \text{Resilience}$$

$$+ \text{Opportunities} + \text{Revenues}$$



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GOVERNANCE

The environment is an issue that affects the entire Company, from the areas of operations and management, to the areas of business and innovation.

The Environmental Strategy is the responsibility of the Board of Directors, within the framework of the Global Responsible Business Plan. The most relevant environmental objectives are defined at a global level and are linked to the remuneration packages of the heads

of Operations and Sustainability. It is a multidisciplinary team that is in charge of carrying out this Strategy throughout the Company - in the different countries and at the different levels of responsibility.

MATERIALITY

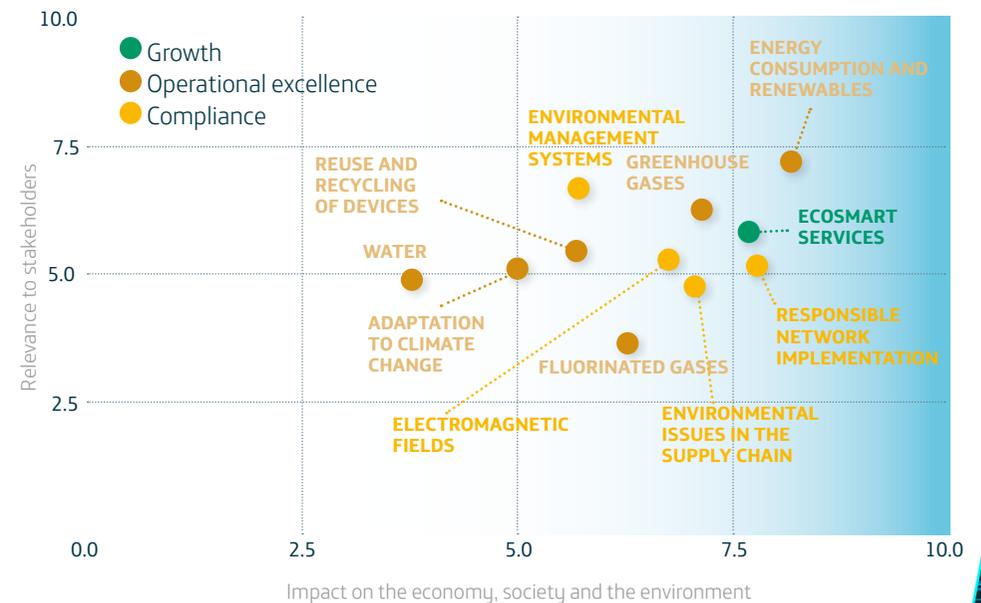
Every year we carry out an analysis exercise to define the environmental issues that are most relevant to our Company, on the basis of our business strategy, regulatory requirements and the demands of our stakeholders.

Based on this analysis, we have prioritised our efforts to deal with the most material issues: energy consumption and renewable energies, EcoSmart services, responsible Deployment of the Network, and greenhouse gas emissions. However, we do not lose sight of other environmental issues and make sure we consider all aspects in order to reduce our impact and increase resilience.

Our work on environmental matters has an impact both inside and outside the Company.



MATERIALITY MATRIX



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Internally, it affects our operations, costs, and revenues. Externally, it affects our investors, customers and suppliers, as well as the societies in which we are present.

We endeavour to respond to the demands of our stakeholders in a transparent manner, from the provision of answers to questionnaires sent by international analysts such as CDP, to one-on-one dialogue with each stakeholder to discuss individual needs and expectations.

ENVIRONMENTAL RISKS

The environmental and climate change risks faced by the Company are monitored and managed under our global risk management model, in accordance with the principle of caution. The greatest environmental risks facing our Company are those resulting from the high geographical dispersion of the infrastructures, which is controlled through an environmental management system based on uniform, ISO 14001 certified processes.

We pay specific attention to the risks and opportunities that stem from climate change, in accordance with the recommendations of the Task Force on Climate – Related Financial Disclosures (TCFD). For us, the greatest threat brought by climate change comes from the physical risks that stem from extreme weather events and the increase in temperature, which is growing over ever greater time horizons.

To reduce our exposure to the increase in temperature and greater cooling needs, the Company has implemented a global energy efficiency programme and renewable energies plan.

We have several programmes aimed at improving our capacity to adapt to extreme weather events, taking into account the risks that this issue implies for the design and operation of the Network. The Company also has business continuity plans for dealing with these events in the geographies that require them (see the 'Energy and climate change' and 'Risk management' chapters).



2017 Milestones

- The Company is now 100% ISO 14001 certified. 
- We reached our energy efficiency objective ahead of schedule: 52% MWh/traffic compared to 2015. 
- 46.8% of electricity now comes from renewable sources.
- We reduced our carbon emissions by 28% compared to 2015.
- We digitised our waste management in 6 countries. 

2018 Targets

- To break the link between growth and greenhouse gas emissions, reducing these emissions by 30% in absolute terms by 2020, and by 50% by 2030.
- To commit to renewable energies as a sustainable source for our business, obtaining 50% of electricity from renewable sources by 2020 and 100% by 2030.
- To extend the digitisation of waste management to 6 more countries.
- To increase the amount of emissions avoided through EcoSmart services.



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Environmental management

The Environmental Management System (EMS) ISO 14001 is the model that we have chosen to follow to guarantee the prevention of pollution, environmental compliance and the continuous improvement of our performance in this area.

Over the course of 2017, we applied the EMS ISO 14001 in all our operators, and now 100%⁽¹⁾ of the business has this certification.

We have implemented a full range of standards following the life cycle perspective, meaning that we do not only take into account our direct aspects and impacts, but we also take into account those associated with our value chain, and put special emphasis on involving our suppliers in everything to do with environmental management.

Furthermore, the risks and opportunities identified as a result of our environmental aspects, our stakeholders and mandatory requirements take on particular relevance in the EMS. Specific plans and management systems, such as the Renewable Energies and Energy Efficiency Plans, help us to take advantage of these opportunities.

Likewise, having a certified Environmental Management System allows us to guarantee appropriate monitoring and compliance with the environmental legislation applicable to each operation, by associating the preventive compliance model with the Company's Global Compliance process. We were not subjected to any significant sanction in environmental matters in 2017.

We continue to hold Energy Management Systems certifications (ISO 50001) for our operations in Spain and Germany (which account for approximately 40% of our

Objective fulfilled:
100%⁽¹⁾ of our operators are certified according to ISO 14001

revenues), and are working to extend this standard to other operations, thereby ensuring that the energy efficiency and management of our Network is continuously improving.

Environmental management systems

ISO 14001 CERTIFICATES



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

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A RESPONSIBLE NETWORK

Guaranteeing that the risks and environmental impacts of our Network are adequately managed, from deployment to the dismantling of obsolete facilities, through efficient operation of the networks and reuse of equipment, makes it possible for us to provide a service of the highest quality without compromising the care of the environment.

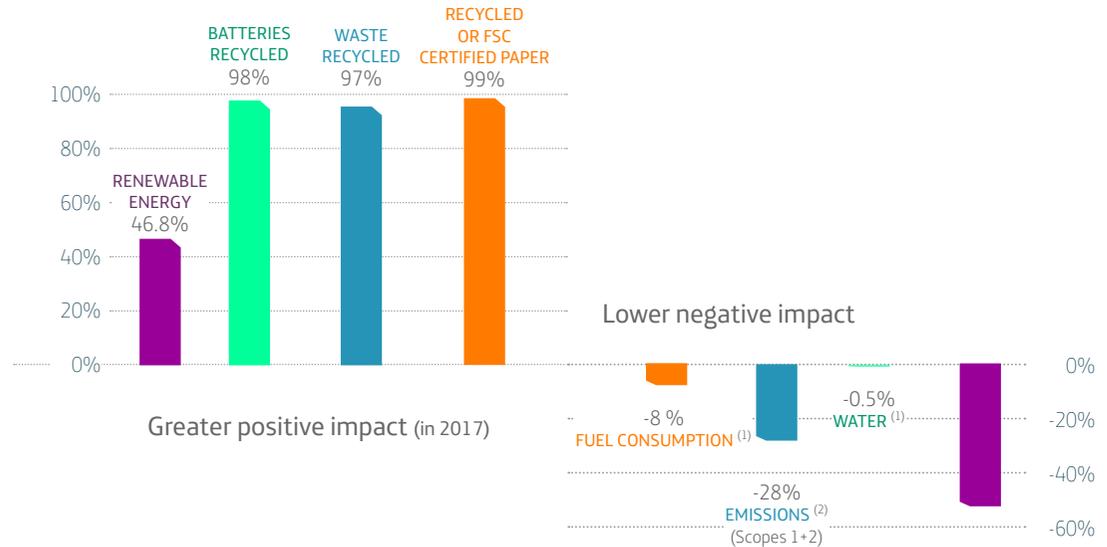
The main areas in which our Network impacts the environment are energy consumption and the management of waste produced in both Network operations and maintenance, as well as in the dismantling of facilities (see the 'Energy and climate change' and 'Circular economy' chapters).

As an example of the responsible management of the Network, in 2017, 97% of all waste was recycled.

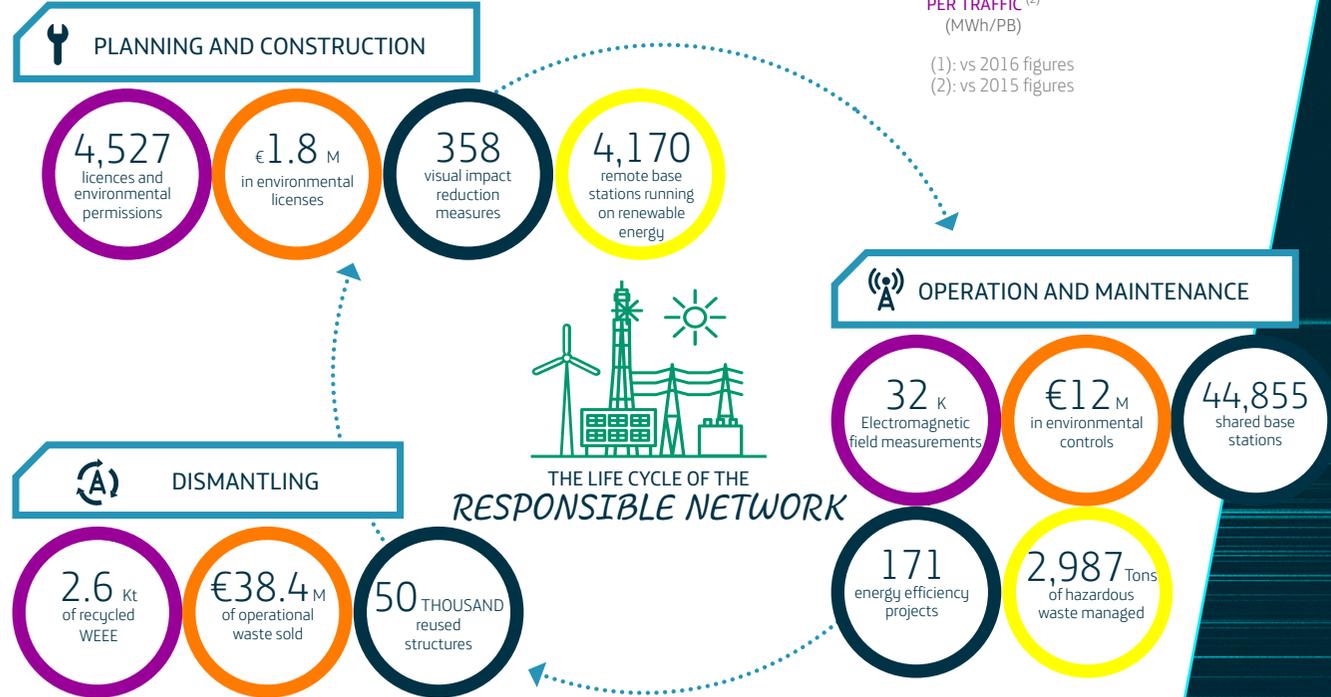
The best practice for minimising the impact of Network deployment is to share infrastructures. Therefore, whenever possible, we share our facilities with other operators or communication tower management companies. In this way, we reduce square footage, visual impact, energy consumption and waste generation. In 2017, the number of base stations we shared rose to 44,855.

More information is available in the "Network Deployment" chapter

Improved net impact



Responsible management of Network infrastructure



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2017 Milestones

- We are now a 100% ISO 14001 certified company.
- We chose the ISO 14001 certification as our preventive model for environmental compliance.
- We recycled 97% of all our waste.



2018 Targets

- To upgrade to the new ISO 14001:2015 standard Environmental Management System.
- To publish a new Global Environmental Policy.
- To calculate Telefónica's net impact in accordance with True Value methodology.



Marea underwater cable

The Marea underwater cable is a project between three partners: Facebook, Microsoft and Telxius. It connects Spain to the United States, with landing stations located in Sopelana - Spain, and Virginia Beach - USA, respectively.

The cable has 8 fibre pairs, an estimated initial bandwidth of 160 Tbps, and a length of 6,606 km.

The Marea cable was installed between June and August of 2017, and began to operate in April 2018.

The environmental impact report accompanies the permits necessary for the landing of the Marea cable. Its possible influences on physical, biotic, and socio-economic resources were studied, determining a compatible, minimal, and very temporary (days)

impact on benthic organisms during the installation phase. The fact that the useful life of the underwater cable is 25 years must be taken into account. Its impact on all other aspects studied is irrelevant.

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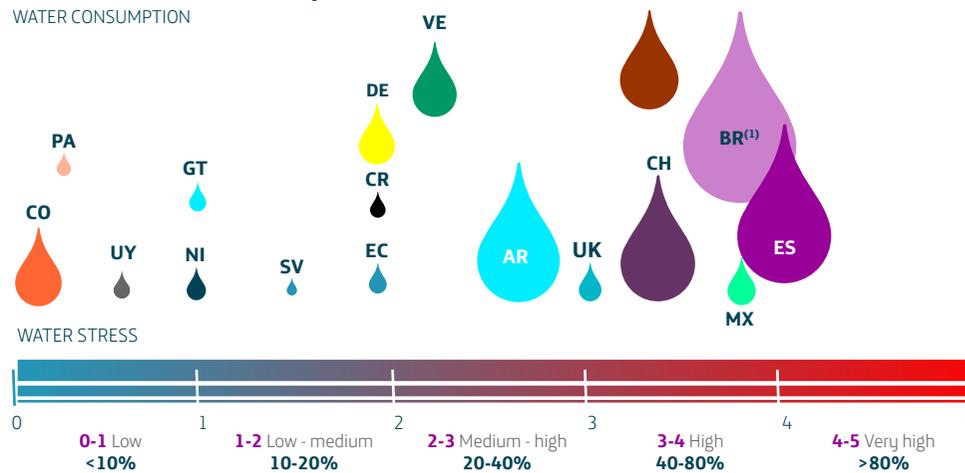
Water

Our water consumption, which originates in the general supply network, is mainly a result of sanitary use and, to a lesser extent, air conditioning. Year after year, each one of our operations takes specific measures to reduce consumption, especially in places where water stress is greater, such as Mexico City, São Paulo and in countries like Spain. In these cases, we have developed dedicated sustainable water management plans.

In 2017, our global consumption was 3.7 Hm³, 0.5% lower than in 2016.

We *reduced* our *water consumption* for the third year in a row

Telefónica water consumption vs. water stress



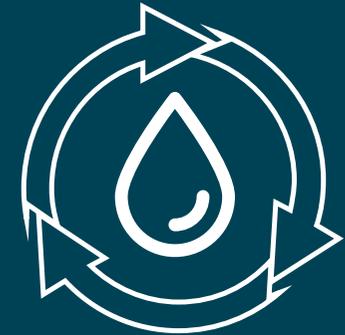
Source: World Resources Institute.
(1) Brazilian cities

Water Treatment Systems in Cooling Towers in Telefónica Chile

Through an electrolysis process, the installation of the water treatment system prevents the use of chemicals in cooling towers, thus reducing the associated operational costs.

Thanks to the increase in the recirculation of cooling water, important savings⁽²⁾ are made in water usage.

(2) 70% decrease in purged water, equating to an annual saving of USD 86,989 in maintenance Opex.



Paper

We have implemented Company-wide guidelines for reducing the impact of paper, which promote efficient use by means of the digitisation of processes. These guidelines enabled us to reduce our paper consumption by

24.5% to 956 tonnes in 2017. We also promote the use of recycled paper over virgin fibre: 24% of all paper consumed is of recycled origin; and we encourage the procurement of virgin fibre paper only from sustainable sources, requiring therefore that it bears FSC or PEFC seals. Currently 75% of the white paper used in our offices carries these seals.

Another example of eco-efficiency applied to the consumption of paper is the digitisation of invoices, which has been made possible by new technologies. In 2017, 53 million of our customers chose to receive paperless invoices, raising the total amount of electronic invoices generated to around 570 million. This represents 2,800 fewer tonnes of paper, which corresponds to roughly 50,000 trees.

We *reduced* paper *consumption* by *24.5%* in comparison with 2016

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WASTE AND USED EQUIPMENT

The management of waste and used equipment is an important environmental issue for Telefónica because it is implicit in all our activities. The maintenance of Network infrastructure is the main generator of waste, but waste is also generated by the administrative activities carried out in our offices, and, to a lesser extent, by commercial activities that involve our customers.

Our management strategy encompasses all of the sources of waste and the activities that generate it, which in our case are largely carried out by suppliers. We promote measures that encourage the circular economy, and that increase the ratios of material reuse, recycling, and recovery. All of this allows us to be more competitive, lower our costs and increase our revenues, while simultaneously reducing our footprint on the environment and complying with the applicable legal regulations.

Thanks to the digitisation of waste management through our GReTel platform, we have improved the traceability of our waste, thereby increasing its recycling, reuse and recovery potential.

Taking into account the waste principle of the circular economy, our main goal is to prevent and reduce the generation of waste, supporting the reuse of used equipment, and recycling whenever possible. In 2017, we reused 2.8 million units of communications equipment, representing approximately 1,242 t. When reuse is not an option, recycling is the best alternative. In 2017 we generated 27,356 t of waste - 17% more than in 2016 - which

was mainly due to network transformation processes in Spain (mostly recycled cables). We have been able to allocate 26,538 t of waste - 97% of the total - to recycling. Whenever the reuse or recycling of equipment is not possible, the waste is managed through a company specialised in the correct processing according to the particular characteristics of the waste. One example of this is energy recovery.

About 64% of our waste corresponds to cables that come from our Network transformation processes. They cannot be reused but they *can* be recycled; as a result, 97% are recycled by specialist companies.

This is how we promote the circular economy: by giving value to the materials that we remove so that they are once again introduced into the production model. Thanks to the recovery of our waste (mainly cables) over the last year, we increased the revenues from sales of these materials by 30%.

In 2017, we **recycled 97%** of our waste

GReTel
(Spanish acronym for "Telefónica's Waste Management")

Accessibility and security

Circular economy

Uniformity

Simplicity

Global vision

Adaptability

Consistency

Simplified management

In 2016, we commenced development of the GReTel platform, a system that, through digitisation, integrates the management of waste generated in all the companies of the Group.

Thanks to Gretel, we improved the traceability of the waste we produce, allowing us to establish a continuous improvement plan and take advantage of all the opportunities related to the circular economy.

In 2017, we were able to implement the tool in 6 countries (Spain, Colombia, Chile, Panama, Argentina and Ecuador).

Best practices

Mobile phone recycling - Inter-School Contest in Ecuador

An inter-school campaign promoting the recycling of mobile phones was organised in Ecuador during the month of May 2017, with the goal of moving our model towards the circular economy and contributing to achieving the consumption and responsible production SDG 12.

Thanks to the campaign, we were able to collect more than 1,200 devices, with 7 times greater efficiency than the cost of regular collection.



7 TIMES
more efficient in terms of collection costs



1,280
mobile phones collected in 4 weeks



5 key allies

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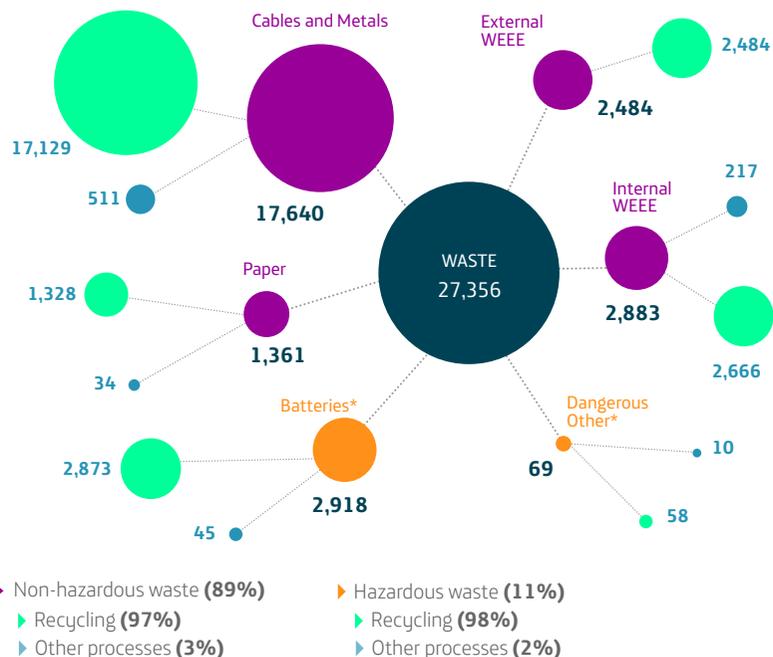
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Waste management at Telefónica



Used electronic equipment and waste

These types of waste are very relevant to Telefónica's activity. According to the United Nations, it is estimated that the generation of electronic waste, or e-waste, will exceed 50 million tonnes per year in 2021.

Electronic waste contains valuable minerals that can be recovered, but also materials that can be contaminants if they are not processed correctly. Thus, we consider that any solution to this issue must be based on shared responsibility between all the implicated

parties. Our contribution to the change is based on these principles:

- Promotion of the development of a favourable regulatory framework and application of reuse and recycling practices.
- Guarantees of adequate processing and monitoring within our supply chain.
- Provision to customers of environmental information at the time of purchase (Ecorating) and alternatives means of disposing of their used devices.

Reuse of Telefónica equipment

We are committed to the circular economy through reconditioning equipment to give it a second life

REUSED EQUIPMENT



2,242,896 units



505,706 units



15,541 units

DONATED EQUIPMENT



33,449 units

- Promotion of the best eco-design among manufacturers.

Thanks to the above, in 2017, 78% of the devices used in our operations and by our customers were recycled, and nearly 19% were reused. The momentum of the circular economy will cause an increase in the reuse and recovery of equipment over the coming years.

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CUSTOMERS AND THE CIRCULAR ECONOMY

One of the sustainable development goals that we want to focus on is the development of a sustainable model of production and consumption. This is why we develop new products and initiatives that help our customers to reduce their environmental impact and join in with the challenge of converting to a circular economy.

Equipment repurchasing and reconditioning

As a result of our policies to prolong the useful life of communications equipment - both that of our customers and of the Company - we managed to reduce resource and energy consumption by preventing the production of new equipment.

We offer our customers the options to repurchase and recondition their mobile phones. Through these initiatives, our customers can give their unused mobile devices a second life or recycle them without impacting the environment. In 2017, we collected 730,000 mobiles thanks to these programmes.

We also facilitated the reuse of mobiles through the leasing or sale of second-hand handsets in some of our markets, for example in the United Kingdom with the O2 Refresh programme.

We also recover disused routers and decoders from the homes of our customers, reconditioning them and putting them to use again at Telefónica, thus preventing the

consumption of materials and resources that the production of new equipment would entail. In 2017, we recovered more than 2 million used devices.

We collaborate with companies specialised in reconditioning equipment, which guarantee compliance with environmental legislation.

Finally, in some countries, such as Spain for example, we donate computer equipment. A total of 3,000 units have been donated.

Ecorating

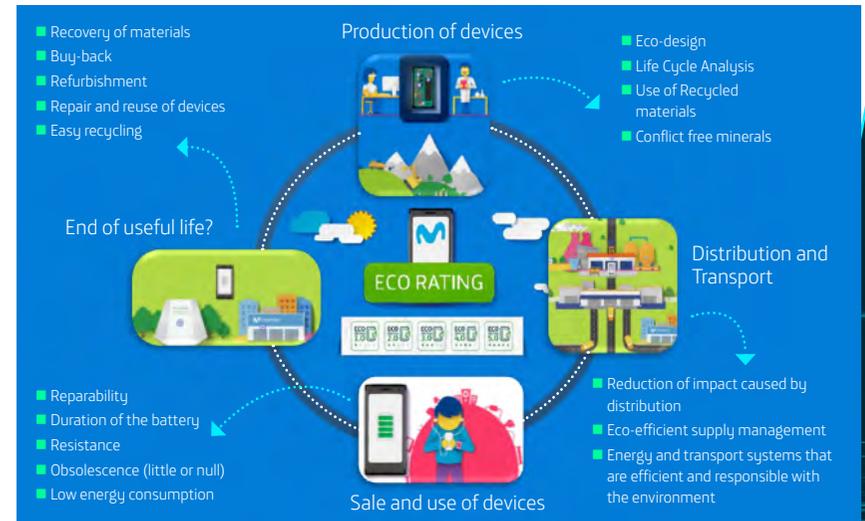
We inform our customers, at the moment of acquiring a new phone, about the score of their devices on the Ecorating scale, and offer them the possibility of choosing a more sustainable option within their purchasing criteria.



ECORATING: A model exercise in promoting mobile device circularity.

Ecorating is a seal which evaluates the environmental impact of the entire mobile phone production, use and disposal process. The methodology, developed in conjunction with other operators such as Orange and the British NGO Forum for the Future, takes into account criteria such as analysis of the useful life of the device, and indicators such as global warming and the depletion of raw materials. The analysis also includes scores for corporate policies and the manufacturers' environmental care criteria.

In 2017, the proportion of our portfolio reporting its Ecorating reached 71%. The average score of the devices catalogued in the ranking is around 3.2. Thus far we have reported the Ecorating of our handsets in Spain, Brazil, Germany,



United Kingdom, Chile, Colombia, Argentina, Ecuador and Peru.

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DIGITAL SERVICES

As previously mentioned, we also promote the circular economy through our digital services. For example, virtualisation reduces the consumption of raw materials and resources. Furthermore, we offer IoT services such as Smart Waste, with which we help to improve the management of municipal waste (85% recycling, 60% incidents, 18% maintenance costs) (see chapter on 'EcoSmart services').



The extension of the *useful life of products and the recovery of materials* are the main pillars of the Circular Economy at Telefónica

Peru - Ecohuella platform



Ecohuella is a Movistar Peru, C-CERO, and ANIA initiative that offers customers the possibility of offsetting the emissions generated by the energy consumption of their mobile phones over a year.

The annual compensation fee is S/3.00, which can be paid via SMS or online at www.czero.com/ecohuella. The money raised is invested in the conservation of forests in Madre de

Dios through CCERO carbon bonds, and in the environmental education of communities through the NGO ANIA. The CCERO carbon bonds come from internationally certified (CCB and VCS) REDD Projects, and their sale is registered in the MARKIT portal.

This project was a finalist in the MWC GLOMO Awards.

2017 Milestones

- Digitalisation of waste management in 6 countries (GreTel).
- We informed our customers about the Ecorating of their mobiles in 9 countries.
- We took advantage of the opportunities of the Circular Economy by increasing revenues from the recovery of materials by 30%.
- We recycled 97% of all our waste.



2018 Targets

- To deploy Ecorating in all of the Company's operators.
- To continue strengthening the reuse, recovery and recycling of our waste through digitalisation.
- To drive the development of technological solutions that promote the revolution towards the Circular Economy.
- To move forward with Life Cycle Analyses in the purchasing of strategic equipment.



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Energy and climate change

INTEGRATED ENERGY AND CLIMATE CHANGE STRATEGY

The current economic model's reliance on intensive energy use is one of the main causes of climate change. Energy is a fundamental resource for the development of our business. Because of this link, we have created a strategy that integrates the management of both energy and climate change.

Climate change is one of the most important challenges we face, as its impact on society, the economy and the environment is increasingly evident. 2017 saw the highest levels of CO₂ concentration in the atmosphere in history, as well as the planet's highest average temperature, while the frequency of extreme weather events also increased.

All this means that organisations like the World Economic Forum identify climate change as one of the greatest risk factors worldwide, with the United Nations marking it as one of its main Sustainable Development Goals. Therefore, it is becoming increasingly urgent to make progress with decarbonisation, to

We work to have the
most energy and carbon
efficient Network

break the link between economic growth and greenhouse gas emissions.

At Telefónica we want to take a leading role in this area by offering solutions that foster greater digitalisation, to encourage both mitigation of and adaptation to climate change among our customers. We are also aware of the responsibility we must assume in reducing our own carbon footprint, which is why we aim to ensure that the services we offer are not only supported by a low carbon network, but are resilient to climate change.

This dual focus forms the basis of our integrated energy and climate change strategy, which is aligned with the Company's business strategy.

Task Force on Climate-Related Financial Disclosures

In order to respond to the demands of our main stakeholders and the required transparency in this matter, we are committed to implementing the recommendations of the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#).

GOVERNANCE

For 10 years we have had a Global Energy and Climate Change Office, which is composed of Company-wide departments such as Operations, Environment and Purchasing, and is responsible for leading the Company's Climate Change Strategy. Advances in this area are reported on within the framework of the Responsible Business Plan both to the Management Committee in each country and at a global level.



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ENERGY AND CLIMATE CHANGE GOALS

In 2016 we announced new Energy and Climate Change Goals for 2020 and 2030, which are aligned with the Paris Agreement and the level of decarbonisation required to limit global warming to below 2°C. The achievement of these objectives is linked to the compensation of those responsible for the areas of Operations and Environment.

Setting these goals helps us to be more competitive and to offer our customers the cleanest Network in the sector. Through energy efficiency and renewable energy we are managing to reduce energy expenditure while reducing our carbon emissions in absolute terms. What is more, decarbonisation in itself brings great opportunities for the Company.

- Reduce energy consumption by 50% per unit of traffic by 2020.
- Separate our business growth from GHG emissions. Reduce our Scope 1 and 2 emissions by 30% in absolute terms by 2020 and achieve a 50% reduction by 2030.
- Save 90 million euros through energy efficiency projects over the next 5 years.
- Commit to renewable energies as a sustainable source for our business, achieving 50% of electricity consumption from renewable sources by 2020 and 100% by 2030.

Energy and Climate Change Goals 2015 – 2020/2030

ENERGY EFFICIENCY



ENERGY EFFICIENCY SAVINGS

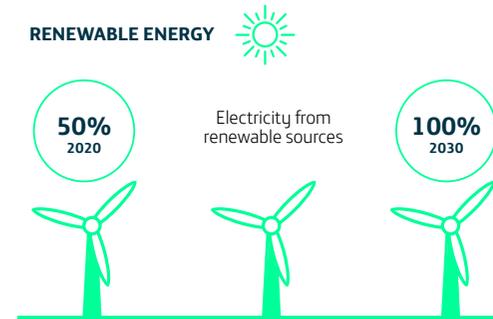
Million euros



ENERGY EFFICIENCY PROGRAMME

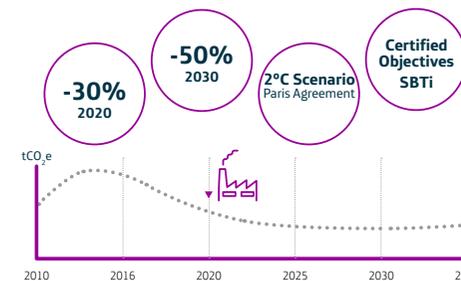
- ➔ Network transformation, legacy shutdown
- ⚡ Power saving features (PSF)
- ❄️ Refrigeration, cooling
- 💡 Power and lighting equipment

RENEWABLE ENERGY



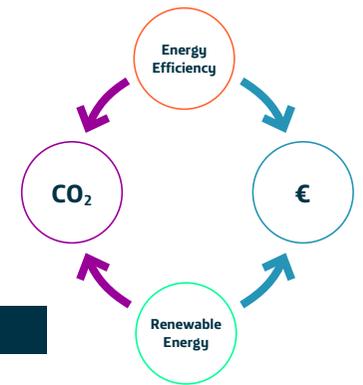
DECARBONISE TELEFÓNICA

(Reduce our GHG emissions)



RENEWABLE ENERGY PLAN

- 📄 Guarantee of Origin Certificates
- 📄 Long-term purchase agreements (PPA)
- 🏠 Self-generation



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RISKS AND OPPORTUNITIES

Due to its transversal and global nature, climate change now affects the management of key aspects of the Company, such as governance, strategy, risk management, indicators and objectives.

For this reason, our Climate Change Strategy, which follows the recommendations of TCFD, specifically analyses the potential risks and opportunities arising from the impact of projected climate effects, for different scenarios of CO₂ concentration in the atmosphere and during different time periods.

This specific analysis allows us to incorporate the results into long-term business decisions, minimising risks and maximising opportunities for our Company.

Climate change is one of the basic risks contemplated within our Risk Management Model (see the 'Identification and management of risks' and 'Environment and Digitalisation' sections).

Risks

We analyse the exposure of our business to the risks of climate change - both physical risks and those derived from the transition to a low carbon economy - according to various time scales and also under different climatic scenarios.



SBTi

In 2017, we certified our GHG emissions targets through the [Science Based Targets Initiative \(SBTi\)](#), which corroborates that they are aligned with the global challenge of keeping global temperatures below 2 °C.

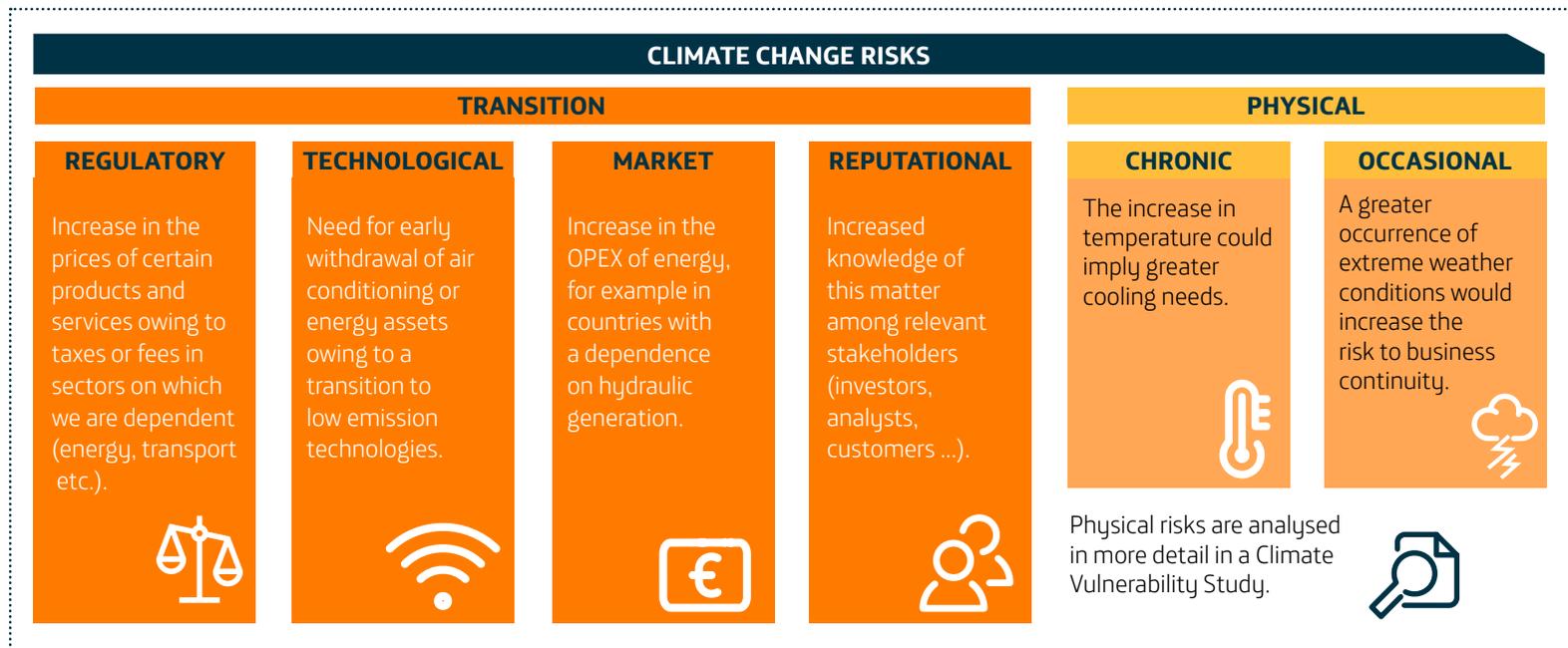
SBTi is an initiative which is being developed as a collaboration between CDP, the United Nations Global Compact, the World Resources Institute (WRI) and WWF.



CDP

For the third consecutive year Telefónica was awarded with the highest classification of "A" in the CDP Climate Change, thus renewing its presence in the "Climate A List". This list is made up of companies that meet the maximum criteria as defined by the [Carbon Disclosure Project](#), which measures companies' performance levels in strategy, goals and actions related to mitigating climate change risks.

We have also received awards for our transparency and commitment to customers in the area of climate change, achieving a grade "A" in the CDP Supply Chain Climate.



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For the physical risks, we analyse the probability and impact that both gradual changes in climate (temperature, rainfall, sea level) and extreme climatic events, could have on our infrastructures and operations.

Regarding the worldwide transition to a low carbon economy, we consider the risks that may come from changes in regulation and technological innovation, as well as those associated with changes to current markets or reputation.

In order to manage these risks, we have established lines of work that help to increase our resilience to climate change. Thus, within our strategy we include climate change adaptation measures, which therefore becomes integrated in our decision making.

This strategy allows us to adapt to both physical changes and those derived from a low carbon economy. The main adaptation measures are: the Business Continuity Plans for dealing with climate disasters, such as the one that occurred recently in Peru; the Energy Efficiency Plan, which makes us less dependent on fossil fuels and allows us to reduce energy consumption and greenhouse gas emissions; and the Renewable Energy Plan, which prepares us for all the risks of transition - regulatory, technological, market and reputational risks.

Opportunities

The opportunities linked to a low carbon economy come from both internal management and the development of digital products and services, with specific solutions for the mitigation of and adaptation to climate change challenges, which we offer to both our customers and society as a whole.

Among the internal opportunities, the Renewable Energy Plan stands out, as this allows us to reduce the Company's operating costs, decrease greenhouse gas emissions and improve our positioning in this area (see chapter on 'EcoSmart Services').



Climate Vulnerability Study

In 2017 we conducted a Climate Vulnerability study with the aim of evaluating the degree of exposure of our different business lines, in each of the geographical regions in which we operate.

The main conclusions of the study show that our greatest exposure to physical risks lies in the infrastructure that supports landline and mobile connectivity, mainly in Latin America.

It is estimated that temperature rises may prompt a greater need for cooling in specific areas, which will, more importantly, be long term. The main risk is associated to the increase in the frequency of extreme weather events that occur in certain regions. In any case, our current vulnerability is low, but it is expected to rise to medium-high levels in the long term, by the middle to end of the century.

CLIMATE CHANGE OPPORTUNITIES	
<p>RESOURCE EFFICIENCY</p>  <p>We reduce the costs of our operations through our Energy Efficiency Plan.</p>	<p>PRODUCTS AND SERVICES/ NEW MARKETS</p>  <p>EcoSmart services based on the IoT and Big Data will allow us to position ourselves in and access these new markets.</p>
<p>ENERGY SOURCES</p>  <p>Our Renewable Energy Plan allows us to reduce carbon emissions and reduce the energy costs of our Network.</p>	<p>RESILIENCE</p>  <p>An adaptation strategy which allows us to incorporate climate change into investments in the modernisation and deployment of our Network.</p>

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ENERGY

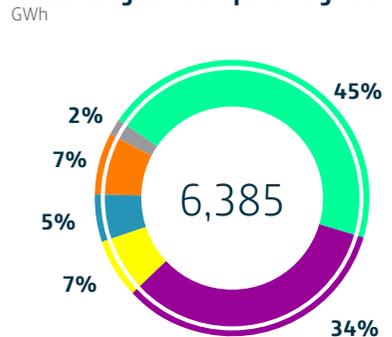
Energy is a resource that is fundamental to the operation of our Network. Therefore, we monitor our energy consumption through the installation of smart meters, thanks to which we can record consumption more accurately, identify failures in the Network and optimise operational expenses.

Energy consumption in 2017 totalled 6,846 GWh, only 1.54% more than the previous year, despite the fact that our business has grown by 38%. This shows that we have managed to separate energy consumption from the Company's growth.

The energy consumption of our operations corresponds to 93% electricity and 7% fuel. 86% of this consumption is concentrated in 7 countries, with Spain and Brazil being the most significant, as they represent 51% of the total. The distribution of electricity consumption by infrastructure type shows that the highest consumption occurs in our Network, and is somewhat higher in the mobile than in the landline business.

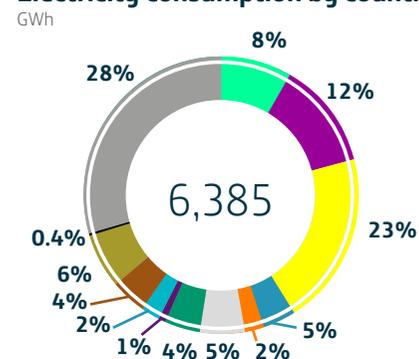
Regarding fuel consumption, 44% comes from our infrastructure and 56% is associated with the consumption of our vehicle fleet.

Electricity consumption by facility



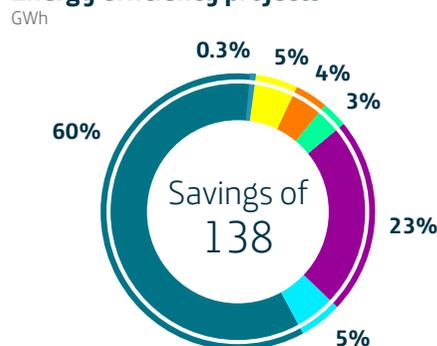
- ▶ Base Stations
- ▶ Central Fixed Line Telephony Offices
- ▶ Central Mobile Telephony Offices
- ▶ Data Centres
- ▶ Offices
- ▶ Others

Electricity consumption by country



- ▶ Germany
- ▶ Argentina
- ▶ Brazil
- ▶ CAM
- ▶ Chile
- ▶ Colombia
- ▶ Ecuador
- ▶ Spain
- ▶ Mexico
- ▶ Peru
- ▶ United Kingdom
- ▶ Uruguay
- ▶ Venezuela

Energy efficiency projects



- ▶ **Lighting:** Replacement of fluorescent lightbulbs with LED technology and installation of presence-detecting sensors.
- ▶ **PSF (Power Saving Features):** Activation of energy-saving functions during periods of low traffic.
- ▶ **Cooling:** Technology update for cooling units and installation of *free cooling*.
- ▶ **Power:** Technology update for power units and substitution of poor efficiency rectifiers.

Fuel consumption



- ▶ Vehicle Consumption
- ▶ Operational Consumption

Energy	2015	2016	2017
Total energy consumption (MWh)	6,892,401	6,742,206	6,846,246
Electricity (MWh)	6,459,172	6,241,600	6,384,988
Fuel and Urban Heating (MWh)	443,228	500,606	461,258
Energy from renewable sources (%)	20.45	45.99	46.80

We met our goal 2 years ago: we reduced our energy intensity by traffic by 52% compared to 2015 (MWh/PB)

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Global Energy and Climate Change Workshop

This is a yearly meeting between Telefónica's leaders in energy transformation and other eminent companies collaborating in this field. In 2017 we celebrated the [8th edition](#) in Brazil, uniting more than 200 representatives from teams in the Operations, Sustainability and Environment, Purchasing, Finance and Technology and IoT departments with more than 25 key technology partners.

The main goal of the event is to take advantage of the opportunities that currently abound in this field, and to encourage innovation in order to reduce energy consumption and our carbon footprint at a global level. During the event, presentations are given on the most recent initiatives in energy efficiency and renewable energies.

Energy Efficiency Programme

In 2010 we established an Energy Efficiency Plan to optimise the energy consumption of our Network. Since then we have launched 601 projects, achieving savings of more than 111.6 million euros.

Under this framework, in 2017 we carried out 171 initiatives in our networks and offices. As a result

Energy Efficiency SUSI Platform

The SUSI platform (Spanish acronym for Unified System of Infrastructure Supervision) enables centralised and automatic monitoring of a range of critical infrastructure equipment, and integrates a physical security module for base stations.

It is currently operative in more than 150 of our main buildings in Brazil, Colombia and Chile.

Air conditioning: An opportunity for efficiency

Approximately 40% of the energy consumed by our Network is associated with the needs of air conditioning equipment. Therefore, efficiency in this area is one of the key pillars of our Energy Efficiency Plan.

Some examples from 2017 are the replacement of refrigeration equipment

The modules protect around 4,600 base station buildings, reducing robberies at protected sites by 90%. In addition, we resolve incidents associated with generators, rectifiers, UPS and air conditioning machinery faster, and obtain energy savings of more than 10% in air conditioning consumption. In 2018 new sites within these countries will be included and operators in Argentina and Peru will join the project.



by *free cooling* systems, developed in 10 of the countries in which we are present. This system allows us to take advantage of the low outside temperature of the rooms, to cool indoor environments.

Other types of initiatives, such as those developed in the United Kingdom and Argentina, are based on the

sensorisation of telecommunications equipment or the physical separation of technical zones with PVC curtains. Such initiatives allow the needs of air conditioning to be directed to the points where they are most required, achieving a more efficient cooling of the technical equipment.

of these, we reduced energy consumption by 138 GWh, and avoided more than 36,972 tonnes of CO₂e emissions.

Standing out among the initiatives were the projects on modernisation of climate equipment and *free cooling* in base stations, and the transformation of our Network through legacy shutdowns.

These efforts are reflected in the 52% improvement in our energy intensive ratios (MWh/PB) compared with 2015. As a result, we have advanced compliance with one of the objectives of our Energy Strategy and climate change by two years.

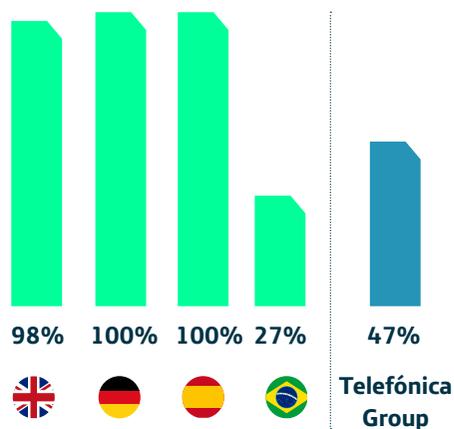
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Renewable Energy Plan

The other tool that we use to manage energy consumption is our Renewable Energy Plan, because reducing energy costs through energy efficiency is a necessary step but it is not sufficient by itself.

It is estimated that potential savings derived from energy efficiency could be neutralised by the expected increase in electricity prices in coming years.

Degree of Implementation of the Renewable Energy Plan



For this reason, the shift towards clean energy will reduce our operational costs and make us less dependent on energy supplies. Therefore, in 2016 we established the goal of consuming 50% of electric energy from renewable sources by 2020 and 100% by 2030.

To achieve this, we have considered all kinds of solutions: self-generation, purchasing renewable energy with guarantees of origin, and long-term purchase agreements (Power Purchase Agreement – PPA).

Our Renewable Energy plan foresees potential OPEX savings of 6% by 2020, with the possibility to reach 26% by 2030.

As a result of the various strategies established in our Renewable Energy Plan, in 2017 we

Best practices

Self-generation Projects

We are gradually increasing the number of our locations that operate on self-generated renewable energy, with the aim of reducing dependency on fossil fuels in those isolated areas where there is no access to electrical systems.

In this regard, in 2017, we carried out a project to replace diesel generation equipment with 15 25kWp photovoltaic panels in Uruguay. This represents an estimated annual reduction of 555 MWh of diesel and, therefore, a reduction of 148,052 tonnes of CO₂.

Renewable Energy Purchasing

The energy purchasing strategy established in the Renewable Energy Plan is put into effect in several different ways:

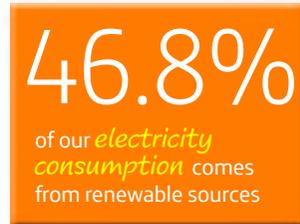
- In Europe, given the maturity of the energy market, the strategy is based on the acquisition of Guarantees of Origin. However, it also provides for the possibility of establishing a PPA in Spain.
- In Latin America, PPAs are currently the most advantageous option, in those countries where regulations allow. The entry into operation of a PPA is foreseen for 2018, for an amount of energy equivalent to 45% of the consumption of Telefónica México, and a new PPA is also being analysed. In other countries such as Argentina, regulation is beginning to demand that a certain percentage of companies' electricity consumption must

RE 100

We are part of the RE100 initiative, which brings together companies that have committed to using 100% renewable energy, leading the way and providing an example in the fight against climate change and the development of a low carbon economy.

achieved a renewable-sourced electricity consumption of 46.8%.

This has allowed us to reduce our Scope 2 emissions by the equivalent of 770 thousand tons of CO₂, and shows that renewable energies are the key to achieving the decarbonisation of our operations and to reducing our carbon footprint in absolute terms.



be renewable, therefore the signing of a PPA is already envisaged for 2018.

- The other purchasing tool is the signing of bilateral contracts, for periods shorter than those of a PPA, but with the same guarantee of 100% renewable generation. Contracts of this type have already been signed in Chile, for 28% of consumption, and in Peru for 30%. A new contract is currently being negotiated for Telefónica Panama.

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CO₂ EMISSIONS

We calculate our carbon footprint on the basis of our energy consumption. This inventory encompasses both direct emissions (Scope 1), which are derived from fuel consumption and refrigerant gas leaks in our operations, and indirect emissions derived from electricity consumption (Scope 2), as well as other indirect emissions related to our value chains that, although not controlled by us, are the result of the activity we perform (Scope 3).

Our method of calculation is based on the GHG protocol, ISO Standard 14064 and the ITU-T L.1420 recommendation.

Scope 1

Our Scope 1 emissions come from two main sources: fuel consumption in our business lines and fugitive emissions from refrigerant gases used in air-conditioning units.

To reduce these we have implemented renewable self-generation projects, in order to reduce our consumption of fossil fuels, and we have replaced cooling equipment with others that contain refrigerant gases with lower global warming potential.

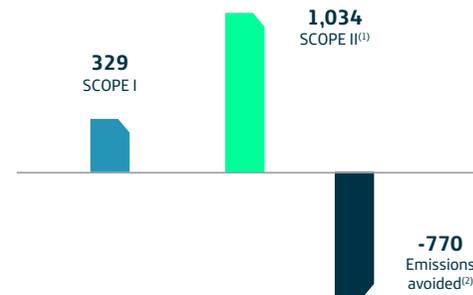
Through these measures, we have been able to reduce this scope of emissions by 2% with respect to 2015, which represents 5,858 tonnes of CO₂.

Scope 2

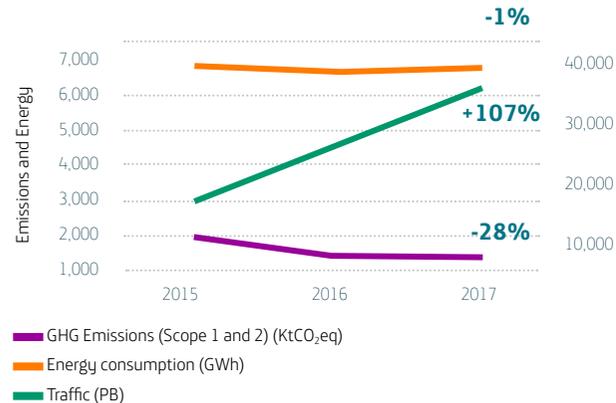
Our largest emissions correspond to Scope 2, and mainly come from the Network's electricity consumption. The actions we undertake to reduce these emissions focus on implementing energy efficiency projects and transitioning to increased consumption of renewable energy.

Telefónica Emissions (Scopes 1 and 2)

ktCO₂eq



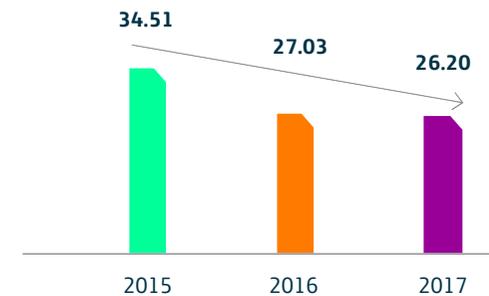
Decarbonisation of Telefónica



As a result, in 2017 we achieved a reduction of 34% in our Scope 2 emissions compared with our base year, which is the equivalent of 526,533 tonnes of CO₂.

Intensity of emissions (Scopes 1 and 2)

tCO₂eq / Millions of euros



-28%
in our Scope 1 and 2 emissions since 2015

(1) Market-based approach. (2) Emissions avoided through renewable energy consumption. Note: figures for 2015 and 2016 have been revised.

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Scope 3

In 2017 we improved our Scope 3 calculation methodology, in order to make it a more reliable reflection of our value chain and thus enable us to set realistic reduction targets for 2018.

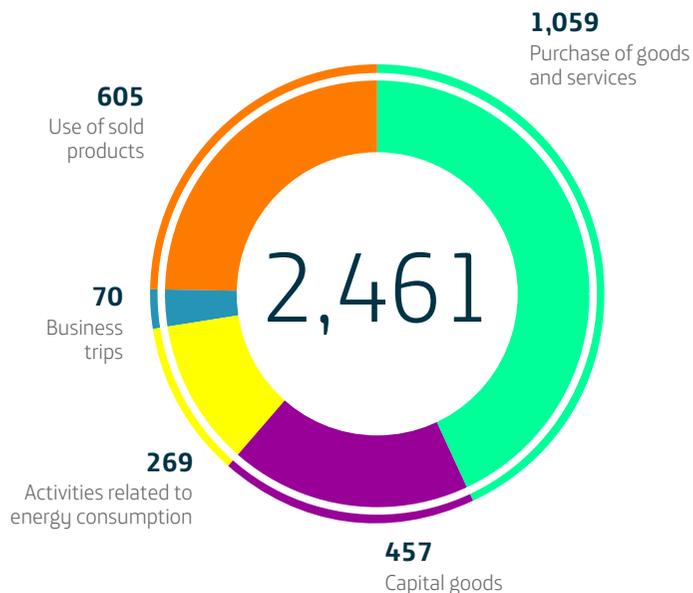
Our Scope 3 emissions cover the four categories which are most relevant to our business. The largest amounts of emissions come from the use of products by our customers and the purchase of goods and services.

With the aim of reducing these emissions, we have adopted various initiatives described throughout this Report, such as Eco-Rating, which enables our customers to choose the most efficient devices and promotes eco-innovation among our device providers, and the transition to renewable energies in our Network.

As a result of these measures, our emissions have been reduced by 6% compared to the previous year.

Emissions from our value chain (Scope 3)

ktCO₂eq



-6%
in emissions from our *value chain* (Scope 3) in 2017

GHG emissions	Units	2015	2016	2017
Scope 1 emissions	tCO ₂ eq	334,440	326,076	328,582
Scope 2 emissions (location-based approach)	tCO ₂ eq	2,011,870	1,855,309	1,735,429
Scope 2 emissions (market-based approach)	tCO ₂ eq	1,560,676	1,080,516	1,034,143
Scope 3 emissions	tCO ₂ eq	- (2)	2,606,625	2,460,656
Emissions avoided ⁽¹⁾	tCO ₂ eq	524,429	869,742	770,026
Intensity of emissions (Scope 1 and 2/Revenue)	tCO ₂ eq/M€	34.51	27.03	26.20

(1) Emissions avoided through renewable energy consumption. (2) Scope revised for base year 2016. Methodology not comparable.

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OUR GOALS

The monitoring of our energy consumption and GHG emissions allows us to establish a map on which we can identify the points or processes that are most energy and emissions intensive. This allows us to incorporate the carbon component into investment decisions to renew or expand our Network.

In 2017, we continued to make progress towards our 2015-2020/2030 Energy and Climate Change Goals.

In comparison with our base year, our total energy consumption has fallen by 2.2% in absolute terms, as a result of the energy efficiency projects we are implementing in our networks. We have improved our efficiency by 52% (MWh/PB) compared to 2015, which has allowed us to achieve our efficiency goal two years ahead of schedule.

Also, over 46.8% of the Company's electrical consumption now comes from renewable sources.

All of this combined has enabled us to achieve a reduction of 28% in Scope 1 and 2 emissions in 2017 compared with 2015.

Degree of achievement of our goals in 2017

2015

Energy consumption by traffic



2020 Target

-50%



Reduction of GHG emissions (Scope 1+2)



-28% -30%

% of Renewable Energy Consumption



46.8% 50%

2016

Savings in Energy OPEX



€47 million

€90 million

Global Energy and Emissions Goals

KPI	Base year	Target year	Reduction target	Base year value	2017 value	Degree of achievement
Energy consumption by traffic			50%	400 MWh/PB	192 MWh/PB	100%
Reduction of GHG emissions (Scope 1+2)	2015	2020	30%	-	28%	93%
% of Renewable Electricity Consumption			50%	20%	46.8 %	94%
Savings in Energy OPEX	2016		€90 million	-	€47 million	52%

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2017 Milestones

- We have reduced energy consumption by 52% per unit of traffic compared with 2015. 
- Our carbon emissions are 28% lower than in 2015.
- 47% of electricity consumption at Company facilities comes from renewable sources.
- We have saved 46.8 million euros since 2015 thanks to energy efficiency.
- Science Based Target Initiative (SBTi) validated our GHG emissions targets. 
- We were awarded the highest classification of "A" in the CDP Climate Change and Supply Chain Climate. 

2018 Targets

- To establish reduction targets for our Scope 3 emissions.
- In Chile, 30% of consumption will come from renewable sources.
- In Mexico around 50% of consumption will come from renewable sources.
- PPAs will be signed in Telefónica México and Telefónica Argentina.
- To increase the percentage of renewable energy consumption in Telefónica Brazil.
- To advance in the decarbonisation of our business to comply with the GHG emissions objectives.



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Managing electromagnetic fields

We are always alert to any new insight that science can provide on the possible health effects of electromagnetic fields and, therefore, we want to be transparent with our employees, customers and society in general. We are aware that we are considered to be one of the main pillars of knowledge and technological development in this field. That is why we have always undertaken to cooperate with all collectives that request our expertise.

We actively collaborate with institutions, citizens, companies, public administrations and society in general, to promote maximum safety guarantees and the most scientific and objective understanding possible of knowledge regarding electromagnetic fields.

COMPLIANCE

All the measurements taken at our base stations in 2017 were below the levels referenced by the leading global standardisation normalisation and organisations, such as the ITU (International Telecommunication Union) and the ICNIRP (International Commission on Non-Ionizing Radiation Protection), among others. These measurements are audited and are available to the public in the majority of the countries in which we operate.

In addition, all the devices and equipment that we provide meet the international standards established by the SAR (Specific Absorption Rate) parameter; a parameter established by the regulatory bodies and various health agencies duly authorised for this purpose.

Once again we highlight the conclusions of the compliance report on the agreement that Telefónica Germany and the remaining mobile network operators have voluntarily upheld with the Federal Government since 2001. Expert opinion concludes that the participation of local governments in network expansion works well, and that the high quality of the information measures and coordination processes has been maintained.

COOPERATION

Scientific research in this field is a priority in the [World Health Organisation's](#) research schedule. Likewise in the [European Union](#) whose research programme includes various projects that aim to provide a solution to the potential health effects of electromagnetic fields. We follow development of these projects closely and even participate directly in some.

COLLABORATION

We cooperate with different institutions with the aim of creating synergies to respond to all concerns, not only those of our customers, but those of the general population as well.

We continue to promote responsible deployment of infrastructure. In Colombia for example, in conjunction with the Ministry of information Technologies and Communications of Colombia (MINTIC), we have implemented institutional actions that help to create a favourable environment for the development of our infrastructure.

We collaborate with a range of institutions in different countries in this field. For example, it is worth highlighting the work carried out in 2017 by Telefónica Venezuela, which presented a proposal to the National Technical Committee of Telecommunications - affiliated with the National Authority of Standardisation, which depends on the Ministry of Economy and Finance - to reinforce and strengthen the process and protocols followed by different operators in the sector when measuring the levels of exposure to electromagnetic fields. The proposal seeks to harmonise and update the processes used to collect data, and streamline the regulator's base station conformity assessment.

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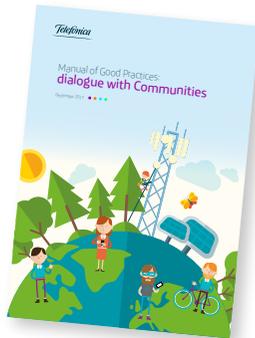
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COMMUNITY DIALOGUE

One of our greatest concerns is the establishment of adequate communication with the communities in all the countries in which we operate. We have been able to verify that, although the approach to this dialogue must be adapted to the particular characteristics of each country, it is a procedure that can be reproduced. For this reason we decided to create a [Best Practices Manual](#) that describes past successful actions. The purpose of the Manual is to compile success stories which can serve as a guide and support for our operations in other countries.

All these practices share the aim of establishing an appropriate relationship with the communities to whom we are going to provide a service, mostly through our institutional



spokespeople. We have grouped our success stories around the following headings: talking to communities; collaborating with institutions; cooperating with researchers; commitment to other collectives; and building awareness among our employees.

We share our best practices on electromagnetic fields in the manual *'Dialogue with communities'*

AWARENESS

We are committed to training and raising awareness among employees in this area, and have held two workshops at a global level:

- **“Understanding science to resolve uncertainty: Electromagnetic Fields and Health”:** All our operations departments in the different countries participated in this event. This training day also benefitted from the collaboration of the ICNIRP (International Commission on Non-Ionizing Radiation Protection) and the Higher Council of Scientific Research of Spain.

In addition, all our employees have access to the course **“Mobile Telecommunications and Society”** in Spanish, Portuguese and German via SuccessFactors, our online training tool. The course is made up of four modules that explain the technical basics of mobile telephony, how exposure limits are established and how we meet the various regulations. The state of the scientific art of electromagnetic fields is also explained.

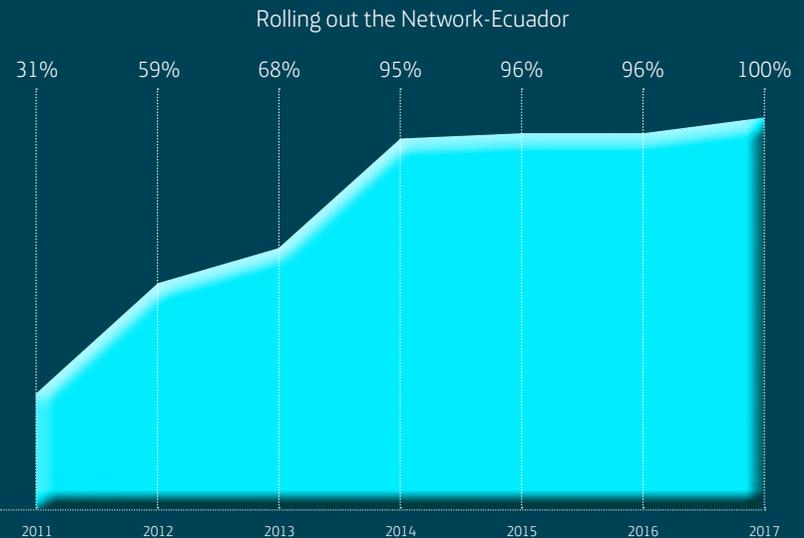
WE COMMUNICATE

We believe that communication is fundamental to society overcoming myths related to electromagnetic fields and understanding how telecommunications operate. Therefore, we provide [relevant links](#), [expert information](#) on the subject and [frequently asked questions](#), which are regularly updated.

Best practices

Effective community conflict solution

Telefónica Ecuador documents its community dialogue procedure, which allows us to measure the effectiveness of conflict resolution. As shown in the chart below, 100% effectiveness was achieved in 2017, for the first time since the procedure was implemented. This project has served as a guide for other operations in Telefónica Mexico. The operation developed and implemented an internal procedure that establishes the various steps that should be followed for ideal community response coordination.





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Digitalisation and EcoSmart services

Digitalisation is key to addressing the environmental challenges that affect society as a whole. The new technologies that are transforming our economies and societies provide unique opportunities to achieve solutions to today's major environmental challenges: climate change, water shortages, the circular economy, pollution and loss of biodiversity.

Therefore, we are aligning our business and environmental strategies, to find opportunities related to these new types of solutions

that can help us deal with environmental problems. We want to position ourselves as a key stakeholder in the green economy; for this, sustainable innovation is paramount (see chapter on 'Innovation').

CONNECTIVITY

Connectivity is the pillar which supports our business and, therefore, we are working to make our Network low in emissions, to be the most eco-efficient in the sector. Our aim is to be 100% renewable and reduce greenhouse gas emissions by 50% by 2030. When our

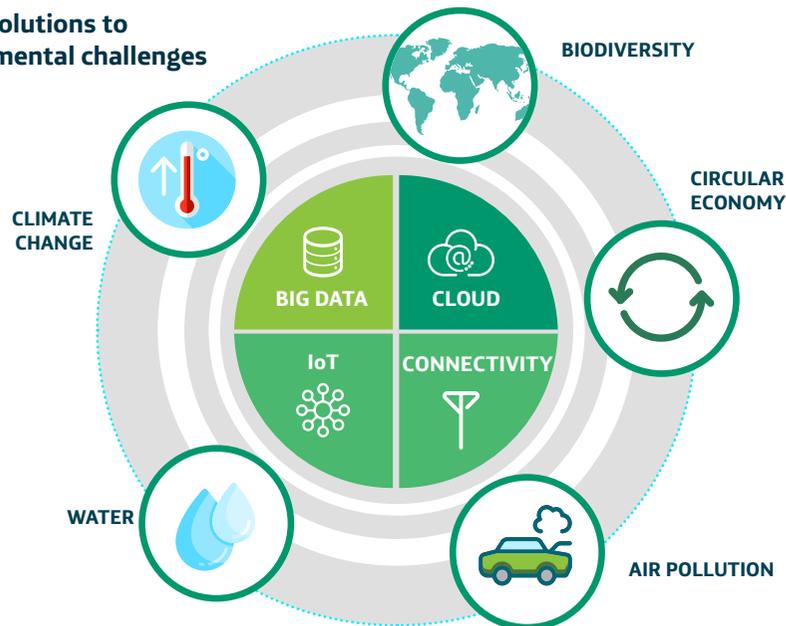
customers use our Network, they know that in countries like Germany, Spain and the United Kingdom practically 100% of the electricity consumption is renewable.

DIGITAL SERVICES

Our passion for the digital revolution drives us forward to develop services based on the Internet of things (IoT), the Cloud and Big Data, with the specific objective of providing solutions to environmental challenges. As a result, we already offer services that allow our customers to make more efficient use of resources like energy and water, improve traffic planning and air quality, reduce greenhouse gas emissions and improve responses in the event of fire or climate catastrophe (see chapter on 'Emergency management').

Digitalisation is transversally transforming our world at an unprecedented speed. Its focus must necessarily be on environmental challenges, which will enable us to take advantage of the opportunities of the circular and decarbonised economy. This reality, coupled with our capabilities, inspires us to work with other companies and public administrations to promote this transformation. We use our own technology to do so, but we also partner with a wide range of digital providers under an open innovation model.

Digital solutions to environmental challenges



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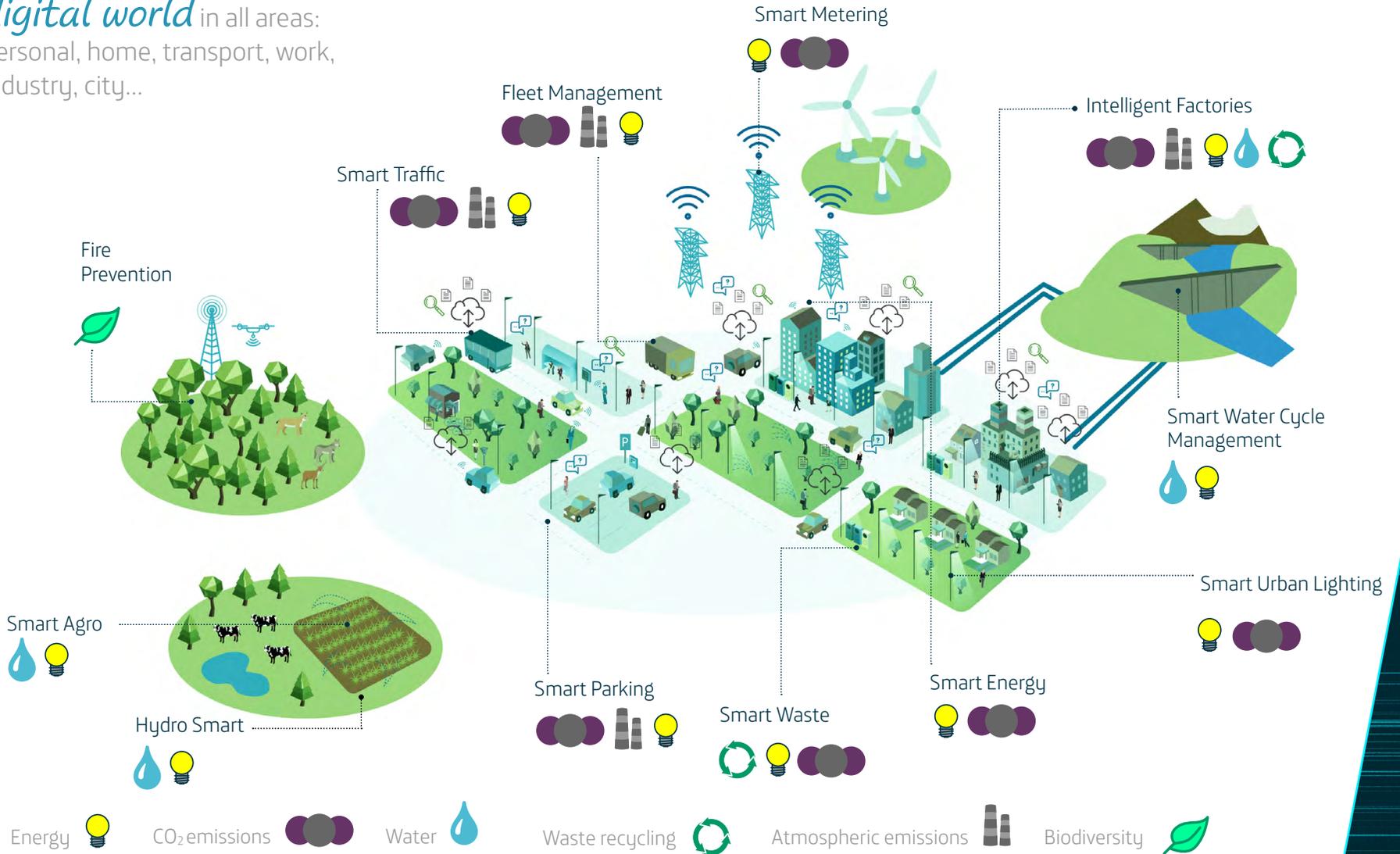
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EcoSmart Services

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



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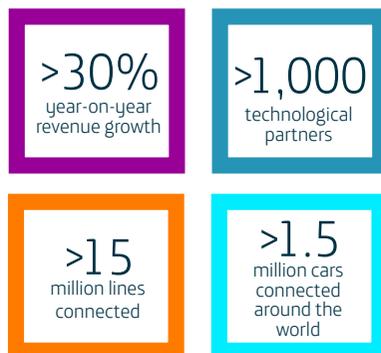
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Internet of things

For us the IoT is a key engine of growth. We are a global leader in IoT services. This is reflected in services (see chart on the previous page) such as:

- The United Kingdom's Smart Energy Meters - deployed under the Smart Metering Implementation Programme (SMIP).
- Fleet management solutions.
- Solutions for Smart Cities, such as those implemented in the city of Santander (Spain).
- Smart Energy to improve energy efficiency.
- Agricultural optimisation solutions, such as Smart Agro.

The IoT is a driving force behind our revenue, as demonstrated by the figures for investment in open innovation (see chapter on 'Products and services').



Big Data

The analysis of data, such as patterns of movement tracked by mobile use and other open data sources or IoT sensors, may have important applications in the handling of environmental issues, including adaptation to climate change, transport management and the efficient use of resources.

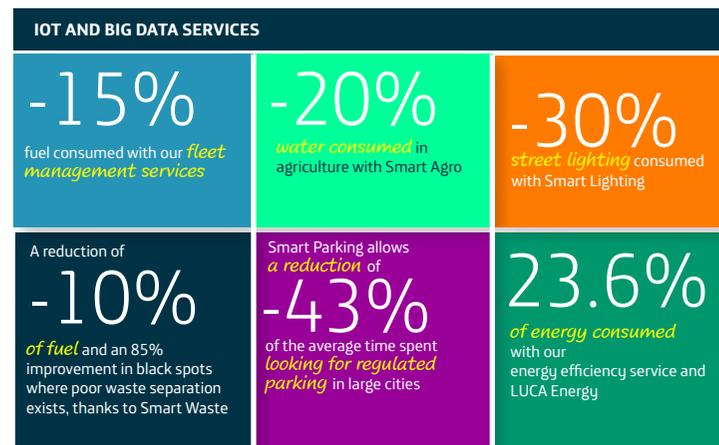
LUCA is our service unit specialised in Big Data. Its aim is to help our customers to take effective decisions, to more efficiently manage resources, and, ultimately, to invest the benefits of this wealth of information in society as a whole.

We have already launched two Big Data-based EcoSmart services onto the market: LUCA Energy and LUCA Fleet. Both analyse the information gathered by IoT sensors to offer a higher level of analytics and data visualisation, which directly influence decision-making, improve planning and help reduce the consumption of resources.

In addition, our Big Data for Social Good unit is oriented towards using data to assist progress in society, providing value and thereby contributing to the Sustainable Development Goals.

Hosting and the cloud

Thanks to our Data Centre hosting services, we are dematerialising content and services, thereby reducing energy consumption and



More information is available in the chapter 'Impact on the environment'

maximising the usage of space, which in turn significantly reduces our customers' carbon footprints.

We currently have 11 strategic or satellite Data Centres enabling us to cover our needs in the most efficient manner possible. The main Centres are located in Spain, Brazil, Miami, Chile, Peru and Mexico. They all comply with the international Green IT principles of eco-efficiency and sustainability, and have electrical and air-conditioning equipment that allow us to reduce our energy consumption to about 75% of the normal amount for this kind of infrastructure. Our main Data Centres have an average PUE of 1.79.

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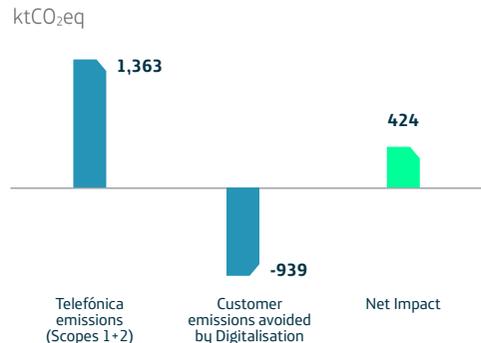
EMISSIONS AVOIDED BY OUR SERVICES

Our greatest contribution to the mitigation of and adaptation to climate change will come, without a doubt, through greater digitalisation, supported by a renewable network and solutions that are already providing answers to these environmental challenges.

From connectivity to IoT and Big Data, our services have the ability to reduce the carbon emissions in other sectors, and increase the resilience of the communities in which we operate.

If we consider our net impact on climate change, taking into account the difference between the emissions necessary to providing our services (Scopes 1 and 2) and the emissions avoided through digital services, our Company emissions have decreased by 69%.

Net impact 2017

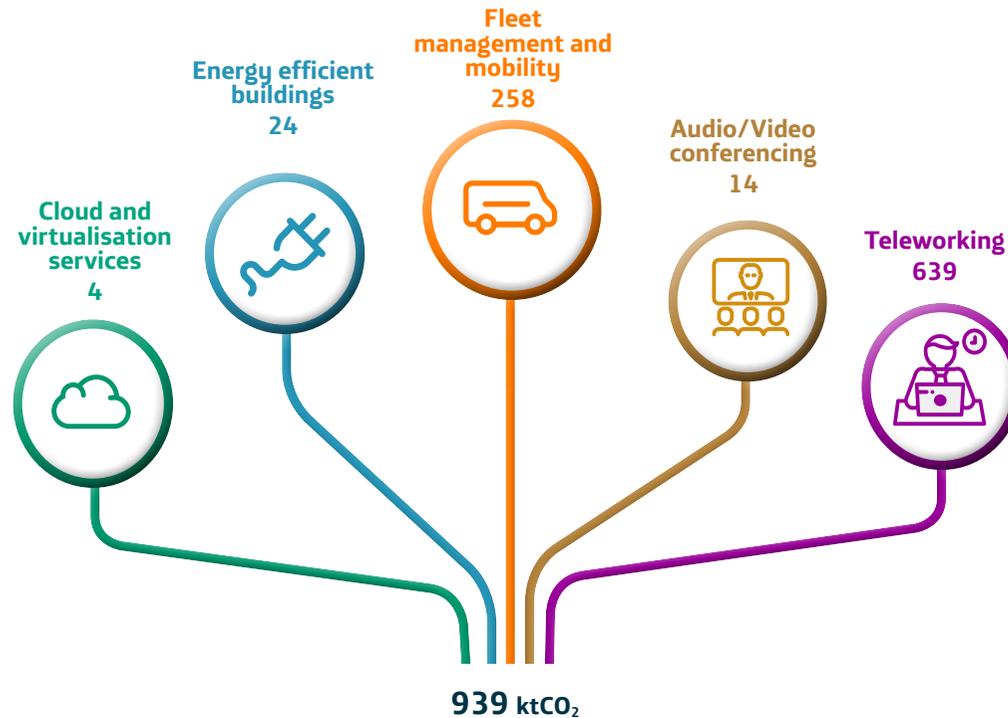


Our energy and climate change strategy aims to progressively reduce net impact year-on-year. This will be achieved by ensuring our carbon emissions continue to decrease while digitalisation and the Company's EcoSmart services continue to rise.

Thanks to our Services, *we avoid 939 ktCO₂*, which is equivalent to *69%* of our carbon footprint⁽¹⁾

(1) Scopes 1+2

Customer emissions avoided by Digitalisation (ktCO₂)



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Best practices

Air pollution and Big Data

Air pollution is a widespread problem in big cities. Monitoring air pollution and mobility through traditional methods requires major time and effort.

■ São Paolo

We have launched a pilot project to predict NO₂ using (anonymised) mobility and open data on air pollution in São Paulo. Thanks to this initiative, we are able to obtain information on predicted air quality, which, for example, enables a better distribution of traffic.

■ Germany

In 2017 Telefónica NEXT implemented several pilot projects in Nuremberg, Stuttgart, Munich and Berlin to measure traffic from mobile telecommunications data flows. These measurements provide an important starting point from which to improve air quality and transport planning.

The Nuremberg project won the 2017 German Award for Excellence in the category of sustainable innovation. Together with its partners in the project, Teralytics, South Pole and the city of Nuremberg, Telefónica NEXT used anonymised mobile telecommunications data to calculate traffic flows and highlight the potential that this practice has to reduce emissions.



LUCA Fleet

LUCA Fleet is a digital tool that aggregates and analyses the data of its fleet based on frequent routes, consumption, driving behaviour, POIs (points of interest visited) and maintenance.

This service complements the fleet management and mobility products in our portfolio of IoT products, offering a higher level of analytics and data visualisation that directly influences the decision-making process and the definition of new objectives.

Smart Agro

This is an IoT and analytics solution for the agricultural sector, which optimises processes, reduces times and establishes efficient systems for the use of water resources.

Smart Agro's value proposition is water efficiency, based on artificial intelligence algorithms developed and tested by the Telefónica Chile Centre of Research and Development. We use specialised agriculture hardware (soil humidity probes, meteorological stations, dendrometers, etc.), cloud storage, data processing and auto-generated recommendations, and make them available to farmers, thereby improving their capacity for risk-related decision taking.

This is an effective solution for controlling and managing water consumption in the farming industry, enabling reductions in the use of irrigation water of between 20-40%.

It is currently deployed in crops that are native to Colombia, Chile, Peru, Uruguay, Guatemala and El Salvador, among others.

FAO Agreement - Telefónica

At the end of 2017, we signed a partnership deal with the FAO (United Nations Food and Agriculture Organization) to collaborate on the development of initiatives for innovation, digitalisation and analysis of data in the agricultural sector, to boost the development of a sustainable agriculture that is resilient to climate change.

This alliance places a special emphasis on the need for specific support to rural communities in the areas of access to meteorological information and improvements to water usage.



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2017 Milestones

- Our services avoided carbon emissions equivalent to 69% of our total emissions.
- We topped the Gartner Magic Quadrant in the category of managed M2M services for the fourth consecutive year.
- There are now 1.5 million cars connected around the world.
- We launched new services such as Smart Agro and LUCA Fleet that reduce the consumption of natural resources.
- Our IoT services, and particularly EcoSmart, have been a driving force behind revenue for Telefónica.
- We expanded energy efficiency products to predict electricity consumption curves.
- We extended our energy efficiency solution to Brazil, Mexico, Ecuador and Peru.



2018 Targets

- To increase the emissions avoided by our services so that Telefónica's net impact is zero.
- To strengthen those Big Data Services that have a positive environmental impact, for example traffic management.
- To take advantage of the opportunities offered by digitalisation to respond to challenges related to the circular economy (water, materials, waste...).
- To launch LPWA (Low Power Wide Area) networks in order to boost efficient water management services.
- To extend our energy efficiency solutions to SMEs.



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Milestones reached in 2017 and targets for 2018

	2017 MILESTONES	2018 TARGETS
Business ethics and compliance	<ul style="list-style-type: none"> ■ Publication and analysis of all the queries and complaints received through the Responsible Business Channel, available to all of our stakeholders via our website. ■ Execution of an internal communications campaign linked to the new Responsible Business Principles. ■ We maintained workforce participation of 90% in the training course on Responsible Business Principles. 	<ul style="list-style-type: none"> ■ To develop a new course on Responsible Business Principles, which will replace the current one. ■ To obtain approval of a Responsible Communication Policy. ■ To obtain approval of a Human Rights Policy.
Management of the supply chain	<ul style="list-style-type: none"> ■ Approval of the Global Security in the Supply Chains Regulation. ■ Approval of the Corporate Instructions that define the Action Criteria for the Control of Occupational Risks in the Contracting of Works and Services. ■ Expansion of the scope of the EcoVadis assessment process, including more than 300 risk providers. ■ Integration of platforms for a greater automation of the critical providers' assessment process. ■ Sharing of best practices with our providers in the field of sustainable management through different events, workshops, and/or specific training. 	<ul style="list-style-type: none"> ■ To continue to expand the scope of the EcoVadis assessment process, to cover 600 providers. ■ To promote and reinforce the implementation of sustainability standards in our equipment manufacturers' supply chains. ■ To digitalise and automate the monitoring of the improvement plans stemming from the corporate audits performed during the year on providers that are manual labour intensive. ■ To develop Internal Instructions regarding the management of the security risks (data privacy and security) associated with providers. ■ To promote the participation of our providers in the different dialogue or sharing of best practices initiatives that we make available to them. ■ To reinforce the management of the financial risk of our providers, homogenising the model in all the countries.
Physical assets	<ul style="list-style-type: none"> ■ Reinforcement of the fibre coverage in Brazil, reaching 18.8 million cabled households, and expansion of 4G coverage to 80% of the population. ■ Extension of 4G coverage in Europe up to 90%. ■ Expansion of the deployment of VoLTE technology in Latin America and Europe. 	<ul style="list-style-type: none"> ■ To advance with the fibre deployments in Latin America. ■ To continue improving our 4G coverage and advance towards 5G. ■ To optimise the 2G and 3G spectrum. ■ To advance with the deployments of VoLTE and VoIP. ■ To extend the UNICA project throughout our entire footprint.

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	2017 MILESTONES	2018 TARGETS
Innovation	<ul style="list-style-type: none"> ■ We retained our position as a leader in R&D investment in Spain, and remain among the top 5 Telcos in global R&D investment. ■ We have continued to be a renowned investor in technology companies in Spain and Latin America. ■ Aura was launched commercially in several of the countries in which we operate. ■ We strengthened employee entrepreneurship and spirit of through the IN_Prendedores programme. 	<ul style="list-style-type: none"> ■ To maintain our leadership in investment in Spain and remain among the top 5 Telcos in global R&D investment. ■ To remain a benchmark investor in start-ups in Spain and Latin America. ■ To promote innovation among employees through intrapreneurship programmes. ■ To invest in Sustainable Innovation to address social and environmental challenges.
Commitment to our customers		<ul style="list-style-type: none"> ■ To apply commercial initiatives that allow us to earn the trust of our customers through transparency, simplicity and integrity. ■ To simplify the offer by applying neuropricing techniques in all our markets. ■ To implement the new Telefónica app, which enables greater customer self-management, in the rest of the markets, with the aim of multiplying the number of app users by 5 by 2020. ■ To digitalise the relationship with our customers and automate processes to provide a better experience for the B2B segment.
Digital trust	<ul style="list-style-type: none"> ■ Local Privacy Centres in 4 countries. ■ Voluntary mediation system for Claims regarding Data Protection in Telefónica Spain. ■ 85% more trained individuals in Privacy and Security compared with 2016. ■ Implementation of Dialogando in 15 countries. 	<ul style="list-style-type: none"> ■ To extend the local Privacy Centres. ■ To update the Global Privacy Policy. ■ To organise awareness campaigns on responsible use with providers. ■ To develop tools to promote the proper use of audiovisual content by minors.
Diversity management	<ul style="list-style-type: none"> ■ We raised awareness in priority areas, through specific workshops on unconscious bias. ■ We increased the percentage women in management. 	<ul style="list-style-type: none"> ■ To increase the percentage of female executives, to achieve 30% of women in management positions by 2020. ■ To recruit 25,000 young people in the next three years. ■ To raise awareness and educate all employees through workshops and communication campaigns.

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	2017 MILESTONES	2018 TARGETS
Digital inclusion	<ul style="list-style-type: none"> ■ We sought and reinforced initiatives to facilitate Internet access in lower-income households. 	<ul style="list-style-type: none"> ■ To develop the "Internet for All" programme in Latin America. ■ To develop new rates and business models for more affordable Internet. ■ To develop products and services that use Big Data and technology to reduce social divides.
Accessibility	<ul style="list-style-type: none"> ■ We improved the accessibility of the Movistar+ platform. ■ We introduced Premium Accessible Shops in Spain. ■ We created a global catalogue of handsets that include accessibility features for all our operations. 	<ul style="list-style-type: none"> ■ To incorporate more improvements to the accessibility conditions of our TV platform. ■ To provide more accessible customer service channels. ■ To ensure the integration of accessibility criteria in key projects such as Mi Movistar/Aura. ■ To ensure that inclusion and accessibility are part of our digital transformation strategy.
Emergency management		<ul style="list-style-type: none"> ■ To promote the development of policies and solutions aimed at increasing preparation capabilities in the face of emergency situations and natural disasters.
Human Rights	<ul style="list-style-type: none"> ■ Priority impact matrix of Telefónica human rights issues. 	<ul style="list-style-type: none"> ■ To review the Human Rights and Privacy Policies. ■ To implement a Responsible Communication Policy. ■ To implement a Health and Safety Policy. ■ To evaluate the impact of human rights on a local level. ■ To launch an initiative in the field of Artificial Intelligence. ■ To publish the third Report on Transparency.
Environment and Digitalisation	<ul style="list-style-type: none"> ■ The Company is now 100% ISO 14001 certified. ■ We reached our energy efficiency objective ahead of schedule: 52% MWh/traffic compared to 2015. ■ We digitised our waste management in 6 countries. 	<ul style="list-style-type: none"> ■ To break the link between growth and greenhouse gas emissions, reducing these emissions by 30% in absolute terms by 2020, and by 50% by 2030. ■ To commit to renewable energies as a sustainable source for our business, obtaining 50% of electricity from renewable sources by 2020 and 100% by 2030. ■ To extend the digitalisation of waste management to 6 more countries. ■ To increase the amount of emissions avoided through EcoSmart services.

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	2017 MILESTONES	2018 TARGETS
Environmental management	<ul style="list-style-type: none"> ■ We are now a 100% ISO 14001 certified company. 	<ul style="list-style-type: none"> ■ To upgrade to the new ISO 14001:2015 standard Environmental Management System. ■ To publish a new Global Environmental Policy. ■ To calculate Telefónica's net impact in accordance with True Value methodology.
Circular economy	<ul style="list-style-type: none"> ■ Digitalisation of waste management in 6 countries (GreTel). ■ We informed our customers about the Ecorating of their mobiles in 9 countries. 	<ul style="list-style-type: none"> ■ To deploy Ecorating in all of the Company's operators. ■ To continue strengthening the reuse, recovery and recycling of our waste through digitalisation. ■ To drive the development of technological solutions that promote the revolution towards the Circular Economy. ■ To move forward with Life Cycle Analyses in the purchasing of strategic equipment.
Energy and climate change	<ul style="list-style-type: none"> ■ We have reduced energy consumption by 52% per unit of traffic compared with 2015. ■ We were awarded the highest classification of "A" in the CDP Climate Change and Supply Chain Climate. 	<ul style="list-style-type: none"> ■ To establish reduction targets for our Scope 3 emissions. ■ To increase of the percentage of renewable energy consumption in Telefónica Brazil. ■ To advance in the decarbonisation of our business to comply with the GHG emissions objectives.
Digitalisation and EcoSmart services	<ul style="list-style-type: none"> ■ We topped the Gartner Magic Quadrant in the category of M2M managed services for the fourth consecutive year. ■ We expanded energy efficiency products to predict electricity consumption curves. ■ We extended our energy efficiency solution to Brazil, Mexico, Ecuador and Peru. 	<ul style="list-style-type: none"> ■ To increase the emissions avoided by our services so that Telefónica's net impact is zero. ■ To strengthen those Big Data services that have a positive environmental impact. ■ To take advantage of the opportunities offered by digitalisation to respond to the challenges related to the circular economy (water, materials, waste...). ■ To launch LPWA (Low power wide area) networks in order to boost efficient water management services. ■ To extend our energy efficiency solutions to SMEs.

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Principles for the preparation of this Report

This Telefónica Annual Integrated Report 2017 reflects the progress made during the year by the Company and its value chain in economic, social, and environmental matters, as well as its strategic, developmental and market positioning which make it possible for the reader to better understand our business model and its materiality, its ability to generate value in the capitals which comprise it, and our interaction with stakeholders.

The Report has been evaluated and approved by the General Legal Secretariat and Secretariat of the Board, Public Affairs, Regulations and Responsible Business.

Telefónica makes all of its information public to all its stakeholders, providing reliable, tangible, concise and comparable information about the Company's performance, its business model, its value drivers, and its strategic lines for the coming years. All this information is published annually and can be accessed (from here) through all its different books:

Integrated Report: prepared in accordance with IIRC (International Integrated Reporting Council) recommendations. Our sustainability report is part of this document, and has been drawn up according to the general principles of the Exhaustive Compliance Option of the Global Reporting Initiative (GRI) Standards. It has been subjected to external verification by PwC.

Financial Report: prepared in accordance with international standards of financial information and externally audited by [PwC](#).

Corporate Governance Report: prepared in accordance with the [Spanish National Securities Market Commission](#) model.

Report on the Remunerations of Directors: prepared in accordance with the [Spanish National Securities Market Commission](#) model.

Telefónica Atlas: downloadable graphics and data, both past and current, by country and region, of all the Sustainability KPIs that make up the Integrated Report.

Additional and complementary information is available to all our stakeholders online via the Telefónica web pages, among which we highlight:

- [About Telefónica](#)
- [Press Office](#)
- [Shareholders and investors](#)
- [Previous annual reports](#)
- [20F \(SEC\)](#)
- [Corporate governance](#)

- [Responsible Business and Sustainability](#)
- [Work at Telefónica](#)
- [Public policies](#)
- [Business solutions](#)

Below we explain how the standards have been applied, detailing those which determine the content and the quality, and which ensure a balanced and reasonable presentation of the Company's performance. This whole process has been performed taking into account both Telefónica's experience and purpose, as well as usefulness for its stakeholders. Furthermore, the review carried out by PwC was conducted under the principles defined by the AA1000AS standard, values which seek to "guarantee the quality of the organisation's Sustainability Report and the processes, systems and competences which serve as basis for its execution by the entire organisation".

Both the principles established by the Global Reporting Initiative (GRI) and those defined by the AA1000AS standard are the standards that are most recognised and commonly-used in the preparation of sustainability and corporate social responsibility reports.

The point of contact for any questions regarding this Report is the Global Corporate Ethics and Responsible Business Department.

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In this document, Telefónica reports on its commitment to the following International Standards:

- The Universal Declaration of Human Rights of the United Nations.
- The Sustainable Development Goals of the United Nations (SDG).
- The Covenant on Civil and Political Rights.
- The Covenant on Economic, Social, and Cultural Rights.
- The Convention on the Rights of the Child.
- The Convention on the Rights of People with Disabilities.
- The Agreements of the International Labour Organization.
- The Basel Convention (hazardous wastes).
- The Sabarnes Oxley Act (USA).
- ISO Standards.
- International guidelines (ICNIRP).
- The Montreal Protocol.

Information is also presented on the different voluntary standards to which Telefónica subscribes:

- The United Nations Global Compact.
- GRI Standards.
- The OECD Guidelines for Multinational Enterprises.
- The Conthe Code.
- The Task Force on Climate-Related Financial Disclosures (TCFD).
- The UN Principles for Responsible Investment (UNPRI).
- The Due Diligence Guidance for Responsible Supply Chains of Minerals From Conflict-Afflicted and High Risk Areas.
- The GHG Protocol.
- The Code of Good Advertising Practices, Self-Monitoring.

Principles for defining the content of this Report

Inclusion of stakeholders

The 'Interaction with our stakeholders' chapter of this Report identifies our stakeholders and explains how Telefónica has responded to their reasonable expectations and interests.

Sustainability context

Telefónica contributes to the progress and sustainability of the communities in which it operates, both socially and environmentally, throughout its value chain at a local, regional and international level: from work with our suppliers, through the marketing of sustainable products and services, to respect for the rights of consumers.

Materiality

Those aspects which reflect the Company's significant economic, environmental and social effects, and which substantially influence the assessments and decisions of our stakeholders, are addressed. With this purpose, a materiality analysis has been performed at corporate, local and regional levels from a dual perspective: the relevance to our stakeholders and the impact on communities.

Thoroughness

We indicate the material aspects and their coverage, scope and duration in such a way so as to reflect their significant economic, environmental and social effects. Thus, stakeholders can analyse Telefónica's performance in the period under study.

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Principles for determining the quality of the information in this Report

In accordance with the GRI (Global Reporting Initiative) reporting standards:

Precision

This Report is accurate in both qualitative and quantitative terms, making it possible for stakeholders to assess the performance of the organisation. The Report indicates the data that has been measured, the description of the calculations, and the underlying assumptions of said calculations whenever necessary. The qualitative statements of the Report are coherent with the communicated information and other available evidence.

Balance

This testimony reflects both the positive and negative aspects of the Company's performance in order to propitiate a well-founded assessment. The emphasis on the different subjects of the Report reflects their relative priority.

Clarity

The information is presented in a manner that is understandable, accessible and useful for stakeholders who have reasonable knowledge of the Company and its activities. Information given by indicators is likewise maintained in series of two or three years, locally and in an aggregated manner, for a better understanding by stakeholders.

Comparability

The information contained herein is presented in a systematic manner in order to make it possible for stakeholders to analyse the evolution of the Company's performance and compare it with that of other organisations.

Reliability

The purpose and field of application of the external verification is identified in the present Report, in the same manner that it is reflected in the attached PwC independent review report. The original sources of information have been identified, and reliable evidence that backs up the suppositions or the complex calculations has been provided.

Punctuality

This Report is presented on the occasion of the convening of Telefónica's Ordinary Meeting of Shareholders, in order to maintain a regular schedule so that the stakeholders have all the information at that time and can make well-founded decisions.

In accordance with the AA1000 Sustainability assurance standards:

Inclusiveness

This principle refers to the participation of stakeholders in the development and achievement of a responsible and strategic response to sustainability.

Relevance

Through this principle, Telefónica has determined the importance of each issue for the stakeholders.

Response capacity

This principle represents Telefónica's reaction to the demands of its stakeholders, reflected in the Company's sustainability milestones and challenges.

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Structure and scope of consolidation of this Report

The following variations in the scope of consolidation took place during the 2017 fiscal year:

- On 13 March 2017, Telefónica increased its participation in Telefónica Deutschland Holding AG, from 63.2% to 69.2%, through a share exchange agreement with KPN. Telefónica handed over 72M shares from its treasure stock (representing 1.43% of its social capital), in exchange for 178.5M shares of its Telefónica Deutschland Holding AG subsidiary, representing 6.0% of this company's capital.
- In addition, on 20 February 2017, Telefónica signed an agreement for the sale of up to 40% of the social capital of Telxius for €1,275M (€12.75 per share) to Taurus Bidco S.à.r.l. (KKR) .
 - On 24 October 2017, and once the pertinent regulatory approvals were obtained, Telefónica transferred 24.8% of the social capital of Telxius to KKR. The exchange of the remaining 15.2% of the social capital of Telxius was concluded on 8 December for a price of €484.5M.
 - Following the transaction, Telefónica maintains control over Telxius.
- On 30 September 2017, and as part of the early termination agreement of the contract

with the National Telecommunications Company Autonomous Equity Assets Receiver (the "PARAPAT" for its Spanish original), Colombia Telecomunicaciones, S.A. ESP (Coltel) acquired control of the Colombian companies: Empresa de Telecomunicaciones de Telebucaramanga S.A. ESP ("Telebucaramanga"), located in the city of Bucaramanga; and Metropolitana de Telecomunicaciones S.A. ESP ("Metrotel") and Operaciones Tecnológicas y Comerciales S.A.S. ("Optecom"), both located in the city of Barranquilla, for a joint total approximately equivalent to €147M at the date of the transaction. These companies mainly provide fixed telephony, data and pay TV services, as well as installation and maintenance services

The complete list of all the companies that make up the Telefónica Group is published in Annex VI: 'Main companies of the Telefónica Group' of the Consolidated Financial Statements Report that accompanies this Report, and which can be found on the corporate website.

THE ORIGIN OF THE INFORMATION IN THIS REPORT

Corporate Governance and shareholders

This information comes from the same sources as those used to prepare the information included in the Annual Report on Corporate Governance 2017, which is included in full in the annexes.

Economic and financial information

This information comes from the same sources as those used to prepare the information included in the Financial Report 2017, audited by PwC and included in full in the annexes.

Innovation

This information is consolidated through the corporate Innovation departments, for both R&D and open innovation. The sources of the data in these chapters come from the procurement systems and are consolidated without applying any criteria of proportionality.

Customers

This information is taken from the management control systems of Telefónica S.A. and the operations in the countries. The Company's total number of accesses does not necessarily have to coincide with their partial total, country by country, given that, with homogenisation criteria, the Corporate Management Control area standardises some accounting criteria for the accesses.

Employees

Figures come from the management systems of Corporate Human Resources and the local management departments. This Report uses the concept of people rather than employees. The number of people is used as a factor of proportionality in cases where the information is presented in consolidated form. The chapter devoted to employees includes the entire economic scope of the Telefónica Group, except

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	Telecommunications businesses	Other companies
Revenue (millions of euros)	98.2%	1.8%
People	93.0%	7.0%

in the 'Occupational health, safety and well-being' chapter, in which the rates reported are only for the Group's telecommunications businesses, so that they can be easily comparable with other companies in the sector, as sector-specific circumstances and legislation are taken into account in their preparation (e.g., cataloguing of professional illnesses). These account for a proportion of 92.97% of all employees.

Environment and climate change

This information comes from the global Environment and Operations departments in each country by means of online questionnaires and other computer applications. The environment and energy data are consolidated through simple addition and, in the case of climate change, are calculated by multiplying the activity data by the emissions factor and then adding it through simple addition. The sources of the emissions factors are of recognised prestige (GHG Protocol, DEFRA, Ministries...), and have been validated by an independent third party (AENOR).

Suppliers

This information comes from the contract awarding systems of the procurement departments. The information is consolidated without applying any proportionality factors, and is itemised by country. The chapter dedicated to suppliers includes the entire

economic scope of the Telefónica Group. It is important to underscore the difference between the procurement data in the consolidated accounts of the financial statements (in accordance with the accrual criterion and the Telefónica Group accounting scope of consolidation) and the awarded purchases criterion used in different sections of this Report, which refer to the purchases that are approved within the period regardless of their accounting criterion and accrual as an expense.

Digital inclusion

This information comes from the systems of the local country operators and from the Fundación Telefónica.

Social action

These data come from the management control systems and the sponsorship committees of the Fundación Telefónica and ATAM. The data that comes from the Fundación Telefónica is the most extensive and is verified by external auditors.

Exchange rates

All the information in this Report is presented in current euros, unless otherwise indicated. The exchange rates applied correspond to those used in all the financial statements published by the Company (balance sheet, consolidated and individual income statements) in order to facilitate the overall relationship between financial and non-financial variables.

Scope of the consolidation of each section of this Report

	Core	Other subsidiaries	Corporate centres	Outside of the organisation
Market indicators	x			
Financial indicators	x	x	x	
Non-financial indicators	x	x	x	x
Corporate governance			x	
Impacts on the community	x	x	x	x
Social and cultural action	x	x	x	x
Business model	x	x	x	
Stakeholders and Materiality	x	x	x	x
Reputation management	x		x	
Sustainability governance and management	x	x	x	x
Ethics and compliance	x	x	x	
Supply Chain	x	x	x	x
Customer Promise	x	x		x
Digital trust	x	x	x	x
Human resources	x	x	x	
Human Rights	x	x	x	x
Digital Inclusion	x	x	x	x
Environment	x	x	x	x

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Awards

Telefónica received various recognitions and awards over the course of 2017 that acknowledge the products and services we offer to our customers, our service channels, the Company as a whole, and our involvement in social environmental issues.

Global

- **Fortune:** Second most admired telecommunications company in the world in 2017, and number one in Europe.

- **"2017 Smarties" Award:** in the Innovation category for Telefónica's Smart WiFi service.

- **Carbon Disclosure Project:** Telefónica is a global leader in the management of climate change, according to the 2017 'A List'.

- **Business Commitment and the CAF-Development Bank of Latin America:** Movistar+ 5S was recognised among the 10 most innovative social initiatives.

- **The International Business Awards (Stevie):** GOLD "Play to Move" Award in the "Internal/Employee Communications" category for our Responsible Business campaign.

- **Global Capital:** Award for the best financing team in the "Investment Grade Corporate" category.

- **SBTi-validated carbon goals:** In 2017, we certified our GHG emissions goals through the Science Based Targets Initiative (SBTi), which corroborates that they are aligned with the global challenge of limiting the increase in global temperature to under 2 °C.

- 2018: Telefónica, together with four other global telcos, is included in the **Bloomberg global index** on gender equality, thanks to its flexible work policies, its development programmes for women and its senior management awareness campaign.

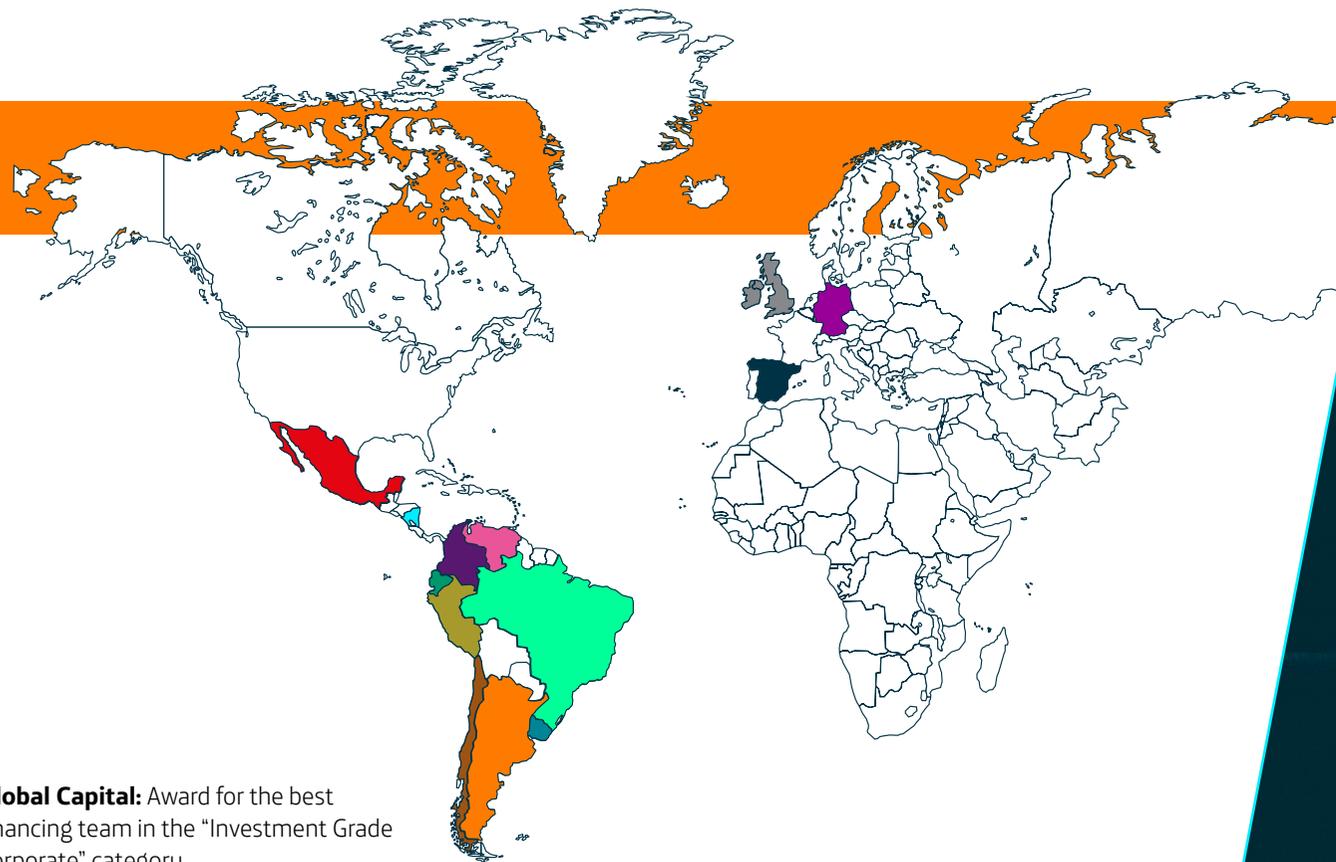
Germany

- **German Awards for Excellence 2017:** "Sustainability Heroes" sustainability award for the "Air quality in Nuremberg" pilot project.

Argentina

- **Merco 2017:** Best corporate reputation in the telecommunications sector.

- **Civil Fight for Life Association:** Award for the Movistar Argentina "Phone Love" advertisement spot about road safety and the importance of not using mobile phones while driving to prevent accidents.



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- **Cybersecure:** Award for the best awareness campaign against “Grooming”.
- **Argentinean Council for Sustainable Development (CEADS):** Acknowledgement of our commitment to complying with the Sustainable Development Goals (SDG).

- **Argentinean Professional Institute for Quality and Excellence (IPACE):** “Platinum Award” for the Six Sigma project.

Brazil

- **Brazilian Association of Business Communications (ABERJE) 2017:** Digital Media award for Dialogando.
- **2017 HSM Expo:** Supplier Management Award (Environmental Management System).
- **Dinheiro:** ISTO É Dinheiro The Best of Money Award for Telefónica Brazil's social programme.
- **National Association of Finance Executives (ANEFAC):** Administration and Accounting Transparency Trophy 2017 for Telefónica Brazil.

- **Exame magazine:** Best telecommunications sector company in the Melhores and Maiores ranking.

- **Eletropaulo and AES Tietê Best Providers Award** in the Sustainability category.



- **XVII ABT Award:** Gold Digital Service trophy in recognition of the “Live Social CRM: customer service, brand construction, and innovation” initiative.

- **“Institutional Investor” magazine:** The Telefónica Brazil investor relations team received 4 of the 5 awards for: Best IR Professional, Best IR Programme, Best Team, and Best Web. (This is the second year that Telefónica Brazil has been chosen as the best telecommunications sector company in Latin America in these categories).

- **2017/2018 Anatec Award:** Conferred for performing high quality and outstanding work in the fixed and mobile telephony category.

Central America

- **Young Entrepreneurs of Nicaragua:** Promotion of Entrepreneurship recognition for the Fundación Telefónica.

Chile

- **AFP Capital:** Sustainable Pension Management recognition for Telefónica Chile in the “Worker Support and Well-being” category.

Colombia

- **Embassy of Sweden, Social Foundation and Konrad Adenauer Stiftung:** Recognition for Movistar as one of the companies that most contributes to peace building in Colombia at the Undertaking Peace awards.

- **Ministry of Information Technologies and Communications (MinTIC):** Most accessible Telco for persons with disabilities in Colombia.

- **Global Learning Network (GAN):** Recognition for promoting youth employability in Colombia and our contribution to closing the youth unemployment gap in the country.

- **Employers for Youth (EFY):** Inclusion in the Top 10 ranking of the companies in which young people most want to work.

- **Number one company in the Telco sector** in MERCO Companies, MERCO Talent, and MERCO Social Responsibility and Corporate Government.

Ecuador

- **Global Compact Ecuador Network:** First place in the Private Company - ODS4, ODS7, ODS9 - category for best practices in sustainable development.



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Spain

■ **Ethics Foundation and Electronic Frontier Foundation (EFF):**

Leading company in Spain in the ranking of user information processing.

■ **Adecco Foundation and the Excellence in Sustainability Club:**

Prize for Best Strategic Diversity and Inclusion Plan awarded to Telefónica Spain and its Plan to Promote Diversity.

■ **Cegos&Equipos y Talento:**

Best Practices in Organisational Management and Consultancy award for the Plan to Promote Diversity.

■ **Ilunion:**

Recognition of the value of the set of initiatives and projects for improving universal accessibility and services for persons with disabilities and, specifically, the training provided to Telefónica Spain developers to include accessibility criteria in web design.

■ **National Organisation of the Blind in Spain (ONCE):**

Caring company award for the work of Movistar+ 5S as an accessible television platform.

■ **Iniciativa Dinamizar Madrid 2017 Award:**

Recognition of the Fundación Telefónica Space for its contribution to art and culture dissemination.

■ **Financial News:**

Dialogando.com recognised as one of the best 100 innovation ideas of 2017, in the Corporate Social Responsibility category.

■ **The Pro Economic and Social Civil Rights Association (ADECES):**

Movistar Spain topped the customer service ranking in Spain.

■ **2017 XIX Edition of the Internet Day Awards:**

Finalist in the Digital Strategy category: Movistar eSports. Award for the most voted candidate.

■ **Telefónica was among the companies with the best practices and strategies in the management of sexual and gender diversity in Spain,**

according to the EMIDIS ranking prepared by the State Federation of Lesbians, Gays, Transsexuals, and Bisexuals (FELGTB).

■ **2017 Diversa Award**

for the 2017 Technological Company in favour of diversity and the use of technologies as a tool to break down the barriers, and promote the equality, of the LGTB community.

■ **2017 Intrama Awards:**

Telefónica awarded second prize for the most Innovative and Committed company with Diversity and Gender improvement processes in the organisation. The award was presented during the largest conference on diversity and gender in Spain, Factor W, where Telefónica presented its strategy on the subject. In addition, we have been included

in the VariableD2018 Report as one of the 30 most committed companies in this field.

■ **I Diversity and Inclusion Awards (D&I):**

Telefónica Spain awarded the prize for best Strategic Diversity and Inclusion Plan, which values the cross-company nature of our diversity promotion strategy.

■ **Telefónica Spain receives the Award for the Best Practices in Organisational Management and Consultancy**

for the Plan to Promote Diversity, conferred by Cegos&Equipos y Talento.

Mexico

■ **Confederation of Industrial Chambers of the United States of Mexico (CONCAMIN):**

"2017 Ethics and Values in the Industry" Award.

■ **Frost & Sullivan, international consultancy firm:**

Company of the year award for M2M mobile services and solutions.

■ **Mexican Centre for Philanthropy (CEMEFI) in coordination with the Alliance for Social Business Responsibility (AliaRSE):**

Telefónica Mexico awarded the ESR Badge for 14 years in a row.

■ **Uptime Institute:**

The Tier II Gold Certification in Sustainable Operations awarded to Telefónica Mexico.

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- **Ibero-American Festival of Advertising Communication:** "Sol de Plata" (Silver Sun) award for the Telefónica Movistar Mexico campaign "Love Story" in the Consumption Electronics TV and Cinema category.

Peru

- **Silver Snail Award** for the Fundación Telefónica campaign against child labour in Peru.
- **The Lima Stock Exchange (BVL):** Telefónica Peru recognised for its good corporate governance practices.
- **2017 Employer Brand, organised by Laborum and Communication Support:** Best Employer of the telecommunications sector in 2017 award for Telefónica Peru.

United Kingdom

- **2017 Mobile News Awards:** O2 United Kingdom won in 3 categories: IoT Product / Solution: Smart vehicle service; Recycling Provider: O2 Recycle; Mystery Shopper: Best Network Retail.



- **Uswitch Mobile and Broadband Awards:** Best network coverage

- **Mobile Choice Awards:** Best Customer Support Service.

- **Mobile Industry Awards:** O2 United Kingdom won in 3 categories: Best Recycling Service, Best Online Retailer, Best Business Network.

- **OfCom:** First place from the customer satisfaction point of view.

- **Management Today:** First place for Telefónica in the most admired British companies within the Telecommunications sector awards.

- **Glassdoor Employees' Choice Award:** O2 United Kingdom ranked in 35th place, the only British telecommunications operator to appear in the Top 50, with the title of "Best Company to Work For".

Uruguay

- Telefónica Mobiles of Uruguay – Movistar received recognition for **Best Social Business Responsibility Practice** for the Fundación Telefónica - Movistar "Emprender" employability project. In addition, it received the award for "Inspiring Practice" for the community and other companies.

The recognition was conferred by DERES, a non-profit business organisation which groups together the main companies in Uruguay that seek Social Business Responsibility both from the conceptual point of view and its practical application.

Venezuela

- **Federation of Private Institutions for the Care of Children, Youths and the Family (FIPAN):** Recognition of Movistar Volunteers for their support work and cooperation in favour of the Anti-Cancer Society of Venezuela.

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Acknowledgements in indices and external sustainability assessments



DJSI
Member DJSI World & DJSI Europe, 84 points



FTSE4Good
Listed, 4.7 points out of 5



Carbon Disclosure Leadership
A



CDP Supply-Chain
A



MSCI Global Sustainability Index Series
AA Rating



Ethibel Sustainability Index
Excellence IR Global member



Green ranking 2017
Listed, Global Top 500



Merco 2017
Telco sector leader in Argentina, Brazil, Colombia, Ecuador, Spain and Mexico



STOXX® Global ESG Leaders
Member



EURO STOXX® Sustainability 40
Member



Bloomberg Gender-Equality Index
Included, 72.3 points out of 100



Oekom Industry Report
Prime Status



EcoVadis
CSR Rating 71/100



Carbonclear
Rank 2, 84%



IndexAmericas BID
Among the 100 most sustainable companies of Latin America and the Caribbean

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Tables of GRI compliance

In accordance with the GRI Standards: Comprehensive option

External assurance: The contents of this index have been externally assured by an independent entity (PwC). The corresponding assurance report can be found in page 266 of this report.

GRI Standard	Description	Page	Direct answer	Omissions	External assurance
GRI 102 CONTENIDOS GENERALES					
PERFIL DE LA ORGANIZACIÓN					
102-1	Name of the organisation	7			✓
102-2	Primary activities, brands, products and services	7, 8			✓
102-3	Location of headquarters	7			✓
102-4	Location of operations	7			✓
102-5	Ownership and legal form	7			✓
102-6	Markets served	11			✓
102-7	Scale of the organisation	11			✓
102-8	Information on employees and other workers	11, 15, 18, 147, 148		All the information is reported except for the type of working day by gender. Telefónica is adapting its systems to be able to provide this breakdown. The information included in the Integrated Report only includes internal employees hired by Telefónica as the vast majority of Telefónica's employees are internal employees, with a minority being external workers.	✓
102-9	Supply chain	73, 74			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
102-10	Significant changes to the organisation and its supply chain	243			✓
102-11	Precautionary Principle or approach	206			✓
102-12	External initiatives to which the organisation subscribes or which it endorses	241			✓
102-13	Main memberships of associations	71, 72			✓
STRATEGY					
102-14	Statement from senior decision-maker	3			✓
102-15	Key impacts, risks and opportunities	62, 65, 66			✓
ETHICS AND INTEGRITY					
102-16	Values, principles, standards and norms of behaviour	67			✓
102-17	Mechanisms for advice and concerns about ethics	69, 197			✓
GOVERNANCE					
102-18	Governance structure	32-36			✓
102-19	Delegating authority	47			✓
102-20	Executive-level positions with responsibility for economic, social and environmental topics	47			✓
102-21	Processes for consultation between Stakeholders and the Board of Directors	49			✓
102-22	Composition of the highest governance body and its committees	33, 37-45			✓
102-23	Chair of the highest governance body	34			✓
102-24	Selection and nomination of the members of the highest governance body	IAGC: 67-69			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
102-25	Processes for the highest governance body to avoid conflicts of interest	IAGC: 36-37			✓
102-26	Role of the highest governance body in setting purpose, values and strategy	IAGC: 75			✓
102-27	Collective knowledge of the highest governance body	50			✓
102-28	Evaluating the highest governance body's performance	IAGC: 22			✓
102-29	Identifying and managing economic, environmental and social impacts	47			✓
102-30	Effectiveness of risk management processes	48			✓
102-31	Review of economic, environmental and social topics	47			✓
102-32	Highest governance body's role in sustainability reporting	3			✓
102-33	Communicating critical concerns	50			✓
102-34	Nature and total number of critical concerns	55			✓
102-35	Remuneration policies	IAGC: 94-117			✓
102-36	Process for determining remuneration	IAGC: 94-117			✓
102-37	Stakeholders' involvement in remuneration	IAGC: 97			✓
102-38	Annual total compensation ratio	Direct answer		Information regarding this indicator is not published for specific reasons of confidentiality.	✓
102-39	Percentage increase in annual total compensation ratio	Direct answer		Information regarding this indicator is not published for specific reasons of confidentiality.	✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
STAKEHOLDER ENGAGEMENT					
102-40	Stakeholder groups engaged by the organisation	57			✓
102-41	Collective bargaining agreements	18, 147			✓
102-42	Identifying and selecting stakeholders	57			✓
102-43	Approach to stakeholder engagement	57			✓
102-44	Key topics and concerns raised	53, 54			✓
REPORTING PRACTICE					
102-45	Entities included in the consolidated financial statements and in the boundary of this report	8			✓
102-46	Defining report content and scope and topic boundaries	240			✓
102-47	List of material topics	60, 61			✓
102-48	Restatements of information provided in previous reports	243			✓
102-49	Significant changes in scope and topic boundaries	243			✓
102-50	Reporting period	8, 240			✓
102-51	Date of most recent report	8			✓
102-52	Reporting cycle	8			✓
102-53	Contact point for questions regarding the report	240			✓
102-54	Claims of reporting in accordance with the GRI Standards	240			✓
102-55	GRI content index	250			✓
102-56	External assurance	240, 266			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
MATERIAL TOPICS					
Telco as a motor for development					
103 MANAGEMENT APPROACH					
103-1	Explanation of the material topic and its Boundary	61, 243-244			✓
103-2	The management approach and its components	18, 89, 171			✓
103-3	Evaluation of the management approach	171			✓
203 INDIRECT ECONOMIC IMPACTS					
203-1	Infrastructure investments and services supported	11, 30			✓
203-2	Significant indirect economic impacts	23, 24			✓
204 PROCUREMENT PRACTICES					
204-1	Proportion of spending on local suppliers	11, 18, 73			✓
Supply chain management					
103 MANAGEMENT APPROACH					
103-1	Explanation of the material topic and its Boundary	61, 243-244			✓
103-2	The management approach and its components	18, 73, 74			✓
103-3	Evaluation of the management approach	73, 74, 78			✓
308 SUPPLIER ENVIRONMENTAL ASSESSMENT					
308-1	New suppliers that were screened using environmental criteria	75			✓
308-2	Negative environmental impacts in the supply chain and actions taken	18, 73, 75-79			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
407 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING					
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	75, 76			✓
408 CHILD LABOR					
408-1	Operations and suppliers at significant risk for incidents of child labor	75, 76			✓
409 FORCED OR COMPULSORY LABOR					
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	75, 76			✓
412 HUMAN RIGHTS ASSESSMENT					
412-1	Operations that have been subject to human rights reviews or impact assessments	75-78			✓
412-2	Employee training on human rights policies or procedures	67		Telefónica is currently reporting the percentage and number of employees trained in the course of Business Principles and Responsible Business since its launch. In the short term, Telefónica plans to launch a new course and will be able to report information on the number of hours of human rights training.	✓
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	73, 75, 82			✓
414 SUPPLIER SOCIAL ASSESSMENT					
414-1	New suppliers that were screened using social criteria	75			✓
414-2	Negative social impacts in the supply chain and actions taken	18, 73, 75-79			✓
Ethical and responsible behavior					
103 MANAGEMENT APPROACH					
103-1	Explanation of the material topic and its Boundary	61, 243-244			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
103-2	The management approach and its components	67-70, 197			✓
103-3	Evaluation of the management approach	18, 69, 70			✓
205 ANTI-CORRUPTION					
205-1	Operations assessed for risks related to corruption	70			✓
205-2	Communication and training about anti-corruption policies and procedures	68		The information reported includes the main anti-corruption courses detailing the number of employees who have been trained or who have been assigned the corresponding training. These courses are aimed at Telefónica employees. There is no specific training directed to the Board, without detriment to its involvement in the knowledge and acceptance of the provisions that exist in the Telefónica Group in relation to anti-corruption regulations.	✓
205-3	Confirmed incidents of corruption and actions taken	18, 69			✓
406 NON-DISCRIMINATION					
406-1	Incidents of discrimination and corrective actions taken	18, 69			✓
Environmental management					
103 MANAGEMENT APPROACH					
103-1	Explanation of the material topic and its Boundary	61, 243-244			✓
103-2	The management approach and its components	203			✓
103-3	Evaluation of the management approach	18, 207, 213, 220, 223			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
302 ENERGY					
302-1	Energy consumption within the organization	18, 220	The reported energy consumption includes both that are carried out in Telefónica facilities and those in external facilities, such as other operators or companies of telecommunication towers		✓
302-2	Energy consumption outside of the organization	Direct answer	The reported energy consumption includes both that are carried out in Telefónica facilities and those in external facilities, such as other operators or companies of telecommunication towers		✓
302-3	Energy intensity	225			✓
302-4	Reduction of energy consumption	Direct answer	The consumption of energy has increased in absolute terms by 1.54%, last year, however, the energy intensity has been reduced by 52% since 2015. During the year 2017 we have reduced consumption by 253 GJ / PB		✓
302-5	Reductions in energy requirements of products and services	Omission		This indicator is not considered applicable since the products and services offered by Telefónica are not directly related to the consumption of energy in our customers. The nature of most of the products and services offered by Telefónica are related to mobile and fixed connectivity, as well as digital and data services	✓
305 EMISSIONS					
305-1	Direct (Scope 1) GHG emissions	18, 25, 223, 224			✓
305-2	Energy indirect (Scope 2) GHG emissions	18, 25, 223, 224			✓
305-3	Other indirect (Scope 3) GHG emissions	25, 224			✓
305-4	GHG emissions intensity	25, 223, 224			✓
305-5	Reduction of GHG emissions	18, 25, 223, 224			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
305-6	Emissions of ozone-depleting substances (ODS)	Direct answer	65t		✓
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Omission		This indicator is not considered relevant since the emissions of this type of pollutants are not significant from our activity	✓
306 EFFLUENTS AND WASTE					
306-1	Water discharge by quality and destination	Direct answer	All the water discharges in Telefónica are sanitary and are discharged into municipal sanitation systems		✓
306-2	Waste by type and disposal method	213			✓
306-3	Significant spills	Direct answer	Of all the spills registered during 2017, none is considered significant. Understanding as a significant spill that one that requires a subsequent remediation intervention in the area with a cost of more than 10,000 euros.		✓
306-4	Transport of hazardous waste	Direct answer	Telefónica does not transport, import or export directly hazardous waste included in the Basel Convention in any of the countries in which it carries out its activities.		✓
306-5	Water bodies affected by water discharges and/or runoff	Direct answer	All the water discharges in Telefónica are sanitary and are discharged to the municipal sanitation systems, so that no water bodies or related habitats are affected.		✓
Talent attraction and retention					
103 MANAGEMENT APPROACH					
103-1	Explanation of the material topic and its Boundary	61, 243-244			✓
103-2	The management approach and its components	149, 153, 154, 169			✓
103-3	Evaluation of the management approach	18, 149-151, 155-157			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
403 OCCUPATIONAL HEALTH AND SAFETY					
403-1	Workers representation in formal joint management-worker health and safety committees	167			✓
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	18, 167, 169	During 2017, there were no fatalities in the Telefónica Group	The information reported only includes internal employees hired by Telefónica. The vast majority of Telefónica's employees are internal employees, with a minority being external workers.	✓
403-3	Workers with high incidence or high risk of diseases related to their occupation	169			✓
403-4	Health and safety topics covered in formal agreements with trade unions	167			✓
404 TRAINING AND EDUCATION					
404-1	Average hours of training per year per employee	151		Telefónica's information systems do not allow for the disaggregation of this information by gender or professional category. We are adapting our systems to facilitate this information.	✓
404-2	Programs for upgrading employee skills and transition assistance programs	149, 150, 157			✓
404-3	Percentage of employees receiving regular performance and career development reviews	149		This Report does not report information on transition assistance programs for the final professional careers due to retirement or dismissal. However, this Report presents information related to the different training programs that Telefónica offers to its employees. Telefónica's information systems do not allow for the disaggregation of this information by gender or professional category. We are adapting our systems to facilitate this information.	✓

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405 DIVERSITY AND EQUAL OPPORTUNITY					
405-1	Diversity of governance bodies and employees	18, 147		Percentage of the ages of the governing body is not included in this Report. However, Chapter 3 "Corporate Governance" includes detailed information on the members of the Board and Management Team, which includes information on birthday, nationality, gender and responsibilities. Telefónica's information systems currently do not allow the breakdown of information regarding the professional category by age. This is mainly due to the diversity of local categories in the different regions where Telefónica operates. We are adapting computer systems to facilitate this information.	✓
405-2	Ratio of basic salary and remuneration of women to men	163			✓
Digital confidence					
103 MANAGEMENT APPROACH					
103-1	Explanation of the material topic and its Boundary	61, 243-244			✓
103-2	The management approach and its components	126, 129, 130			✓
103-3	Evaluation of the management approach	18, 129-130			✓
418 CUSTOMER PRIVACY					
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	18, 126, 129			✓
Customer promise					
103 MANAGEMENT APPROACH					
103-1	Explanation of the material topic and its Boundary	61, 243-244			✓
103-2	The management approach and its components	118			✓
103-3	Evaluation of the management approach	18, 120			✓

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GRI Standard	Description	Page	Direct answer	Omissions	External assurance
416 CUSTOMER HEALTH AND SAFETY					
416-1	Assessment of the health and safety impacts of product and service categories	168, 227			✓
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	168, 227			✓
OTHER NON-MATERIAL TOPICS REPORTED					
202 MARKET PRESENCE					
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	18, 162			✓
202-2	Proportion of senior management hired from the local community	153			✓
301 MATERIALS					
301-1	Materials used by weight or volume	211		This indicator does not apply as Telefónica is a service company. The consumption of materials is not produced in the direct generation of products but in the telecommunications network of the company that allows us to provide the services required by our customers. The processes to reduce the consumption of materials and reuse make our network more efficient from this point of view as well. In our administrative activities, paper is the most used material and its efficient use is promoted through the digitalization of processes. In Chapter 9, a greater detail has been included on paper consumption management by Telefónica.	✓
301-2	Recycled input materials used	211			✓
301-3	Reclaimed products and their packaging materials	212, 213			✓
303 WATER					
303-1	Water withdrawal by source	211	Telefónica's water consumption comes from the municipal supply networks of the places where we operate.		✓

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Commitment to the United Nations Global Compact

Telefónica, through its Chairman, is a signatory of the Global Compact of the United Nations (UNGC) since 2002. The UNGC is a voluntary framework for companies to align

their operations and strategies with the ten principles on human rights, labour, the environment, and the fight against corruption.

			Chapters
Human Rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed Human Rights.	Human Rights
	Principle 2	Businesses should make sure that they are not complicit in Human Rights abuses.	Human Rights
Labour	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Freedom of association, social dialogue and fair compensation
	Principle 4	Businesses should support the elimination of all forms of forced and compulsory labour.	Managing the supply chain
	Principle 5	Businesses should support the eradication of child labour.	Managing the supply chain
	Principle 6	Businesses should support the elimination of discrimination in respect of employment and occupation.	Managing diversity
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges.	Commitment to the environment
	Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.	Commitment to the environment
	Principle 9	Businesses should encourage the development and diffusion of environment friendly technologies.	EcoSmart services
Anti-Corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	Business ethics and compliance



Network Spain
WE SUPPORT

Sustainable Development Goals

We consider it necessary to assess our activity related to the Sustainable Development Goals, in order to guarantee the effectiveness of our contribution and verify the extent of our impact.

Therefore, as part of our analysis and measurement of Telefónica's contribution, we periodically monitor and track indicators related to those SDGs that we have identified as strategic. In doing so, we quantify the impact generated not only by our products and services, but by the Telefónica Group as a whole.



Compliance with Sustainable Development Goals

Contribution to progress and impact on communities	
■ Economic impact	
■ Impact on the environment	
■ Contribution to local tax authorities	
■ Impact of the Network on communities	

Responsible Business

■ Dialogue and involvement with our stakeholders: from theory to practice	
■ Business Ethics and Compliance	
■ Management of the Supply Chain	

Business Model and Development

■ Physical assets	
■ Information Technology and systems	
■ Products and services	
■ Cognitive power	
■ Innovation	

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Focused on the customer

■ Digital trust



Commitment to our team

■ Talent attraction and development



■ Diversity management

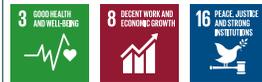
■ Freedom of association, social dialogue and fair remuneration



■ Work environment, balance and compromise



■ Occupational health, safety and well-being



Commitment to society

■ Digital inclusion



■ Accessibility



■ Emergency management



■ Human Rights



■ Social and cultural action



Commitment to the environment

■ The environment and digitalisation



■ Environmental management



■ Circular economy



■ Energy and climate change



■ Managing electromagnetic fields



■ Digitalisation and EcoSmart services



Contribution to the SDGs that are strategic for Telefónica



Goal 4.2

- Investment in education and employability projects: **€81 M**
- Students enrolled in MOOCs: **4,364,686**

Goal 4.4

- People trained in employability: **309,681**
- Training hours: **2,960,880**
- Entrepreneurship Foundation projects: **577**

Goal 4.C

- Training programmes for SclarTIC teachers: **512,000 beneficiaries**



Goal 7.2

- Consumption of renewable energy: **46.8%**

Goal 7.3

- Emissions avoided through energy efficiency services: **36,972 tons of CO₂eq**
- Internal energy consumption reduction: **-52% MWh/PB**
- Reduction of fuel consumption in customers (Fleet Management Service): **-15%**
- Reduction of energy consumption (Smart Energy Service): **-23.6%**



Goal 9.1

- Telefónica Group investment: **€8,690 M**
- Fixed broadband penetration: **58%**
- Smartphone penetration: **63%**

Goal 9.4

- Emissions avoided through EcoSmart services: **939 ktCO₂**

Goal 9.5

- R + D Investment **€862 M**
- Total patents granted: **643**

Goal 9.C

- Universal Service investment: **€342.5 M**
- Network coverage:
 - FTTx/Cable: **73M cabled property units**
 - 4G/LTE mobile coverage: **72% of the population**
 - VoLTE deployment: **7 countries**



Goal 11.4

- Investment in social and cultural projects: **€138 M**

Goal 11.5

- Innovation projects in resilience and management of natural disasters⁽³⁾: **> 5**

- Service responses to disasters⁽⁴⁾: **5**

Goal 11.6

- EcoSmart services: **12 services**

(3): Pigram / Firefighting drones / Phoenix / Big Data 4 Social Good (epidemics, disaster preparation)
(4): Mexico, Colombia, Puerto Rico, Peru, Chile



Goal 13.1

- Direct emissions: **328,582 tCO₂eq**
- Indirect emissions (location-based approach): **1,735,429 tCO₂eq**
- Indirect emissions (market-based approach): **1,034,143 tCO₂eq**
- Emissions avoided through our services to clients: **69%**
- Emissions reduction: **-28%** compared to 2015



Goal 5.1

- Total average women/men salary difference⁽¹⁾: **96.8%**

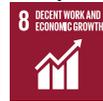
Goal 5.2

- Cases of discrimination detected/measures taken: **1/1**

Goal 5.5

- Women on the Board of Directors: **17.6%**
- Women in management: **21.5%**
- Women on the payroll: **37.7%**

(1) without differentiating according to seniority: middle management (Spain)



Goal 8.2

- Employee training hours **>4.9M** in online courses
- Nº of trained employees⁽²⁾ **>35,000**

Goal 8.3

- Global tax contribution: **€12,188 M**
- Taxes paid per 100 euros: **€23.4**
- Purchases from local providers: **82.7%**

Goal 8.5

- Impact of direct employment: **122,718 employees**
- Impact of indirect employment: **550,066 employees**
- Audits of providers: **19,532**
- Providers with improvement plans: **659**

Goal 8.8

- Incident rate: **0.855**

(2): 34,443 employees through SAP JAM 1933 at Universitas + 1934 managers and middle management 86 Young Leader Program



Goal 12.2

- Water consumption: **3.7 Hm³**
- Paper consumption reduction: **-24%**
- Total energy consumption: **6,846 GWh**
- Waste generation: **27,356 tons**

Goal 12.4

- Recycled hazardous waste: **930 tons (98%)**
- Recycled non-hazardous waste: **23,607 tons (97%)**

Goal 12.5

- Recycled waste: **97%**
- Re-used mobile phones: **505,706**
- Re-used routers and decoders: **2,242,896**

Goal 12.6

- Operators certified with ISO14001: **100%**
- Suppliers assessed through Ecovadis: **794**

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External validations



Free translation from the original in Spanish.
In the event of a discrepancy, the Spanish language version prevails

INDEPENDENT LIMITED ASSURANCE REPORT ON THE CORPORATE SOCIAL RESPONSIBILITY INDICATORS

To the Management of Telefónica S.A.,

We have carried out our work to provide limited assurance on the Corporate Social Responsibility indicators contained in "Annex Tables of GRI compliance" of the 2017 Integrated Report (hereinafter "CSR Indicators") of Telefónica S.A. and its subsidiaries (hereinafter "Telefónica") for the year ended 31st December 2017, prepared in accordance with the content proposed in the GRI Standards of the Global Reporting Initiative (GRI) (hereinafter GRI Standards).

Additionally, we have carried out a moderate assurance of the application of the principles of inclusivity, materiality and responsiveness as described in the information included in the indicators 102-43 and 102-44 of the 2017 Integrated Report in accordance with Accountability Principles Standard AA1000 (AA1000APS) issued by AccountAbility.

Responsibility of Management

The Management of Telefónica is responsible for the preparation, content and presentation of the Integrated Report in accordance with the Comprehensive option of the GRI Standards. Management's responsibility includes establishing, implementing and maintaining the internal control required to ensure that the CSR indicators are free from any material misstatement due to fraud or error.

Management of Telefónica is also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the CSR indicators is obtained and for monitoring the level of compliance of corporate responsibility commitments and application of AA1000APS (2008) principles.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and the evidence obtained. Our limited assurance engagement was done in accordance with the International Standard on Assurance Engagements 3000 (Reviewed) "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). We have also carried out our moderate assurance engagement (type 2) in accordance with the 2008 AA1000 Assurance Standard issued by AccountAbility.

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and random sampling tests. The general procedures employed are described below:

PricewaterhouseCoopers Auditores, S.L., Torre PwC, P^o de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc.com/es

R. M. Madrid, nº 250-1, folio 75, tomo 8 287, libro B-054, sección 3^a
Inscrita en el R.O.A.C. con el número 50242. CIF: B-70 031280



- Meetings with Telefónica's personnel from various departments who have been involved in the preparation of the 2017 Integrated Report.
- Analysis of the procedures used for obtaining and validating the data presented in the CSR indicators.
- Analysis of the Telefónica's CSR indicators adaptation to the requirements established by the GRI Standards for the preparation of sustainability reports.
- Verification, through random sampling tests revisions, analytical and substantive tests on the quantitative and qualitative information used to determine Telefónica's CSR indicators. We have also verified whether they have been appropriately compiled from the data provided by Telefónica's sources of information.
- 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.
- Analysis of the documentation and actions related to the application of inclusivity, materiality and responsiveness principles of the AA1000APS.

Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

Limited and moderate assurance conclusion

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that:

- Telefónica's CSR indicators, for the financial year ending 31st December 2017, contain significant misstatement or have not been prepared, in all of their significant matters, in accordance with the GRI Standards.
- The information included in the indicators 102-43 and 102-44, concerning the principles of inclusivity, materiality and responsiveness, has not been prepared, in all significant respects, in accordance with Standard AA1000APS (2008).

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Recommendations

During our assurance engagement, some observations and recommendations for improvements have come to our attention, which we have presented in an internal document. Set out below is a summary of the main recommendations regarding improvements to the application of the principles of inclusivity, materiality and responsiveness, which do not alter our opinion or our limited or moderate assurance conclusions given in this report.

Inclusivity

Telefónica, in its 2017 Integrated Report, includes information on the company's relationship with its main stakeholders. Thanks to the activity carried out by the Responsible Business Panel, through the Advisory Panel and the Extended Panel, channels of direct communication with stakeholders are identified and established. It is recommended to continue deepening internal and external dialogue by identifying new communication channels that allow Telefónica to strengthen communication with its stakeholders so that their expectations continue to be incorporated into all Company's decisions.

Materiality

As a result of the effective implementation of the dialogue processes established with stakeholders by the Responsible Business Panel, in 2017, the process of prioritizing relevant issues was reinforced. The detailed knowledge of the significance of the issues for stakeholders has been complemented by Telefónica's internal analysis, enabling the Company to improve its Materiality Analysis and the level of relevance of each issue. In this regard, it is recommended that Telefónica keeps reinforcing the monitoring of the results and conclusions obtained from the meetings of the Responsible Business Panel and guarantees that it is included in the Materiality Analysis in order to ensure the continuous review and update of the issues identified and their prioritisation.

Responsiveness

Telefónica's current stakeholder engagement strategy involves setting objectives to meet stakeholders' expectations. Telefónica's 2017 Integrated Report includes the relevant issues identified, setting out 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 stakeholders expectations are implemented and evaluated through indicators that allow the Company's performance to be monitored.

Use and Distribution

Our report is only issued to the Management of Telefónica, in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than Telefónica's Management.

PricewaterhouseCoopers Auditores S.L.

M.ª Luz Castilla
7th May 2018



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AENOR

Verification Statement of AENOR for Telefónica on the Inventory of greenhouse gas emissions corresponding to the year 2017

DOSSIER: 2009/1133/HCO/01

Introduction

Telefónica (hereinafter the company) commissioned AENOR INTERNACIONAL, S.A.U. (AENOR) to make a limited revision of the inventory of greenhouse gases (GHG) of its activities included in the GHG report of 2017, which is part of this Declaration.

AENOR is accredited by Entidad Mexicana de Acreditación (OVVGEI 004/14) (issue date: 31/10/2014; expiry date: 31/10/2018), according to ISO 14065:2007, to conduct GHG verifications according to ISO 14064-3:2006 in the Energy Sector.

Inventory of GHG emissions issued by the Organisation: Telefónica, C/ Ronda de la Comunicación, Distrito Telefónica, Madrid (Spain).

Representatives of the Organisation: Maya Ormazábal Herrera/Ana Belén Pociña Hijosa, Climate Change and Energy Efficiency Office

Telefónica was responsible for reporting its GHG emissions considered in accordance with the reference standard ISO 14064-1:2006.

Objective

The objective of the verification is to provide the interested parties with an independent and professional opinion on the information and data contained in the above mentioned GHG Report issued by Telefónica.

Scope of the Verification

The GHGs, considered emissions sources as well as the organizational boundaries from the activities of Telefónica included in the GHG inventory are described below.

The GHG inventory of the organization includes the following GHGs: CO₂, CH₄, N₂O, HFCs and HCFCs.

Direct, indirect activities and exclusions from the verification.

- Scope 1- Direct GHG emissions
- Scope 2 – Energy indirect GHG emissions
- Scope 3- Other indirect emissions:

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- o Purchased goods and services
- o Capital goods
- o Fuel- and energy-related activities (not included in scope 1 or scope 2)
- o Business travel
- o Use of sold products

General Exclusions

The following ghg emissions sources have been excluded:

- CH₄ and N₂O emissions from mobile combustion sources.

The exclusions are justified based upon the criteria of low significance (<<5%).

During the verification the information was analysed according to operational control approach. Under this approach the geographic scope is established in the following countries where Telefónica Group operates:

Organizational and geographic boundaries		
Europe	Latin America	Telxius
Spain	Argentina (Fixed and Mobile network)	
Fixed and Mobile Network	Brazil (Fixed and Mobile network)	
Distrito Telefónica	Chile (Fixed and Mobile network)	
Edificio Diagonal	Colombia (Fixed and Mobile network)	
Edificio Gran Vía	Ecuador (Mobile Network)	
Televisión Digital, S.A.U. (DTS)	El Salvador (Mobile Network)	
Telxius Torres España	Guatemala (Mobile Network)	
Germany (Fixed and Mobile network)	Mexico (Mobile Network)	
United Kingdom (Fixed and Mobile network)	Nicaragua (Mobile Network)	
	Panama (Mobile Network)	
	Peru (Fixed and Mobile network)	
	Costa Rica (Mobile network)	
	Uruguay (Mobile Network)	
	Venezuela (Mobile Network)	

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Base year

Telefónica has selected 2015 as the base year.

Materiality

For the verification it was agreed to consider as material discrepancies those omissions, distortions or errors that could be quantified and result in a difference of more than 5% with respect to the total of emissions declared.

Criteria

The criteria and information that have been taken into consideration to carry out the verification were the following:

- 1) Standard ISO 14064-1:2006: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals.
- 2) Standard ISO 14064-3:2006: Specification with guidance for the validation and verification of greenhouse gas assertions.
- 3) Referencial ITU-T L.1420 (02/2012) *Methodology for energy consumption and greenhouse gas emissions impact assessment of information and communication technologies in organizations*
- 4) GHG Protocol A Corporate Accounting and Reporting Standard. Rev 01.

AENOR waives any responsibility for decisions, regarding investment or of any other type, based on this declaration.

Conclusion

As a conclusion and according to the limited level of assurance agreed, AENOR states:

Based on the above, in our opinion *there is no evidence to suggest that the information on emissions reported in the Greenhouse Gases Report of Telefónica for period 2017, dated March 31st, 2018 is not a true reflection of the emissions from its activities.*

In consequence with this Declaration below is a list of the emissions data that were finally verified.

Year: 2017	t CO ₂ e
Scope 1: Direct GHG emissions	328.582
Scope 2: Energy indirect GHG emissions (Location-Based Method)	1.735.429
Scope 2: Energy indirect GHG emissions (Market-Based Method)	1.034.143

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Year: 2017	t CO ₂ e
Scope 3: Other indirect emissions	2.460.656
○ Purchased goods and services	1.059.229
○ Capital goods	457.448
○ Fuel- and energy-related activities (not included in scope 1 or scope 2)	269.026
○ Business travel	70.361
○ Use of sold products	604.592
Emissions from biofuels	10.529



Lead Verifier: Raúl BLANCO BAZACO

Madrid, April 5th, 2018



Environment Manager: José MAGRO GONZÁLEZ