

Telefonica

SUMMARY
CONSOLIDATED
MANAGEMENT
REPORT
2020



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José María Álvarez-Pallete

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Through digitisation, we contribute to a more sustainable, circular and decarbonised world



Letter from the Chairman



2020 will be a year we will never forget, a year that showed how vulnerable we still are. The coronavirus has caused significant human damage; it has affected every aspect of social and economic life, and has showed us what we thought we would never have to see.

It has also been the year in which Telefónica's purpose—to make our world more human by connecting people's lives—has become more meaningful than ever. We have been at the service of society and all our stakeholders.

It is no longer enough for a company to ensure responsible business management and show excellent performance; it is now important to understand the consequences of our activity on the communities in which we operate.

Over the past year, we have been shaping the New Telefónica by culminating the strategic plan presented at the end of 2019. It has been the roadmap we have followed through so much uncertainty. In such an exceptional period, Telefónica has completed some of the most significant operations in its near century-long history of success.

Once again, Telefónica has been a driving force for social progress in different areas. In economic terms, we have contributed nearly 45 billion euros to the Gross Domestic Product (GDP) in our major markets, paid taxes amounting to 8.16 billion euros and generated nearly one million direct and indirect jobs, which means that we create nearly eight jobs for every new hire. On the environmental front, we have helped companies save 9.5 million tonnes of CO₂ and have achieved a situation in which 88% of our electricity consumption comes from renewable sources, a figure that reaches 100% in our main markets.

It is no longer enough for a company to ensure responsible business management and show excellent performance; it is now important to understand the consequences of our activity on the communities in which we operate

On the digital front, we have achieved 4G coverage of more than 90% of the population in the four main countries where we operate, we have made progress in deploying our fibre not only in urban areas, but also in rural areas, and we have expanded our 5G networks in our major markets. In Spain these networks are now available to 78.5% of the population. Our recent issue of a sustainable hybrid bond, the first of its kind in the telco sector, endorses the fact that we will continue to invest in renewable, social projects to insist on our commitments to fight climate change and promote inclusive digitisation for all. Telefónica does not rest.

In such a difficult year, we have managed to increase the trust and loyalty of our employees, our customers and society in general. The Telefónica indicator that measures the degree to which the company's employees recommend the organisation as a good place to work (eNPS) rises to 65%, clearly up from 58% in 2019 and well above the 40% that is considered synonymous with excellence.

Building on the strength of our networks and our vocation to serve people, the bond with our customers has continued to strengthen, as shown by the *Net Promoter Score (NPS)*, which measures the degree of satisfaction of our users and is 7 percentage points higher than the previous year in the four main markets in which we operate: Spain, Germany, Brazil and the UK.

At Telefónica we are aware of the challenges that await us as a company and as a society. In just a few months, the digital transformation has taken a leap of years, with all the positive aspects this process holds for sustainable progress, given that digitisation can reduce between 15 and 35% of global CO₂ emissions. However, we also face it with the responsibility of being aware of the associated risks, which make it necessary to ensure network security and data privacy and avoid unequal access to technology.

We will continue to work to help make the economic and social recovery fairer, greener, more inclusive and prosperous for all, because our long-term growth potential depends on our ability to help the community of which we are a part to thrive. Together we go further. It cannot be otherwise and there is no alternative. Society expects us to get involved, to help solve the big problems, to improve their lives and the world.

Making our world more human by connecting people's lives has become more meaningful than ever. We have been at the service of society and all our stakeholders

That is why we will maintain our commitment to the principles of the Global Compact and the United Nations Sustainable Development Goals (SDGs).

Telefónica is the best travelling companion, no matter what. It is always there when you need it most. Now is the time to get going. Now is the time to excel.

José María Álvarez-Pallete
Chairman of Telefónica

Telefónica at a glance

Key business figures 2020

INCOME

€43,076 M

OIBDA

€13,498 M

CapEx

€5,861 M

Our scope



24
COUNTRIES

+345 M
CUSTOMERS AROUND THE WORLD

112,349
EMPLOYEES

135 M
PROPERTY UNITS PASSED
UBB

In 2020 we have made some important achievements

1st

TELCO WORLDWIDE

Ranking
Digital Rights

1st

TELCO WORLDWIDE

to launch a
sustainable hybrid bond

2nd

GLOBAL ICT COMPANY

Digital inclusion
(World Benchmarking Alliance)



-61%

GHG EMISSIONS
SCOPE 1+2
base year 2015;
-23% vs 2019



24%

NPS
+7 pp vs 2019



27%

FEMALE EXECUTIVES

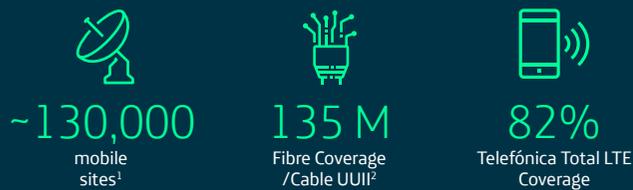
Our network



+15M
UBB NETWORK
ACCESSES

82%
TOTAL LTE
COVERAGE

Network operations



Presence B2B extended



Telxius



1. Infrastructure on which we serve our customers. Includes internal and external network. 2. Property units passed, of which 61.8M are owned. 3. International points of presence. Data as at end-2020. 4. DC with B2B customer service. 5. Prior to the incorporation of c.4,000 of the second tranche of the transaction in Germany, expected in Q3 2021 (Source: Telefónica 2020 results). 6. Peak hour IP network traffic. 7. In 2021. Includes consortia.

Telefónica and COVID-19

The pandemic crisis has irreversibly accelerated the digitisation of society. There is no longer an analogical life and a digital life; they are one and the same thing. The world has already changed and Telefónica will play a key role as a catalyst in this new reality.



Our roadmap:

- Execute contingency plans to ensure network and employee security.
- Respond to increased traffic demand on our networks.
- Collaborate with public health, education and support for the most vulnerable groups.
- Secure our assets against any attack or failure and guarantee security.
- Protect our financial capacity and responsiveness to the interests of all our stakeholders.

Customers

To cope with the 50% increase in demand for fixed and mobile bandwidth, we have undertaken a number of initiatives:

- We have frozen prices, doubled prepaid top-ups, provided priority telephone support and boosted entertainment content.
- Support for the digitisation of start-ups and SMEs, providing technological solutions, advanced support and online training.
- We are driving the innovation and development of technology products based on AI and Big Data to control virus outbreaks and assist mobility.

Employees

Our priority has been to ensure the health and safety of our team.

- 95% of employees home-working (70% at present). We provide online training and reinforce our policies on digital disconnection and emotional health care.
- We ensure internal coordination in crisis management and through internal committees and drills.
- We inform all employees proactively and continuously about the crisis situation and the measures for COVID-19 protection and action.





Society

Our priority has been to ensure that the telecommunications network operates at full capacity in a reliable, stable and secure manner.

- We place our capabilities at the disposal of public administrations and health institutions.
- We created a fund of 25 million euros to purchase health equipment.
- We strengthen *online* educational content and free and open online learning platforms.

Suppliers

We work with our suppliers to guarantee supplies and ensure the viability of their businesses.

- We advance payment of invoices to our SMEs to improve their liquidity in the face of the crisis.
- We share our internal protocols on Health and Safety and COVID-19 with our suppliers, contractors and subcontractors.
- We promote home-working at call centre service providers.

Shareholders and investors

We have maintained two-way communication with our shareholders and investors in a proactive and continuous manner.

- We organise virtual briefings and roadshows, where we report on the Company's performance and results and answer questions from analysts and institutional investors.
- Both the shareholders' meeting and the preliminary meeting were held virtually for the first time in history.



Further information

We create long-term value

We are changing to respond to economic, social and environmental challenges in partnership with our stakeholders

Customers

Telefónica's mission "to make our world more human by connecting people's lives" has become more meaningful this year with COVID-19. Thus, the priority has focused on customers and society.



OUR PRODUCTS AND SERVICES HAVE AN APPROACH FROM

Responsible Design



Employees

This year, the company has focused on taking care of people, ensuring the health and safety of our team. Despite the difficulties, employees have been more motivated and committed.



65% OF EMPLOYEES RECOMMEND US AS A GOOD PLACE TO WORK



Strategic partners and suppliers

Telefónica is committed to helping suppliers and strategic partners.



77% OF TOTAL PROCUREMENT VOLUME WAS AWARDED TO LOCAL SUPPLIERS

Shareholders and institutional investors

We offer our shareholders long-term growth, profitability and sustainable efficiency. Our objective is to maintain a continuous, transparent and equal relationship with shareholders and institutional investors.

 **28** **ENGAGEMENT ACTIVITIES WITH MINORITY AND INSTITUTIONAL SHAREHOLDERS**



Governmental and regulatory bodies

We propose a new dialogue between governments, society and business to advance policies and regulations in line with the challenges of a green and digital transition, upholding fundamental rights and values.

 **+40** **EVENTS HELD IN DIFFERENT COUNTRIES TO CREATE SPACES FOR DISCUSSION AND ENCOURAGE CONVERSATION**

Opinion leaders and the media

We create relationships of proximity and trust based on the generation and transmission of truthful information in a transparent, clear and responsible manner.

 **7,000** **INTERACTIONS (10% MORE) THROUGH PRESS RELEASES, MEETINGS AND INTERVIEWS**



Society

The current situation has shown that digitisation is essential for development. The impact of telecommunications and broadband on the economy has been well documented in various international studies which conclude that we are a strategic player in both direct and indirect terms because of our involvement with other industries.

 **0.5%** **IMPACT OF OUR BUSINESSES ON TOTAL GDP IN OUR MAIN MARKETS**

The three pillars of our strategy

Helping society thrive

We work towards economic and social development based on digitisation



Leading by example

We seek to build trust capital with our customers, employees, suppliers and shareholders



Building a greener future

Through digitisation, we contribute to a more sustainable, circular and decarbonised world



Helping society thrive

We listen to social demand by developing a sustainable telecommunications infrastructure that is key for progress and from which no one is excluded. In this way we are furthering our goal of contributing to social inclusion in a world where demand for digital skills is increasing.



FOR EVERY EURO OF GROSS OPERATING MARGIN WE EARN, WE GENERATE

€3.3

IN CONTRIBUTIONS TO THE GDP IN OUR MAIN MARKETS



WE GENERATE

7.8

JOBS FOR EVERY PERSON WE HIRE

Our impact on communities

We have a work agenda that revolves around Goal 9, to which we contribute by deploying sustainable, resilient and quality infrastructure and by harnessing our capacity for innovation to address major global challenges.



We allocate more than **5.8** billion euros to network deployment.

We have a 4G coverage of **82.5%**

Our contribution to R&D amounts to **959** million euros. We have an Industrial Property Rights Portfolio with **440** patents.

We connect more than **1,800,000** people with our 'Internet for all' project.

We accelerate more than **780** start-ups through our Open Innovation programmes.



More than **78%** of the Spanish territory has 5G



ProFuturo

Transforming education*.

More than **16 million** children in 40 countries have benefited from the Profuturo programme.

MIRÍADAX_

Online Training*.

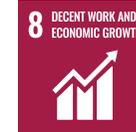
More than **6 million** students enrolled in MOOCS.



On-site and *online training*.
Employment launchpads*.

More than **2 million** people benefited from digital skills training.

More than **3 million** hours of employee training.



We contribute **44,692** million, equivalent to **€3.3** per euro of gross operating margin to the GDP in the main countries where we operate.

We contribute **8.16** billion euros to local finances.

We generate **7.8** jobs for every person we hire in the countries where we operate.

Impact on employment of the Telefónica Group: **957,314** jobs.

We award **77%** of our purchase volume to local suppliers.

* Projects of Fundación Telefónica.

5 GENDER EQUALITY



Our aim is to

is to reach **33%** of women in management positions and equal pay **by reducing the gender-adjusted pay gap** to +/-1%.

38%

of women in our workforces

27.4%

of managers are women

2.5%

adjusted pay gap

16 PEACE, JUSTICE AND STRONG INSTITUTIONS



Enhancing trust through the ethical and responsible use of technology, ensuring the security and privacy of our customers' data.

We have received acknowledgement

in 2020 from the **World Benchmarking Alliance** as the **world's second-most influential company in the ICT sector** for our ability to lead the way in digital inclusion.

17 PARTNERSHIPS FOR THE GOALS



Our aim

is to foster collaboration with other organisations to innovate and increase access to and use of technology and digitisation in all areas of society.

85.2%

penetration of the LTE service in the customer base

7 AFFORDABLE AND CLEAN ENERGY



100%

of electricity consumption in Europe, Brazil and Peru comes from renewable sources, **87.5%** globally.

98%

of recycled waste in 2020



Our products and services avoided 9.5 million tonnes of CO₂ emissions thanks to the efficiencies digitisation generates for our customers

11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



Our electricity

consumption since 2015 has decreased by **1%**, while data traffic over our networks has increased by more than **5 times**.

Digital inclusion

We promote a more inclusive connectivity in which we bring digitisation to all people and boost the social and economic development of the communities in which we are present.



2nd company in the ICT sector in digital inclusion according to the Digital Inclusion Benchmark

Our pillars of action



Digital skills

Addressing existing inequalities by investing in **training and education** in digital skills as tools for personal development and facilitators of social development, as well as promoting technology among all groups.



Inclusive digital access

Ensuring that everyone has **access to our digital services** and can use them safely and securely:

1. Promoting the accessibility of our solutions.
2. Offering solutions that are affordable for the majority of the population.



Innovation in digital content and services

To promote new and increasingly innovative solutions, services and content that enable us to connect people's lives.



Sustainable Infrastructure Deployment

Strengthening and investing in very high capacity networks while at the same time investing in the roll-out of more efficient and sustainable networks.

+90% 4G coverage in the four main countries where we operate

Best fibre network in the OECD:
135 million of property units passed

Internet for all: more than **1,800,000** people with Internet access in remote areas

We continue to be the only private television with accessible content thanks to Movistar + 5S

We are committed to innovation



Leading by example

In order to lead by example, it is essential to build trust with our customers and suppliers. In this way, we shape and prioritise what the customer and our stakeholders demand, instilling from the outset a responsible use of technology and our principles of Corporate Governance.



24%

NPS IN 2020



66

POINTS OF
REPTRAK PULSE®

Corporate Governance

Telefónica is firmly committed to continuously improving its Corporate Governance framework. To this end, we increase, strengthen and consolidate best practices in this area.

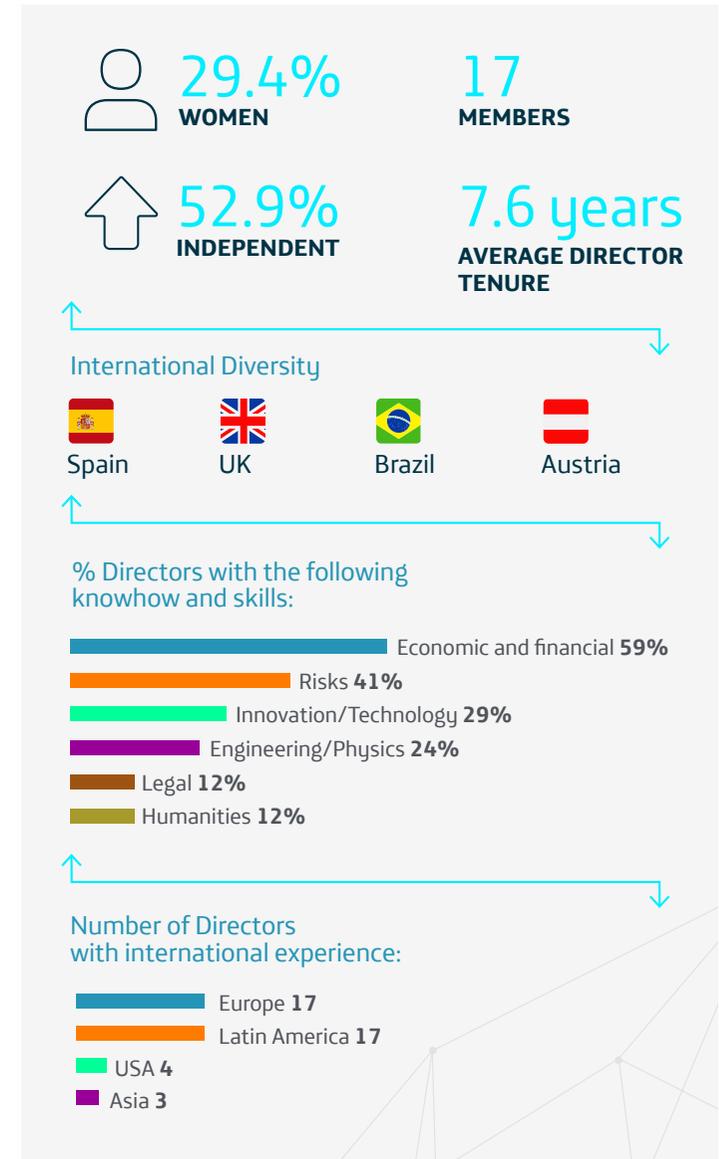
Our Board of Directors



From left to right, seated on the bench, Mr. José Javier Echenique Landiribar, Vice-Chairman and Independent Director; Mr. José María Abril Pérez, Vice-Chairman and Nominee Director; Mr. José María Álvarez-Pallete López, Chairman and Executive Director; Mr. Isidro Fainé Casas, Vice-Chairman and Nominee Director; and Mr Ángel Vilá Boix, Chief Executive Officer and Executive Director.

From left to right, standing, Mr. Antonio García-Mon Marañés, Deputy General Secretary and Deputy Secretary to the Board; Ms. Verónica Pascual Boé, Independent Director; Mr. Juan Ignacio Cirac Sasturain,

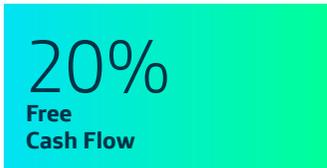
Independent Director; Ms. Claudia Sender Ramírez, Independent Director; Mr. Peter Löscher, Independent Director; Ms. Sabina Fluxà Thienemann, Independent Director; Mr. Peter Erskine, Other External Director; Mr. Jordi Gual Solé Nominee Director; Ms. María Luisa García Blanco, Independent Director; Mr. Francisco José Riberas Mera, Independent Director; Ms. Carmen García de Andrés, Independent Director; Mr. Ignacio Moreno Martínez, Nominee Director; Mr. Francisco Javier de Paz Mancho, Other External Director; and Mr. Pablo de Carvajal González, General Secretary and Secretary to the Board.



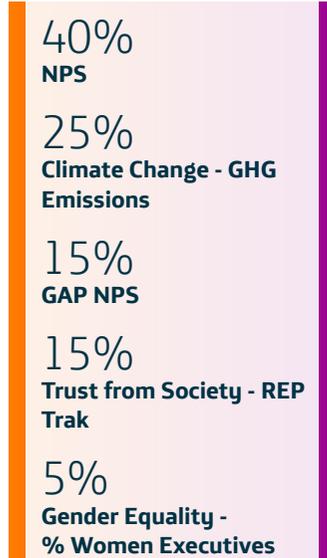
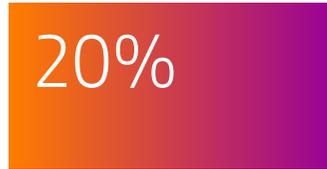
Remuneration linked to sustainability in 2021

Short-term variable compensation factors

Operational and financial targets

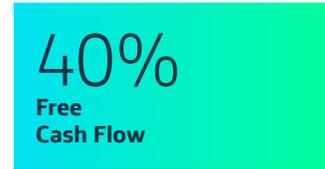


Non-financial targets linked to customer trust and ESG targets

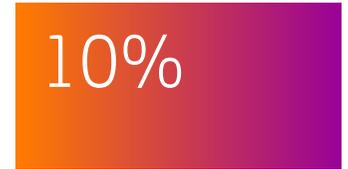


Long-term variable compensation factors

Operational and financial targets



Non-financial targets linked to customer trust and ESG targets



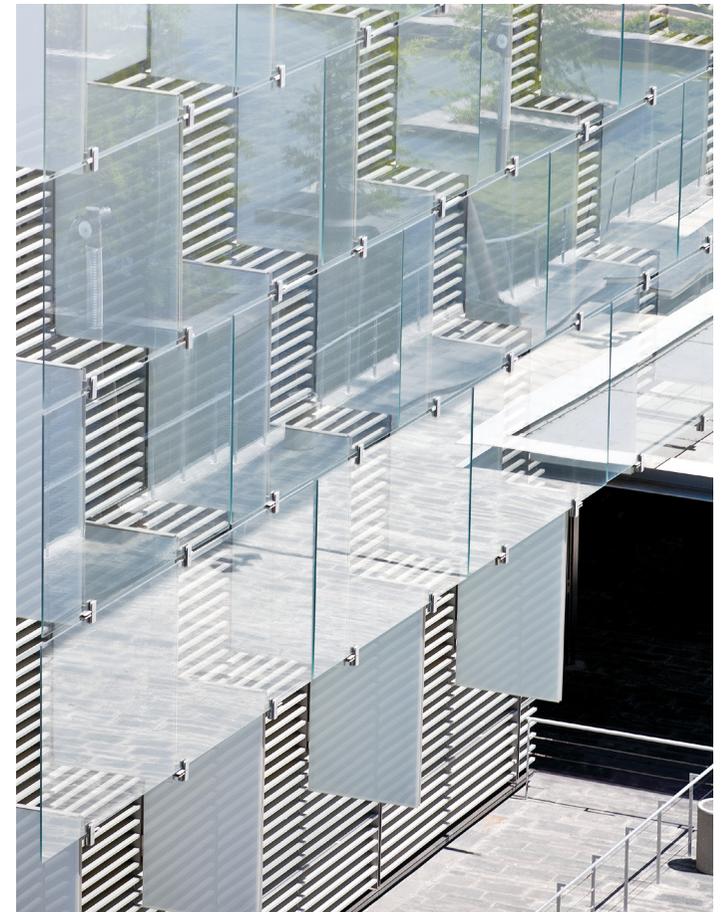
10%
Neutralisation of CO₂ emissions to reach net zero emissions by 2025



Sustainability governance

The Sustainability function is implemented at all levels of the company, ensuring both the programming of an ambitious agenda, structured through our Responsible Business Principles and the Responsible Business Plan, approved by the Board of Directors, and its execution through supervision, monitoring and implementation mechanisms at corporate and local level.

Sustainability at the highest level



Responsible business management

The Responsible Business Principles are embodied in the various policies and regulations approved by the Board of Directors or by the Executive Committee, the most significant of which were approved and updated in 2020:



Ethics

- Compliance Function Policy (updated 2020)
- Crime Prevention Policy (updated 2020)
- Internal Rules of Conduct (updated 2020)
- Compliance Function Policy (updated 2020)
- Telecommunications Fraud Prevention and Management Regulation (adopted in 2020)



Privacy & Freedom of Expression

- Global Privacy Policy
- Personal Data Protection Governance Model Regulation
- Rules of Procedure in response to Requests from Competent Authorities



Security

- Global Security Policy
- Global Security Regulations (updated 2020)
- Business Continuity Regulations
- Incident and Emergency Management Regulations
- Physical Security Regulations (updated 2020)
- Security of Persons Regulations
- Network and Communications Security Regulations
- Change Management Regulations (updated 2020)
- Regulations on the Classification and Processing of Information



Supply Chain

- Supply Chain Sustainability Policy (updated 2020)
- Supply Chain Sustainability Standard (updated 2020)
- Low Carbon Procurement Instruction (updated 2020)
- Procurement of Goods and Services Standard (updated 2020)
- Supply Chain Security Regulations (updated 2020)



Human Resources

- Protocol for Action in Situations of Workplace or Moral Harassment, Sexual Harassment and Discrimination
- Occupational Health, Safety and Well-being Regulations
- Diversity and Inclusion Policy



Responsible Communication

- Communication of Information to Markets Standard (approved 2020)
- Shareholder Communication Policy (updated 2020)
- Responsible Communication Policy (updated 2020)
- Social Media Regulations (updated 2020)



Environmental Management and Climate Change

- Global Environmental Policy
- Energy Management Policy

Ethics and compliance training

Employees trained in anti-corruption*

104,522

Percentage of employees trained in anti-corruption*

93%

Percentage of employees trained in anti-corruption by 2020

31%

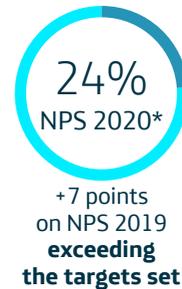
* Includes the Responsible Business Principles Course (since 2018), Foreign Corrupt Practices Act (since 2017) and local anti-corruption courses (since 2019).

Our customers

With the COVID-19 crisis, our mission to "make our world more human, by connecting people's lives" became even more relevant and therefore we have endeavoured to meet the needs of our customers and society.

Net Promoter Score (NPS)

Customer satisfaction is a key commitment for us, which is why we have incorporated indicators in our employee remuneration. Since 2018, we track and report the Net Promoter Score (NPS) as a recommendation indicator for our products and services. In 2020 we exceeded our targets, with the perception of the quality of our network being key.

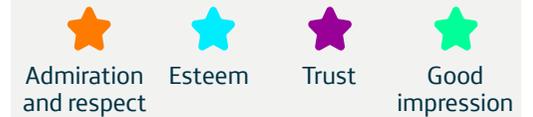


Reputation

Telefónica has decided to add **reputation as a fundamental pillar** on which to build a vision that is consistent with the company's long-term plans.

Thanks to this KPI, we can measure society's (customer and non-customer) perceptions of our overall performance and its future expectations.

We measure under the RepTrak Pulse® Model to understand the emotional appeal of our brands



In 2020, we exceeded our planned annual target

The consolidated RepTrak Pulse® score for the 4 main countries (UK, Germany, Spain and Brazil) in 2020 was 66 points on a scale of 100, exceeding the previous score by more than 10 points. This increase is due to:

- Society's positive assessment of the important role played by connectivity and all the actions Telefónica has taken to fight the pandemic.
- A consolidation of the new methodology implemented in 2019.



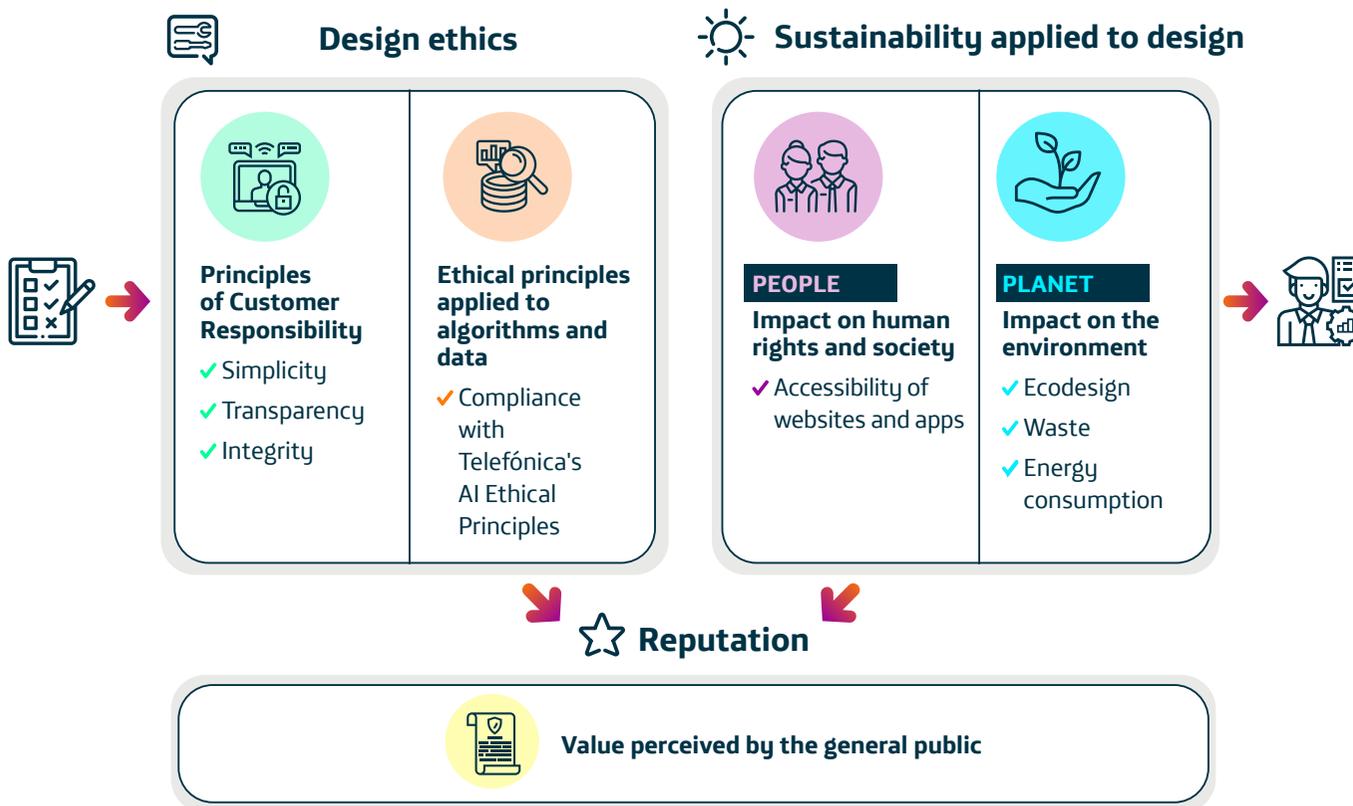
66 points out of 100 (+10 compared to 2019)
Consolidated value of RepTrak Pulse® 2020*

*The calculation of the global value considers only the 4 main countries, extracting the result of Hispam by which it was previously considered.

Responsible design

We want responsibility to be a key design factor that addresses innovation, incorporating matters related to reputation, sustainability, human rights, eco-design, privacy and data ethics from the outset.

The two pillars of Responsible Design are ethics and sustainability:



The **Responsible Design** approach seeks to 'ground' these solutions and integrate them into our daily activities

- ➔ Highlighting the potential **positive impact of our products and services** in the face of these challenges.
- ➔ Minimising risks and staying ahead of sustainability regulations.
- ➔ Responding to the needs **of our customers**, who are increasingly looking not only to acquire a product or service, but also to relate to companies that are **more aware and committed**.

Digital trust

To generate this trust, we have defined a four-pillar strategy as our commitment to our customers.



Telefónica has a set of processes designed to ensure **its commitment to the right to privacy** of all persons to whose data we have access.

Lines of action

- ➔ Privacy by design
- ➔ Digital privacy
- ➔ Transparency initiatives
- ➔ Customer Empowerment
- ➔ Consultation and complaint mechanisms

Privacy/security by design	Policies	Transparency	Consultation and complaint mechanisms
<ul style="list-style-type: none"> • The principle of Privacy by Design (PbD) is one of the essential and strategic pillars of the Telefónica Group. The duty of the entire organisation to establish a data management governance model from the early stages of any project 	<ul style="list-style-type: none"> • Global Privacy Policy • Personal Data Protection Governance Model Regulation • Rules of Procedure in response to requests from Competent Authorities 	<ul style="list-style-type: none"> • Global Privacy Centre • Operators' Privacy and Security Centres • Telecommunications Transparency Report 	<ul style="list-style-type: none"> • Responsible Business Channel: Public channel where all our stakeholders can consult and complain • Voluntary measurement systems with Autocontrol



Privacy

Transparency and access to take control of data



Security

Security of networks/ systems to ensure integrity, availability and confidentiality of information



Artificial Intelligence

Ethical use of Artificial Intelligence (AI) to promote people-centred digitisation



Responsible use

Protecting the most vulnerable groups



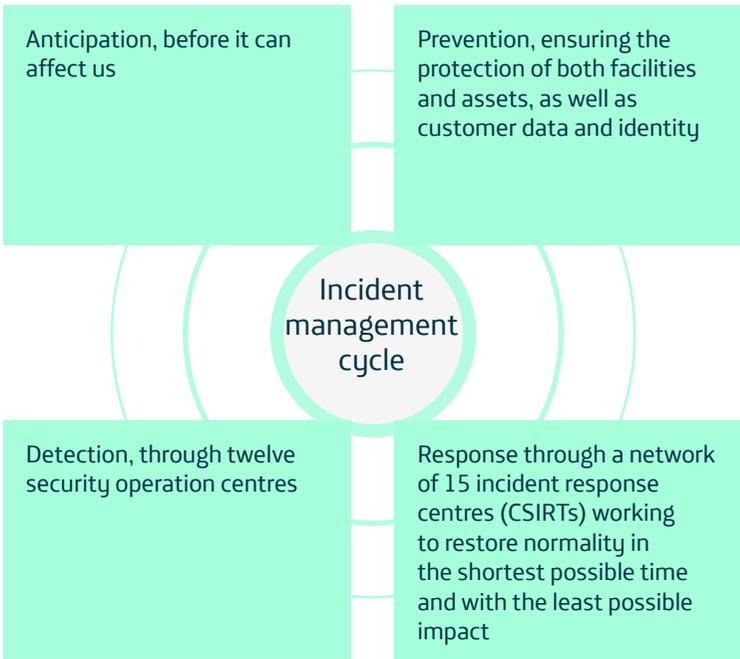
The increase in the number and complexity of security threats highlights the need for continuous improvement that encompasses physical and operational security, including cyber security.

To achieve this protection, the area of security is indexed in the organisational structure starting with the Board of Directors through its Sustainability and Quality and Audit and Control Committees.

Lines of Action:

- Digital Security or Cybersecurity
- Physical or Operational Security
- Security by Design
- Supply chain security

We have tools and capabilities for the whole cycle of potential incidents:



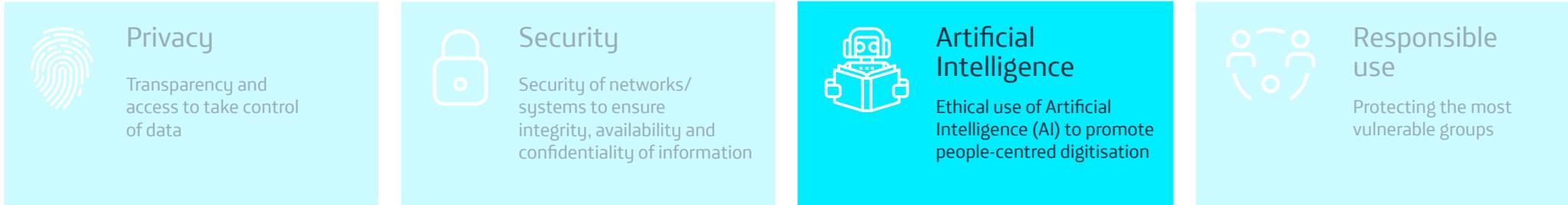
Privacy/security by design

Security is considered from the earliest stages in all areas of activity to ensure that it is an integral part of the entire technology lifecycle. This approach is based on a process of risk analysis and management, as well as the development of proprietary technologies and support for innovation.



Eleven Paths

is Telefónica's Cybersecurity unit. We make security more human and give people the trust and peace of mind they need.



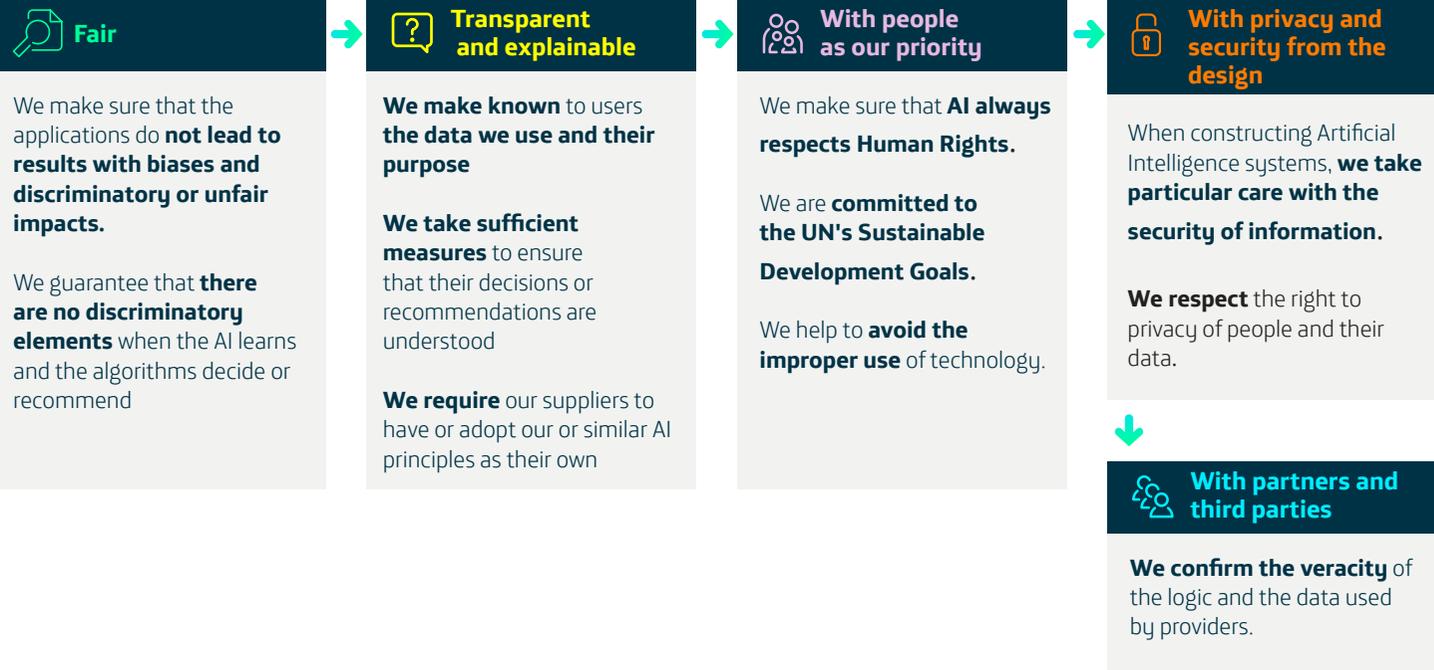
Artificial Intelligence (AI) and Big Data are on the up and can be applied to a wide range of fields. However, concerns have recently been expressed about their use, especially in relation to possible discrimination, the lack of interpretability of algorithmic conclusions and the transparency of the personal data used.

To address these potential problems, we published the AI Principles in 2018.

Lines of action

- ➔ Training for employees
- ➔ Responsible AI by design
- ➔ Governance and implementation

Through our AI Principles we are committed to designing, developing and using AI that is...





Privacy

Transparency and access to take control of data



Security

Security of networks/ systems to ensure integrity, availability and confidentiality of information



Artificial Intelligence

Ethical use of Artificial Intelligence (AI) to promote people-centred digitisation



Responsible use

Protecting the most vulnerable groups



The life our children lead is now a digital life. For this reason, we need to be able to integrate and adapt traditional educational guidelines to an ecosystem in which analogue has lost its hegemony. We must continue to educate in values and accompany and set an example, generating spaces for dialogue on the use we make of technology.



Our commitment to the responsible use of technology is embodied in 6 lines of action:

1. Alliances with stakeholders

We participate in the **ICT Coalition** and the **Alliance to better protect minors online**

2. Blocking of content

We block content with child sexual abuse images on the Internet following the guidelines and lists provided by the **Internet Watch Foundation**

3. Audio-visual environment

We promote the responsible consumption of digital entertainment through numerous tools, including the children's application **Movistar Junior**

4. Products and services

We encourage the promotion and development of **parental controls** and other **multi-device security options** that help us to better manage our digital lives and those of our families: Qustodio and Smart WiFi are examples of this

5. Working together with our suppliers

Together with our suppliers, we implement the basic mechanisms for the protection of minors, especially in the area of security, from the design of terminals and operating systems

6. Education and awareness-raising initiatives

We develop **training and awareness-raising activities** for families through the Dialogando web portal to reflect on the use we make of technology and facilitate coexistence in the digital society (digital divide, gaming, cyberbullying, grooming, sexting, privacy...)

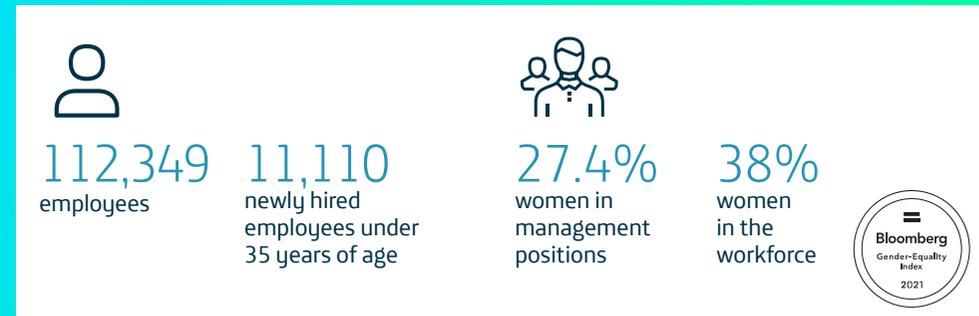
Human Capital

Having a diverse workforce and fostering an organisational culture of equity, plurality and inclusion, where the unique skills, abilities and ways of thinking of our employees help us make the best decisions for the business.

We believe in diversity as a lever for the future

Our diversity and inclusion strategy is based on four pillars:

- 1 The Global Diversity Council
- 2 Meritocracy in selection and promotion
- 3 Diversity on the Board of Directors
- 4 Sustainability policies in the supply chain



Talent management, key to transformation

The evolution of our business, the explosion of data and the technological advancement of our networks demand new capabilities from our teams:

- Attracting and managing new talent
- Reskilling and Upskilling
- Identification of new capabilities



Success story: Telefónica de España's reskilling programme

➔ **+14,000** employees in reskilling/upskilling programmes in Spain



➔ **Training activity** has increased significantly in 2020:
+ 20pp
(increase in training hours compared to the previous year)
More training

➔ **It has multiplied x2.6** the total number of **students** (compared to the previous year).
For more people

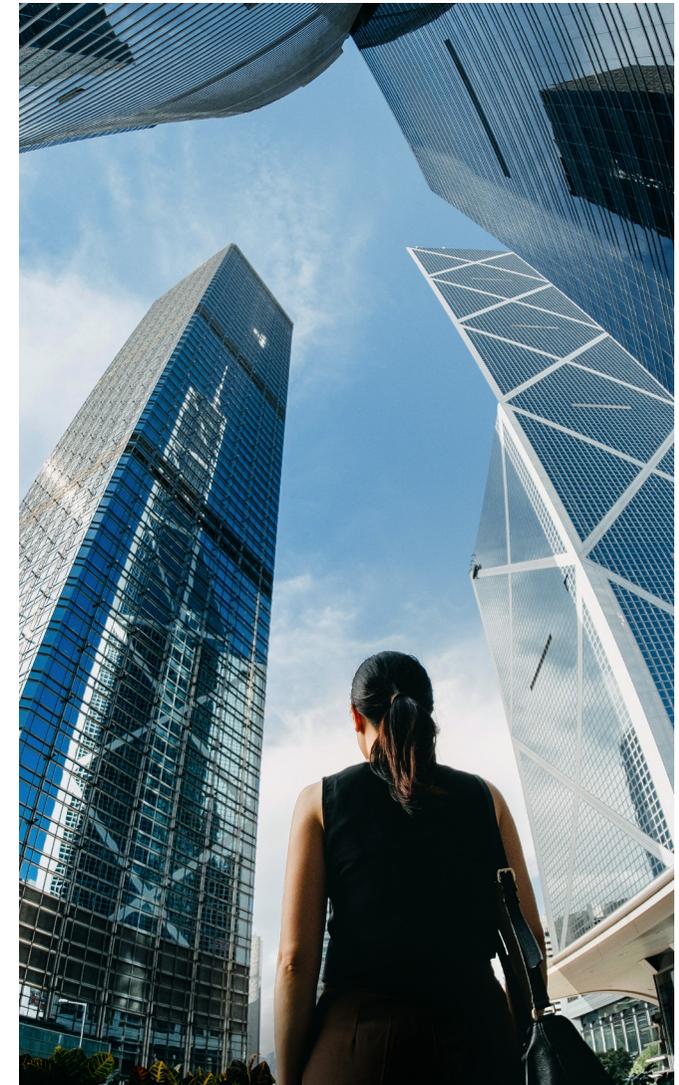
➔ In **online training**, the following have been offered
1,185 courses on various topics such as

- **Sales**
- **Technology**
- **Robotisation**
- **Programming**
- **Soft Skills**
- **Diversity**
- **Digital capabilities**
- **Personal development, etc.**

More variety of content

➔ In 2020, the **traditional mix of 'classroom-online' training methodology** has been reversed, with a shift to a **8-92%**, respectively.
More methodologies for learning

➔ Increase in the quality of training:
8.32
(8.28 in 2019)
More quality



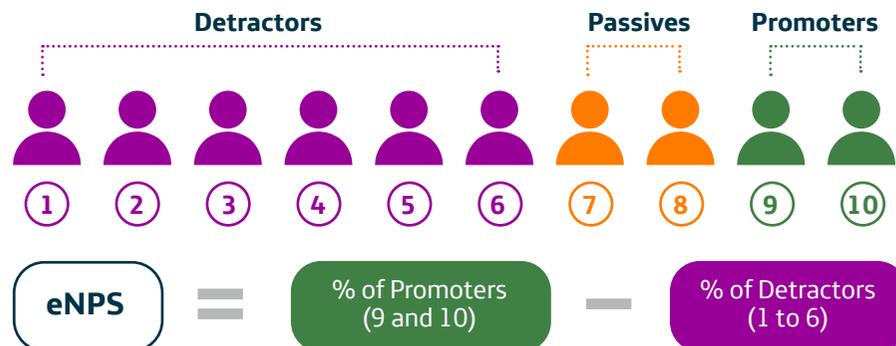
Well-being of our employees

New ways of working:

(Employee Net Promoter Score)

In 2019 we decided to adopt the Employee Net Promoter Score (eNPS), which measures the degree to which the Company's employees recommend the organisation, answering the question: **How likely would you be to recommend your company as a good place to work to people close to you? (1=Definitely would not recommend, 10=Definitely would recommend).**

Formula for calculating eNPS



In 2020 we achieved an eNPS of 65%, which is a 7-point improvement on the 2019 result of 58%.



Pay gap

In the Telefónica Group in 2020 the gross pay gap is **19.9%** and the adjusted pay gap is **2.5%**

Health and Safety

99% of operators have a **safety, health and well-being management system** (calculated on the basis of operators' revenues). **49% of operators** with a safety, health and well-being management system **certified compliant with the ISO 45001 or OHSAS 18001 standard**

95%

of the workforce home-working
By the end of 2020, **70%**

+400

teams working in
Agile methodology

Suppliers

We work together with our suppliers to ensure the smooth operation of the network and the connectivity of people, as well as high standards of sustainability in our supply chain.



A sustainable purchasing model

We have a global purchasing management model from Telefónica Global Services in coordination with the local purchasing teams in each country. The model is aligned with our Responsible Business Principles and is based on transparency, equal opportunities, objective decision-making and sustainable management of our supply chain.



We digitise our processes, providing greater efficiency, integrity and traceability

€24,268 M

Volume of purchases awarded

77%

of purchases awarded to local suppliers

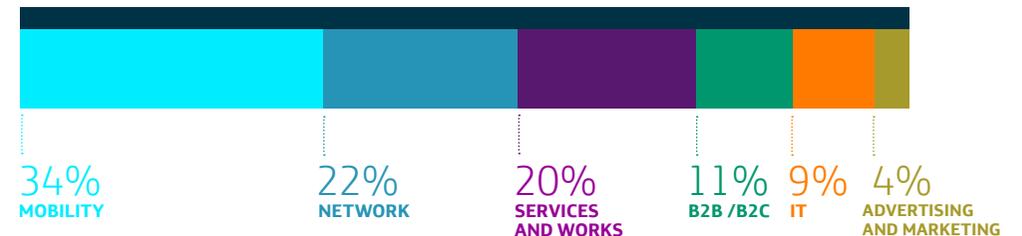
9,038

awardee suppliers

91%

local awardee suppliers

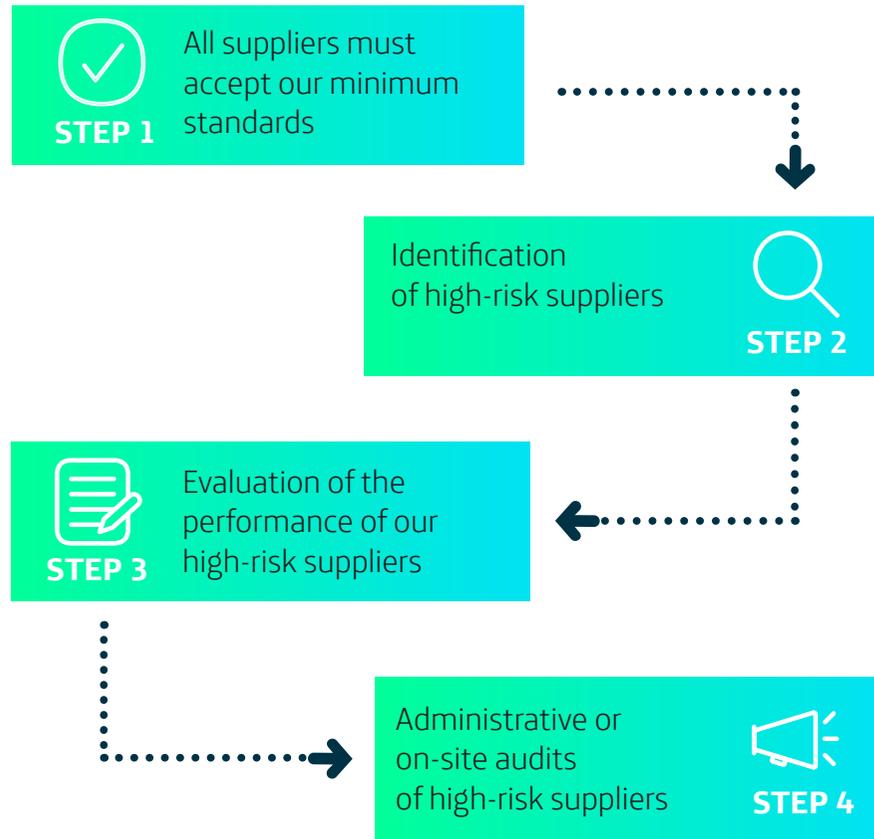
Volume of purchases awarded %/Total



(1) Agreements negotiated in Procurement with impact in 2020.

Our approach: sustainable supply chain management by 2020

Risk Management



Engagement

Our sustainable management model is complemented at every step by training and engagement with our suppliers, enabling us to raise awareness and promote capabilities to improve supply chain sustainability

We foster collaboration and engagement

We participate in the Joint Audit Cooperation sector initiative with 17 other telecommunications operators. We join forces to verify, evaluate and develop the implementation of sustainability standards (with a focus on working conditions, environment, human rights and ethical principles) in factories run by common suppliers, mainly in risk areas such as Asia, Latin America and Eastern Europe.

Climate change collaboration programme with key suppliers We work on emissions management in our supply chain, both globally and locally.



Human Rights

In line with our Global Human Rights Policy, we have a human rights due diligence process in place to identify, prevent, mitigate and remedy (potential and actual) human rights impacts.



1st company in the
Digital Rights Ranking

Independent evaluation of
Global Network Initiative

Key human rights indicators

Employees trained in Responsible Business and human rights through the Principles Course since its launch

103,934
(93% of our workforce)

Training hours
207,868

Operators submitted to a human rights impact assessment

12
(100% of our operators)

3
queries/complaints received through the human rights channel

10,090
on-site human rights audits of suppliers (labour, child labour, safety, health, privacy and security)

Minors

In 2020, we continued to strengthen our **advocacy for children's rights** by analysing the impact of our activities. Based on the Children's Rights and Business Principles developed by UNICEF in collaboration with the Global Compact and Save the Children, we use its MO-CRIA (UNICEF Mobile Operator Child Rights Self-Impact Assessment Tool) **to systematically analyse the impact of our activity** on aspects such as: access to inappropriate information; protection of privacy, information, personal reputation and the impact of products and services; inappropriate advertising and marketing actions, or any procurement conditions that could violate their rights.

Building a greener future

Telefónica's priority is to help protect the environment by providing its customers with digital solutions that help them reduce their carbon emissions and use fewer resources. In addition, we are moving towards being a zero net emissions and zero waste company, rolling out state-of-the-art grids, using renewable energy and fostering the circular economy.



98%

OF OUR WASTE
RECYCLED



WE PREVENT

9.5

MILLION tCO_2 AT OUR
CUSTOMERS, THANKS
TO DIGITISATION

Responsibility with the Environment

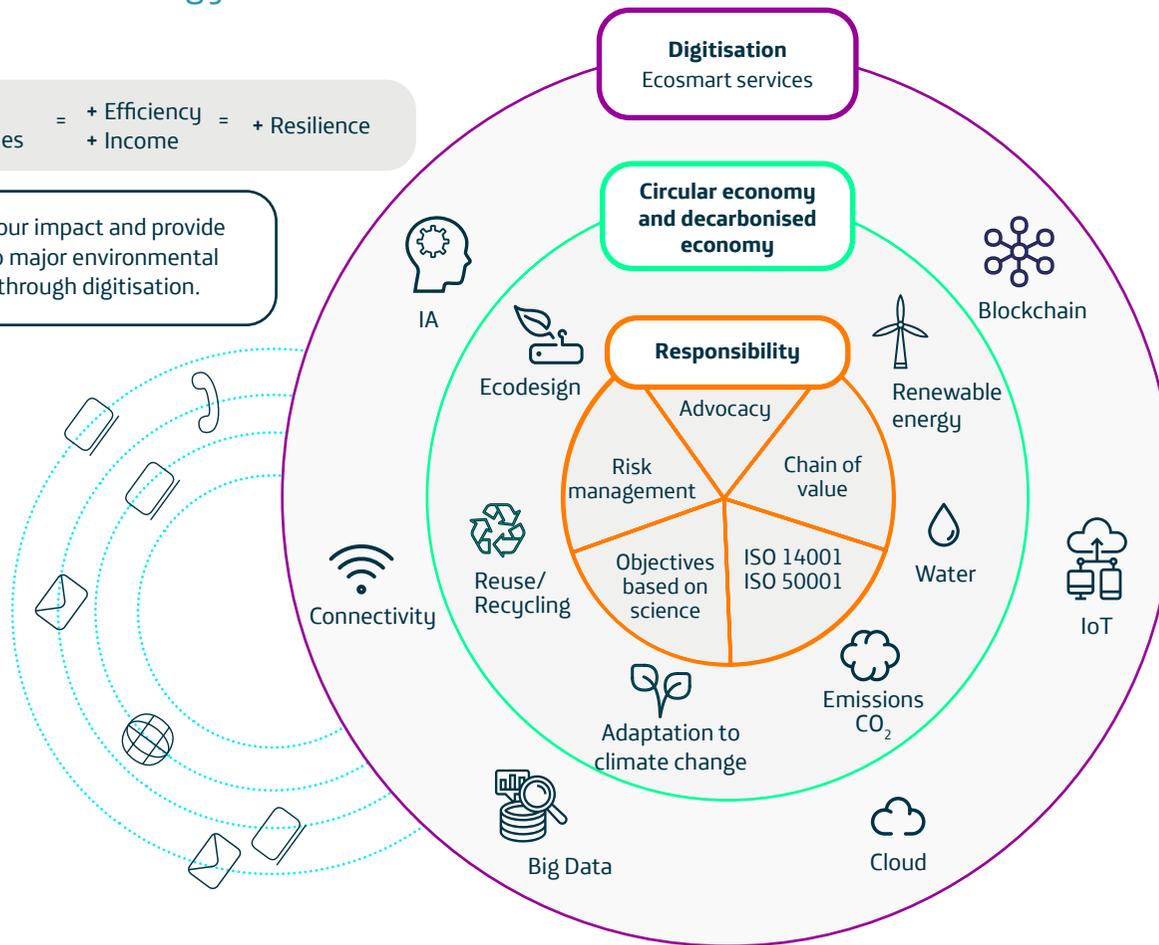
Telefónica's decarbonisation, on the road to neutrality

Environmental strategy



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

We reduce our impact and provide solutions to major environmental challenges through digitisation.



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



Green finance

Hybrid green bond:

- ➔ **To finance** projects aimed at increasing the Company's energy efficiency through the process of transforming our copper network to fibre optics (85% more efficient)
- ➔ **We have saved** 50 GWh between May 2019 and August 2020
- ➔ **We have reduced** our energy consumption by shutting down 990 copper plants and the corresponding support systems by 2020

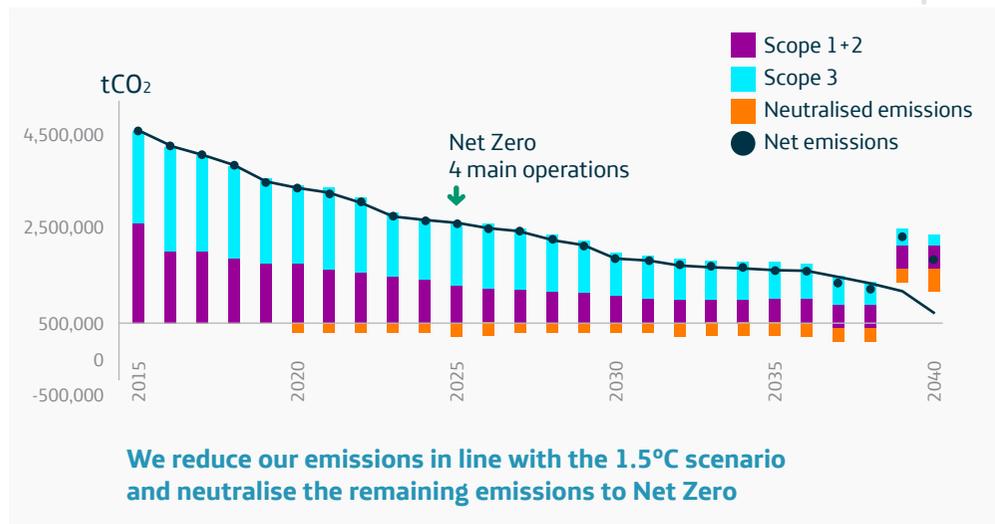
Objective:

100%
of customers on fibre
by 2025

Energy and climate change

We are committed to achieving zero net emissions by 2025 in our major markets and 2040 with our value chain. Our 1+2 range emissions are 61.1% lower than in 2015, in the same period, energy consumption has decreased by 2% while data traffic has increased by a factor of 5. Scope 3 emissions have been reduced by 26.8% since 2016.

Route to Net Zero



NET EMISSIONS ZERO

- 2025 4 Main operations
- 2040 Value chain and Hispam

Renewable energy

100%

Renewables from 2019

Hispam 2030

Energy efficiency

-90%

MWh/PB 2025

Energy consumption per traffic unit

Reduction of emissions

-90%

2025

Scope 1 and 2

With Hispam -70%

- Guarantee of origin certificates
- Long-term purchase agreements (PPAs)
- Self-generation
- Network transformation and legacy shutdown
- Savings functionalities (PSF)
- Modernisation of climate and power equipment
- Lighting
- Incorporating price on carbon
- Low carbon procurement
- Leakage control and new refrigerant gases

Value chain

-39%

2025

Scope 3

Neutralisation

100%

Residual emissions

- Supplier Emission Reduction Programme
- Efficiency of customers' devices
- Projects based on nature
- Social benefit and in biodiversity
- According to standards of recognised prestige

Circular economy

We promote the circular economy in the use of electronic devices through eco-design, reuse and recycling. Since 2015 we have increased the reuse of equipment by more than 451%.

Strategy and main lines of action



Moving towards a zero waste-to-landfill company



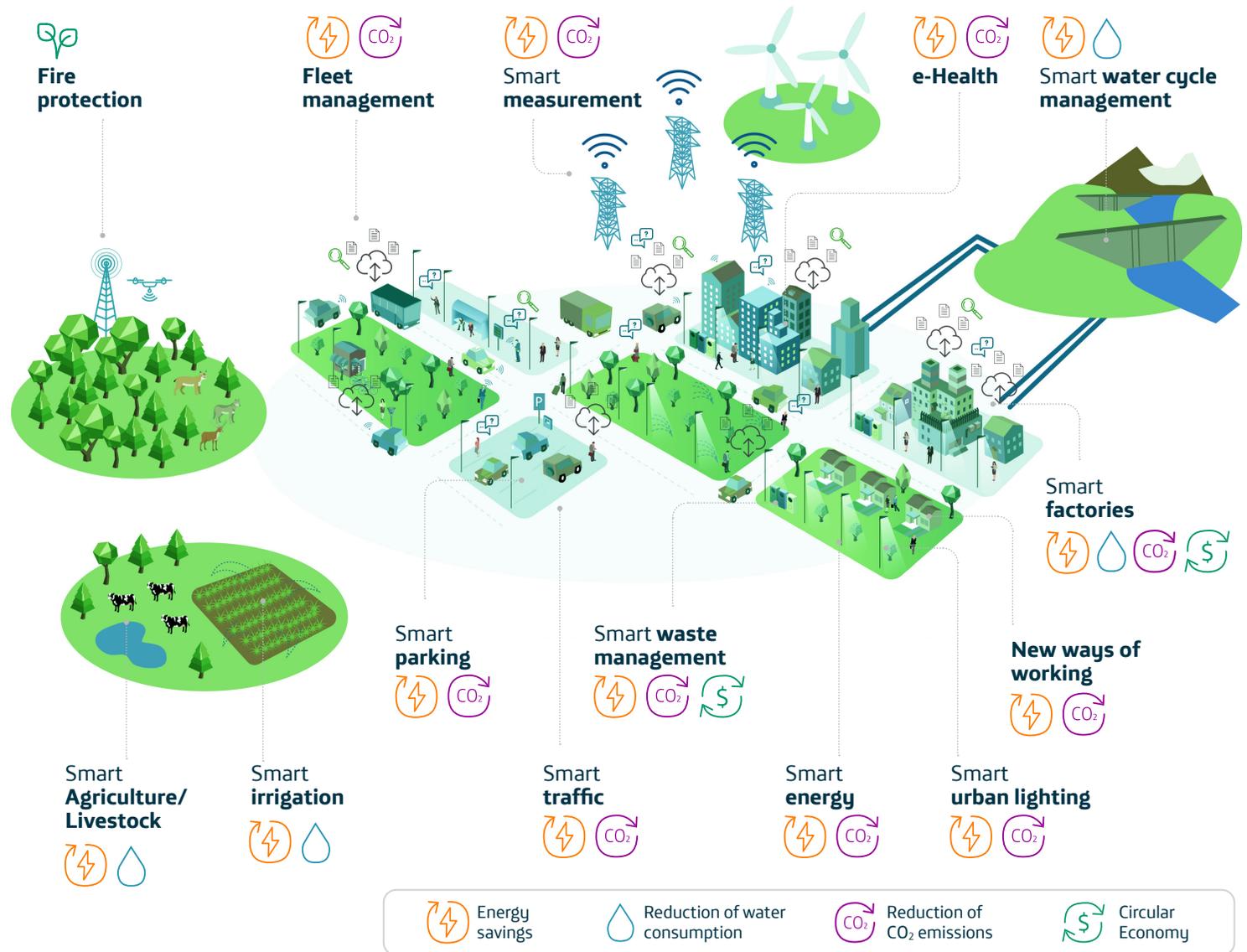
Eco Smart Services

Our connectivity and digitisation solutions are key to decarbonising other sectors and give us access to new business opportunities. With the "Eco Smart" seal, we recognise digital solutions that favour the digital transformation of our customers and also generate major environmental benefits in their production process or daily activity, allowing them to develop their business in a more efficient and sustainable way.

Digitisation to decarbonise the economy

9.5 M tCO₂

avoided in 2020 thanks to digitisation during the pandemic



Eco Smart Solutions

- Home-working
 - Cloud
 - IoT & big data
 - Audio/video conferences
 - other digital services
- In the four main markets: Spain, Brazil, UK and Germany



Go to
Integrated Report 2020

Further information and enquiries:

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