



INTEGRATED REPORT **2015**

We choose
to grow solidly
and sustainably_

Telefonica





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The Telefónica Annual Report 2015 is available online, for smartphone and for tablet (via browsable and interactive downloadable PDFs).



FURTHER INFORMATION

Access additional information and videos which may be of interest.

TELEFÓNICA ANNUAL REPORT 2015

The full Telefónica Annual Report 2015 consists of three documents, each of which can be accessed on the corporate website: www.telefonica.com



INTEGRATED REPORT



FINANCIAL REPORT



CORPORATE GOVERNANCE REPORT AND REPORT ON REMUNERATIONS

Letter from the Chairman_



José María Álvarez-Pallete
Chairman & CEO

Dear Shareholders,

It is my great honour to address you for the first time as the Chairman of Telefónica, post that I took over on April 8th with the support and trust of the Company's Board of Directors.

Let me begin by expressing my deepest gratitude and appreciation to César Alierta, my predecessor and architect of the greatest transformation in the more than 90-year history of this Company. Thanks to his vision and ability to think ahead, today Telefónica is a world leader and an example of success, leadership, growth and profitability.

We are at the beginning of a new stage full of expectations. Be certain that my ambition is to continue writing Telefónica's success story and move forward with the digital transformation of the Company. To achieve this, I have the best team in the industry, all the professionals who are part of this great Company.

This letter gives me the opportunity to update you on the results achieved in 2015 and share some thoughts about Telefónica's future.

A KEY YEAR IN CONSOLIDATING TRANSFORMATION AND RETURNING TO GROWTH

Over the last several years, Telefónica has been laying the foundation to capture the sector's growth potential, undertaking an important transformation process thanks to which the Company is now growing.

2015 has been a key year of progression along the path to profitable, sustainable, long-term growth, along with improvement in our competitive position in the major markets of Europe and Latin America, our strategic markets: Spain, Germany and Brazil.

The fruits of the efforts the Company is making as a whole are plain visible and have allowed us to return to organic growth in our major financial figures.

Revenue growth has accelerated to reach 4% year-on-year, almost doubling that achieved in 2014. This solid increase in sales is the result of better trends in Spain, an increase in average revenue per access for the second consecutive year and the firm commitment to higher-value data services.

At the close of 2015 we reached the figure of 322 million customers across the countries where we operate, increasing the number of fibre customers by 30%, tripling the number of LTE users and raising the number of smartphone and pay TV customers by 29% and 12% respectively.

Data monetisation has been and will remain the great lever to boost revenue growth. It is especially significant that in 2015, for the first time in our history, traditional revenues - access and voice - accounted for less than 50% of the total. This bears witness to a very different Telefónica where the core of our business is connectivity.

The Company has also continued to promote several initiatives aimed at increasing efficiency. Notable savings have come from synergies resulting from operation integration in Germany and Brazil and the efficiencies generated by the simplification programme being implemented across all countries. As a result, in 2015 operating income before depreciation and amortisation (OIBDA) grew by 3.6% in organic terms with a stable margin compared to last year.



“The 2015 results are very solid and are an excellent starting point from which to continue forward in our transformation”

In 2015 we also strengthened our differential asset platforms improving our position in key markets. First of all, we have progressed in the deployment of ultra-broadband with a view to building high performance networks. In Spain we have the most extensive fibre-to-the-home network with the highest number of connected customers in all of Europe; in Brazil we have reached over 17 million fibre premises passed and LTE penetration in Europe stands at 75% and 43% in Latin America.

Secondly, we are radically transforming our systems through several different initiatives such as the so-called Full Stack project. We are also working hard toward simplification and digitalisation.

Promoting the best technology platforms, including those linked to different services such as television, the Internet of Things and others, has required a significant increase in the

volume of investment in 2015. This implies that the ratio of investment over revenues amounts to 17%, the highest level in the history of the Company. Spectrum included, total investment reaches 9.6 billion euros.

Besides, operating cash flow has returned to growth in organic terms for the first time in four years, rising nearly 2% despite the significant investment effort.

As a result of all of this, in 2015 we increased underlying net profit per share by 22 cents to 1.12 euros. And the generation of free cash flow per share, excluding spectrum, was at 0.98 euros in 2015, allowing us to distribute a dividend of 0.75 euros per share as announced.

These results mean that, once again, we have been faithful to our commitments; commitments that we revised upwards last July.

As for the Company's leverage, I can tell you that we continue to increase our financial flexibility.

Considering all of this, it is safe to say that the 2015 results are very solid and are an excellent starting point from which to continue forward in our transformation and capture the opportunities offered by the digital age.

Undoubtedly, Telefónica's growth will accelerate in 2016 by leveraging greater data monetisation while maximising the efficiencies of integration and simplification and driving our innovation and Big Data capabilities, key to taking full advantage of the great potential of the digital ecosystem.

ATTRACTIVE REMUNERATION FOR SHAREHOLDERS

For another year running, Telefónica has met its shareholder remuneration commitment which has always been and remains a clear priority for this Company.

In 2016 we intend to propose a dividend payment of 0.75 euros per share. A first tranche will be paid in the second semester of 2016, in accordance with the agreement proposed to this General Shareholders' Meeting, and a second has been proposed in the second quarter of 2017. Also, in 2016 the Company intends to propose the cancellation of 1.5% of shares of the Company's own stock.

In due time, the Company will propose the adoption of the appropriate shareholders resolutions.

The remuneration announced for 2016 represents a yield of 8.1% at current share prices (9.31 euros on 08 April 2016), one of the highest yields per share among Euro Stoxx 50 companies and well above any of our competitors in the industry. This performance makes Telefónica shares a very attractive asset.



A NEW WAVE OF EXPONENTIAL GROWTH

We live in a context of constant technological disruption never before experienced in history. Digitalisation is transforming everything at breakneck speed and this trend will continue into the future at an even faster rate. The scope of technology has grown exponentially and its expansion to all corners of the world is accelerating.

But this is only the beginning. The digital disruption that will take place over the next decade will bring changes that we cannot even imagine today: the arrival of 5G, which will allow speeds and exponential response times; the connection of all objects through sensors which will spell extraordinary growth for the Internet of Things; the explosion of Big Data resulting from the sheer volume of data traffic and the amount of information being shared; and emerging trends that are starting to take shape such as augmented reality, virtual reality and artificial intelligence. This will have an impact on all sectors, radically transforming current business models.

Telecommunication companies are at the centre of all of this disruption because connectivity is the cornerstone around which everything else revolves.

At Telefónica we want to play a leading role in the industry, making this digital opportunity a reality. It is an opportunity that will create new growth possibilities around three waves: connectivity; the wave of digital services or over connectivity where much still remains to be done; and the third wave Big Data, in which we have already started to work. That is why we have built differential technology platforms, with an investment effort of nearly 40 billion euros from 2012 to 2015, which have given us the best ultra-broadband networks, the best systems and the best service platforms.

We are using these assets to build a new customer knowledge platform closely linked to Big Data. This will certainly lead to a new wave of exponential growth in Telefónica that we are going to lead because few sectors have the knowledge of their customers that the companies in our sector have today. This knowledge gives us the chance to build a new relationship with our customers, giving them control over their personal data, ensuring visibility and control of their digital life and guaranteeing transparency, privacy and security.

At Telefónica we are convinced that digital life is life itself and that technology is an essential part of being human. We provide the

connections that give people the ability to choose offering endless possibilities. This is the reason we exist and by putting people at the centre we aspire to become an OnLife Telco.

Differential platforms are the pillars on which we will build our future, offering customers a differential experience. This will allow Telefónica to continue to grow and strengthen its position in the digital ecosystem; an ecosystem that requires a level playing field to ensure the sustainability of the sector and guarantee respect for the rights of citizens, regardless of who their service provider is. Only then can we successfully address the evolution towards the new digital economy and capture its full potential.

COMMITMENT TO PROGRESS

Our Company has always been characterised by its strong commitment to development and forward-looking societies. A commitment that, beyond the direct and indirect impact of our business in creating wealth in the countries where we operate —investment, job creation and tax contributions— has materialised through a number of different programmes and initiatives down through the years.

I would like to highlight the Company's focus on digital education through the Fundación Telefónica. Thanks to these efforts we are ranked No. three in the world in terms of investment in education. We know that education is the most powerful tool with which to reduce inequality and lay the foundations for the sustained growth of societies.

“At Telefónica we are convinced that digital life is life itself and that technology is an essential part of being human. This is the reason we exist and by putting people at the centre we aspire to become an OnLife Telco”



Also I would draw attention to our commitment to innovation: investment in R&D+i in 2015 has nearly reached 6.6 billion and is further strengthened by Telefónica's support of open innovation, fostering its scope of action through Open Future. This programme covers a range of initiatives focusing on entrepreneurship, innovation and investment that the Company undertakes to develop talent and which has been producing excellent results since its launch.

All these efforts establish Telefónica as a leader in innovation in the industry and in the countries where we operate.

We want to ensure access to digital life without leaving anyone behind. Reducing the digital divide thanks to the connectivity we provide and improving people's lives through innovation have become part of our corporate purpose as a responsible Company.

In 2015 Telefónica was among the nine leading companies in the world in terms of sustainability criteria according to the Dow Jones Sustainability Index (DJSI) and among the world's best telcos for its transparent management of climate change according to the Carbon Disclosure Project.

We believe that it is important to keep our different stakeholders informed about our activity and to do that we use standard publication criteria for non-financial information such as the GRI or the United Nations Global Compact.

Lastly, I would like to point out that at Telefónica we are committed to promoting a responsible business model capable of earning the trust of our customers, investors, employees and shareholders, and of the society at large.

This relationship of trust is even more relevant in the new digital world. A world where traditional models no longer apply and new rules and values are needed.

Values to respond to the demands and concerns of our stakeholders. Very clear values about what is right and what is not, what we believe in and how we behave.

All of this requires a much higher level of ambition, greater courage and being very demanding. Telefónica has to be a trusted Company, guarantor of customer security and privacy, bold in its transformation and with an open mind to interact with its environment. These are our values.

Dear shareholders, I am absolutely convinced that with our vision, strategy and values we will reach all the goals that we have set for ourselves. At Telefónica we are not satisfied with what has been achieved so far; we aspire to more in order to continue writing the success story that this Company is today. Success achieved through the efforts and dedication of all the professionals who are part of this Company.

Before concluding, I would like to thank you personally and on behalf of the Board of Directors for all the support and trust you have placed in us, especially in these new and exciting times. I am firmly convinced that together we will continue to make Telefónica a great company which gets better every day; something to be truly proud of.

Thank you very much,

José María Álvarez-Pallete
Chairman & CEO

“Telefónica has to be a trusted Company, bold in its transformation and with an open mind to interact with its environment. These are our values”



Company profile and values_

Telefónica is one of the largest telecommunications companies in the world in terms of market capitalisation and number of customers. Supported by the best fixed, mobile and broadband networks, as well as an innovative range of digital and data economy services, our Company is favourably placed to meet the needs of our customers and capture growth in new businesses.

We are sensitive to the new challenges demanded by today's society and, therefore, we provide the means to facilitate communication between people, providing them with the most secure and cutting-edge technology.

We work every day with an innovative spirit and immense technological potential to multiply our customers' ability to choose in a world in which technology forms an essential part of the human being.

Our headquarters is in Madrid. We currently operate in 16 countries, without counting the United Kingdom⁽¹⁾, and we have a customer base of 322.3 million accesses in Spain, Germany and Latin America, where most of our growth strategy is focused. We are, therefore, one of the most international companies in the sector, with close to 74% of our business being generated outside the domestic market. Movistar (in Spain and Latin America, except for Brazil), Vivo (in Brazil) and O2 (in Germany) are the main brand names around which we structure our commercial offer.

We are a wholly private company and have 1,328,308 direct shareholders. We are listed on the continuous market of the Spanish stock exchanges, as well as the stock exchanges in London, New York, Lima and Buenos Aires.

⁽¹⁾ Since the first quarter of 2015 the operations of Telefónica United Kingdom are reported as a discontinued operation within the Group. Its assets and liabilities are classified as "held for sale" in accordance with the IFRS (International Financial Reporting Standards), as a result of the signing of the definitive agreement to sell the Company in March 2015.

We provide the means to facilitate communication between people, providing the most secure and cutting-edge technology



The list of the companies comprising the Telefónica Group, with their name, main corporate purpose, country, share capital, percentage of effective participation in the Telefónica Group and the company or companies through which their participation in the Group is obtained can be found in Annex VI of the Report on Financial Studies.

In this document we present our Integrated Corporate Report corresponding to the 2015 fiscal year, in which we include the progress made during the year, our strategy and our positioning.

The content herein is complemented by updated information on our website, as well as the Annual Report on Corporate Governance and Director Remuneration, the Consolidated Statement of Annual Accounts and the corresponding Management Report for the period. The above documents are linked to this one for easy reference.

At Telefónica we publish this Report on an annual basis and present it at each General Shareholders' Meeting.

 **FURTHER INFORMATION**
Refer to the "Our Vision" section of our corporate website.



Main magnitudes 2015_



Financial highlights

All economic data in millions of euros

■ Revenue
 ■ Provisioning
 ■ Salary costs
■ Supported tax contributions
 ■ Investment

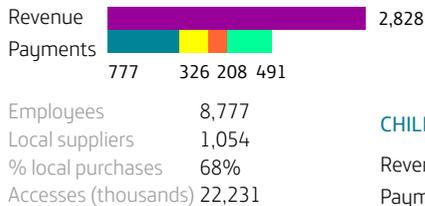
COLOMBIA 2015



ECUADOR 2015



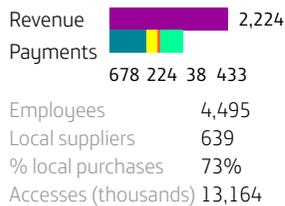
PERU 2015



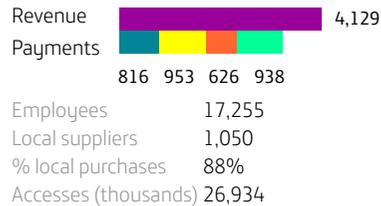
MEXICO 2015



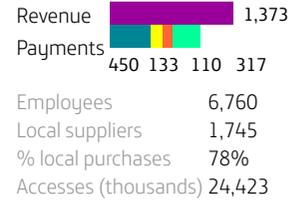
CHILE 2015



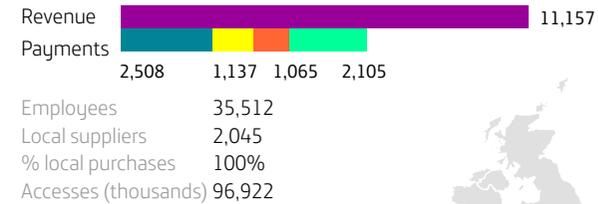
ARGENTINA 2015



VENEZUELA + CENTRAL AMERICA 2015



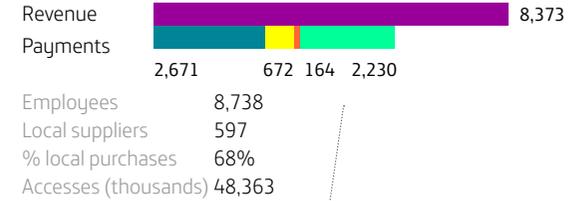
BRAZIL 2015



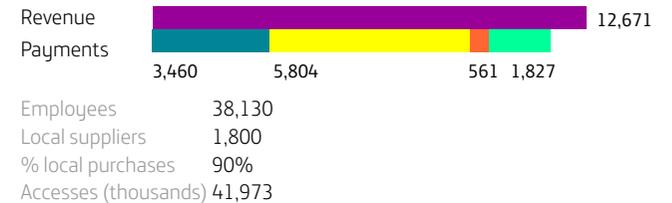
URUGUAY 2015



GERMANY 2015



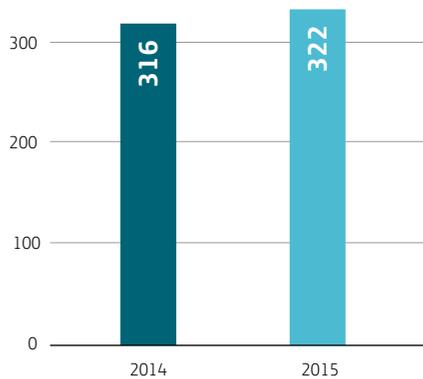
SPAIN 2015





TOTAL ACCESSES

Millions

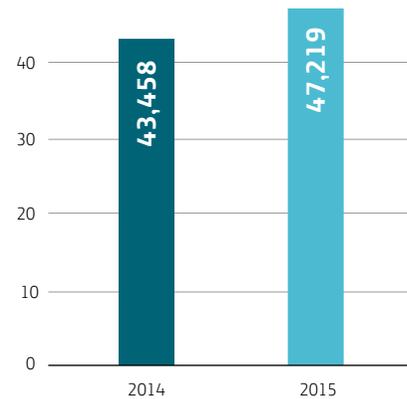


Note: For comparative purposes, the figure for 2014 is reported without the contribution of Telefónica United Kingdom, which has been considered a discontinuing asset since 1 January 2015.

Total accesses grew year-on-year by 2% in 2015 (-1% in organic terms), to reach 322.3 millions. This increase was driven by Telefónica Latin America (+2%), which accounts for 42% of the total, and was affected by a more restrictive calculation of the pre-paid accesses at Telefónica Brazil (which showed a net loss of 6.8 million customers). The solid organic growth of value customers continues to stand out, notably: fibre (+30% year-on-year), pay TV (+12%), smartphones (+29%) and LTE (3 times more).

REVENUE

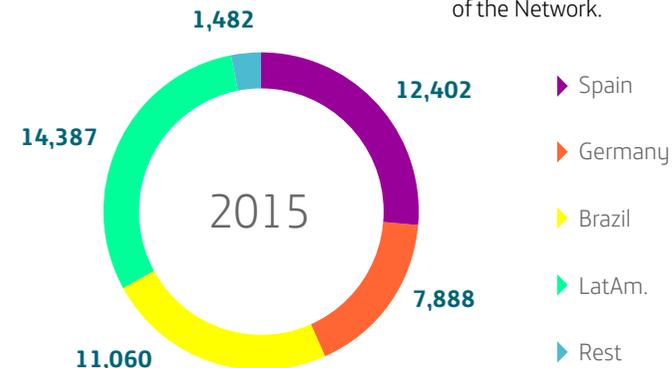
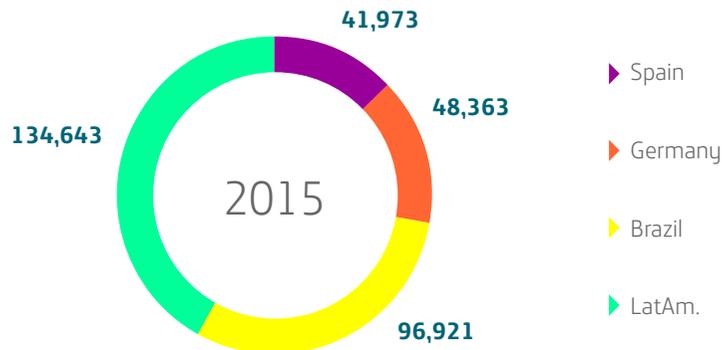
Millions of euros



Note: For comparative purposes, the figure for 2014 is reported without the contribution of Telefónica United Kingdom, which has been considered a discontinuing asset since 1 January 2015.

In the period from January-December revenue totalled 47,219 million Euros and maintained a solid growth rate of 4.0% on the previous year in organic terms (+8.7% reported). Telefónica Latin America headed the figures, reporting double digit growth, while Telefónica Brazil came in close behind, with growth accelerating to around 5%.

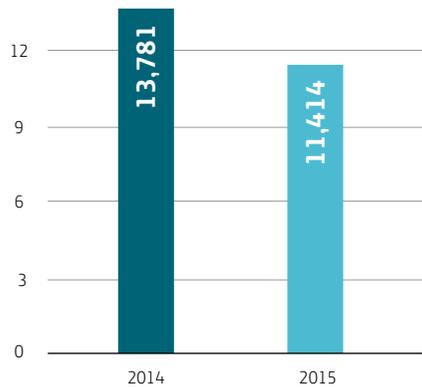
Mobile data revenue rose by 16.9% in organic terms, and now account for 42% of mobile service revenue due to the greater penetration of smartphones (+15 pp) and the growing importance of LTE customers (+8 pp). Meanwhile, the rise in revenue from non-SMS data sequentially improved by 1 pp to 27.8% in year-on-year organic terms (+25.3% in 2015), accounting for 82% of data revenue (+5 pp year-on-year). We should also highlight the greater average use of data traffic among LTE customers (63% greater than a 3G customer), which was reflected in double-digit ARPU increases, and generates a more efficient use of the Network.





OIBDA

Millions of euros

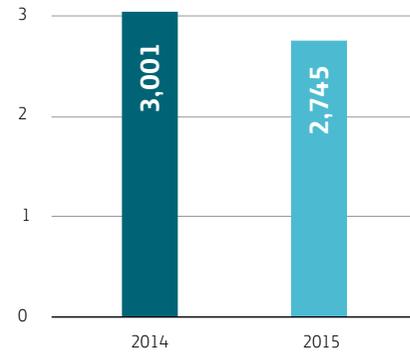


Note: For comparative purposes, the figure for 2014 is reported without the contribution of Telefónica United Kingdom, which has been considered a discontinuing asset since 1 January 2015.

In 2015, operating income before depreciation and amortisation (OIBDA) totalled 11,414 million euros and its year-on-year growth rate accelerated in organic terms (+3.6%) compared to 2014 figures. It is noteworthy that, in underlying terms, OIBDA totalled 14,926 million euros. The OIBDA margin remained stable against 2014, as a result of the rise in the rate of revenue growth, the greater containment of costs and the tangible benefits of the generation of synergies due to the integration of the newly-acquired companies.

NET PROFIT

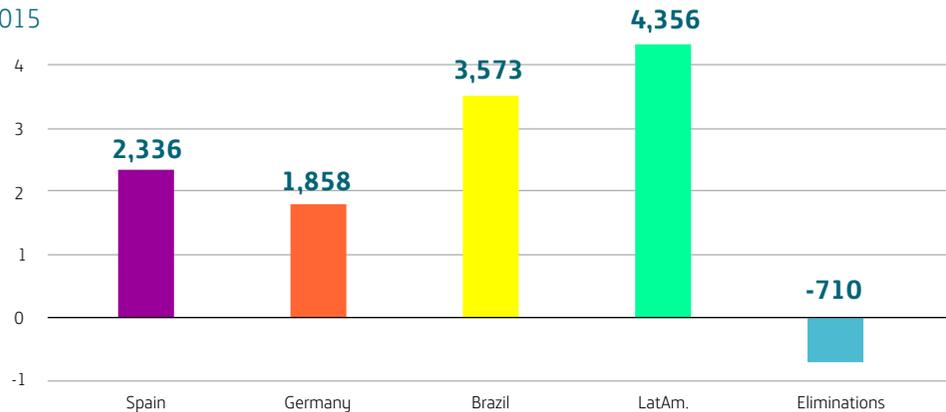
Millions of euros



Note: For comparative purposes, the figure for 2014 is reported without the contribution of Telefónica United Kingdom, which has been considered a discontinuing asset since 1 January 2015.

In 2015 net profit stood at 2,745 million euros, although the underlying net profit amounted to 5,787 million euros in 2015 (representing +29.7% year-on-year) and the basic net profit per share totalled 1.12 Euros (+23.9%), also in underlying terms. It is important to highlight that, in the latter months of the year, the Company's reported net profit was impacted by extraordinary factors. These factors included the provision for restructuring expenditures (-3,212 million euros), the provision for future years of Fundación Telefónica (-325 million euros), the provision for optimisation of the distribution Network in Spain (-30 million euros), adjustments in the valuation of some companies (-23 million euros), the final agreement on the purchase price of E-plus (+102 million euros), the result of the spectrum swap in Mexico (+79 million euros), the expiration of a payment obligation in Brazil (+98 million euros) and capital gains on the sale of property and phone towers (+100 million euros).

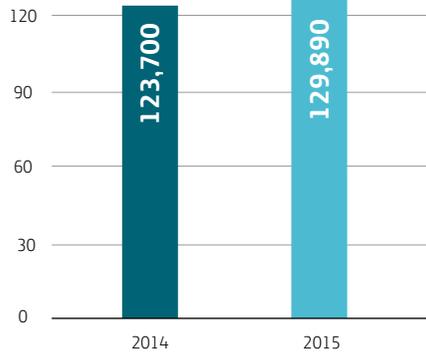
2015





EMPLOYEES

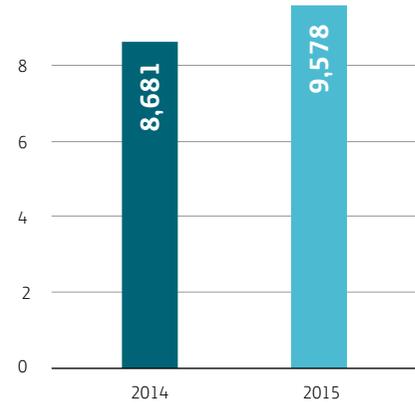
People



At the end of 2015 the Group had 129,890 employees, of which fewer than 1% held management positions. The workforce increased by 5% on the previous year. This increase is heavily influenced by the acquisition of GVT and DTS and the deconsolidation of O2 United Kingdom. Organic variation of the workforce, without taking into account corporate movements, fell by 3.7% in comparison with 2014. 95.8% of our workforce have permanent employment contracts and people under 30 now account for 20% of our workforce.

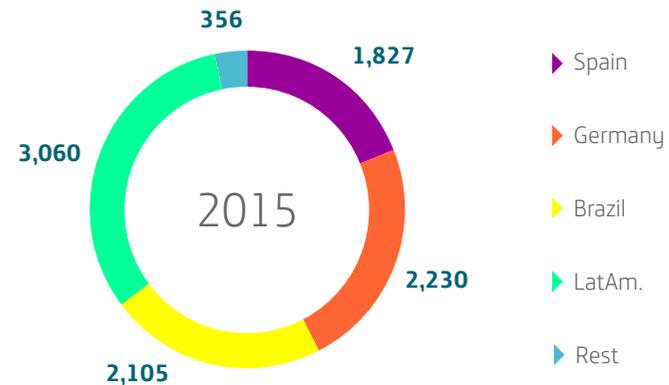
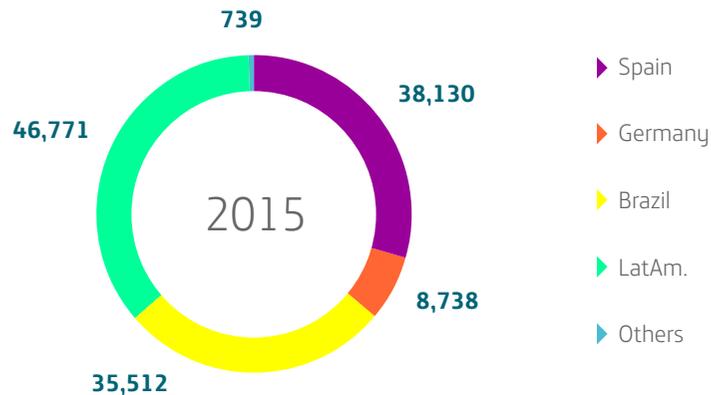
INVESTMENT

Millions of euros



In 2015 investment grew by 5.0% year-on-year in organic terms, reaching 9,578 million euros (+10.3% in reported terms). This figure includes 1,585 million euros of spectrum acquisition (76% of the total in Germany). During 2015, the Company took another step forward in its ongoing investment plan aimed at the growth and transformation of networks and systems, devoting 75% of total investment thereto, excluding the acquisition of spectrum.

Note: For comparative purposes, the figure for 2014 is reported without the contribution of Telefónica United Kingdom, which has been considered a discontinuing asset since 1 January 2015.

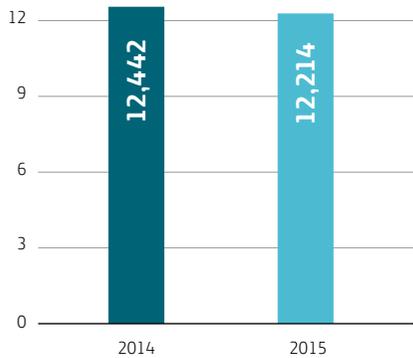




SUPPLIERS

Millions

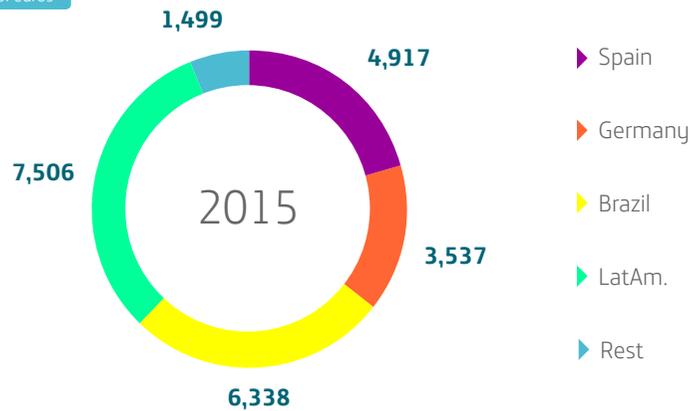
Number of suppliers



The total volume of purchases awarded during 2015 amounted to 23,797 million euros. The total number of suppliers contracted by Telefónica was 12,214 and we should highlight that 83% of these suppliers are local to the different countries in which Telefónica operates.

Volume of purchases

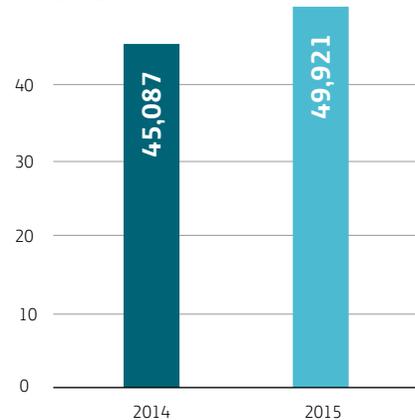
Millions of euros



DEBT

Millions of euros

Net financial debt



Net financial debt stood at 49,921 million euros in December 2015, reporting a year-on-year increase of 4,834 million euros. The factors which drove up the debt include: I) 6,934 million euros in net financial investments including changes to the perimeter; II) shareholder remuneration (dividends, treasury shares and hybrid coupons) amounting to 4,188 million euros; III) spectrum payments totalling 1,307 million Euros; IV) payment of work-related commitments (721 million euros), mainly for early retirements and v) other factors affecting the valuation of the liabilities totalling 1,185 million euros (primarily due to the refinancing of commercial liabilities). Conversely, the factors which reduced the debt include: i) the generation of free cash before the spectrum payment totalling 4,821 million euros; ii) the increase of capital of Telefónica S.A. totalling 3,003 million euros; iii) the contribution of minority interests to the increase of capital of Telefónica Brazil totalling 1,258 million euros and iv) the issuance of capital instruments amounting to 419 million euros.

The debt ratio (net debt over OIBDA) for the last 12 months was 2.91x at the close of December 2015. If the completion of the sale of O2 UK were taken into account, this ratio would be 2.38x.



Income statements

Millions of euros

	2014	2015
Revenues	43,458	47,219
Internal expense capitalised	651	784
Operating expenses	(30,783)	(37,132)
Supplies	(11,750)	(12,910)
Personnel costs	(6,621)	(9,800)
Other operating expenses	(12,412)	(14,422)
Other net revenues (expenses)	189	284
Result of disposal of fixed assets	269	275
Impairment and goodwill	(3)	(16)
Operating Income Before Depreciation and Amortisation (OIBDA)	13,781	11,414
OIBDA Margin	31.7%	24.2%
Depreciation and amortization	(7,430)	(8,517)
Operating income (OI)	6,350	2,897
Share of investment results by the equity method	(498)	(5)
Net financial income	(2,779)	(2,581)
Pre-tax income	3,074	311
Income tax	(260)	(13)
Earnings in the fiscal year from continued operations	2,814	298
Earnings in the fiscal year from discontinued operations	439	2,582
Profit for the year	3,252	2,880
Results attributable to minority interests	(251)	(135)
Net income	3,001	2,745
Weighted average number of ordinary shares outstanding (millions)	4,714	4,928
Net earnings per share from continued operations (euros)	0.50	(0.02)
Net earnings per share from discontinued operations (euros)	0.09	0.52
Basic net earnings per share (euros)	0.60	0.51

Notes:

Since the first quarter of 2015 Telefónica's operations in the UK have been reported as a discontinuing operation within the Telefónica Group, and its assets and liabilities are classified as "held for sale" in accordance with the IFRS, as a result of the signing of the definitive agreement for the sale of the company in March 2015. Similarly, the results for 2014 are reported in accordance with the same criterion.

The weighted average number of outstanding shares during the period is obtained by applying IAS 33 "Earnings per share". Therefore, the weighted average of treasury shares during the period do not count as outstanding shares. Moreover, the denominators are adjusted with the transactions which entail a modification of the number of outstanding shares without an associated variation in the equity (as if they have occurred at the beginning of the first presented period) and for the "scrip dividend" for 2014 and 2015. Likewise, the ordinary shares which are issued for the conversion of the imperatively convertible bonds issued on 24 September 2014 have been included in the calculation from that date onwards.

The net earnings per share from continued operations is obtained by dividing the earnings in the fiscal year from continued operations, including the results attributable to minority interests, adjusted for the allocation to the year of the net coupon corresponding to the "Other equity instruments", between the weighted average of ordinary outstanding shares during the period.

The net earnings per share from discontinued operations is obtained by dividing the figure for earnings for the fiscal year from discontinued operations, including the results attributable to minority interests, between the weighted average of ordinary outstanding shares during the period.

The basic net earnings per share is obtained by dividing the figure for net income, adjusted for the allocation to the year of the net coupon corresponding to the "Other equity instruments", between the weighted average of ordinary outstanding shares during the period.

The data reported in 2014 and 2015 includes the adjustments for hyperinflation in Venezuela in both years.

The consolidated results of the Telefónica Group consolidate the results of GVT and DTS since 1 May 2015, consolidate the results of E-Plus since the fourth quarter of 2014 and deconsolidate the results of Telefónica Ireland since the third quarter of 2014.



Consolidated statement of financial position

Millions of euros

	Dec-2014	Dec-2015
Non-current assets	99,448	91,398
Intangible	22,227	18,562
Goodwill	25,437	21,745
Tangible fixed assets and investment properties	33,156	30,549
Equity-accounted investments	788	74
Non-current financial assets	10,973	10,008
Deferred tax assets	6,867	10,460
Current assets	22,900	31,576
Stocks	934	1,360
Debtors and other accounts receivable	10,637	8,301
Current financial assets	2,932	2,971
Tax receivables	1,749	1,341
Cash and cash equivalents	6,529	2,599
Non-current assets held for sale	119	15,004
Net worth	30,321	27,556
Net worth attributable to parent company shareholders and other equity instruments holders	21,135	17,891
Net worth attributable to minority interests	9,186	9,665
Non-current liabilities	62,318	60,549
Long-term financial debt	50,688	47,117
Creditors and other long-term accounts payable	2,384	2,381
Deferred tax liabilities	2,566	2,313
Long-term provisions	6,680	8,738
Current liabilities	29,709	34,869
Short-term financial debt	9,094	12,953
Creditors and other short-term accounts payable	16,951	14,235
Tax payables	2,026	1,769
Short-term provisions	1,595	1,971
Liabilities associated with non-current assets held for sale	43	3,941
Total Assets = Total Liabilities	122,348	122,974
Financial data		
Net financial debt ⁽¹⁾	45,087	49,921

Notes:

Since the first quarter of 2015 Telefónica's operations in the UK have been reported as a discontinuing operation within the Telefónica Group, and its assets and liabilities are classified as "held for sale" in accordance with the IFRS, as a result of the signing of the definitive agreement for the sale of the company in March 2015.

The data reported in 2014 and 2015 includes the adjustments for hyperinflation in Venezuela in both years.

The consolidated statement of financial position on 31 December 2014 has been re-expressed as a result of the completion of the assignment process of the purchase price of E-Plus, which took place in the third quarter of 2015.

(1) Figures in millions of euros. The net financial debt in September 2015 includes: Long-term financial debt + Creditors and other long-term accounts payable (1,073) + Short-term financial debt + Creditors and other short-term accounts payable (462) - Non-current financial assets (5,793) - Current financial assets - Debtors and other accounts receivable CP (321) - Cash and cash equivalents.



Non-financial indicators

TRACKING TABLE FOR THE TELEFÓNICA GROUP'S NON-FINANCIAL INDICATORS

Economic	Unit	2014	2015
Impact on communities			
Number of direct, indirect and induced jobs ⁽¹⁾	People	n.a.	1,228,096
Purchases awarded locally	Percentage	85.0%	84.7%
Average period for payment to suppliers ⁽²⁾	Days	51	49
Global tax contribution: taxes borne ⁽³⁾	Millions of euros	3,555	3,130
Global tax contribution: total contribution ⁽⁴⁾	Millions of euros	12,057	11,454
Internal impact			
Number of audits of risk suppliers	Units	1,395	1,577
Suppliers with improvement plans arising from the audits	Units	520	608
Ratio of standard entry level wage compared to local minimum wage ⁽²⁾	Times	2.16	2.15
Customer			
Delivered traffic ⁽⁵⁾	Tbytes/month	1,103,789	1,653,406
Customer satisfaction index	Points out of 10	7.40	7.56
Digital Trust			
Attendees at courses related to data protection	People	62,950	49,352
Procedures initiated on data protection issues during the year	Units	n.a.	154
Number of fines confirmed for data protection issues during the year	Units	n.a.	78
Anti-corruption			
Number of trained active employees	People	59,360	75,648
Total communications processed in 2015 due to possible incidents	Units	n.a.	822
Total number of identified incidents of corruption and bribery	Units	0	0
Number of disciplinary measures taken in consequence	Units	0	0
Measures adopted as a result of the investigation of complaints (dismissals)	Units	4	38

(1) Direct impact as own activity, indirect impact as an ecosystem of suppliers and impact induced as consumption for salary income.

(2) As these are local and non-consolidated indicators, data referring to the domestic market, Spain, is provided.

(3) Taxes paid by Telefónica to administrations of the various States in which it operates, which cause the Company to assume an effective cost.

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

(5) Information from the internal Corporate Management Control systems.

Social	Unit	2014	2015
Internal impacts (HR)			
Total number of employees at the end of the period	People	123,700	129,890
Voluntary turnover	Percentage	7.6%	7.8%
Employees younger than 30 years of age	People	25,646	25,791
Percentage of women on the payroll	Percentage	38.0%	37.7%
Percentage of women in management positions	Percentage	20.6%	19.1%
Number of employees with disabilities	People	1,033	886
Total average salary of women in comparison with that of men with no difference in seniority: managers ⁽²⁾	Percentage	95.9%	96.5%
Total average salary of women in comparison with that of men with no difference in seniority: middle management ⁽²⁾	Percentage	96.4%	96.2%
Percentage of employees covered by collective bargaining agreements	Percentage	62.3%	70.4%
Rating of overall work environment	Points out of 100	79	79
Number of training hours	Thousands of hours	3,712.0	3,986.4
Absenteeism rate ⁽⁶⁾	Units	5,113	6,565
Accident rate ⁽⁷⁾	Units	1.01	1.04
External impacts			
Evolution of mobile broadband penetration into our communities	Percentage	33.6%	48.5%
Prepay mobile customers	Thousands	164,959.2	157,283.7
Payments for Universal Service ⁽⁸⁾	Millions of euros	350.6	324.2
Investment in social + cultural action Fundación/Sponsorships	Millions of euros	130.1	116.6

Environmental	Unit	2014	2015
Waste			
Internal waste managed (operations, offices)	Tonnes	20,838	23,423 ⁽¹⁰⁾
Customer waste (recycling and reuse)	Tonnes	1,928	2,765 ⁽¹¹⁾
Energy			
Total energy consumption	GJ	22,868,596	23,178,864
Energy from renewable sources	Percentage	15	16
GHG emissions			
Direct emissions (scope I)	tCO ₂ eq	92,004	95,677
Indirect emissions (scope II)	tCO ₂ eq	1,880,938	1,908,230
Indirect emissions (scope III) ⁽⁹⁾	tCO ₂ eq	36,430	34,075 ⁽¹²⁾
Consumption			
Water	Thousands of m ³	4,125	3,898

(6) (Number of days lost due to absences during the period/total number of days worked during the period) x 200,000.

(7) (Total number of accidents/total hours worked) x 200,000.

(8) The figure from Brazil corresponds to 2014, as the 2015 figure is pending adjustments.

(9) Business trips.

(10) The increase is due to the incorporation of GVT into Telefónica and its cable waste. More than 90% of the total waste managed by the Telefónica Group is made up of cables used in network roll-out.

(11) The increase is due to improvements in the reverse logistics processes which promote the circular economy and the reuse and recycling of equipment.

(12) Scope III indirect emissions correspond to business trips.

Share price performance

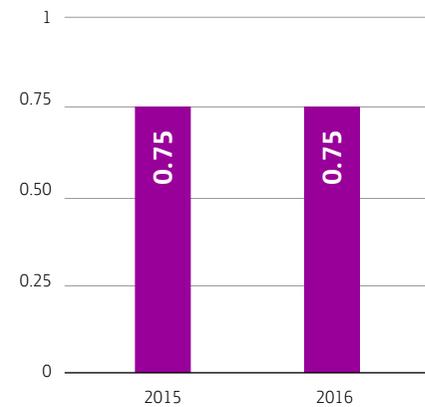
European equity markets were very volatile in 2015, with the year dividing into two parts. The first part of the year, to August, saw improving macroeconomic indicators and strong performance by exporting sectors, supported by a more competitive euro (as a result of ECB stimulus measures), driving markets upwards. However, uncertainty about economic growth in China and devaluation of the Yuan (increasing volatility for all emerging economy currencies and causing a collapse in commodity prices) and expectations of interest rate increases by the US Federal Reserve (with the first rise since January 2009 taking place on December 16), dragged the markets back from mid-August onwards. Against this backdrop, the performance of European indices varied over the year: CAC-40, +8.5%; DAX, +9.6%; FTSEMIB, +12.7%; EStoxx-50, +3.8%; Ibex-35, -7.2%; and FTSE-100, -4.9%. The Ibex-35 underperformed its peers due to the greater exposure of some of its companies to emerging economies, political uncertainty and the greater weight of exporting sectors in other European indices.

In terms of DJ Stoxx-600 sectors, the gainers in Europe were led by travel and leisure (+19.6%), financial services (+18.7%) and consumer goods (+18.7%), whilst basic materials (-34.9%), energy (-7.8%) and utilities (-3.7%)

led the fallers. The telecommunications sector was up 8.5% over the year, 1.7 p.p. higher than the DJ Stoxx-600 (+6.8%), due to operators experiencing a return to revenue growth in general terms and a better outlook for the future, together with announced and expected consolidations.

The Telefónica share ended 2015 at 10.24 euros per share, down 13.2%. This fall is reduced to 7.9% when the dividends distributed in the year (0.40 euros in cash and 0.35 euros in scrip dividend) are included.

In terms of individual shares, there were noteworthy performances by Telecom Italia (+33.2%, driven by consolidation in the domestic market, expectations of corporate actions involving its Brazilian subsidiary TIM, and the entry of significant new shareholders) and Deutsche Telekom (+26.0%, with a positive performance in its domestic market and the possible divestment of its T-Mobile subsidiary). In addition, BT finished the year up 17.5%, Telefónica Deutschland rose by 10.8% and Orange was up 9.4%. On the negative side, Vodafone fell 0.7%, and TeliaSonera was down 16.3%, impacted by corporate governance problems in its investments in Eurasia.



► Dividend, euros per share

Other leading Spanish companies by stock market capitalization also struggled (Repsol -34.9%, Santander -34.8% and BBVA -14.2%).

At 2015 year end, Telefónica's stock market capitalization stood at 50,921 million euros, the eleventh largest telecommunications company worldwide. The average trading volume in its shares on the Spanish continuous market was 33.7 million shares.

18%

Total shareholder return 2012-2015

At the Shareholders' Office we ensure that we maintain smooth and transparent communication with our private investors. As a result, in the past year we have attended a total of 61,221 calls on the shareholder information line (900 111 004), with a monthly average of 5,101 inquiries, and a further 3,338 inquiries via e-mail and post.

FURTHER INFORMATION

Refer to the "Shareholders and Investors" section of our corporate website.



2

Corporate governance_



Board of Directors_

With the support of its Committees, the Board of Directors of Telefónica, S.A. carries out its activities in accordance with regulations covering Corporate Governance, which are chiefly contained in the Articles of Association, the Regulations for the General Shareholders' Meeting and the Regulations of the Board of Directors.

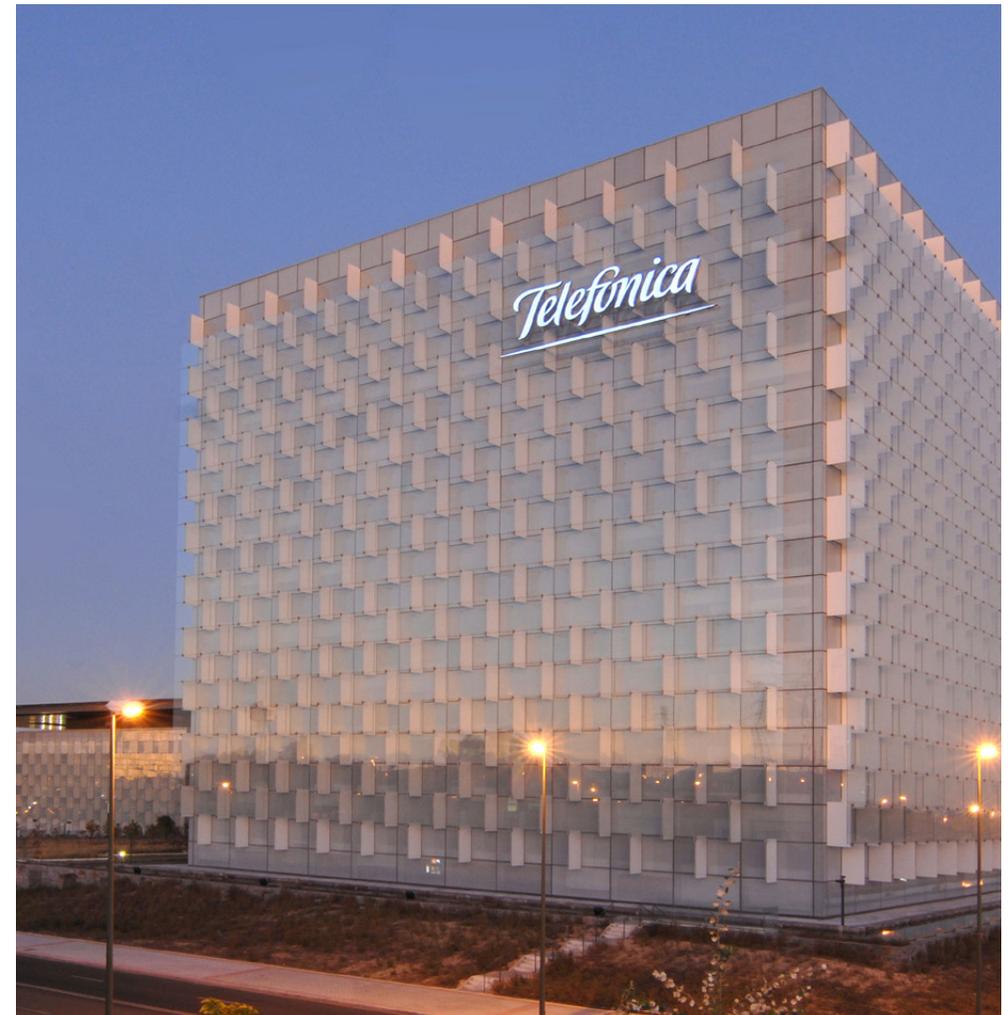
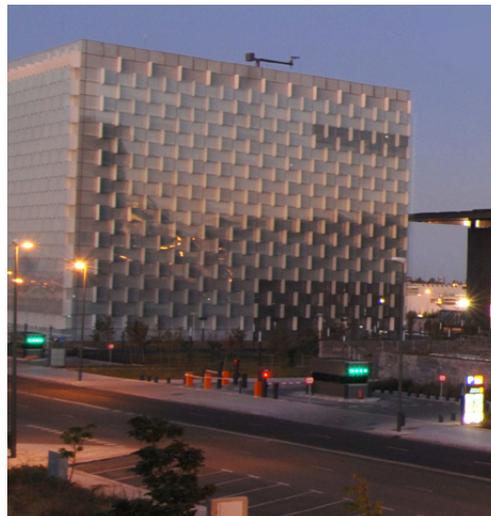
The Board of Directors is the body which supervises and controls Company activity, bearing sole responsibility for, among other things, the general policies and strategies of the Company, including those related to Corporate Governance, Corporate Responsibility, remuneration of Directors and Senior Management and shareholder remuneration, as well as strategic investments.

In order to strengthen the Company's Corporate Governance, the Board of Directors of Telefónica, S.A. has eight Committees, which are responsible for the examination and monitoring of areas of particular relevance.

Furthermore, in accordance with its Regulations, the Board of Directors entrusts the ordinary management of the businesses to the executive bodies and the management team at Telefónica, S.A.

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

Each year at Telefónica we publish a full report on the remuneration of all our Directors, their structure, the items of remuneration, the fixed and variable short and long-term payments, as well as other kinds of allowances. This information can be found in the Report on Corporate Governance and Remunerations of Directors.





COMPOSITION OF THE BOARD OF DIRECTORS

	Executive directors	Proprietary external directors	Independent external directors	Other external directors
Mr. José María Álvarez-Pallete López (Chairman)	●			
Mr. Isidro Fainé Casas (Vice-Chairman)		●		
Mr. José María Abril Pérez (Vice-Chairman)		●		
Mr. Julio Linares López (Vice-Chairman)				●
Mr. César Alierta Izuel				●
Ms. Eva Castillo Sanz				●
Mr. Juan Ignacio Cirac Sasturain			●	
Mr. José Javier Echenique Landiribar			●	
Mr. Peter Erskine			●	
Ms. Sabina Fluxà Thienemann			●	
Mr. Luiz Fernando Furlán			●	
Mr. Gonzalo Hinojosa Fernández de Angulo			●	
Mr. Pablo Isla Álvarez de Tejera			●	
Mr. Peter Löscher			●	
Mr. Antonio Massanell Lavilla		●		
Mr. Ignacio Moreno Martínez		●		
Mr. Francisco Javier de Paz Mancho			●	
Mr. Wang Xiaochu		●		
Mr. Ramiro Sánchez de Lerín García-Ovies (Non-voting Secretary)				
Ms. María Luz Medrano Aranguren (Non-voting Vice-Secretary)				



COMMITTEES OF THE BOARD OF DIRECTORS

	Executive Committee	Audit and Control	Appointments, Remuneration and Corporate Governance	Institutional Affairs	Regulation	Quality of service and Customer	Innovation	Strategy
Mr. José María Álvarez-Pallete López (Chairman)	●							
Mr. Isidro Fainé Casas (Vice-Chairman)	●							
Mr. José María Abril Pérez (Vice-Chairman)	●						●	
Mr. Julio Linares López (Vice-Chairman)				●			●	●
Mr. César Alierta Izuel								
Ms. Eva Castillo Sanz					●	●		●
Mr. Juan Ignacio Cirac Sasturain								
Mr. José Javier Echenique Landiribar	●	●						
Mr. Peter Erskine	●		●				●	●
Ms. Sabina Fluxà Thienemann								
Mr. Luiz Fernando Furlán								
Mr. Gonzalo Hinojosa Fernández de Angulo	●	●	●	●	●	●		●
Mr. Pablo Isla Álvarez de Tejera			●					
Mr. Peter Löscher								
Mr. Antonio Massanell Lavilla		●		●		●	●	
Mr. Ignacio Moreno Martínez		●			●	●		
Mr. Francisco Javier de Paz Mancho	●		●	●	●	●		
Mr. Wang Xiaochu								



Committees of the Board of Directors

EXECUTIVE COMMITTEE

Functions. The Board of Directors, always in accordance with the current legal provisions, delegates its powers and attributions, except those which cannot be delegated for legal,

statutory or regulatory reasons, to an Executive Committee. This Committee allows the Board of Directors greater operability and effectiveness in the exercise of its functions, inasmuch as it meets more frequently than the latter.

Mr. José María Álvarez-Pallete López	Chairman
Mr. Isidro Fainé Casas	Vice-Chairman
Mr. José María Abril Pérez	Vice-Chairman
Mr. José Javier Echenique Landiribar	Member
Mr. Peter Erskine	Member
Mr. Gonzalo Hinojosa Fernández de Angulo	Member
Mr. Francisco Javier de Paz Mancho	Member
Mr. Ramiro Sánchez de Lerín García-Ovies	Secretary

AUDIT AND CONTROL COMMITTEE

Functions. This Committee, among other tasks, supports the Board of Directors in its supervisory work and assumes the power: to report on issues raised by shareholders on matters which are within the Committee's scope of competence; to propose the appointment and terms of engagement of the accounts auditor; to supervise the internal audit and the process of drawing up and submitting the regulated financial information; to propose the policy for risk control and management; and to establish and maintain an appropriate relationship with the accounts auditor. Sustainability risks are also reported to this Committee.

Composition	Position	Date of Appointment
Mr. José Javier Echenique Landiribar	Chairman	8 April 2016
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	26 June 2002
Mr. Antonio Massanell Lavilla	Member	30 August 2000
Mr. Ignacio Moreno Martínez	Member	31 May 2013

**APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE**

Functions. This Committee assumes the tasks of reporting, in accordance with objectivity criteria and the corporate interests, on proposals for the appointment, re-election and dismissal of Board Members and Senior Managers of the Company and its subsidiaries, evaluating the skills, knowledge and experience necessary for candidates to fill the vacancies. It also proposes to the Board of Directors, within the framework

established in the Articles of Association, the extent and amount of remunerations, rights and economic compensations to be allocated to the Chairman and Senior Managers of the Company, including the basic terms of their contracts for the purposes of contractual implementation. It also oversees compliance with the Telefónica internal codes of conduct and Corporate Governance regulations in force at all times.

Composition	Position	Date of Appointment
Mr. Francisco Javier de Paz Mancho	Chairman	8 April 2016
Mr. Peter Erskine	Member	27 February 2008
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	30 November 2005
Mr. Pablo Isla Álvarez de Tejera	Member	26 June 2002

Composition	Position	Date of Appointment
Mr. Antonio Massanell Lavilla	Chairman	26 March 1999
Ms. Eva Castillo Sanz	Member	16 December 2009
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	26 June 2002
Mr. Ignacio Moreno Martínez	Member	31 May 2013
Mr. Francisco Javier de Paz Mancho	Member	31 May 2013

QUALITY OF SERVICE AND CUSTOMER CARE COMMITTEE

Functions. Among other tasks, this Committee performs the examination, analysis and regular monitoring of the quality indices for the main services provided by companies in the

Telefónica Group. It also assesses the levels of customer care provided by the Group companies to their customers.

REGULATION COMMITTEE

Functions. Among other powers, this Committee assumes the role of carrying out permanent monitoring of the main regulatory issues and affairs affecting the Telefónica Group at any one time. It also serves as a channel of communication and information on regulatory

matters between the Management Team and the Board of Directors and, when appropriate, it informs the latter on matters it considers important or relevant to the Company or any of the Group companies, and for which it is necessary or appropriate to make a decision or establish a particular strategy.

Composition	Position	Date of Appointment
Mr. Gonzalo Hinojosa Fernández de Angulo	Chairman	24 April 2013
Ms. Eva Castillo Sanz	Member	16 December 2009
Mr. Ignacio Moreno Martínez	Member	31 May 2013
Mr. Francisco Javier de Paz Mancho	Member	23 January 2008

**INSTITUTIONAL AFFAIRS COMMITTEE**

Functions. Without detriment to any other functions which may be entrusted to it by the Board of Directors, the Institutional Affairs Committee's main task is to study and analyse issues and aspects related to Institutional

Relations, as well as to approve and monitor the Corporate Responsible Business Plan of the Telefónica Group.

Composition	Position	Date of Appointment
Mr. Julio Linares López	Chairman	31 May 2013
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	31 May 2013
Mr. Antonio Massanell Lavilla	Member	31 May 2013
Mr. Francisco Javier de Paz Mancho	Member	31 May 2013

Composition	Position	Date of Appointment
Mr. José María Abril Pérez	Member	18 May 2011
Mr. Peter Erskine	Member	30 July 2008
Mr. Julio Linares López	Member	18 December 2013
Mr. Antonio Massanell Lavilla	Member	30 July 2008

INNOVATION COMMITTEE

Functions. This Committee's main purpose is to advise and provide support in all matters related to innovation, performing the analysis, study and regular monitoring of Company innovation projects, and providing the criteria

and support necessary to ensure the proper implementation and development of these projects throughout the Telefónica Group.

STRATEGY COMMITTEE

Functions. Among other functions, this Committee's main task is to support the Board of Directors in the analysis and monitoring of the strategic policy of the Telefónica Group at a global level.

Composition	Position	Date of Appointment
Mr. Peter Erskine	Chairman	17 December 2008
Ms. Eva Castillo Sanz	Member	17 December 2008
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	17 December 2008
Mr. Julio Linares López	Member	31 May 2013



Members of the Board

Mr. José María Álvarez-Pallete López

Chairman & CEO

Degree in Economic Sciences from the Complutense University of Madrid. Studies in Economic Sciences at the Université Libre of Brussels, in Belgium. International Management Program (IMP) at the Pan-American Institute of Management Development (IPADE). Diploma in Advanced Studies (DEA) from the Faculty of Financial Economics and Accountancy of the Complutense University of Madrid.

He has been Chairman of Telefónica, S.A. since 8 April 2016, having previously held various other positions within the Telefónica Group since 1999, including COO of Finance at Telefónica Internacional, S.A.U., COO 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 Executive Officer of Telefónica, S.A.

He previously worked at Arthur Young Auditors, Benito & Monjardín/Kidder, Peabody & Co. and Cementos Portland (Cemex). He has been a Board Member of the Cemex Group in Indonesia, based in Jakarta, China Netcom Group Corporation Limited and Portugal Telecom SGPS, S.A, among other companies.

Mr. Isidro Fainé Casas

Vice-Chairman

Doctor of Economic Sciences. Diploma in Senior Management from IESE. ISMP in Business Administration from Harvard University. Member of the Royal Academy of Economics and Finance and the Royal Academy of Doctorate Holders.

He is Chairman of CaixaBank, S.A., Chairman of the Board of Trustees of the Caixa d'Estalvis i Pensions de Barcelona Banking Foundation ("La Caixa") and of Criteria Caixa, S.A.U., First Vice-Chairman of Repsol, S.A., and a Board Member of Gas Natural SDG, S.A., Banco BPI, S.A., the Bank of East Asia and the Suez Environnement Company.

He is Chairman of the Spanish Confederation of Savings Banks (CECA). He is Chairman of the European Savings Banks Group (ESBG) and Deputy Chairman of the World Savings Banks Institute (WSBI). He is also Chairman of the Spanish Confederation of Executives (CEDE), the Spanish Chapter of the Club of Rome and the Círculo Financiero. He is also a member of the Business Council for Competitiveness (CEC).

Mr. José María Abril Pérez

Vice-Chairman

Degree in Economic Sciences from the Commercial 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-Chairman of Spanish Stock Markets ("Bolsas y Mercados Españoles" -BME-).

Mr. Julio Linares López

Vice-Chairman

Telecommunications engineer. He joined Telefónica in May 1970 at the Research and Development Centre and, since then, has held several positions at Telefónica, including that of CEO of Telefónica Multimedia, Executive Chairman of Telefónica España, Chairman of the Supervisory Board of Cesky Telecom, Managing Director for Coordination, Business Development and Synergies, and CEO of Telefónica, S.A.

He is currently a member of the Board and Executive Committee of the GSM Association. He is a Trustee of the Mobile World Capital Barcelona Foundation, the Spanish Confederation of Directors and Executives Foundation (CEDE), and Fundación Telefónica. He is also a member of the Executive Committee and Management Board of the CEOE, the AMETIC Advisory Council, the Governing Council of the Association for Progress in Management and the Social Council of the Complutense University of Madrid.

He is also a member of COIT (Official Association of Telecommunications Engineers) and the AEIT (Spanish Association of Telecommunications Engineers). He is a Member of the Advisory Board of the Higher Technical School of Telecommunications Engineers.



Mr. César Alierta Izuel

Member of the Board

Law degree from the University of Zaragoza with a Master's Degree in Business Administration from the University of Columbia, New York.

He is the Executive Chairman of Fundación Telefónica. He is also a Board Member of China Unicom (Hong Kong) Limited and International Consolidated Airlines Group (IAG) and a Patron of the Caixa d'Estalvis i Pensions de Barcelona Banking Foundation ("La Caixa").

He is a Member of the Columbia Business School Board of Overseers and Chairman of the Business Council for Competitiveness and the Social Council of the National University of Distance Learning ("Universidad Nacional de Educación a Distancia" (UNED)).

Other positions he has held include Founding Chairman of Beta Capital Society, President of the Spanish Institute of Financial Analysts and Chairman of Tabacalera, S.A. Furthermore, in July 2000 he was appointed Executive Chairman of Telefónica, S.A., a post he held until April 2016.

Ms. Eva Castillo Sanz

Member of the Board

Degree in Law and Business Administration from the Pontifical University of Comillas, ICADE (E-3) of Madrid.

She is currently Chair of the Supervisory Board of Telefónica Deutschland Holding, AG, and Independent Board Member of Bankia and Visa Europe. She is also a Member of the Board of Trustees of Fundación Telefónica, the Comillas-ICAI Foundation and the Entreculturas Foundation.

Among other positions, she has been Chair and CEO of Telefónica Europe, Chair of the Supervisory Board of Telefónica Czech Republic, a.s. and Board Member of Old Mutual Plc.

She held various positions at Merrill Lynch until she was appointed Head of Merrill Lynch Private Bank for Europe, the Middle East and Africa (EMEA), a position she held until December 2009.

Mr. Juan Ignacio Cirac Sasturain

Member of the Board

Doctor of Physics from the Complutense University of Madrid and a Degree in Theoretical Physics from the same University. Areas of specialisation: Theoretical Quantum Optics, Quantum Information, Atomic Physics and Quantum Many-Body Physics.

His professional experience includes Speaker at 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 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 Committee of the BBVA Foundation (since 2010); Member of the Advisory Board of the Science Centre of Benasque (since 2008); Member of the Scientific Advisory Board, Centre of Quantum Technology, NUS, Singapore

(since 2007); and 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: Member Elect 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-Gurión Medal, Ben-Gurión 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 speaker at more than 200 international conferences and has also performed teaching work and held public classes.



Mr. José Javier Echenique Landiribar

Member of the Board

Degree 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.

He is currently a member of the Board of Directors of Banco Sabadell (Vice-Chairman), Board Member of Repsol, S.A., ACS Actividades de Construcción y Servicios, S.A., ACS Servicios, Comunicaciones y Energía, S.L., Telefónica Móviles México and Grupo Empresarial ENCE, S.A.

He is also a Member of the Advisory Board of Telefónica España and a Delegate of the Telefónica Basque Country Council, a Patron of the Novia Salcedo Foundation, Board Member of the Deusto Business School and Member of the Circle of Basque Entrepreneurs.

He has been Director and Managing Director of Allianz-Ercos and Director General of the BBVA Group (Head of Wholesale Banking). He has also been a member of the Board of Directors of Telefónica, S.A., Telefónica Móviles, S.A., President of Banco Guipuzcoano, Sevillana de Electricidad, S.A., Acesa, Hidroeléctrica del Cantábrico, Corporación IBV, Metrovacesa, the Patricio Echeverría Corporation, the BBVA Seguros Group, the Edhardt Group, Uralita, the Porres Group (Mexico) and Abertis Infraestructuras, S.A.

Mr. Peter Erskine

Member of the Board

Degree in Psychology from the University of Liverpool, appointed Doctor Honoris Causa by Reading University.

He is Chairman of the Henley Business School Strategy Board, a Member of the Board of Reading University and a Member of the University Strategy and Finance Committees.

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

Ms. Sabina Fluxà Thienemann

Member of the Board

Degree in Business Management and Administration, with an MBA from ESADE. She has also completed a Business Management Program at IESE.

In January 2005 she joined the Iberostar Group, where she currently holds the position of Co-Vice Executive Chair and CEO.

In addition, she holds the positions of Board Member at ACS, Member of the Regional Advisory Board of BBVA, Member of the Governing Council of APD Illes Balears and is a Patron of the Iberostar Foundation, the Eneavor Foundation and the ACS Foundation.





Mr. Luiz Fernando Furlán

Member of the Board

Degrees in Chemical Engineering from the FEI (Industrial Engineering Faculty of São Paulo) and 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 Chairman of the Board of Directors of the Amazon Sustainability Foundation and a Member of the Global Ocean Commission.

He is also a Member of the Board of Directors of Brasil Foods, S.A. (BRF), Telefónica Brazil, S.A. and the AGCO Corporation.

From 2003 to 2007 he was Minister for Industry, Development and Trade in the Brazilian Government. Prior to that he was a Member of the Board of Directors and Advisor to numerous companies, including Sadia, S.A., Panasonic (Japan), Wal-Mart (USA) and Abertis Infraestructuras, S.A. (Spain).

Mr. Gonzalo Hinojosa Fernández de Angulo

Member of the Board

Doctor of Industrial Engineering from the Higher Technical School of Industrial Engineers in Madrid.

He is a Board Member of Telefónica del Perú, S.A.A.

He was Managing Director, CEO and Chairman of the Cortefiel Group until 2006. He has also been a Board Member of Banco Central Hispano Americano, Portland Valderribas and Altadis S.A.

Mr. Pablo Isla Álvarez de Tejera

Member of the Board

Law degree from the Complutense University of Madrid and State Attorney.

He has been Chairman and CEO of the INDITEX Group since 2011. From 2005 he was Vice-Chairman and Chief Executive Officer.

He was previously Director of Legal Services at Banco Popular (1992-1996), Managing Director of State Assets at the Ministry of Economy and Finance, and Chairman of the Altadis Group (2000-2005).

Mr. Peter Löscher

Member of the Board

He 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 Program at the Harvard Business School.

He is Chairman of Sulzer AG, non-Executive Vice-Chairman of Renova Management AG, Member of the Supervisory Board of Deutsche Bank and Member of the Board of TBG AG (Switzerland).

Former Chairman and CEO of Siemens AG. He was previously President of Global Human Health and Member of the Executive Board of Merck & Co., Inc., CEO 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 was 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.



Mr. Antonio Massanell Lavilla

Member of the Board

Degree in Economic Sciences and Business Studies from the University of Barcelona.

He is currently Vice-Chairman of CaixaBank, S.A. He is also a member of the following Boards of Directors: Cecabank (Non-executive Chairman), Mediterranea Beach & Golf Community, S.A., (Vice-Chairman), Board Member of SAREB (Company for the Management of Assets proceeding from Restructuring of the Banking System) and a member of the Supervisory Board of ERSTE Group Bank.

In addition, he is Vice-President of the Board of Trustees of COTEC (Foundation for Technological Innovation), Chairman of the Barcelona Centre Financer Europeu Association, a Member of the Plenary Body of the Chamber of Commerce of Barcelona (since 2010) and a member of the ERPB (Euro Retail Payments Board), representing the European Savings and Retail Banking Group (since April 2014).

During his career he has served on the Boards of Directors of several companies, including Visa España, Inmobiliaria Colonial and Boursorama, S.A., and as Chairman of Port Aventura Entertainment, S.A. and the Barcelona Digital Technology Centre.

Mr. Ignacio Moreno Martínez

Member of the Board

Degree in Economic and Business Sciences from the University of Bilbao, with a Master's Degree in Marketing and Commercial Management from the Business Institute. He also has a Master's Degree in Business Administration (MBA) from INSEAD.

He is the current CEO of Metrovacesa, S.A. and the natural person representing the Board Member Cardomana Servicios y Gestiones, S.L. in Secuoya, Grupo de Comunicación, S.A.

He has worked at Banco de Vizcaya, Banco Santander Business, Mercapital, Corporación Bancaria de España, S.A., Argentaria Bolsa, Sociedad de Valores and Banco Bilbao Vizcaya Argentaria, S.A., where he was Managing Director of the Presidency Area. He has also been CEO of N+1 Private Equity.

Mr. Francisco Javier de Paz Mancho

Member of the Board

Degree in Information and Marketing. Law studies. Diploma in Senior Management from IESE (University of Navarre).

He is a Board Member of Telefónica de Argentina S.A. and Telefónica Brazil, S.A.

Other positions he has held include Chairman of Telefónica Gestión de Servicios Compartidos España, S.A.U., Chairman of Atento Inversiones y Teleservicios, S.A.U., of the National MERCASA Company, Board Member of Tabacalera, S.A., Assistant to the Chairman and Director of Corporate Strategy of the Panrico Donuts Group, Managing Director of Internal Trade at the Ministry of Trade and Tourism, Board Member of the Panrico Group and Member of the Executive Committee of the Higher Council of Chambers.

Mr. Wang Xiaochu

Member of the Board

Professor of Higher Engineering; He graduated in Telecommunications Engineering in 1989 from the Institute of Posts and Telecommunications in Beijing. He completed a doctorate in Business Administration at Hong Kong Polytechnic University in 2005.

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

Wang Xiaochu has been Managing Director of Hangzhou Telecommunications Bureau in Zhejiang Province and Managing Director of Tianjin Posts and Telecommunications Administration. He has also been Chairman and CEO of China Mobile (Hong Kong) Limited, Vice-Chairman 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.



Executive Committee

Telefónica's Executive Committee aims to provide more visibility for local operators, bringing them closer to the centre of decisions, and to strengthen transverse areas in order to improve flexibility and agility in the decision-making process. The organisation revolves around a management team which has as its main focuses the definition of strategy and the monitoring of business evolution.



Mr. José María Álvarez-Pallete
Chairman & CEO

Mr. Ángel Vilá
CSFO



Mr. Carlos López Blanco
Public Affairs & Regulation



Ms. María García-Legaz
Chief of Staff



Mr. Eduardo Navarro
Chief Commercial Digital Officer



Mr. Guillermo Ansaldo
Chief Global Resources Officer



Mr. Ramiro Sánchez de Lerín
General Counsel



Ms. María Luisa Navas
Corporate Comm. & Institutional Marketing



Ms. Laura Abasolo
Planning & Control



Mr. Ian Small
Chief Data Officer



Mr. Thorsten Dirks
Telefónica Germany



Mr. Markus Haas
Telefónica Germany



Mr. Ronan Dunne
Telefónica UK



Mr. Amos Genish
Telefónica Brazil



Mr. Luis Miguel Gilpérez
Telefónica Spain



Mr. Eduardo Caride
Telefónica HispAm



3

Contribution
to progress_



Economic impacts_

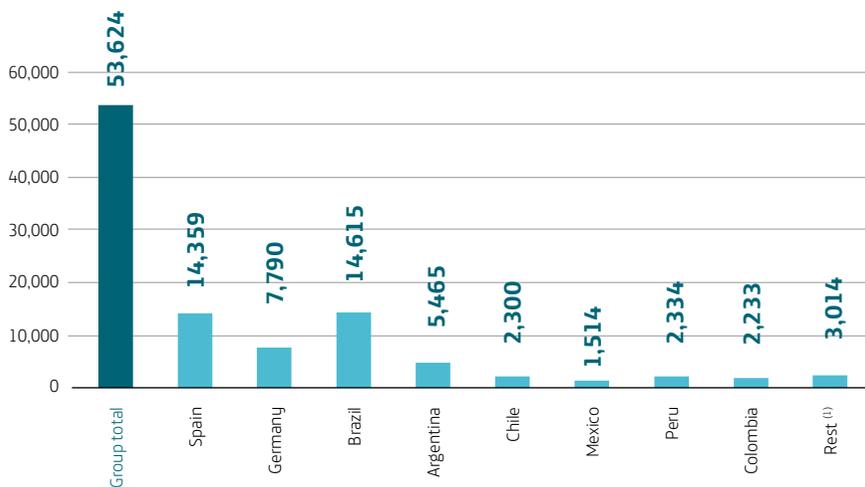
We are one of the most important drivers of economic progress in the communities in which we are present, having contributed more than 53,600 million euros to the combined GDP of the countries in which we operate in 2015.

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

For each euro of profit we generated, we contributed **€3.7** to the GDP of the countries in which we operate

IMPACT ON GDP

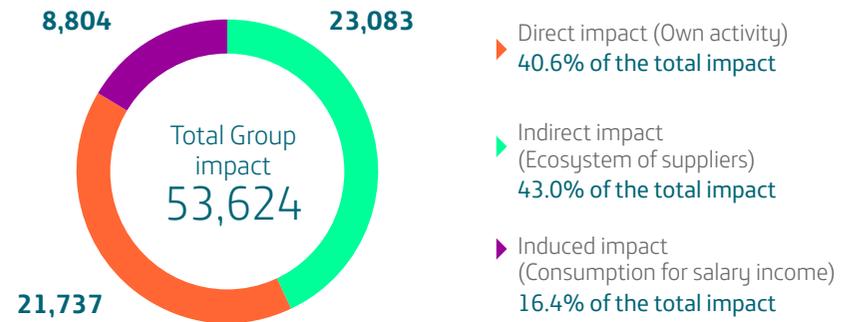
Millions of euros Source: PwC analysis



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

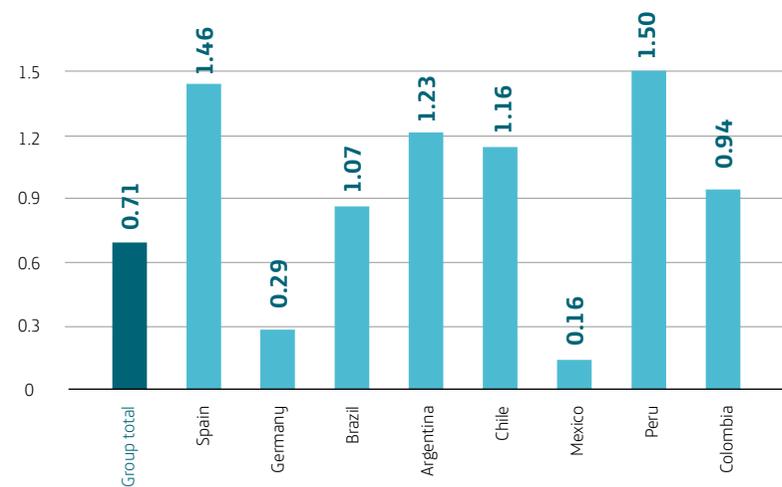
IMPACT ON THE TOTAL NUMBER OF COUNTRIES IN WHICH WE HAVE A PRESENCE

Millions of euros Source: PwC analysis



% OF GDP

% Source: PwC analysis





IMPACTS ON EMPLOYMENT

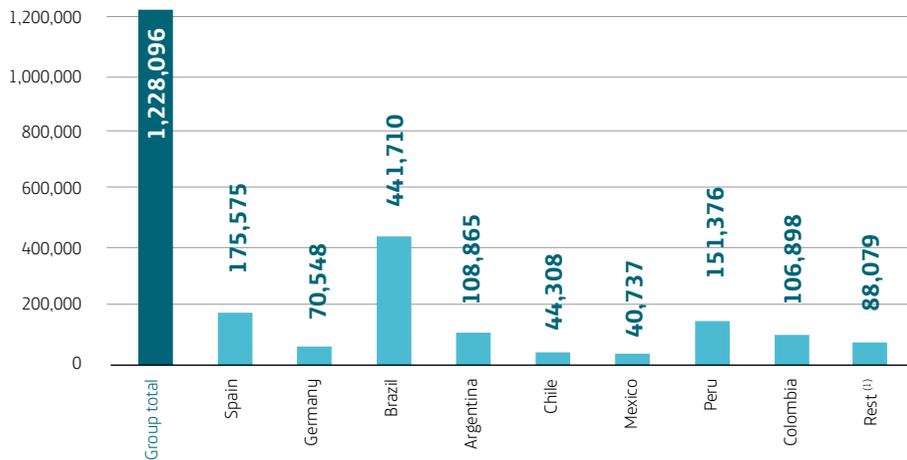
Telefónica is also a major driver of job creation in the countries in which we operate. To be specific, in 2015 we contributed to employment in these countries through more than

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

For each employee we recruited we generated **8.5** additional jobs in the countries in which we operate

IMPACT ON EMPLOYMENT

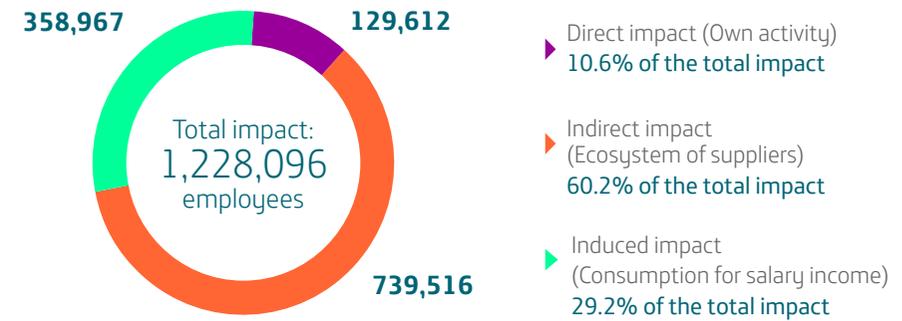
Employees Source: PwC analysis



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

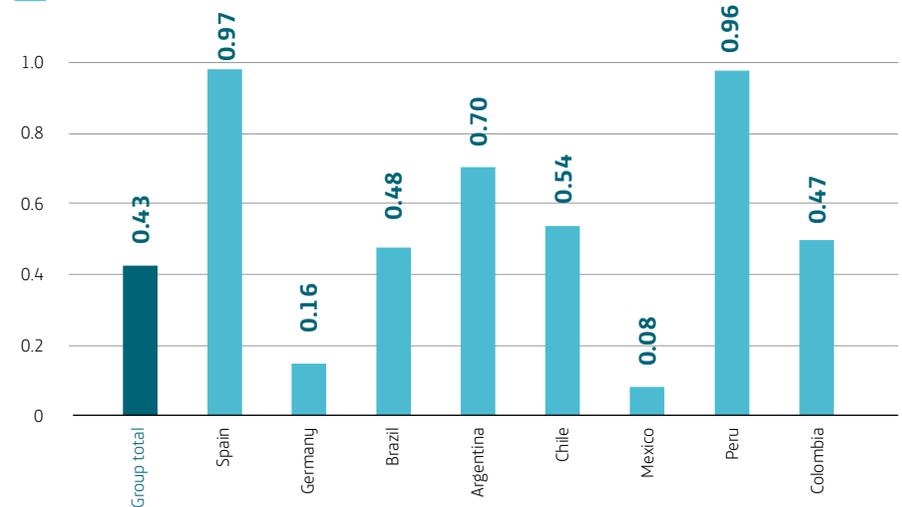
IMPACT ON THE TOTAL NUMBER OF COUNTRIES IN WHICH WE HAVE A PRESENCE

People Source: PwC analysis



% OF NUMBER OF WORKERS

% Source: PwC analysis



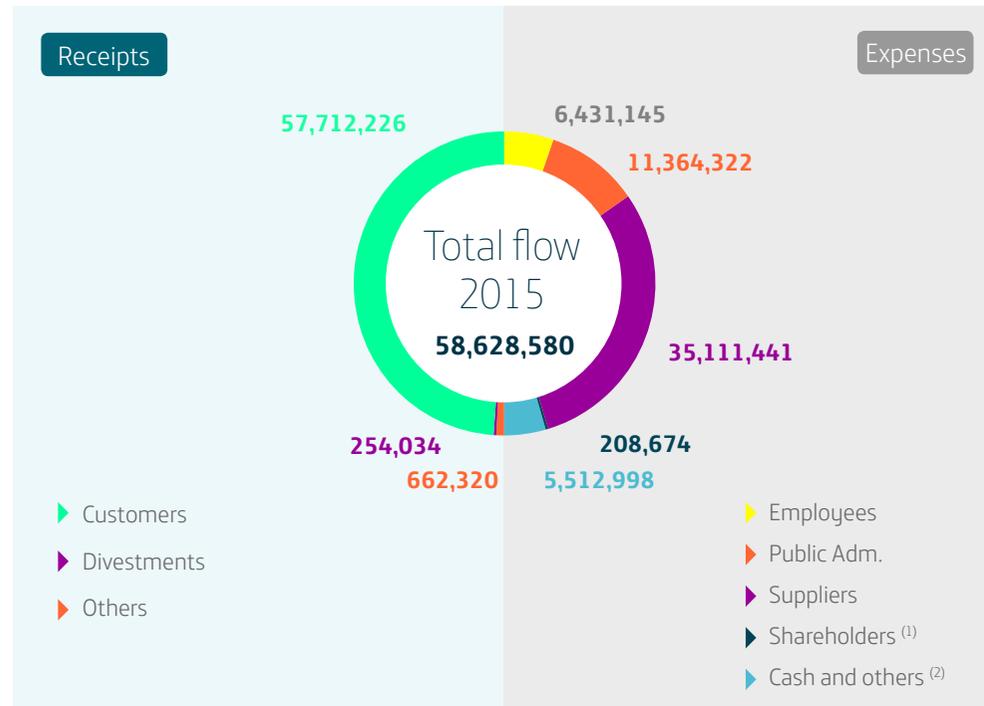


SOCIAL CASH FLOW

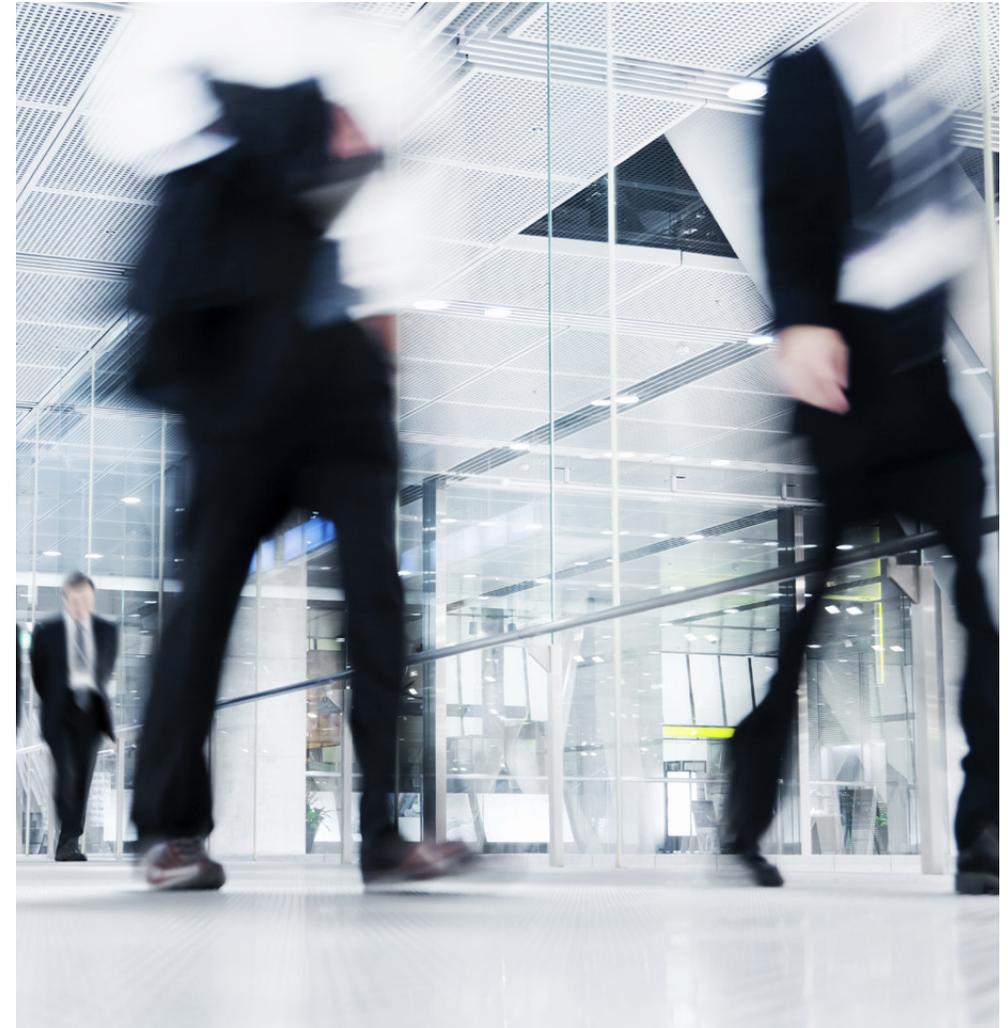
At Telefónica the income we receive, both from our activities with customers and from divestments, is contributed to society in various forms: employee salaries and income,

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

Euros



(1) Net effect of accounting for dividends and operations with own shares with an increase in capital.
(2) Includes the net flows for financing operations and other cash operations.





Contribution to the local tax authorities

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

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

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

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

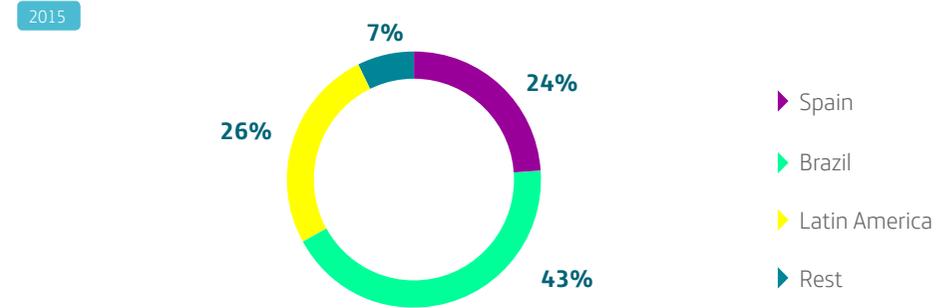
Measures for the Prevention of Fiscal Fraud, in the wording updated by the Final Provision 2 of Law 26/2014 of 27 November.

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

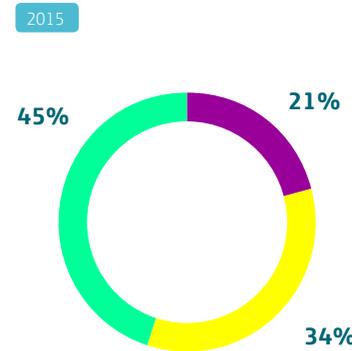
TAXES IN 2015

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

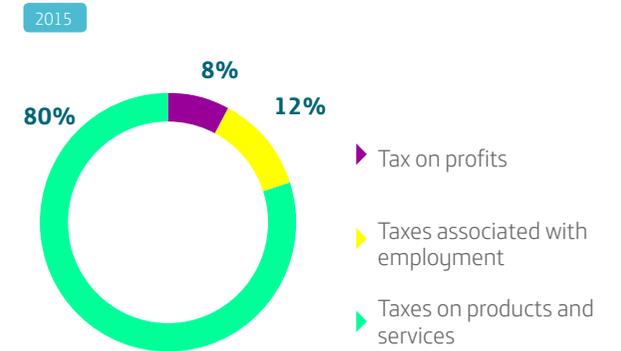
DISTRIBUTION OF THE TAXES PAID BY TELEFÓNICA BY GEOGRAPHIC AREA



TAXES BORNE⁽²⁾



TAXES COLLECTED⁽³⁾



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

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

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



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

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

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



FURTHER INFORMATION

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

BREAKDOWN OF TELEFÓNICA'S GLOBAL TAX CONTRIBUTION IN 2015

Millions of euros

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

In total, for every 100 euros of our turnover,

24.2 EUROS

were allocated to tax payments;

of which

6.6 EUROS

were taxes borne and

17.6 EUROS

were taxes collected

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

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

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

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



Environmental impact

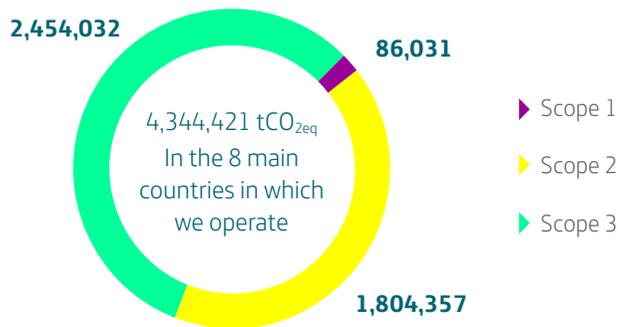
The carbon footprint of our activity accounts for only 0.18% of the total emissions of the 8 main countries in which we operate.

However, **sectoral studies** indicate that our services have the potential to reduce our carbon footprint a further 9.7 times by 2030.

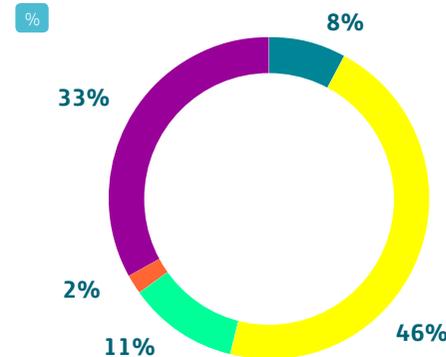
Our Internet of Things (IoT) lines are already helping to reduce CO₂ emissions in sectors as diverse as energy and utilities, industry, transport, agriculture and buildings.

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

OUR CARBON FOOTPRINT



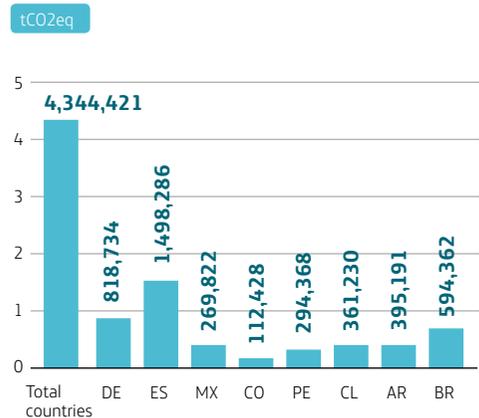
GREEN SERVICES REVENUE



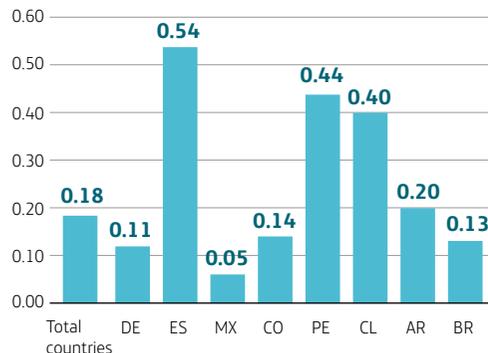
1 Mt CO₂
Emissions avoided during 2015 through our fleet management service

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

SCOPE 1, 2 AND 3 EMISSIONS



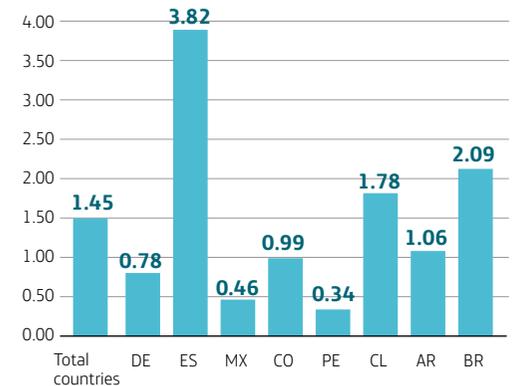
% OF THE COUNTRY'S CARBON FOOTPRINT



IoT LINES



% OF THE COUNTRY'S POPULATION





Impacts of the Network_

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

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

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

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

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

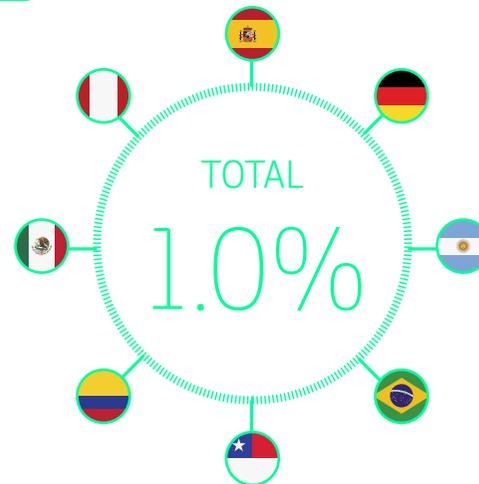
IMPACT CAUSED BY TELEFÓNICA BROADBAND AS A PERCENTAGE OF GDP

Source: PwC analysis

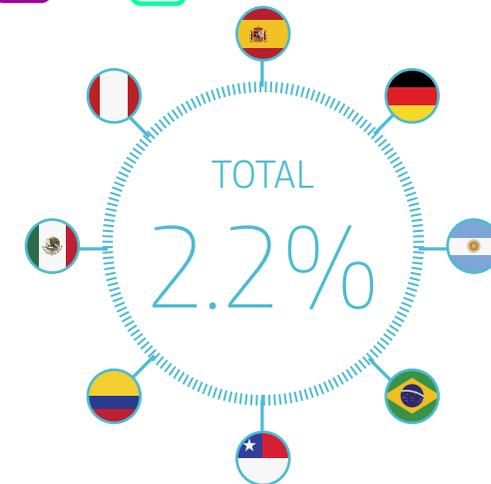
FIXED BB IMPACT



MOBILE BB IMPACT



TOTAL IMPACT (FIXED + MOBILE)





Business Principle model_



relevance and, generally speaking, gives rise to three major trends, based on the three types of convergence that our customers demand:

- ▶ **Fixed + Mobile Convergence:** Our customers seek comprehensive solutions which meet all their connectivity needs - at home, in the office and when they are on the move. This translates into increased investment in infrastructures and the proliferation of 4-Play packages.
- ▶ **Convergence between Telecommunications, Internet and Media:** Content is offered through applications that are supported by our networks. More specifically, video consumption is already becoming the application with the greatest traffic demand, making it a key element of the commercial packages we sell.

- ▶ **Convergence between Networks and IT:** Cloud technology is beginning to allow the virtualisation of network functions to improve efficiency and operational flexibility. This allows us to evolve towards new network architectures which are more software intensive. This is a competitive advantage, as it favours groups with scale, like us, which are capable of extracting synergies from different local operators.

Moreover, the barriers preventing entry into the market are being eliminated. As a result,

boundaries between products and services are disappearing while their life cycles are shortening, increasing customer expectations.

Social development will be exponential as a result of the digital revolution. A new world of opportunities is opening up for everyone, everywhere. A better world, a world to discover, which we will all benefit from and share.

Connectivity is essential in this new era. If we look around, we can see that the world in which we live is defined by one concept: connections. Supported by technology and open to multiple possibilities and applications. In a world in which everyone and everything will be connected, with excellent connectivity; the services of the future are unlimited.

FURTHER INFORMATION

Watch the video "Telefónica is an Onlife Telco: Connectivity is in our DNA".



For Telefónica it is an opportunity to facilitate these connections through connectivity, allowing people to take control of their digital lives by making the data available to them.

BUSINESS STRATEGY

Our strategic plan includes six key elements. Three main objectives - excellent connectivity, a comprehensive offer, and customer values and experience; and three enablers - Big Data and innovation, end-to-end digitisation and allocation of capital and simplification, are our tools for transforming the Company.



We want to create, protect and promote life connections so that people can choose a world of infinite possibilities



Excellent connectivity:

In an era of exponential growth of apps, services and terminals, we must make the most of the infrastructures which differentiate us from our competitors, providing the best customer experience and investing to ensure excellent connectivity. This is what our customers expect of us, and won't settle for anything less.

People want to be permanently connected, anywhere they are, regardless of the device and with the highest quality. As a result of the efforts made in recent years to transform our networks and operational support and business systems, at Telefónica our focus is on meeting the expectations of our customers.

Comprehensive offer:

Our aim is to facilitate our customers' digital lives by means of the best products, services and contents, through a simple and comprehensive offer which is attractive and easy to understand.

We are in a privileged position due to our distinctive assets and our capacity to deliver (knowledge of the customer, value proposition, global scope, network of partners, innovation ecosystem and internal transformation experience). Our comprehensive offer consists of a wide range of products and services which anticipate and adapt to the needs of our customers, thanks to personalised proposals for both individuals and companies.

Customer values and experience:

Connectivity and supply are not sufficient if they are not accompanied by a distinctive experience which strengthens our brand values and defends the interests of our customers, placing them at the centre of our business. We want them to be increasingly more satisfied as a result of a unique experience at a transactional and emotional level.

We are committed to digital trust, giving customers control of their digital lives, an open Internet in which everyone is free to choose their digital experience, and digital accessibility, ensuring everyone enters digital life with the best technology, without neglecting anyone.

Big Data and Innovation:

After highlighting connectivity, we are taking a further step forward and granting added value to data in order to provide our customers with the services most suited to their needs. Big Data is the key not only to knowing them better, but also to optimising our resources and operations.

We are transforming ourselves into a new Company, providing our customers with control over their own data so that they may decide how to live their digital lives.

We also promote internal innovation (which is in our DNA), external innovation and entrepreneurship to develop sustainable services which have a positive impact on our society.

End-to-End Digitisation:

Our value chain must be fully digital to become a real-time, automated and convergent Company. Every aspect of the business must be digital: the automation of all customer processes and experience, data collection and the ability to offer a differential value proposition. Digitisation is no longer a possibility - it's a reality.

The transformation of our processes, policies and systems is the cornerstone of digitisation, as well as being a facilitator of other priorities.

Allocation of capital and simplification:

Optimal allocation of resources allows us to continue moving forward in our transformation, financing growth, eliminating complexities and reaching our goals. Our vision is very ambitious and requires continuous capital investment to increase our capabilities.

Therefore, we have two basic financial goals:

- ▶ Profitable growth optimising the allocation of capital: have the best portfolio of assets, execution of synergies and optimisation of investment and simplification.
- ▶ Meeting financial commitments: a solid balance sheet, profitability for the shareholders and financial flexibility.

At Telefónica we are choosing to grow: to grow profitably while maintaining financial flexibility and generating value.



Relationships with our stakeholders_

Direct interaction with our stakeholders is essential for the management of our Company. This relationship allows us to identify which aspects they consider most relevant, as well as new trends in the field of sustainability. Based on this dialogue, we establish our goals, define the strategic plan and also assess our ability to meet society's expectations.

STAKEHOLDER DIALOGUE STRATEGY

Objective: To focus our actions on the real needs and expectations of our stakeholders, **allowing sustainability and business to align.**

1. Selection of our key stakeholders.
2. Definition of engagement model:
 - ▶ Specialised dialogue
 - ▶ Periodical monitoring
 - ▶ Collaboration for common challenges.
3. Identification of differences in perception and performance.
4. Action assessment.



1. Global map.
2. Identification of material aspects.
3. Prioritisation of key stakeholders.

1. Identification of key material issues for the business.
2. Identification of internal partners and external engagement.
3. Establishment of objectives and lines of action to achieve these objectives.



DIALOGUE, COMMITMENT AND INTERACTION BETWEEN TELEFÓNICA AND ITS STAKEHOLDERS

Customers 

Methodology: Through the channels of dialogue set up at the moment of sale and as a result of customer services, satisfaction monitoring services and the **Customer Defence Service (CDS)**, as well as marketing and market studies, discussion forums and meeting areas, we can understand the consumer experience, needs and expectations for our products and services.

Some examples of commitment and interaction with customers:

- ▶ For residential customers we have customer service channels in each of our geographical areas (which received 377,000 inquiries in 2015) and the "Guru" services, as well as our profiles on Twitter (**Telefónica on Twitter**, **Movistar on Twitter**, among others).
- ▶ In the field of large corporate and multinational clients, in addition to our **Business Solutions** division, particularly worthy of mention are the TBS Quality Week, the Telefónica Leadership Conference, as well as other events such as International Telecoms Week.

This year is also particularly relevant due to the active participation of our customers in the definition of our new "Choose It All" Company Programme. For nearly two years we interviewed more than 3,000 consumers in 12 countries and performed about 72 focus groups to address those aspects which are most important for our customers. This work has helped us to define the new Company strategy.

Employees 

Methodology: We promote the use of the internal Yammer Network, which has 89,000 members (14,000 users more than last year) and an average of 550 active communities per month on the Company network, as both a communication and an inquiry tool.

This Network has been a key tool for facilitating dialogue and debate prior to the launch of the new Company programme. The event was followed via Yammer by more than 4,000 people.

Best practices: During the executives' summit in 2015, Twitter played a special role among our employees, with about 2,000 people "liking" the messages posted; in addition, the #Modoencuentro hashtag became a trending topic on Twitter in Spain, despite competition from other trends such as the Spanish electoral debate and football's Ballon d'Or award.

Shareholders 

Methodology: We organise and attend regular meetings, both individual and collective, with institutional investors and sectoral analysts. Moreover, thanks to the online channels we can understand which issues are most relevant to the investment community, including SRI (Socially Responsible Investment) Institutions and/or specific projects for responsible investment and signatories of the Responsible Investment Principles.

Some examples of commitment and interaction: **Telefónica Shareholders and Investors, Forums and events for Shareholders and Investors, European Sustainable Investment Forum (Eurosif), Societé Generale, RobecoSam, Integrated Reporting.**

Suppliers 

Methodology: The purchasing area maintains an ongoing dialogue with our main suppliers, promoting the search for joint solutions in partnership with each of the internal areas which demand the product and/or service. Supplier involvement is key, especially in processes where contact with our customers is performed directly by our suppliers. One example of this is the case of technical and commercial support services, about 80% of which is provided by suppliers in many countries.

Some examples of commitment and interaction:

- ▶ The Allies (Aliados) programme, implemented in our main operations in Latin America.
- ▶ Meetings with some of our main suppliers at a global level to share our strategies on sustainability issues and to exchange best practices.
- ▶ **Workshops on Energy and Climate Change**, organised annually by Telefónica and attended by some of our main suppliers.



Sectoral organisations



Methodology: We actively participate in forums and associations which discuss the different issues affecting our sector, in order to improve measurements, standardise indicators and share best experiences.

Some examples of commitment and interaction: GSMA, International Telecommunications Union (ITU), ASIET, Global e-Sustainability Initiative, European Internet Forum, Telecommunications Industry Dialogue, ICT Coalition, Internet Governance Forum, Global Reporting Initiative, CSR Europe and RSE Action.

International organisations



Methodology: The dialogue is mainly structured by geographical areas, grouping together the different participants according to their sphere of action (local, regional, national and global). Within each field of activity we maintain a fluid dialogue with those responsible for telecommunications, innovation and consumer, educational, social, regulatory and economic services, etc.

Some examples of commitment and interaction: World Economic Forum, International Labour Organization, World Health Organization, United Nations Programme for Development, Global Compact, Carbon Disclosure Project and the Centre for Information Policy Leadership.

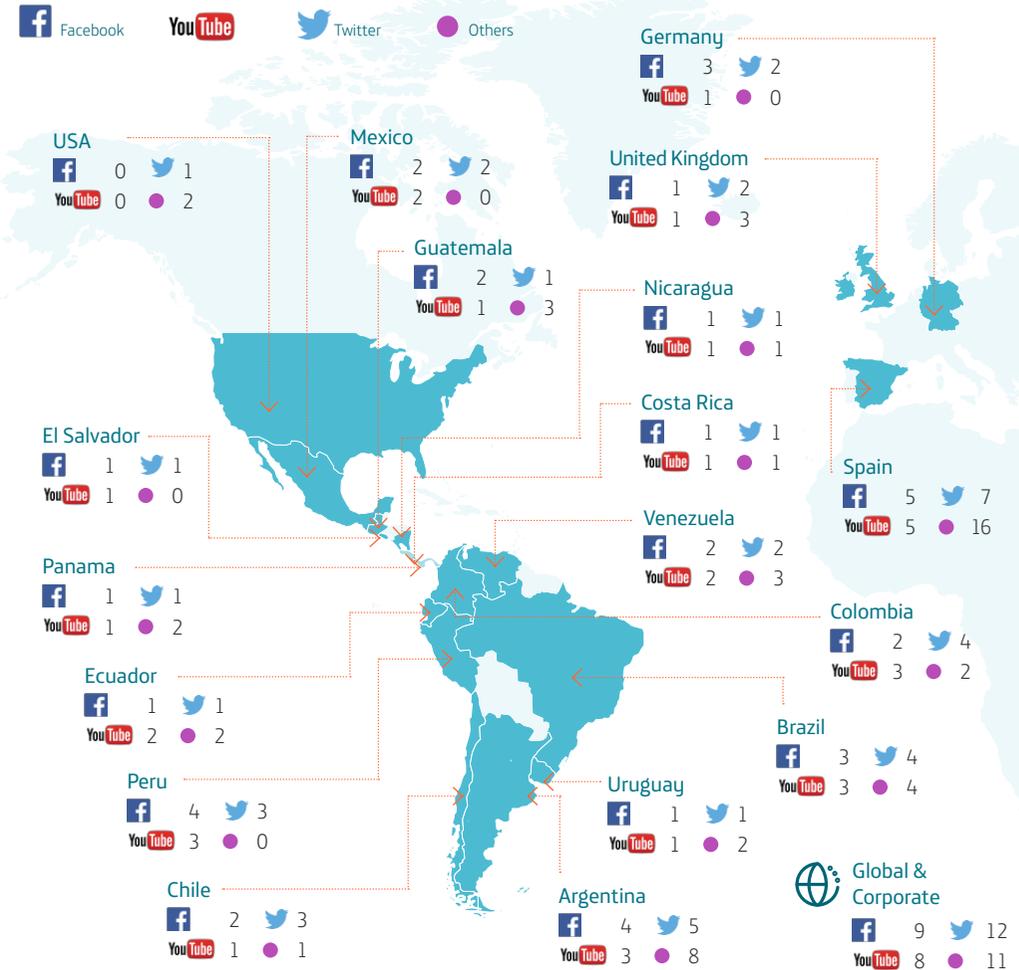
Non-governmental organisations



Methodology: We articulate the dialogue principally at a local level in order to respond to the needs of the communities in which we operate. In the case of Spain, we collaborate with more than 25 NGOs by means of the Premium messaging service, giving the NGO 100% of the money donated by the customers give through solidarity SMSs. Dialogue with these organisations is ongoing.

Some examples of commitment and interaction: NCE - ILUNION Foundation, Red Cross, UNICEF, Oxfam Intermón, International Plan, ACNUR, Spanish Committee of Representatives of People with Disabilities (CERMI), National Centre of Accessibility Technologies (CENTAC).

TELEFÓNICA'S SOCIAL NETWORK CHANNELS



Keeping our stakeholders informed and engaged in dialogue forms one of our goals of the 2.0 environment. During 2015 we worked on the integration of the new corporate website – www.telefonica.com, which received 3,215,347 visits last year, in order to

concentrate all Company information in a single portal. In this sense, we have also worked to simplify social network and blog channels in order to respond more effectively to customer concerns and the latest technology trends.

SOME OF THE ASSOCIATIONS WITH WHICH TELEFÓNICA COLLABORATES

AENOR

AENOR, a Spanish entity that conducts normalisation and certification (N+C) activities to improve quality in companies and the well-being of society.



An **Association** made up of more 50 telecommunications operators in 20 countries across Latin America and Spain.



Business Call to Action aims to accelerate progress towards the Millennium Development Goals (MDGs).



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



The **Centre** was built with one fundamental objective: to become a technical reference in the analysis of youth phenomena.



The **CITEL** is the advisory body of the Organization of American States in matters relating to telecommunications/ICT.



The **State Confederation of Deaf People** is a not-for-profit, state-level social action NGO.



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.



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



CSR Europe is an international network of companies which heads the promotion of Corporate Social Responsibility in Europe.



EcoVadis aims to improve companies' environmental and social practices.



ERT is an informal forum which brings together up to 50 managing directors and chairmen of major multinational companies of European parentage.



ETNO is the association which encompasses the major European operators.



ETSI, the European Telecommunications Standards Institute.



4G Americas is a commercial wireless industry association focused on the Americas.



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



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



The **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.



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



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



The **IADB** supports efforts in Latin America and the Caribbean to reduce poverty and inequality.



The **International Integrated Reporting Council (IIRC)** is a joint global initiative of regulators, investors, companies, issuers of accounting standards and professional accounting organisations.



The **ITU (International Telecommunications Union)** is the United Nations' specialised agency for Information and Communication Technology (ICT).



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.



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.



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



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

Telefónica participates in sustainability issues alongside Local Associations in all the markets in which it operates, for example: Pantallas Amigas, SPAINSIF...



Materiality analysis

Thanks to the relationship with our stakeholders we are able to align sustainability and business. That allows us to identify which matters we must address, understand the perception of the Company and determine to what extent we are meeting expectations. This allows us to guide ourselves towards what is really important to them, thereby facilitating transparency.

We start with a materiality analysis, which is specific to the entire value chain of the new technologies hypersector and is designed by the Global e-Sustainability Initiative (GeSI). The analysis preselects 55 potentially material issues which are divided into eight categories: digital inclusion, employees, climate change, supply chain, customers, privacy, governance and impact on communities. We call on all stakeholders related to the Company to help us preselect these material points which have key impacts on our activity.

The stakeholders which have took part in the GeSI project are: Alcatel-Lucent, Amdocs, AT&T, Bell, Bkash, Bolo Phi, Bosch, BSR, BT, Calvert, Deutsche Telekom, Ericsson, ETNO, Everything Everywhere, Forum for the Future, Green Electronics Council, Greenpeace, GSMA, HP, Huawei, Institute for Public and Environmental Affairs (IPE), Institute of Contemporary Observation (ICO), ITU, KPN, Nokia, OTE,

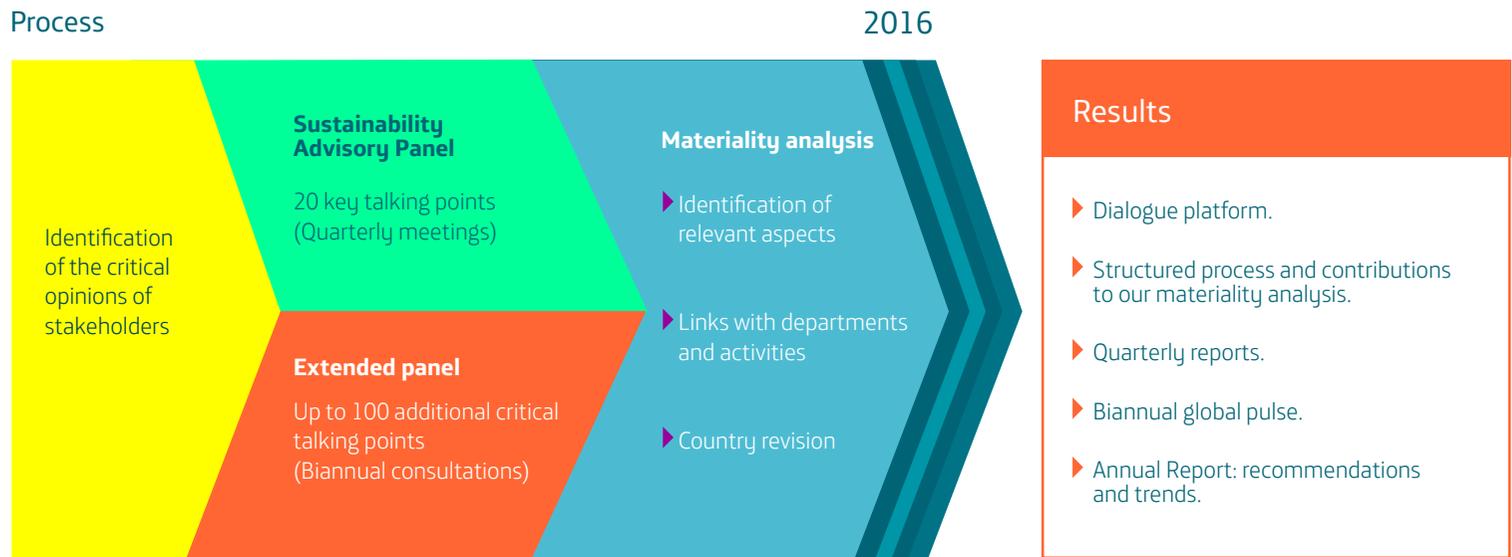
SPECIALISED DIALOGUE: SUSTAINABILITY ADVISORY PANEL

Independent group of experts who:

- ▶ Represent our main stakeholders.
- ▶ Provide an external and independent point of view in matters of sustainability.

Dual purpose:

- ▶ Give tangible expression to stakeholder expectations through a structured dialogue process.
- ▶ Activate key stipulated aspects to be found in our materiality matrix and annual recommendations.





SACOM, SAM Robeco, SASB, Seagate Technology, Skyworks Solutions Inc., Solving the e-Waste Problem (StEP), Sony Mobile, Sprint, Swisscom, TDC Group, Telecom Italia, Telefónica, Telenor, TeliaSonera, Telstra, The Consultative Group to Assist the Poor (CGAP), The Energy and Resources Institute (TERI), The Sustainability Consortium, United Nations University, Verizon, VimpelCom, Vodafone, World Resources Forum and WWF.

The results of analysis, together with our Company strategy, have given way to our materiality matrix.

Towards the end of 2015, in order to keep the matrix up to date, we assumed the challenge of performing a continuous 360° dialogue exercise with our key stakeholders. For this purpose we have approved the creation of a stakeholder panel as a platform for formal and structured dialogue. Thus, we have created a Sustainability Advisory Panel and a broader advisory group, which will become operational in 2016. Both of these will be made up of experts in social, innovation and environmental matters and will be consulted on a regular basis. In addition, this will allow our stakeholders to interact with each other in a structured manner, facilitating the monitoring of common challenges.

SOCIAL RESPONSIBILITY ISSUES

		Supply chain	Internal processes	Customers
Economic issues	Quality of service			
	Digital trust			
	Ethical business practices			X
	Impact on communities			
	Transparency in fiscal contributions	X		X
Environmental issues	Energy consumption			
	Carbon emissions			
	Circular economy			
	Renewable energy	X		X
	Electromagnetic fields	X		
Social issues	Occupational health and safety			X
	Social innovation (digital inclusion)	X		
	Talent development and retention	X		X
	Diversity and non-discrimination			
	Human rights			

▶ Very high priority ▶ High priority ▶ Medium priority X Not applicable

These panels will discuss relevant issues at a global and local level, paying particular attention to the most significant markets such as Spain, Brazil, Mexico, Germany and Chile.

This panel has been made possible thanks to more than 25 interviews with Group senior executives and the realization of more than 1,500 online surveys in key markets.

FURTHER INFORMATION
 Refer to the "Stakeholder Engagement" section of our corporate website.



Reputation management_

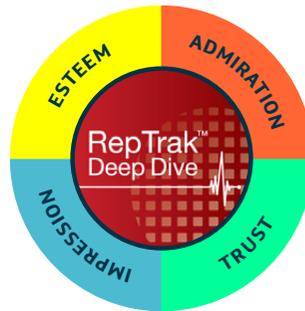
Reputation has become a strategic asset for companies. It attracts and increases the loyalty of the best customers, employees and resources, while also reinforcing the character and corporate identity of a company. Thanks to reputation, we can measure whether a company is capable of aligning its external perception with its internal reality.

We understand reputation to be the opinion that Stakeholders have of Telefónica, and that it therefore belongs exclusively to them, even though it is bound to our activity.

Given the importance of reputation and its impact on the business, since 2005 we have been measuring it by means of the RepTrak model, developed by the Reputation Institute, which has become a sectoral reference model as a result of the studies conducted by the GSMA.

This model measures the emotional appeal of our Company by means of the RepTrak Pulse indicator, which is built on the values of esteem, admiration, trust and impression generated. This measurement is complemented by a more rational assessment of performance, using the RepTrak Index indicator. The rational indicator, in the case of the General Public, is built on seven dimensions:

Reputation is an emotional attachment that allows us to analyse how inner reality and external perception are aligned. It has a strong relationship with...

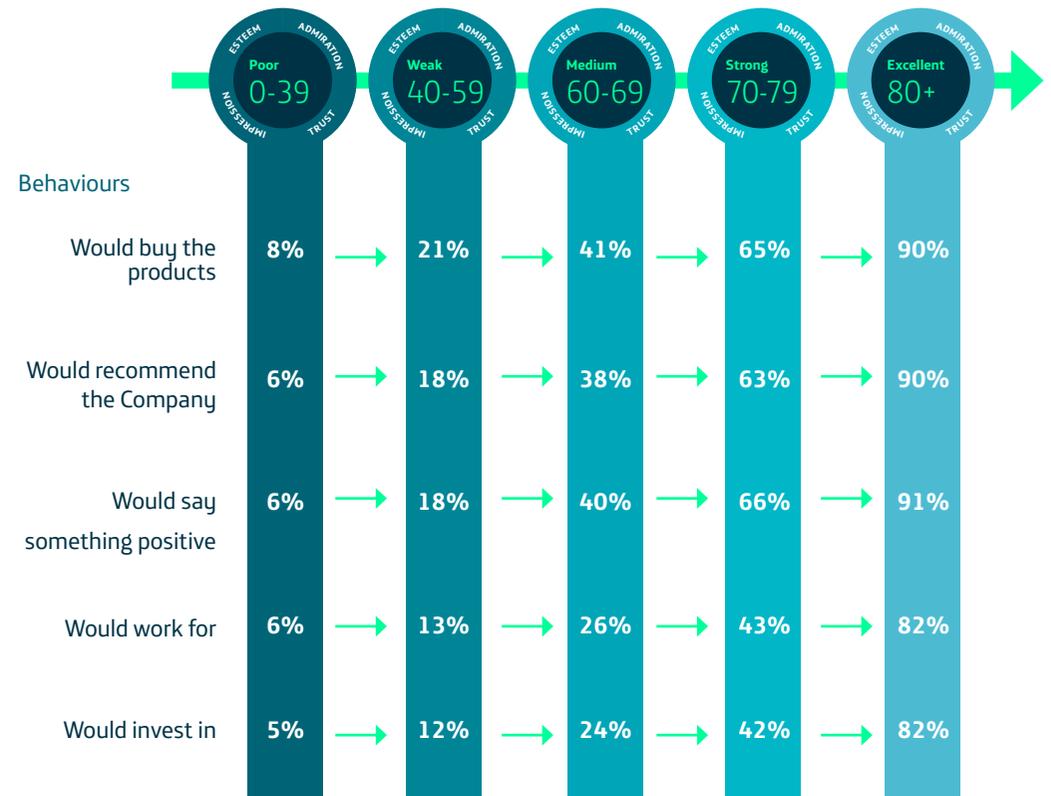


- ▶ Who **uses** the company products?
- ▶ Who **recommends** the company?
- ▶ Who is **willing to invest** in it?
- ▶ Who grants the **benefit of the doubt**?
- ▶ Who **wants to work** for the company?
- ▶ How are the strategy and the results **aligned**?

TO WHAT EXTENT A GOOD REPUTATION INFLUENCES THE SUPPORT OF STAKEHOLDERS

Companies with a good or excellent reputation enjoy greater public support

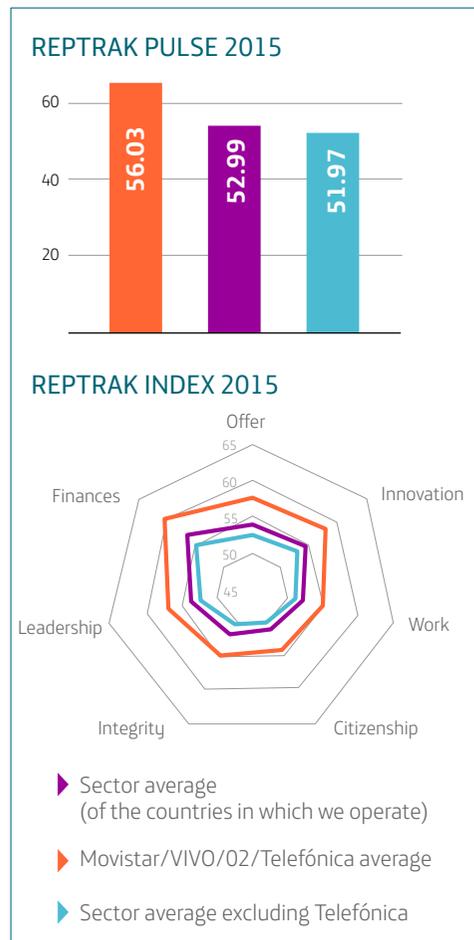
Scores: Reputation Institute – Global RepTrak® 100 – 2015.





Details of the evaluation of our brand names during 2015 for each of the dimensions are shown in the following graph:

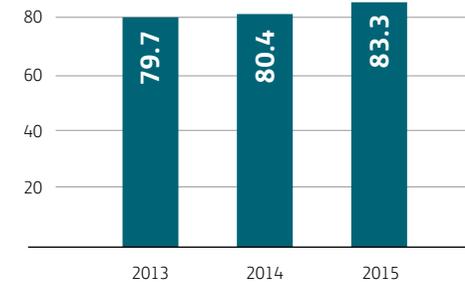
GENERAL PUBLIC REPUTATION



Similarly, the role of employees as the definers of organisational identity and the recipients of corporate action is essential to the construction of the corporate reputation.

It is for the above reason that, since 2013, we have measured Telefónica's reputation among our employees in the 16 countries in which we operate. The aspects which were evaluated include: Ethical behaviour, Motivation, Professional development and Work environment.

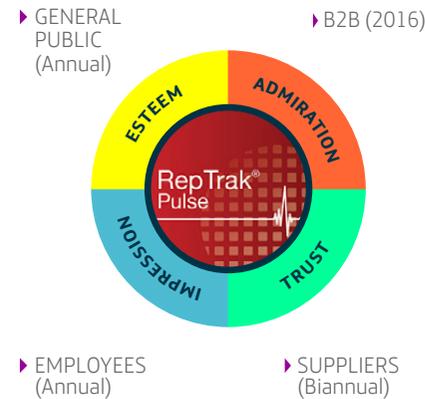
REPUTATION OF TELEFÓNICA AMONG ITS EMPLOYEES



Telefónica's reputation among our employees is very solid and has improved for a second consecutive year.

We are convinced that our reputation influences the attitudes of our stakeholders towards the Group brands. For this reason we work to measure, progressively, the influence of our reputation among those stakeholders most relevant to our activity:

MEASUREMENT OF REPUTATION AMONG KEY STAKEHOLDERS



These studies are conducted in all the markets in which we operate and allow us to interact with more than 120,000 people, employees and general public alike.

Pursuing alignment of our internal reality and our external perception, we analyse the impact of our actions and communications on the perceptions of our stakeholders and their associated behaviours. This is essential for charting a roadmap from management to communication.

WE LINK REPUTATION TO RESULTS



Risk management_

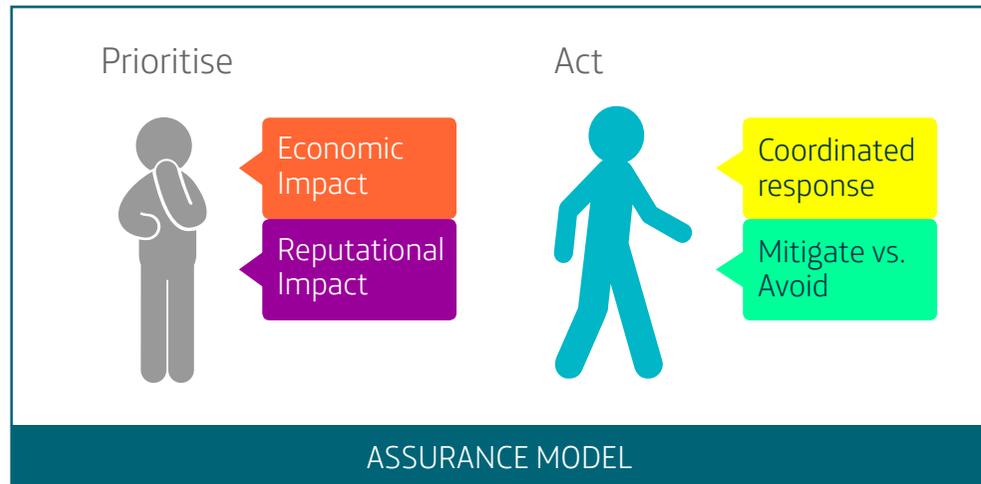
Risks are inherent to all businesses and entrepreneurial activities. Their identification and effective assurance contribute to achieving our business objectives and to strengthening the organisation's commitment to its shareholders, customers and other stakeholders.

At Telefónica we have implemented a homogeneous model throughout the Group's main operations, so that the Company's

managers, within their scope of action, can perform the appropriate identification, assessment, response to and monitoring of the main risks.

Through the Integrated Model for risk assurance and management, inspired by best practices, we facilitate the prioritisation and development of coordinated initiatives to combat risks, both from a global perspective and with a specific focus on the Group's main operations.

PRIORITISATION AND ACTION IN RESPONSE TO RISKS



THE TELEFÓNICA RISK MANAGEMENT MODEL

We constantly monitor the most significant risks and long term emerging risks that could affect the main companies in the Group. For this purpose, the Company has established a Corporate Model of Risk Management based on COSO (Committee of Sponsoring Organisations of the Treadway Commission), which facilitates assessment of both the impact and the probability of occurrence of the various risks.

In accordance with this Model and on the basis of internationally renowned references and practices regarding risk management, four risk categories have been defined:

- ▶ **Operational:** potential losses in value or results arising from events caused by inadequacies or failures in customer service, processes, human resources, hardware and computer systems, security, contract fulfilment, laws and standards, or external factors.
- ▶ **Financial:** potential losses in value or results arising from adverse movements of financial variables and the Company's inability to honour its commitments or liquidate its assets. Risks of a fiscal nature are also included in this category.
- ▶ **Global:** potential losses in value or results arising from events transversely affecting the Telefónica Group, its reputation and corporate responsibility, corporate communication, the advertising strategy, the brand, sponsorships and innovation.
- ▶ **Business:** potential losses in value or results arising from changes to the business environment, the competition and market situation, changes to the regulatory framework or strategic uncertainty.

RISK MANAGEMENT PROCESS





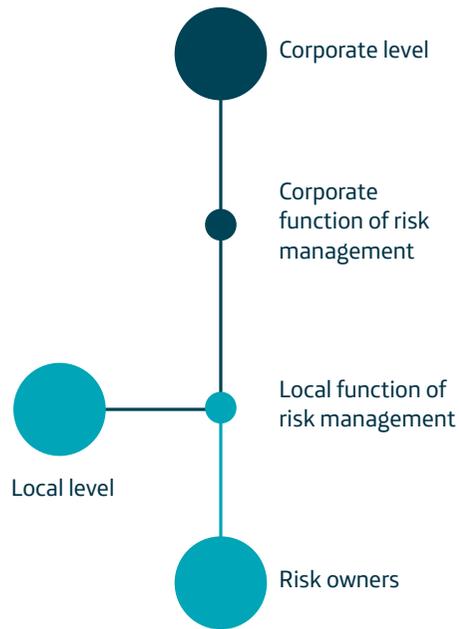
RISK MANAGEMENT GOVERNANCE

The Audit and Control Committee, as part of Telefónica's Board of Directors, oversees the risk management system and proposes to the Board of Directors, for its analysis and consideration, the risk control and management policy, which determines: the risk categories faced by the Company; the definition of an acceptable risk level; the measures for mitigating the impact of identified risks; the control and information systems which will control and manage said risks.

In accordance with the risk management policy, each management area participates in the risk management process, at both corporate and local levels. The entire organisation has the responsibility to contribute to the identification and management of risk, using procedures which develop the operation and assurance of its processes within the Group.

With regard to the coordination and reporting of these activities, there exists an internal Risk Management function within the Internal Audit unit which reports functionally to the Audit and Control Committee.

FLOW OF RISK REPORTING



RISKS AND UNCERTAINTIES FACED BY THE COMPANY

The Telefónica Group's business is conditioned both by factors exclusive to the Group as well as by factors which are common to any company in its sector. The most significant risks and uncertainties facing our Company, and which might affect our business, financial situation, reputation, corporate image, brand and results

are presented together with the information contained in the Management Report of the Financial Statements, the details of which can be found in the annex of the Financial Report:

- ▶ The deterioration of the economic or political environment may adversely affect Telefónica's business.
- ▶ The Group's results and financial situation may be affected if we do not effectively manage our exposure to the exchange rates of foreign currencies, interest rates and financial risks arising from investments.
- ▶ 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.
- ▶ The purchase of Telefónica's operations in the United Kingdom (O2 UK) by the Hutchison Whampoa Group may not materialize.
- ▶ The Company operates in a heavily regulated industry which requires certified authorisation for the provision of many of its services and the use of the spectrum, which is a scarce and expensive resource.
- ▶ The Telefónica Group is exposed to risks regarding compliance with legislation against corruption and economic sanction programmes.
- ▶ The customers' perception regarding the services offered by the Company may be disadvantageous in relation to those offered by competing companies.
- ▶ The Company may not adequately anticipate and adapt to the technological changes and trends in the sector.
- ▶ The Company depends on a network of suppliers.
- ▶ Any Network failures may lead to a loss of quality or an interruption of the service.
- ▶ The telecommunications industry may be affected by the potential effects that the electromagnetic fields emitted by mobile devices and base stations may have on people's health.

The Risk Management Model is adapted to the evolution of the typologies of the main risks

- ▶ Potential changes of a regulatory, business, economic or political nature may lead to the possible reorganisation of accounts for certain assets.
- ▶ The Telefónica Group's networks transport and store large volumes of confidential, personal and business data and its Internet access services and hosting services may give rise to claims for illegal or illicit use of the Internet.
- ▶ Telefónica and the Group companies are parties in litigation, claims of a fiscal nature and other legal proceedings.

In addition, the environmental aspects of telecommunications operations have their greatest risk focus on high geographical dispersion and energy consumption, which are controlled through environmental management based on uniform processes and a global energy efficiency programme.

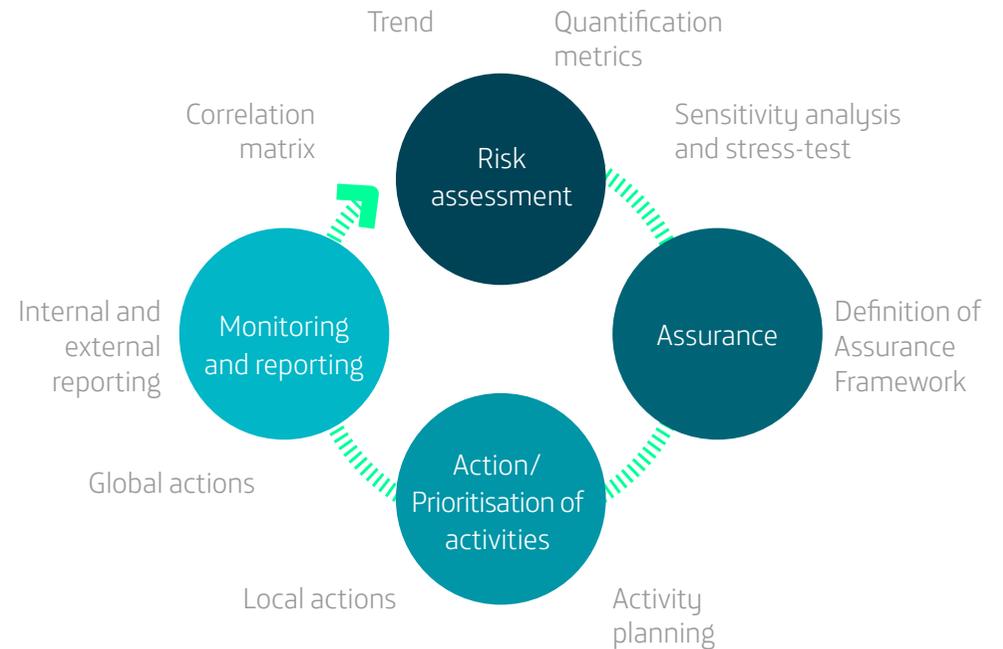
RISK RESPONSE AND MONITORING

The Corporate Risk Management Model, which takes into account the provisions of the main international references and best practices, includes both the identification and assessment of risks, as well as the response to them and subsequent monitoring.

In accordance with the diverse risk typologies, the risk response mechanisms include global initiatives, homogeneously promoted and coordinated within the Group's main operations and/or actions specifically aimed at addressing concrete risks in any one of its companies.

Finally, we should point out that the Model is adapted to the evolution of the typologies of the main risks and we have observed an increasing relevance of those risks related to intangibles and global significance, such as sustainability, public image and the social impact of organisations.

GENERAL OUTLINE OF THE RISK MANAGEMENT MODEL



EVOLUTION OF THE MAIN RISKS





Sustainability governance and management

Our sustainability strategy is based on the responsible management of our business, and not only focuses on managing certain risks, but also on seizing opportunities, efficiency and sustainable growth. This allows us to contribute to the social and economic development of society, making the communities in which we operate more prosperous, and providing better and more inclusive engines of progress. In this way we link our sustainability targets to the development and management of the business, incorporating them into processes and goals so that they become part of Telefónica's DNA and thereby generate a culture of business principle which embraces all our stakeholders.

Therefore, business principle development requires a culture of integrity, commitment and confidence as basic principles to guarantee the trust and security of our customers and their personal data, as well as those of the other stakeholders which interact with the Company.

To achieve the above, we rely on a model of action structured on three levels of commitment, covering our entire value chain.



ACTION MODEL



 **FURTHER INFORMATION**
Refer to the "Strategy" section of our corporate website.



The Company strategy points us to our Global Business Principle Plan, which is being implemented in the different local markets to achieve specific objectives. It covers the following priorities:

- Customer promise
- Digital trust
- Supply chain
- Diversity and talent management
- Environmental management
- Sustainable innovation

We have specific organisational units whose goal it is to ensure integrity and transparency in Telefónica's risk management processes

Telefónica's strategy and enforcement of sustainability has received recognition from the most prestigious global sustainability indexes, such as the Dow Jones Sustainability Index (DJSI), the Carbon Disclosure Project (CDP), Sustainalytics, Ethibel, MSCI and FTSE4Good.

We have also achieved the GOLD level of recognition in the sustainability rating performed by EcoVadis, a collaborative platform which allows companies to monitor their own performance in this area, as well as that of their suppliers.

HOW WE GOVERN SUSTAINABILITY

The highest body responsible for sustainability at Telefónica is the Board of Directors. On the one hand, the Institutional Affairs Committee is responsible for approving and monitoring the Business Principle Plan while, on the other, risks are reported to the Audit and Control Committee. Both committees meet regularly, on a monthly basis.

At an executive level, the General Board of Sustainability and Corporate Ethics is responsible for proposing and coordinating the sustainability strategy, reporting directly to the General Board of Public Affairs and Regulation.

In addition, the Business Principle Office is the transversal body responsible for overseeing implementation of the plan in all the Company's activities. This Office is replicated at a country level, in virtually all of Telefónica's operations, and is made up of the areas of Human Resources, Internal Audit, Secretary General, Chief Commercial Development Officer, Purchasing, Operations, Communication, Marketing and the General Board of Sustainability and Corporate Ethics.

Furthermore, we have specific organisational units whose goal it is to ensure integrity and transparency in our risk management:

- ▶ Internal audit units in all the countries in which the Group has significant interests.

- ▶ An inspection unit specialising in fraud prevention work and the investigation of complaints.
- ▶ A payment intervention unit in the most important companies.
- ▶ Global management and local units for sustainability.
- ▶ A corporate risk management unit which centralises and reports the risk information received from local risk management areas, implemented in the main Group operators.
- ▶ Business Principle Office in all countries, made up of the managers of the areas of Secretary General, Auditing, Human Resources, Purchasing, Operations, Marketing and Sustainability.
- ▶ On 24 February 2016, the Board of Directors of Telefónica, S.A. approved the creation of the position of Chief Compliance Officer at corporate level, to reinforce and strengthen the Telefónica Group's culture of compliance.

FURTHER INFORMATION
Refer to the "Governance" section of our corporate website.



Ethics and compliance

OUR CHALLENGE

Ethics and responsible business development are fundamental pillars of our corporate culture and our commitment to serving customers and society.

These pillars are embodied by:

► **Our Business Principles.** These govern all our actions as employees, as well as our relationships with shareholders, customers, suppliers and society.

► **Our commitment to Human Rights.** As part of our due diligence and compliance process, in 2015 we continued to transversally integrate the results of our 2012 global impact assessment into all our operational processes. (Refer to the 'Compliance with Human Rights' chapter to see the progress made in each of the identified lines of action).

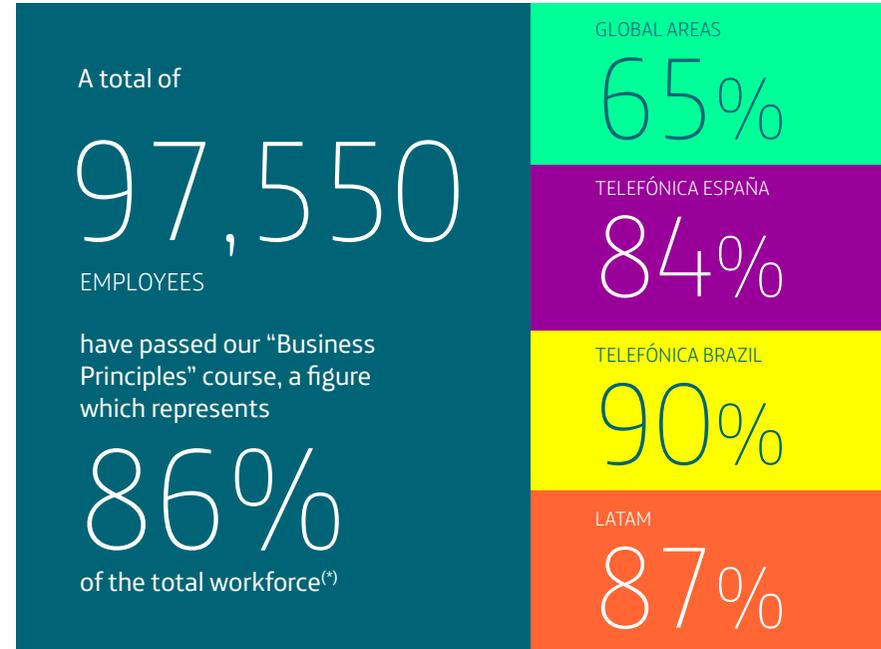
OUR BUSINESS PRINCIPLES

Our Business Principles constitute the fundamental standards which apply to Telefónica's commitments in matters of labour, good governance, sustainability, ethics and regulatory compliance. Within the text we also include requirements for our partners and suppliers to act in accordance with similar principles.

Since 2006, the year in which it was approved, the code has been revised in order to adapt to the new realities facing the Company. In 2015 the principle of Integrity was reinforced, with the inclusion of a specific section in matters of corruption in order to strengthen our commitment to ethics and regulatory compliance. In the same regard, a new Anti-Corruption Policy has been approved, governing the acceptance or offering of gifts and invitations and prohibiting any form of bribery; as has a corporate standard on conflicts of interest, which establishes mechanisms whereby our employees may report all situations entailing a conflict of interest.

Telefónica is a registered lobbyist in the voluntary register of the European Union, reporting expenses related to lobbying activities of 2 million euros and 4,400 million euros received in grants.

The Business Principle Office oversees the disclosure of and compliance with our Business Principles. Over the past year, the Office has expanded its team through the addition of Marketing, Purchasing and Operations to the Office's existing areas (Human Resources, Legal, Internal Audit and Sustainability). We also have local offices set up for the Group's



major operations, as well as the figure of Compliance Officer in Germany.

During 2015 we launched a second online training activity, mandatory for all Group employees, which had the purpose of refreshing our professionals' knowledge of the Business Principles. At the time of writing this

FURTHER INFORMATION
Refer to the "Business Principles" on our corporate website.

Report, a total of 97,550 employees had completed it, a figure which represents 86% of the total workforce^(*).

^(*) The training data does not include the operations of Telefónica United Kingdom or Telefónica Germany.



BUSINESS PRINCIPLES CHANNEL

All our employees have the option of, anonymously or personally, reporting issues associated with compliance with the Business Principles and their associated policies. Along with other media, we operate a Business Principles channel where all correspondence is received and treated in accordance with the principles of respect, confidentiality and thoroughness.

When a reported situation contains sufficient information to allow its analysis, the corresponding investigation is carried out in accordance with our internal procedures.

During 2015, through the Channel of Business Principles and other media, we registered a total of 822 items of correspondence, including inquiries and complaints. 464 investigations were closed this year, 206 of which were found



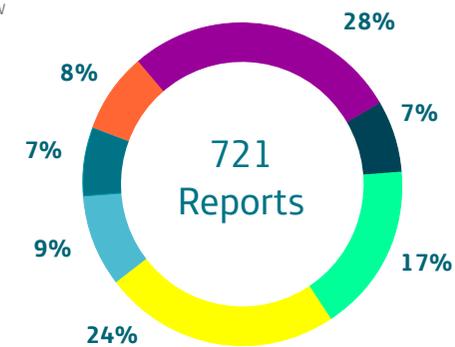
to be justified. The measures taken include 38 disciplinary dismissals. None of those investigations closed this year were related to cases of corruption or discrimination.

INTERNAL MONITORING

Telefónica on a number of specific committees and units that help guarantee the appropriate levels of control and transparency. During 2015, in the execution of its annual work plan, the Internal Audit area produced a total of 721 reports on Group activity:

- ▶ Fraud prevention, investigation of complaints and the review of individual actions.
- ▶ Total or partial analysis of the processes related to costs and investment.
- ▶ Reports aimed at verifying proper compliance with other legal obligations.

FURTHER INFORMATION
Go to the section titled "Governance" on our corporate website.



- ▶ Financial audits or information systems intended, primarily, for review of internal monitoring of the financial processes.
- ▶ Other works.
- ▶ Supervision of the main technological risks and compliance with legal provisions affecting the service networks and those affecting the information systems.
- ▶ Review of income.

Milestones 2015	Compliance	Challenges 2016
▶ Completion of the project to review the code of ethics, in accordance with best business practices and in compliance with existing legislation.	Completed	Creation of a stakeholder communications channel.
▶ Development and adoption of standards that guarantee optimum levels of corruption and fraud control.	Completed	Internal sensitisation in matters of corruption and bribery.
▶ Business Principles awareness campaign for employees. Between 70% and 90% of the workforce will be trained in our Business Principles during the 2015/2016 period.	Completed	Creation of a compulsory training programme on the new learning tool.
▶ Definition, in Colombia, of the Mechanism for Human Rights Complaints and Claims, directed at communities.	Completed	Design and implementation of the complaints mechanism in Colombia, and definition of its conceptual and operational framework.



Management of the supply chain

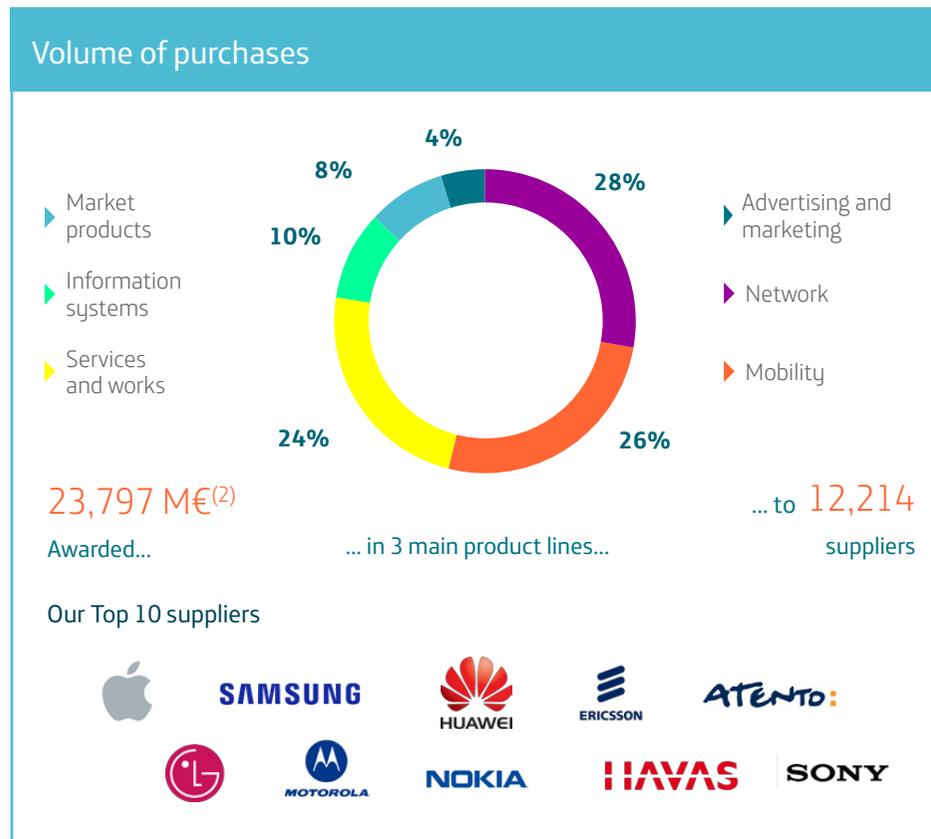
At Telefónica, all purchases are made in accordance with a common management model, which is characterised by the globalisation of purchases, without losing sight

of the local needs of the different countries and business lines, ensuring coordinated and transparent management with our suppliers.

We are aware of the impact of our activity on society and, therefore, with the help of new technologies, we seek more efficient and innovative processes, which enable

us to contribute positively to achieving a more sustainable environment.

OUR SUPPLY CHAIN IN FIGURES⁽¹⁾



Impact on the community

We are aware of both the local and global impact of our activity on society.

85% of the volume of purchases was awarded to local suppliers

A consolidated global purchasing model through **Telefónica Global Services...**

... which managed **21,334 purchasing processes, amounting to 16,487 M€**

Our principles

We seek to ensure that our activity is carried out with transparency and integrity.

We promote the use of e-commerce tools, which help us to ensure that our management of the supply chain is carried out with efficiency and transparency, guaranteeing equal opportunities.

29,423 M€⁽³⁾
negotiated electronically

18,674 M€
in electronic formalisation operations
(assignment letters, orders and contracts)

We received **873,891**
electronically issued invoices

- ▶ We continue to make progress in the interconnection of the systems of Group companies with those of our suppliers, with over 47,062 orders.
- ▶ More than 11,100 suppliers were trained in the management of negotiations, orders and electronic invoices (compared with more than 8,800 suppliers in 2014).

(1) Does not include the figures associated with the purchasing processes performed by Telefónica United Kingdom.

(2) Volume awarded in the 2015 budget year.

(3) Volume traded in 2015, regardless of the budget year of the purchase.



OUR PURCHASING PROCESS

Promoting a culture of sustainability within our value chain is one of the key objectives of Telefónica's Business Principle Plan. Therefore, ever since we assumed our public commitment in 2010, we have striven to incorporate social responsibility as another aspect to be borne in mind in each of the phases of the purchasing process and in the relationship with our suppliers. As such all the contracts that Telefónica holds with suppliers include specific clauses covering human rights.

As a result we are able to identify and manage potential risks, while fostering a culture which promotes social and environmental commitment throughout the supply chain.

OUR SUSTAINABLE MANAGEMENT MODEL

At Telefónica we base our model for the sustainable management of the supply chain on the following four Value Drivers.



Efficient production

► Marco Polo Model

We are reinforcing Telefónica's position as a Digital Telco by providing our own brand of home equipment. This allows us to be more competitive in terms of both added value and distinctiveness, thanks to new features which

Our Value Drivers



Efficient production

- To **reduce costs** of materials, energy and transport.
- The development of **strategic relationships with suppliers** to optimise the process, products and services.



Culture of sustainability

- To **train** and involve suppliers and employees.
- To build **strong relationships** with stakeholders.
- **Positioning** in the **sustainability indices**.



Risk management

- To **minimise risks** (ethical, social, environmental).
- To **protect the reputation** and value of the brand.
- To facilitate **access to financing and insurance**.



Engagement

- To **promote a close relationship** and share good practices.
- To establish **communication channels** and develop on-site forums.

respond directly to our customers' connectivity needs.

We manage and optimise the entire end-to-end process, from the definition of the product and its technical specifications to the final delivery of the equipment, as well as other critical actions such as the approval of the equipment and the centralised management of the purchases.

Since the Marco Polo model was introduced in 2013 we have managed to establish a portfolio of products common to all our operations, allowing us to downsize to 10 teams from 28 in 2015 and achieve efficiencies above 45 million euros.

► Technological partners

Within the framework of the Company's Energy Efficiency Project, we work with technological partners who provide us with the best technology and help us to identify opportunities to reduce energy consumption and emissions.

► Strategic alliances

We have launched a strategic collaboration programme with China Unicom for the joint purchase of terminals. The programme's aim is to select smartphones with common specifications, thus allowing both companies to provide better data services to a broad base of customers in Latin America, China and Europe.



Culture of sustainability

In accordance with our **Business Principles**, we require all our suppliers to carry out their activity applying similar ethical standards to ensure compliance with fundamental human and labour rights and respect for the environment.

The principles we promote among our suppliers include those related to labour rights, such as eliminating child, forced and compulsory labour, promoting the effective recognition of collective bargaining and support for freedom of association.

To be a Telefónica Group supplier, in addition to technical requirements and quality standards, the company must agree to comply with certain minimum business principle criteria, set out in our:

- ▶ **Policy for Responsibility in the Supply Chain.**
- ▶ **Commitment to Human Rights.**
- ▶ General conditions for the supply of goods and services.

Throughout the different phases of the purchasing process we encourage our suppliers to fulfil these minimum criteria while promoting similar standards in their own value chains.

In the event that a supplier does not achieve the required level or is not able to provide the requested information, we shall implement the processes necessary for achieving its commitment with a view to implementing improvement plans which ensure compliance with our standards.

In extreme cases, where this is not feasible, upon the basis of the agreement initially signed by both parties, the relationship with the supplier shall be suspended until it proves that it has corrected the situation.

▶ **Strong relationships with our partner companies**

We seek forms of cooperation with our partner companies and contractors which will help us to establish sustainable management, with the aim of turning them into strategic partners and increasing customer satisfaction.

In Latin America, our Partner Programme has become one of the leading initiatives in this field. Since it was launched in 2008, we have worked closely with our suppliers to promote a culture

of sustainability which guarantees service excellence for our customers.

We want to ensure the formation of these strategic partnerships in order to guarantee compliance with organisational objectives, technical security and equity, while at the same time developing mechanisms for the early detection and prevention of risks and sensitizing contractors with regard to compliance with Telefónica's standards.

We employ a management model based on global tools - such as our policy of minimums and the third-party committee - which allow us to develop different lines of action at a local level, taking into account the situation in each of the countries. The different initiatives undertaken during 2015 include:

- ▶ Implementation of a contractor control system (Argentina, Chile, Mexico and Peru).
- ▶ We began the implementation stage of the OSHAS 18001, which also involves suppliers in different countries (Argentina and Colombia).

- ▶ Preparation and organisation of documentation regarding the Occupational Health and Safety Management System, based on the requirements of the International Labour Organization (Chile).
- ▶ Implementation of the partner management model in the distribution channel (Colombia).
- ▶ Development of the action plan for attending to special audits by the Ministry of Labour (Venezuela).

Throughout the year we reinforced training initiatives with our internal managers and our suppliers, addressing the specific needs of each country. Such training is conducted in person or via the ICampus online platform.

More than
4,500
courses conducted with our
partners in Latin America



We evaluated 190 critical suppliers via the EcoVadis platform and another 20 are currently undergoing the process, thus achieving the target set for 2015

During 2015, at Telefónica España we promoted dialogue between the union representatives and our partner companies to resolve the labour disputes which led to a strike. Thus, in May, an agreement was reached between the two main unions - UGT and CCOO - and the ten affected companies in order to improve the working conditions of the employees of contracted companies.



Preventing and reducing the potential negative impacts of our activity is another of the objectives of our Business Principle Plan, as well as those negative impacts which may arise in relation to our suppliers; therefore, this is one of our main lines of action in the management of the supply chain.

In 2015 we focused once again on applying our control and monitoring mechanisms to track the activity of our risk suppliers, classified as such either due to their activity or to their volume of allocations.

► 360° assessment of risk suppliers

We analyse and assess the risk level of our suppliers, depending on the product and service they provide us. To do this, we rely on the self-assessment platform of EcoVadis, an external independent body. As a result of its online tool we obtain a 360° assessment of the performance of our leading risk suppliers, based on 21 sustainability criteria.

We have evaluated 190 critical suppliers by means of EcoVadis and 20 other suppliers are currently undergoing the process, thereby achieving the target set for 2015. The percentage of suppliers which have shown some kind of weakness - medium risk - in their sustainability management has remained at around 30%, with the main risks once again being those affecting the sustainable management of the supply chain itself.

Of the critical suppliers, 40 have active corrective action plans, representing a total of 455 corrective actions.

► Relevant indicators:

- 45% (+4%) have the OHSAS 18001 or equivalent certification, thus demonstrating the organisation's ability to meet the requirements of health and safety legislation.
- 73% of suppliers have complaints procedures.
- 67% (+1%) of the assessed suppliers have the ISO 14001 environmental management certification.
- 78% (+5%) report use of energy or GHG emissions.

► Annual Audit Plan

Our plan is defined in accordance with the risks of each region or country and the type of supplier, and thus focuses its assessment on the performance of our suppliers in the most critical aspects.

Once again, in Latin America we have focused our efforts on managing the risk associated with labour-intensive partner companies and third parties by means of the Aliados Programme.

We have performed more than 15,550 administrative audits and more than 1,470 on-site audits on risk suppliers, addressing locally critical issues in both cases. Given the results obtained, improvement plans for more than 600 suppliers have been proposed.

In addition, we have conducted 100 corporate audits in 8 different countries (42% more than in 2014), using homogeneous sustainability criteria at a regional level, on the basis of a four pillar model: Business Principles, Human Resources (with particular emphasis on compliance with labour obligations), Health and Safety and the Environment.

In general, the results of these audits display minor variations on 2014, the suppliers' level of compliance remaining within the top area of performance. The 82% compliance registered in the Human Resources discipline is a clear example of the importance of labour obligations for our partners and the work we perform with them in this regard.

The areas for improvement we have detected include, above all, helping our partners to transfer the sustainability issues contained in our Policy for Sustainability in the Supply Chain to their own suppliers.



The distribution of risks has remained stable. Some of the most common risks have been detected in:

- ▶ The Induction Process, Training, Climate and Welfare, as well as Personnel Relationships and Management.
- ▶ With regard to Health and Safety aspects, these have focused on the sections of Industrial Hygiene and Safety (occupational health, preventive medicine at work, the Joint Health and Safety Committee and the emergency brigade).
- ▶ And concerning environmental processes, the structure of the environmental programme, waste management and the consumption of materials and resources.

We are working together with the suppliers to carry out improvement plans, defined for each of the suppliers which have displayed some kind of non-compliance.

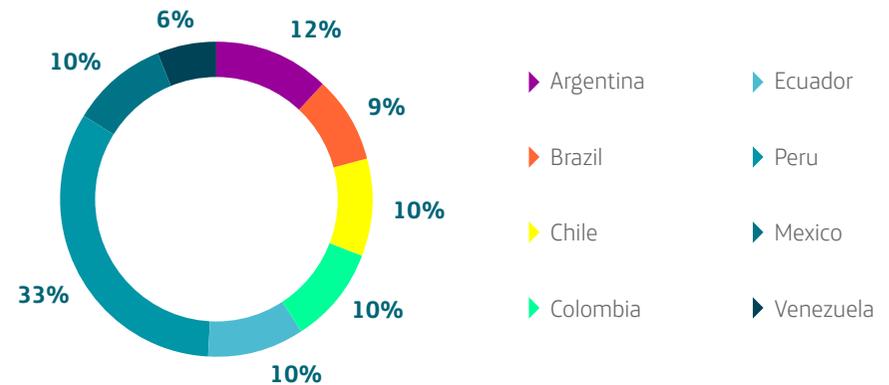


Engagement

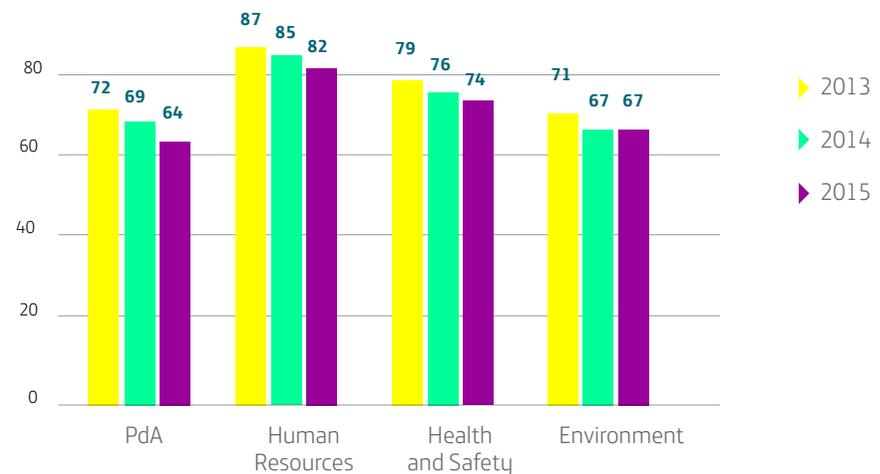
We promote constant communication with our suppliers in order to maintain a close relationship with them and to promote a culture of sustainability in our supply chain.

- ▶ They have access to various communication channels, such as our quarterly partner bulletin (Colombia, Ecuador and Mexico) the Partner Portal and the Supplier Portal. In the latter they can find all our policies as well as a confidential channel for questions and complaints relating to the fulfilment of our minimum business principle criteria.
- ▶ During 2015 we held direct meetings with some of our main global suppliers, at which we shared our strategies on sustainability issues and exchanged good practices.
- ▶ We used the online channels to organise specific webinars on aspects which we considered of interest to our suppliers. For example, in Ecuador we held the "Movistar Shield" webinar, at which we conveyed our interest in contributing to a secure environment for the use of ICT for customers, suppliers and distributors.
- ▶ At a local level, we also organise on-site events with suppliers, including the following:
 - ▶ Meetings of Telefónica's Partner Companies in Latin America, in which internal managers, suppliers, distributors, etc., participate. In 2015 these were held in Chile, Ecuador and Mexico.
 - ▶ Working breakfasts, such as the three organised in Guatemala last year to

DISTRIBUTION OF AUDITS BY COUNTRY



PERCENTAGE OF COMPLIANCE IN THE CORPORATE AUDITS IN LATIN AMERICA





convey the importance of Sustainability in companies and to pass on to them how our Business Principles apply to suppliers.

- ▶ Thematic workshops, such as the one on Energy and Climate Change, at which Telefónica and its major suppliers analysed different plans to boost energy efficiency and reduce CO₂ emissions in the world of telecommunications.

RELEVANT ASPECTS FOR OUR BUSINESS

Once again we maintained our commitment to key aspects of the supply chain with high social impact, such as child labour and minerals in conflict.

Eradication of child labour

Preventing and eradicating child labour is an international goal which is present on the development agendas established by the different countries. Therefore, once again we continued to collaborate in some of the main initiatives launched in this area, such as the Colombia Network Against Child Labour, made up of 35 companies and headed by the Ministry of Labour.

As a strategic partner of this Network, at Telefónica Colombia we publicised our commitment to manage and be held accountable for this risk. We also participate in the Communications Committee and form part of the Technical Committee together with the Ministry of Labour, the Local Network of the Global Compact and the Colombian Family Welfare Institute, among others.

Since the launch of the Colombia Network Against Child Labour, the “Here I am Taking Action” tool was made available to the participating companies so that they could self-diagnose the risk of child labour in order to promote respect for the rights of children and teenagers in the supply chain and the area of influence. In 2015 we conducted five workshops in three different cities: Neiva, Cali and Bogotá. In the latter the exercise was carried out in conjunction with the Colombian Association of Flower Exporters of Colombia, coal suppliers of the Bogotá Energy Group and members of the Colombia Network Against Child Labour.

The work performed since its launch has led to 136 companies being registered and has affected more than 226,000 employees.

Minerals in conflict

Within the Telefónica Group, despite not having any direct commercial relationships with smelters or refiners, we actively strive to include sustainability criteria throughout the value chain.

In this regard, we have adopted a company policy based on the guidelines contained in the report titled “Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas” published by the OECD. It is a policy which incorporates the Guide’s five stages and which we pass on to our suppliers.

1. Traceability of 3TG minerals

We encourage our suppliers to carry out effective due diligence processes to guarantee, whenever necessary and possible, the traceability of 3TG minerals from areas of conflict, as well as the mitigation of the associated risks, such as the violation of Human Rights.

In addition, any supplier which submits an offer must:

- ▶ Provide the express assurance that, to the best of its knowledge, after performing an appropriate and thorough analysis, the products offered do not contain any so-called “Minerals in Conflict”.
- ▶ Have a clear policy on minerals in conflict which promotes the adoption and use of the OECD guidelines for multinational companies and the guiding principles of the United Nations on business and human rights for internal use and for the entire supply chain.





The supplier must have a management system to comply with this policy.

2. Assessment of suppliers

We analyse and assess the performance of our suppliers by means of the EcoVadis platform. Thus, within the module that assesses the management of their own supply chains, we analyse the risk suppliers in regard to certain aspects of this field:

- ▶ Whether they have a policy on minerals in conflict.
- ▶ Whether they publicly support any of the international or sectoral initiatives in this regard.
- ▶ The different actions implemented to identify the presence or to mitigate the risks of the minerals in conflict within their own supply chains (identification mechanisms, inclusion of clauses, external certifications, etc.).
- ▶ Which specific measures they implement to engage their own supply chain in this respect.
- ▶ Whether they publish a due diligence report in this regard.

In 2015 we continued with the assessment of our suppliers of devices, one of the most important lines due to their volume of allocations and their high risk in view of the significant levels of use of these types of minerals in the manufacture of their components.

3. Engagement initiatives

We also support and participate in major initiatives, both international and sectoral, aimed at reducing these kinds of risks, such as the [Public-Private Alliance for Responsible Minerals Trade \(PPA\)](#).

4. Complaints

We continue to work internally to establish a unified complaint mechanism for the whole Group.

5. Information

We report on the due diligence of the supply chain.

In addition, at Telefónica, 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 the Consumer Protection Act.



FURTHER INFORMATION

Refer to the "Supply Chain" section of our corporate website.

MILESTONES 2015

Given the challenges set for 2015 and the different lines of action on which we worked throughout the year, our milestones include:

- ▶ A review of the framework contracts of some of our major global purchases, such as terminals, ensuring the inclusion of the minimum sustainability criteria to be met by potential suppliers, given the type of product or service we acquire.
- ▶ 190 critical suppliers assessed by means of EcoVadis with 20 currently undergoing the process, thus achieving the target set for 2015.
- ▶ 1,577 on-site audits (both local and corporate) performed on risk suppliers, whose results have led to the proposal of 608 supplier improvement plans.

CHALLENGES 2016

- ▶ A review of the minimum business principle criteria we require of our suppliers, in keeping with the new aspects relevant to the field of sustainability for the value chain.
- ▶ Put special focus on suppliers related to the provision of services, concentrating our attention on the most significant risks.
- ▶ Expand the scope of the EcoVadis assessment process, including Telefónica's 250 main risk suppliers.
- ▶ Incorporation of Telefónica into the JAC (Joint Audit Cooperation) sectoral initiative, in order to perform joint audits on critical suppliers.
- ▶ Encourage the participation of our suppliers in the different dialogue initiatives which the Company provides for stakeholders, in order to find new areas for cooperation.



5

Focus on the
customer_



Customer promise_

Knowing what our customers want is the basis of the Company's business principle proposal. We are highly aware that, just like their needs, their levels of requirements and expectations are evolving. The consumer experience is a deciding feature within our market and, therefore, our strategy places the customer at the centre of the value proposition.

The digital consumer wants to enjoy the best connectivity, accompanied by quality, transparency, simplicity and integrity. Our customers regard it as essential to be able to access the digital world and communicate at an optimal speed, from anywhere and regardless of the device, because nowadays connectivity not only serves for interpersonal interactions, but is also essential for our personal and working lives. We are therefore taking a step forward by offering products and services that go beyond connectivity and developing open, reliable and challenging relationships with our customers.

We believe that giving customers control of their digital lives is the key to the future. Trust is one of our top priorities. We thus ensure the privacy of our customers and promote transparency with regard to their rights.

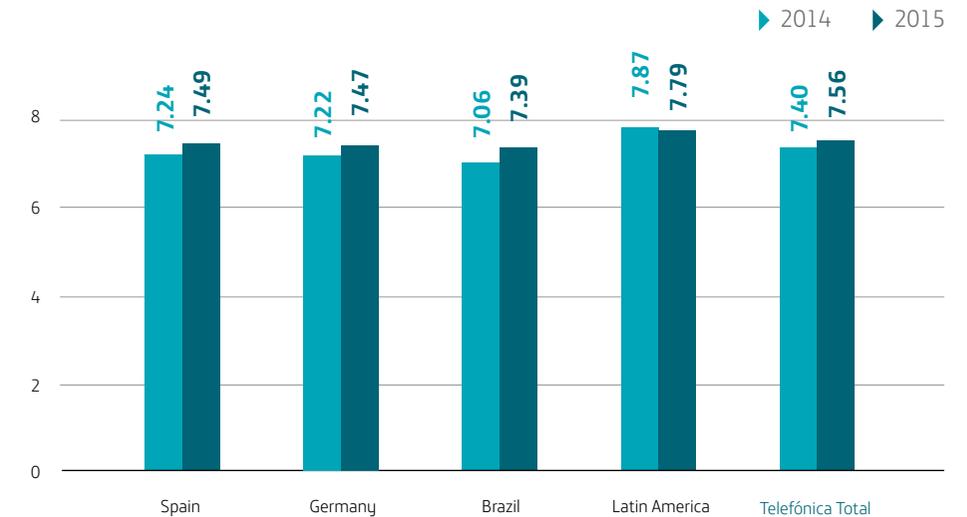
Today digital is normal, and the barriers between life and digital life are becoming blurred. Technology permanently co-exists with people. Digital life is life. And this is precisely our new strategic vision as a Company.

CUSTOMER SATISFACTION

At Telefónica we have a specific committee within our Board of Directors which is devoted to Service Quality and Customer Attention which meets on a quarterly basis to reinforce the focus on customers.

In 2015, to ensure the above, and with the aim of improving our relationship with our customers, within our Commercial Digital Area (CCDO) we created the area of *Customer Engagement*, along with the units responsible for customer experience in the different countries in which we operate.

CUSTOMER SATISFACTION INDEX



This year we established that

50%

of the variable remuneration of our professionals is directly linked to the degree of customer satisfaction



Customer satisfaction is the best proof that we are moving forward. To measure the above, we use the CSI (Customer Satisfaction Index), an indicator that is regularly reported to the Board of Directors. We are currently number 1 in our sector in the CSI in 11 of our markets and we have set ourselves the goal of becoming number 1 in the CSI in all the countries in which we operate by 2020.

Furthermore, we don't just wish to put the customer at the centre of our Company, rather we wish them to be the central work priority of each one of Telefónica's employees, whatever the area. For this purpose, this year we established that 50% of the variable remuneration of Telefónica professionals will be directly linked to the needs of our customers.

During the year, the CSI reached a total score of 7.56 points out of 10, representing an increase of 0.16 points over 2014 year-on-year. This score exceeds the objective we set for this year by 0.10 points.

FURTHER INFORMATION

Watch the "Telefónica Business Solutions" video.



Our customer satisfaction index totals 7.56 points, 0.10 more than the objective we set ourselves

We should highlight the change of criterion in CSI scoring in 2015. Replies to the satisfaction survey are given on a scale of 1 to 10. Until 2014 these replies were transformed into results from 0 to 10. Since 2015 replies are no longer transformed, and as a result the results are reported directly on a scale from 1 to 10. In this Report the data from 2014 has been configured for comparative purposes.



FURTHER INFORMATION

Refer to the "Customer Satisfaction" section of our corporate website.

LARGE ACCOUNTS

Our Telefónica Business Solutions division is responsible for offering comprehensive communication solutions to the B2B market and managing the businesses of Companies (SMEs, Large Companies and Multinationals), wholesalers and roaming suppliers across the entire Telefónica Group.

We have an outstanding portfolio of telecommunications services: international voice services, IP, broadband capacity, satellite services, mobility and integrated IT services, fixed and mobile services, as well as digital cloud and security solutions.

BEST PRACTICES

INTERNATIONAL TELECOMS WEEK

At Telefónica Business Solutions we participated in the eighth International Telecoms Week (ITW) in Chicago, the most important annual event for the global wholesale business community. This year the event was attended by a record number of 6,300 executives from 150 countries, representing 1,900 companies around the world. Our delegation of executives attended more than 470 meetings with customers and potential customers in order to expand the business and to publicise the Telefónica Group's extensive value proposition.





Through Telefónica Business Solutions we wish to become a strategic partner to improve the efficiency, productivity and competitiveness of companies in the digital world. We currently have professionals in more than 40 countries and provide services to more than 170 countries.

In addition, this year we launched "PCCS", a consortium-promoted 6,000 kilometre undersea cable, whose transmission capacity reaches 80 terabytes per second, allowing us to link the communications and services we offer from the United States to Ecuador.



With the merger of Movistar TV and Canal +, Telefónica has opted for an innovative platform which complements content and provides a unique user experience. It allows recording in the cloud, HD channels, VOD and viewing of content from the last 7 days, across multiple devices. All the above, with the best market connectivities, in both fixed (300 Mbps) and mobile (4G) Networks.

At Telefónica we also promote social responsibility through Movistar +, providing

content which fosters social awareness in all fields and promotes the dissemination of culture and the values of sport, such as Jon Sistiaga's social reports in zones of conflict, Icíar Bolláin's works on emigration, nature programmes that cover the future of the planet and what can be done to protect it, etc.

All content offered on our platform is duly classified according to the appropriate age groups.

DIGITAL TELEVISION

The commitment to full connectivity and a broad range of services and content in a single commercial offer for all our customers provides proof that Telefónica has been committed to digital television services for many years. Therefore, in 2015 we acquired Canal +, a leading pay TV platform in Spain, which has helped **Movistar +** to become market leader, with 3.7 million subscribers.

Following the above acquisition, the total pay TV customer base grew by 62.6% in 2015, reaching 8.3 million at 31 December. Telefónica has pre-paid TV customers in Spain (44%), Brazil (22%), Peru (14%), Chile (8%), Colombia (6%), Venezuela and Central America (6%).

MILESTONES 2015

- ▶ We are expanding our activity in the European Multinationals market through a strategic partnership with Bouygues Telecom in France.
- ▶ We reached a global collaboration agreement with Huawei to promote the migration of traditional IT services to the cloud, thereby complementing its potential to supply public cloud services in all the markets in which Telefónica operates.
- ▶ We reached an agreement with China Unicom to share international data center capacities as a first step towards a cloud agreement on a larger scale.
- ▶ At the business unit ElevenPaths and Security we also signed other strategic partnerships with some of the leading companies in the security sector, such as Alien Vault, BlueCoat, Intel Security, Palo Alto Networks, RSA and Vaultive.

BEST PRACTICES

SPORTING AGREEMENTS

In 2015 we reached important deals for football broadcasting rights, now making us the Spanish market operator with the most comprehensive football offer: the BBVA League, the Adelante League, international leagues (the Calcio, the Premier League, the Bundesliga, etc.), the King's Cup, the 2016 European Championships qualifiers, the UEFA Champions League and the Europa League.

Digital trust_

In an increasingly digital world it is essential for people to be sure that their data is private, secure and managed transparently. Trust is crucial for enabling citizens to take advantage of all the opportunities technology offers them.

Thus, as a gateway to the digital world, trust is one of our most material issues and, therefore, one of our top priorities. Our goal is to guarantee the permanent privacy of our customers and to promote transparency with regard to their rights when using our products and services. The above will lie within a framework of security, providing customers with control over their digital lives.

PRIVACY AND SECURITY

We live in an increasingly connected world, which in turn gives rise to the emergence of new risks concerning the privacy and security of personal data. Privacy and security are ever more important values in society.

Privacy

Our commitment is reflected in a Privacy Policy in which we describe why, how and where we handle different kinds of information. Approved in March 2013, it was updated in the course of 2015 to align it with the new challenges faced by our sector.

In 2015, under the supervision of the Global Privacy Committee, we implemented internal Data Protection regulations in all the countries in which we operate. Within these regulations we establish concrete measures with which Group companies must comply, thereby compelling them to apply the principles of our Privacy Policy. We seek to ensure that personal data is suitably processed and that the guidelines established in the legislation of each country are followed.

The person responsible for the application of our Privacy Policy is the Telefónica Chief Privacy Officer. In addition, given the growing importance of the data economy, we have appointed a Chief Data Officer. The purpose of this new figure is to define the Company's strategy in matters of the management and customisation of digital products and services, based on transparency and the customers' control of their data.



Security

We manage and implement all the necessary technology, applying a logical and physical security architecture, in order to give our customers the confidence and certainty that our products and services are secure and have the appropriate defence mechanisms.

▶ Data security

The Corporate Security Committee is responsible for establishing the policies, standards and procedures for the effective and efficient management of both human and material resources, making today's communications more secure and reliable.

▶ Service security

The effort we make to understand the new threats and the latest trends in the digital world, as well as anticipating changes with innovative security solutions, is reflected in a wide range of security products and services which meet the needs of our customers.

In this regard [ElevenPaths](#) provides us with specific research and development capabilities, while [Telefónica Security Engineering](#) handles specific developments aimed at operations, engineering and support.



TELEFÓNICA GLOBAL PRIVACY POLICY

 **WE PROTECT YOUR INFORMATION**

WHY DO WE USE IT?

- ▶ **To promote** and be able to provide the contracted services.
- ▶ **To innovate and improve** the products we offer you.
- ▶ And when it is used for other purposes, **we always inform you and give you the chance to object.**



HOW DO WE COLLECT IT?

- ▶ **When you sign up or use our products,** access our websites, send inquiries, report incidents and participate in market studies.
- ▶ **When you browse the Internet, by means of cookies, requesting consent,** if necessary, and always in compliance with the applicable legislation.



WHAT KIND OF DATA DO WE PROCESS?

- ▶ **The information necessary to provide, improve and adapt** our products to your needs.
- ▶ **Information** on the use of our services, browsing and localisation, **when the applicable legislation permits.**



WHERE DO WE HANDLE IT?

- ▶ **In the countries** where we provide services.
- ▶ **It may be transferred internationally to companies in our Group, or sent to third companies, always respecting the legal framework,** the contractual clauses and Telefónica's security standards.



Click here to access Telefónica's Global Privacy Policy

TRANSPARENCY

- ▶ If we wish to use your data for a purpose other than that initially communicated, we will inform you and obtain, when appropriate, your informed consent in accordance with the legislation.

RIGHTS

- ▶ We inform you of your rights as a user and how you can exercise them on our websites.
- ▶ There are people in each country responsible for dealing with these kinds of requests.
- ▶ We only retain the information for the time required by law or if it is necessary to help us achieve a legitimate business goal.

SECURITY

- ▶ We manage and store your customer information responsibly, keeping it secure.
- ▶ We undertake to act quickly and responsibly if the security of your information and interested parties is endangered.

MINORS

- ▶ We strive to provide an environment which encourages responsible use of the Internet and mobile phones among young people.



Audits

At Telefónica we perform the audits required by the government in each of the countries in which we operate, which are usually performed every two years. However, in addition, we have implemented an annual internal audit system to check not only compliance with the above but also the application of best practices in matters of data protection. Throughout 2015 we have continued to conduct reviews of personal data protection, performing a total of 24 audits in this subject.

The most important aspects which have been reviewed are: the application of security measures in the processing of personal data, control of access to the data, the quality of the information, consent to the processing of data and the possibility that the affected parties may exercise their rights of access, rectification, cancellation and opposition.

Moreover, Telefónica's Annual Audit Plan contains a comprehensive cybersecurity audit plan which, among other techniques, includes the performing of a penetration test applying ethical hacking techniques based on the OSSTMM, CVSS and OWASP standards.

To properly manage the information we collect, at Telefónica we rely on four basic pillars of security:

Confidentiality:
We guarantee that the data and systems are only accessed by duly authorised persons.

Integrity:
We guarantee the accuracy of the information and systems against alteration, loss or destruction, either accidental or fraudulent.

Availability:
We guarantee that the information and systems can be used in the manner and time required.

Auditability:
We guarantee that any action or transaction can be unequivocally related, ensuring compliance with the key controls established in the corresponding regulations.

These audits are performed every 18 months on all the public IP addresses of the Group's operators, as well as on products and services to determine, and if appropriate improve, their level of resistance to cyberattacks. In 2015 we conducted 36 cybersecurity audits on all the operators' networks, systems, products and services.

Training and awareness
In 2015, as a result of our Global Training Plan in matters of data protection and security, we conducted courses in these subjects for a total of 49,352 people.

At a corporate level, we have an internal Security Portal, where our employees can access all the current regulations and obtain updated information, online training and security advice which can be applied in the performance of their professional activity.

We also work with different organisations and institutions at a local level by means of training and awareness workshops in matters of data protection and security.

During 2015 **ElevenPaths** organised the third **Security Innovation Day** in Spain, a benchmark event in the field of security and ICT in both national and international terms. During the day synergies with partners were presented with the aim of promoting information security, generating an added value and combining our technological capabilities. As for Telefónica Ecuador, it held the **3rd Meeting of Authorised Suppliers and Distributors** at which, among the different topics covered, information security was discussed.

In 2015 we performed 24 audits in matters of personal data protection and 36 on cybersecurity



We work to incorporate customer privacy in the development of all of our products and services, from the initial idea to implementation

Penalties

In 2015 we registered 78 penalties throughout the Group for issues related to personal data protection and 154 procedures were initiated on data protection issues throughout the year. Most of these procedures were initiated in Spain, where legislation is stricter than in other markets.

PRIVACY BY DESIGN

We work to incorporate customer privacy in the development of all of our products and services, from the initial idea to implementation. This is what we call privacy by design, as a result of which we take into account not only the guarantees provided by applicable legislation in the matter but also the customers' expectations with regard to their privacy when using our products and services.

Our experts on data protection are involved from the start in all the digital service projects we undertake. Thus, for example, the Smart Steps product uses anonymous and aggregated

mobile data, constantly bearing in mind the customers' privacy, in order to trace actual behaviour patterns which enable institutions to make decisions more accurately.

FREEDOM OF EXPRESSION

During 2015 we worked to support privacy and freedom of expression, actively participating in the [Telecom Industry Dialogue](#) (TID), the Dialogue Group of the telecommunications sector. This international organisation is made up of a group of global operators and sellers in the sector which focus on the protection and promotion of the freedom of expression and privacy of individuals within the context of the [United Nations Guiding Principles on Business and Human Rights](#).

We work in conjunction with the Telecom Industry Dialogue (TID) and the [Global Network Initiative](#) (GNI), an organisation made up of different agents (companies, investors and civil and academic society). From 2016 onwards, the members of the TID who so wish will



have the status of Observers within the GNI, representing a step forward in cooperation on behalf of privacy and freedom of expression.

The progress we have made in the implementation of the 10 principles of Privacy and Freedom of Expression adopted by the TID in 2013 is described in the following table:

BEST PRACTICES

DATA PROTECTION

Telefónica Mexico is the first company in the country to receive certification in matters of Personal Data Protection.



GUIDING PRINCIPLES FOR PRIVACY AND FREEDOM OF EXPRESSION AT TELEFÓNICA

Guiding principle

1 To create and/or maintain relevant policies, under the supervision of the Board of Directors or equivalent, highlighting a commitment to preventing, assessing and mitigating, to the extent possible, the risks to freedom of expression and privacy associated with the design, sale and operation of technology and telecommunications services.

2 To conduct regular impact assessments on human rights and use due diligence processes tailored to the Company for identifying, mitigating and managing risks to the freedom of expression and privacy (both in relation to technologies, products and services, as well as to specific countries), in accordance with the Guiding Principles for the application of the UN's "Protect, respect and remedy" framework.

3 To create and/or maintain operational processes and procedures for assessing and managing any governmental requests which might have an impact on freedom of expression and privacy.

4 As far as possible, to adopt strategies to anticipate, respond to and minimise any potential impact on freedom of expression and privacy in the event that an illegal governmental request or demand is received, or when governments are deemed to be misusing the products or technology for illegitimate purposes.

Progress of Telefónica

Our Business Principles, revised in 2010, recognise the right to privacy as the foundation for a trust-based relationship with our stakeholders.

Moreover, the Group has a Privacy Policy, approved by the Board in March 2013, which is binding in all the countries in which we operate. During 2015 the Policy was updated to align it with the new challenges facing the sector.

We also have a Data Protection Instruction which establishes specific mandatory measures for the companies of the Telefónica Group, developing the principles of the Privacy Policy and thereby guaranteeing proper processing of personal data, without detriment to the provisions of the current legislation of each country. It was implemented during 2015 in all the countries in which we operate, with the Privacy Committee carrying out the monitoring thereof.

The Group has a Chief Privacy Officer, who is responsible for the implementation and monitoring of the Policy. Furthermore, a Chief Data Officer has been introduced to be the person responsible for the Group's data, protecting it, storing it and designing the database of the future.

With regard to security management, the Group has the Corporate Information Security Policy, which is based on international standards and updated in accordance with growing international demand in matters of security. In addition to receiving policy-specific training, all our employees have access to the Policy via the Group Intranet.

Respect and commitment to Human Rights is one of the foundations of our Business Principles. Therefore, in 2012, in accordance with the framework provided by the Guiding Principles on Business and Human Rights, we conducted an assessment, with the support of [Business for Social Responsibility](#), of all our operations to assess the global impact of our activity. During 2015 the following due diligence processes were performed:

- ▶ Periodical reviews of the most significant risks in matters of privacy and security which affect our business at a global level.
- ▶ Preparation and presentation by the Privacy Committee of the Guide to procedure in the event of certain requirements by the authorities.
- ▶ Monitoring of the implementation of the Data Protection Instruction by the local Chief Protection Officers.

Telefónica has formal processes in place to attend to requirements received from local/governmental authorities. These are the responsibility of the departments of the General Secretary and Security in each of the Group companies.

In 2015 the Privacy Committee presented the Guide to procedure in the event of certain governmental requirements, applicable to all companies comprising the Telefónica Group.

In addition to the formal processes stipulated in the above principle, the Chief Privacy Officer, at a global level, and the Data Protection Officers ensure greater uniformity of the procedures and processes which affect the privacy of our customers.

Furthermore, the Chief Data Officer has been introduced to be the person responsible for the Group's data, protecting it, storing it and designing the database of the future.



Guiding principle

5 To seek to always guarantee the security and freedom of the Company's employees who may be exposed to risk situations.

Progress of Telefónica

Health, safety and occupational well-being are the three pillars of Telefónica, not only ensuring the protection of its employees, but also having a direct influence on their satisfaction in their work for the Company.

In terms of physical security, the global security directorate establishes a set of guidelines to be followed, appropriate to the risks identified in each country, and which also covers the displacement process. Further information can be found in the "Occupational Health and Safety" section.

6 To sensitise and train the employees affected by the relevant policies and processes.

The Telefónica Group has designed a specific plan to train and sensitise its employees in the policies and processes which affect them.

This continuous training programme is conducted both in person and online. During 2015 more than 49,300 employees were trained in Data Protection and Information Security.

7 To share knowledge and impressions, whenever relevant and appropriate, with all the interested parties involved in order to better understand the legal framework and the effectiveness of these principles in practice and to provide support for their application and development.

We consider it essential to maintain an ongoing dialogue with our stakeholders in order to identify and mitigate risks and to develop new business opportunities. We believe that both transparency and knowledge sharing with this group is essential to promoting these Guiding Principles. In this sense we should highlight:

- ▶ As members of the [Telecom Industry Dialogue](#) we participate in the Learning Forum with Stakeholders.
- ▶ Drawing up of a global map of stakeholders on issues of Privacy and Freedom of Expression.
- ▶ Preparation of a stakeholder panel to serve as a platform for formal and structured dialogue with our main stakeholders. The results of the Stakeholder Engagement will serve to enrich the study of materiality and focus Company planning, both globally and locally, on its social, environmental and ethical initiatives, including Privacy.

For further information, refer to the section titled "Relationships with our interest groups".

8 To annually, and whenever circumstances so require, provide external information on the progress made in the application of the principles and, where appropriate, on the main events which occur in this respect.

This Report summarises the progress made by the Telefónica Group in matters of privacy and freedom of expression.

For further information, you can also refer to the Digital Trust chapter of this Report.

9 To assist in the development of policies and regulations which promote freedom of expression and privacy, either individually or in collaboration with other entities, seeking to mitigate the potential negative impacts arising from policies and regulations.

At Telefónica we are convinced that the best way of achieving global progress with respect to freedom of expression and privacy is through dialogue between governments, industry, civil society (including human rights experts), investors, supranational organisations and other affected interested parties. We participate in public consultations relating to privacy and freedom of expression conducted by various different national and international organisations.

We contribute to dialogue on national and international policies in different forums and events relating to Privacy and Freedom of Expression, both at a Company level (2015 Annual Data Summit and 2015 Global Dialogue on Data Protection) and by means of the Telecommunications Industry Dialogue Group, whose initiatives can be found on its [website](#).

10 To examine the options for the implementation of the appropriate complaint mechanisms, as set out in Principle 31 of the UN's Guiding Principles on Business and Human Rights.

During 2015 we worked internally to establish a proper complaints mechanism to cover different aspects of Human Rights, including Privacy and Freedom of Expression.



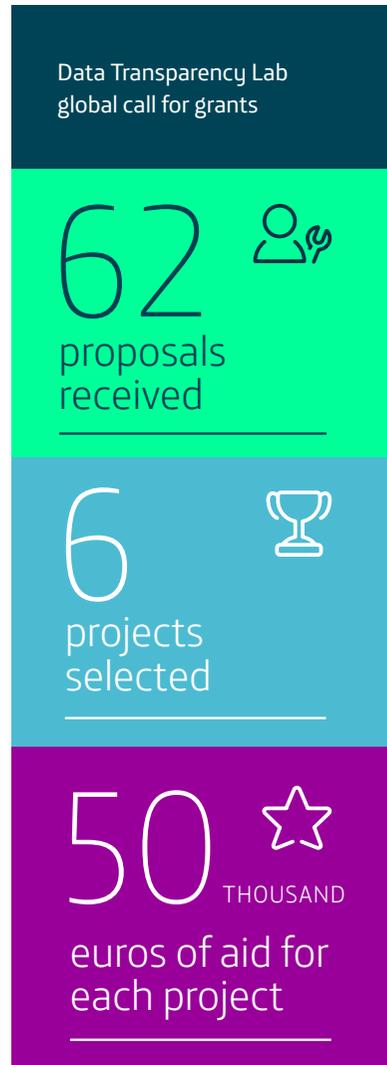
Transparency

Another fundamental value for obtaining our customers' trust is transparency. For us, being transparent in the digital world means explaining to customers, clearly and simply, how and why we process their data and involving them in the process.

Thanks to Telefónica I+D we continue to be, for another year running, one of the main promoters of the [Data Transparency Lab](#), a community of technologists, researchers, politicians and industry representatives who work on promoting the transparency of online personal data by means of scientific research and design.

In 2015 this laboratory launched its first [global call for research grants](#), with the aim of finding innovative projects in matters of privacy and transparency in the use of data. A total of 62 proposals were received, from which an independent research Committee selected the six winning projects, which received aid totalling 50,000 Euros.

In addition, the second [DTL2015](#) world congress was held last year, with the aim of becoming a benchmark in research into the flow and use of personal data on the Web and the development of applications. The event, attended by over 130 people, gathered representatives



of industry, regulation and economic development, researchers and academics.

MINORS

To ensure proper use of the Internet by children we have defined a global strategy based on partnerships, products, services, and education and awareness projects.

Partnerships

- ▶ Strategic partnerships in civil society like [INHOPE](#), [Insafe](#) and [Pantallas Amigas](#).
- ▶ Collaboration with the State Law Enforcement and Security Forces to fight against illegal content on the Internet.
- ▶ Sectoral alliances: we continue to work with the Coalition of ICT Companies and the Partnership of Mobile Operators to fight against graphic content of sexual abuse on the Web. We proactively proceed to block this content, in accordance with the guidelines and lists provided

by the [Internet Watch Foundation](#). At Telefónica we perform this block in nine of the countries in which we operate.

Products and services

We develop parental controls for all types of devices connected to the Internet, as a tool to help parents to enable their children to make responsible use of the technology.

We currently provide this commercial offer in three countries:

- ▶ Spain: [Movistar Protege](#) and [Canguro Net](#).
- ▶ Ecuador: [Escudo Movistar](#).
- ▶ Brazil: [Filhos online](#).

So that children make good use of the Internet we have defined a global strategy based on partnerships, products, services and education and awareness projects



BEST PRACTICES

PROTECTION OF MINORS

During 2015 Telefónica El Salvador signed a letter of commitment with UNICEF and GSMA, with the aim of working together on protecting children and teenagers on the Internet.



Familia Digital has become a leading Resource Centre for families and educators, with 196,778 visits in 2015

Education and sensitisation

Teaching the future generations to make good use of the Internet is fundamental. We would therefore like to support families in the challenge of educating children and young people in responsible use of the Internet and its connected technologies, as well as providing a secure digital environment enabling better development of minors.

Our **Familia Digital** portal remains one of our main lines of action for achieving these objectives. During 2015, we expanded the platform to Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua and Panama.

With 196,778 visits last year, this Resource Centre for families and educators has become a reference point for promoting digital education and helping to create a better Internet for children and teenagers.

In Spain, Familia Digital conducts different initiatives, two of which most stand out: the launch of the DigitalKids workshops in conjunction with the Images, Words and Ideas research group at the University of Alcalá, whose aim is to contribute to the creative and intelligent use of technology by children; and the collaboration with Pantallas Amigas, to launch the **SmartPRIVIAL** game.

In November 2015, also in order to promote education, we launched the '**Dialogando**' portal in Brazil, aimed at parents and educators. The platform provides a platform for dialogue on the responsible use of the Internet within the family and offers its users a range of interactive content and information from different media sources, segmented by age groups.

Awareness is a key element for us and, therefore, we organise different initiatives which seek to increase awareness of this issue. The initiatives conducted in 2015 include:

▶ In Ecuador, we held the Escudo Movistar Webinar to provide information for our customers and stakeholders on the most relevant aspects of digital education for minors.

▶ We presented the first **guide on the Digital Identity of teenagers for Spain and Latin America**.

▶ At Movistar Nicaragua we launched a new social service whereby, by means of sending free messages, we distribute information to prevent potential risks and encourage safe use of the Internet.

CHALLENGES

- ▶ Familia Digital: The platform will be presented in Argentina and Venezuela in the second quarter of 2016. Moreover, we are working on the possibility of extending it to other countries in Latin America.
- ▶ The creation of a corporate Privacy Centre on our official website.



FURTHER INFORMATION

Refer to the "Digital Trust" section of our corporate website.



6

Commitment
to our team_



Human resources

The key to our transformation and leadership is having the best team of professionals. At the end of 2015 the Group had 129,890 employees with an average age of 41, of which fewer than 1% held executive positions. In comparison with the previous year's figures, the workforce increased by 5%. This increase was heavily influenced by the acquisition of GVT and DTS, and the deconsolidation of Telefónica United Kingdom. The organic variation of the workforce, excluding corporate movements, represented a fall of 4.2% compared with 2014, due to the simplification strategy that we are implementing in order to achieve greater efficiency within the organisation. Our goal is to maintain our innovation capacity, despite the increased competition that the sector is experiencing.

During 2015, the country with the most employees was Spain, with 38,130; followed by Brazil, with 35,512, following the purchase of GVT in 2015; Argentina, with 17,255; and Germany, with 8,738.

95.8% of our staff hold permanent employment contracts, which demonstrates our commitment to sustainable employment policies. In 2015, 91,451 employees had a negotiated work agreement (70.4% of the total), representing an increase over the previous year (78,166 employees). This increase is strongly influenced by the consolidation of GVT and DTS.



TURNOVER RATE AT TELEFÓNICA

	Total	Voluntary
Spain	4.0	3.2
Germany	25.3	9.5
Brazil	28.9	6.7
LatAm.	14.0	6.6
Telefónica Group	20.0	7.8

In early 2016 we began a voluntary Redundancy Plan in Spain, in order to achieve alignment with the objectives of simplification and the incorporation of young talent. This plan, which will last two years, applies to employees who will be 53 years old before the end of 2017 and have been working for our Company for fifteen years. Those who voluntarily join the plan will receive 68% of their salary until they are 65, in addition to social security and health insurance payments.

 **FURTHER INFORMATION**
Refer to the "Employees" section of our corporate website.

ATTRACTION AND RETENTION OF TALENT

One of the most important challenges for a competitive company in the world of new technologies is to attract and retain the best talent. For this purpose, we offer a professional career with the aim of, on the one hand, attempting to fulfil the concerns and aspirations of our professionals and, on the other, answering the mid and long-term challenges facing our Company. Therefore, it is important for us to be a good place to work, where our employees feel appreciated, thus encouraging and enhancing their training and development.

We believe that diversity enriches the culture of the Company. Therefore, our diversity strategy is defined as the inevitable and natural result of adapting our business to the environment in which we operate and, therefore, understanding it as part of our business reality.

We currently have employees of more than 98 nationalities who are based in the 41 countries where we have staff. With regard to gender diversity, 37.7% of our workforce in 2015 were women, 19.1% of them in management positions. This diversity strengthens our culture and allows us to position ourselves as a global and competitive company, while increasing our ability to reflect the diversity of our customers and stakeholders.



BEST PRACTICES

“WOMAN IN LEADERSHIP”

To strengthen female leadership within our structure, we have initiated a global career acceleration programme specifically for women: “Woman in Leadership”. This is a global female leadership initiative which addresses different aspects involved in managing the barriers that women can face in their professional careers. It is designed primarily for women in executive and pre-executive positions, thereby enabling our talent to gain access to positions of greater responsibility, with the aim of increasing their presence in senior management positions. Two editions of the programme were launched in 2015, which were attended by more than 60 executives. In addition to the above, we have conducted career acceleration programmes for women at a local level.

We are committed to attracting talent from the new generation of digital natives, who are essential to a sector as dynamic as ours. In 2015, 19.9% of our employees were under 30 years of age and we recruited a total of 10,912 young people.

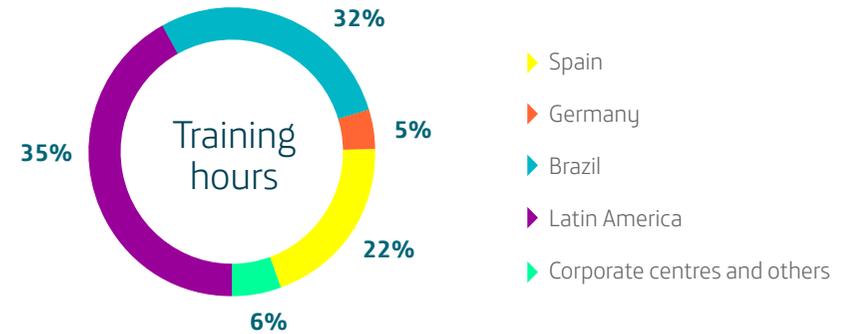
A large part of our untapped professional potential lies among our employees. For this reason, in the Talent areas of Telefónica, we design and implement programmes which help us to identify and evaluate our talent internally and develop their skills. In 2015 we evaluated 93% of Company executives and managers, enabling us to draw up a talent map and a structured succession plan.

By means of our evaluation and talent management processes, we seek to contribute to the development of our professionals and ensure we have the key profiles to guarantee the sustainability of our Company. Through a platform designed to align the needs of the business with those of each employee, we manage different global development programmes:

▶ **Young Leaders Programme:** Focused on employees under 30 years of age, its goal is to promote their development and growth within our Company. In 2015, 98 employees were involved in the programme.

	Training hours		Expenditure on training (thousand of euros)	
	2014	2015	2014	2015
Telefónica Group	3,712,292	3,986,368	41,559	43,020

Note: The data is not directly comparable, due to the change of scope caused by the inclusion of O2 United Kingdom in the data for 2014, which is not included in the data for 2015.



▶ **Programme for the Development of High-Potential Managers:** A personalised global development programme aimed at our managers. Over the past year 689 managers took part in this programme.

▶ **International rotations:** Thanks to this global programme our employees can enjoy an international and multi-functional experience at other companies in the group.

Our goal is to offer an attractive professional career which also promotes talent through

training. We structure the above by means of classroom training (Universitas and specialised courses) and online training (e-learning programmes). Thus, during 2015, the Telefónica Group invested a total of 43 million euros in different initiatives in this area.

During the year we continued to deliver training through individual development plans (IDPs). These have allowed us to put specific mechanisms in place to, continuously and online, identify training needs and enable us to provide a comprehensive and immediate response when these needs arise.



BEST PRACTICES

TALENTUM GRANTS

Since 2011 over a thousand professionals have joined Telefónica España, almost all of them from training grant programmes in partnership with the SEPI Foundation and the Talentum plans. We currently have 112 people undergoing training with this Company. In order to encourage diversity, we reserve a percentage of the Talentum grants for young people with disabilities, thereby ensuring the incorporation of talent from this segment of professionals.

At a global level, the Company knowledge transfer is particularly worthy of mention. This has a base of 16,252 internal teachers and is supported by the eKISS platform which, as a new feature, has launched a new, more powerful, social version. The platform already holds 66,427 documents and has received 5,965 visits.

In 2015, Universitas Telefónica, our corporate university, trained 2,046 executives on its campus in Barcelona through on-site leadership and strategy programmes focused on digital

transformation. In addition, the “On the Road” initiative, which brings the programmes directly to country operators, affected 2,041 middle managers at a local level. Last year the university received a rating of 4.7 out of 5 from the professionals trained there.

We are committed to reconciling the professional and personal lives of our employees. This is reflected in a set of measures and provisions aimed at work flexibility, with services and benefits tailored to their needs.

► On a corporate level, with regard to workdays and schedules, a large percentage of the workforce work intensive shorter days annually or in the summer months, promoting the new forms of flexible work that new technologies have made possible.

► To enhance family reconciliation, our employees enjoy flexibility when taking their holidays and also receive childcare bonuses. In some cases, such as at Company headquarters, we run a daycare service for the employees' children.

At Telefónica España we also have an Equal Opportunities Committee, made up of Company and workers' representatives, which encourages measures that favour the conciliation of work life with family and personal life.

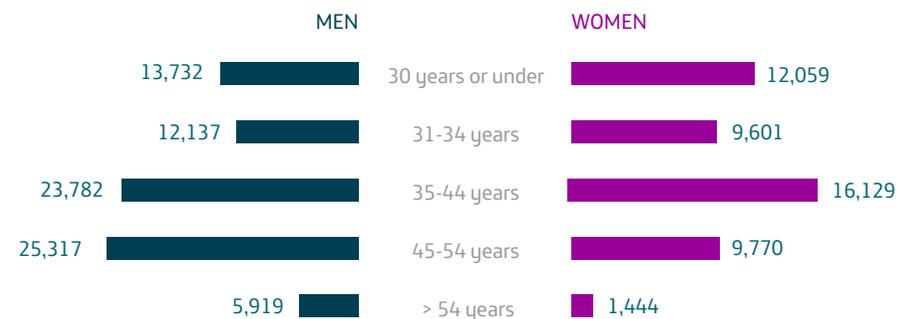
47% of people under 30 years of age in our workforce are women

Indicators	2014	2015
Women in the workforce	38.3%	37.7%
Women in management positions	19.6%	19.1%
Women on the Executive Committee	1	3
Number of nationalities in the workforce	90	98
People with disabilities in the workforce ⁽¹⁾	1,072	886
Percentage of young people under 30 years of age	21.5%	19.9%

Note: To make 2014 data comparable, the scope of consolidation has been updated to include DTS and GVT, and exclude the data for Telefónica United Kingdom.

(1) The percentage of integration of people with disabilities in Spain (ex-LISMI) stands at 2.07%.

AGE PYRAMID OF TELEFÓNICA EMPLOYEES





We strive to create a working environment which encourages the elimination of barriers, an idea which forms part of our corporate strategy and culture. As such we seek to incorporate talent with disabilities, enable access to our facilities to any collective and encourage recruitment at special employment centres.

Our remuneration policy aims to attract, retain and motivate professionals so that, together, we can meet the challenges posed by the transformation of the sector. Telefónica's Business Principles set out our commitment to our employees, guaranteeing fair pay that is appropriate to the labour market in which we perform our operations.

Employee remunerations come in the form of compensations (basic salary, variable remuneration dependent on objectives, sales incentives, long-term benefits and share programmes) and specific benefits (pension plans, holidays, life and health insurance, company cars, etc.), as well as other ways of compensating employees, such as career development and opportunities. Our employees also have access to a personalised remuneration system which enables them to voluntarily allocate part of the fixed financial payment to the contracting of a series of products and/or services and, therefore, adapt their remuneration to their personal and family needs at all times.

Moreover, we have a Global Remuneration Policy which aims to achieve homogeneity



and alignment in remuneration practices throughout the entire Group. In turn, the local remuneration teams ensure alignment with the usual practices in each area of activity. We have single suppliers for all markets and the launch of retention programmes has a global application. All our variable remuneration systems include at least one Business Principle target for the employees: customer satisfaction.

At Telefónica we ensure that our remuneration policies and practices guarantee equal salaries and opportunities for men and women.

At Telefónica España we reserve 5% of our Talentum grants for young people with disabilities



FURTHER INFORMATION

Refer to the "Diversity" section on our corporate website.

Within the concept of total remuneration, the Employee Share Plans play an important role. Receiving shares from our Company aligns the interests of the employees with those of the shareholders and, at the same time, generates a sense of belonging and more direct involvement in the results of the entity. In 2015, 1 out of every 4 employees was a shareholder of the Company.

Our philosophy of long-term incentives through shares seeks to reach all Group employees around the world, at all organisational levels. For this purpose we



have designed and implemented different plans based on Telefónica shares, which are available in note 19 of the Financial Report.

MINIMUM SALARY AT TELEFÓNICA VS MINIMUM SALARY IN EACH COUNTRY

Country	Number of times
Germany	1.0
Argentina	1.9
Brazil	1.5
Chile	2.1
Colombia	1.9
Costa Rica	1.0
Ecuador	1.0
El Salvador	1.3
Spain	2.1
Guatemala	1.6
Mexico	5.3
Nicaragua	1.1
Panama	1.1
Peru	1.6
Venezuela	1.0
Uruguay	1.7

The social benefits for Telefónica employees vary from one country to the next and, essentially, consist of the following:

- ▶ Health, life and accident insurance. The fund is paid into to cover the risk of death or total incapacity for all kinds of work. Double the amount would be paid out in the event of death or total incapacity for all kinds of work as the result of an accident.

- ▶ Pension plan with contributions made by the employee and the Company.
- ▶ Child and school aid, which varies according to the age of the children.
- ▶ Total incapacity for usual employment. In our agreement we include financial compensation for cases of redundancy in the Company due to the declaration of permanent total incapacity for usual employment.

AVERAGE WAGE GAP BETWEEN MEN AND WOMEN

Percentage of the average salary for women in comparison with the average for men in our geographical areas

Basic salaries	Spain	Germany	Brazil	LatAm
Managers	96.3%	90.3%	97.3%	96.3%
Middle management	95.4%	94.4%	99.4%	94.4%
Total salaries	Spain	Germany	Brazil	LatAm
Managers	96.5%	86.0%	97.5%	95.7%
Middle management	96.2%	92.3%	99.5%	94.1%

Note 1: LatAm reflects the weighted average of the countries which had reported data at 31 December 2015: Argentina, Colombia, Ecuador and Mexico.

Note 2: The data shown by country corresponds to the whole collective of Managers and Middle Managers, as a result of which they are not homogeneous samples in terms of age, seniority or functional typology of the role performed.

- ▶ Teleworking. Our employees have the opportunity to work from home once a week, subject to prior authorisation.
- ▶ Advances of up to three months.
- ▶ Holiday plans and study plans for employees' children, with the possibility of receiving aid for children who study in a town different to that of their family home, in accordance with the requirements established for this purpose.
- ▶ Maternity supplements during maternity leave: if applicable, the Company supplements maternity allowance by up to 100% of the net salary of the employee.
- ▶ Social welfare. A specialised personal support service designed for employees in need of such help, and which may benefit their work, family and social lives.
- ▶ Intensive shorter days in summer and yearly for part of the team, voluntary part-time and unpaid leave.
- ▶ Flexibility in exercising various authorisations.



FREEDOM OF ASSOCIATION AND SOCIAL DIALOGUE

At Telefónica, by virtue of the agreement reached with Union Network International (UNI), we are committed to the basic ILO standards on labour, concerning freedom of association and the right to collective bargaining. The agreement was renewed in late 2014 and takes into account developments in matters of corporate responsibility, as set out in the United Nations' Guiding Principles on Business and Human Rights, which make clear that companies are to respect Human Rights in all their operations.

During this year, we should highlight the signing of the First Collective Agreement of Related Companies between Telefónica España and the largest trade unions, which contemplates improvements in employee remuneration, advances in the standardisation of working conditions, new proposals in matters of the reconciliation of work and personal life, special references to non-discrimination and a commitment to collaboration between both parties in order to incorporate environmental criteria into the management of the Company, with everyone's involvement. The collective bargaining processes in Brazil, Argentina and Peru, among others, were also significant and successful.

In 2015 the Group did not have any significant collective conflicts. We met all agreements included in the Workers' Statute (WS) concerning substantial changes in labour conditions, taking into account the distinctions determined by law. Decisions that substantially

modify individual labour conditions must be notified by the Company to the affected worker and his/her legal representatives at least 15 days prior to coming into effect. In the case of changes affecting collectives, the notifications must be preceded by a consultation period with workers' legal representatives, lasting no longer than 15 days. The workers are to be notified of the decision by the Company's management once the consultation period has ended and if no agreement has been reached, and it will come into effect in the seven day period following the date at which it was notified. Furthermore, in the case of Spain, regulation establishes that when restructuring takes place within the organisation, Management is to inform the relevant Committee 15 days in advance of the restructuring being effected, so that it may issue the required report. In case it were necessary to restructure activities and said process were to have a direct impact on the volume of employment, no workers connected to such activities will be forcibly reassigned without prior agreement with workers' representatives, as established in the collective agreements.

WORK ENVIRONMENT

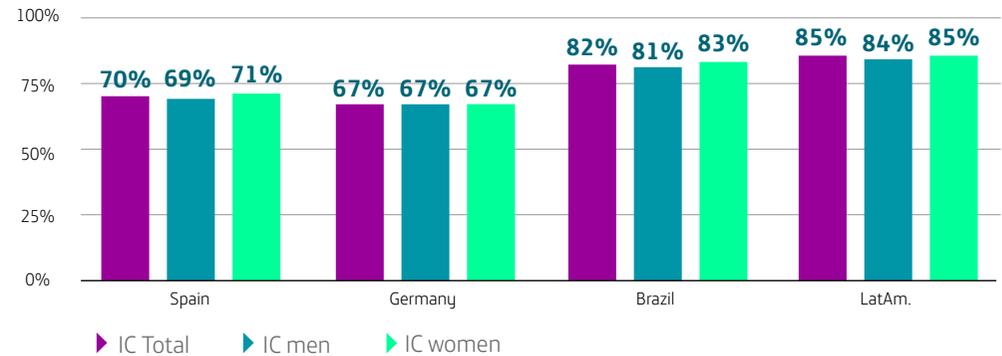
Our employees play a key role in achieving our transformation. For us, a high level of commitment and ongoing improvement in the excellence of our customer service are competitive advantages which make a difference. This is why, at Telefónica, we apply quantitative, measurable and manageable criteria to identify trends and objectives within the different categories of employee preparation, motivation and resources.

During 2015, a total of 92,587 of the 120,117 people who received invitations took part in our environment and commitment survey, in which we received a score of 79 out of 100. By gender, women have a CI (commitment index) that is 2 percentage points higher than that of men (80% and 78%, respectively) and,

by country, Chile and Venezuela are those with the highest CI (92%).

Moreover, during the year, Telefónica was acknowledged as being the 5th best multinational to work for worldwide, according to the 2015 Great Place to Work.

WORK ENVIRONMENT INDEX BY BUSINESS AREAS AND GENDER



CHALLENGES 2016

- ▶ To identify key talent and high potential in the different levels and segments.
- ▶ To define, maintain and develop the global talent and development framework.
- ▶ To design individual development plans for key collectives within the organisation.
- ▶ To encourage measures to incorporate greater diversity into our workforce, especially women and people with disabilities.
- ▶ To develop the Training Schools into a model of Communities and Working Groups within Success Factors, distributing them according to the key skills of our strategy.
- ▶ To implement a global training offer consisting of language plans, new MOOCs, the "Being a Trainer at Telefónica" project and a control kit to promote a culture of empowerment.



Occupational health and safety_

Occupational health, safety and well-being have a direct impact on labour costs through productivity, as well as a considerable influence on the reputation of our Company and the personal attitude of our employees. Therefore, occupational health, safety and well-being is one of our main priorities. It is implemented via the occupational risk prevention management system, ensuring the integration of health, safety and prevention criteria into the processes and services of all our companies.

POLICY AND MANAGEMENT BODY

The Joint Service for Occupational Risk Prevention Management (belonging to Telefónica España's Transformation and Human Resources Division) is the unit designated as the Centre of Competence for the Telefónica Group, and coordinates global initiatives in matters of prevention and occupational health.

Through these bodies, we strive to achieve the following:

- ▶ To implement and maintain a management system based on continuous improvement, forming a framework to guide the carrying out of occupational health and safety measures through the definition of objectives, goals, programmes and indicators, regularly assessing their evolution.

- ▶ To apply management tools in matters of occupational health and safety which are aimed at prevention.
- ▶ To comply with the current legislation on the matter in all countries.
- ▶ To carry out training and awareness initiatives for employees so that commitment and knowledge of matters of occupational health and safety is acquired by all.

Our progress

During 2015 we renewed the OHSAS 18001 certification in all our companies in Spain and Colombia; we also plan to obtain it in Argentina in 2016. Obtaining certification such as the OHSAS 18001, which goes beyond formal compliance with legislation, shows Telefónica's commitment to continuous improvement in matters of occupational health and safety.

In addition, this year we received the SGIS Healthy Company certificate for our commitment to the health, safety and well-being of our workers due to effective implementation of a comprehensive health management system which is based on elements of continuous improvement.

Our commitment to the health and safety of our workers goes beyond Telefónica's work environment. We work with our suppliers to ensure that they offer their employees minimum occupational health and safety conditions, in accordance with local, national and international standards regarding the specific hazards of each activity.

In Latin America, during 2015, the following significant events stand out:

- ▶ The realisation of more than 100 evacuation drills in Argentina, with monitoring performed by means of a control plan enabling the corresponding preventive measures to be taken.
- ▶ Audit of the Occupational Health and Safety Management System performed by the Colombian Security Council, achieving a score of 97/100 in Colombia.
- ▶ Automation of Safety Inspection procedures in the activities of the supply chain in Ecuador.
- ▶ The implementation of the "Influenza" vaccination campaign in Mexico.
- ▶ The Quality of Life programme in Brazil for the promotion of health, which included nutrition, medical monitoring for pregnant women, medical centres and outpatient clinics, and vaccination campaign programmes.
- ▶ Renewal of the Health and Safety Committee in Peru.

Occupational health:

Feel good

Telefónica also carries out the "Feel Good" programme, which is built around four fundamental pillars: physical activity, nutrition, health and person. As such, we have launched various initiatives to promote healthy habits among our employees, such as giving up smoking, useful tips for a heart-healthy diet, dental health, prevention of musculoskeletal overexertion and a back school, among others.



JOINT COMMITTEES

The health and safety model established in the different regions in which we operate shows a high worker representation and participation in health and safety aspects via the corresponding Health and Safety Committees in all the regions where Telefónica is present. In 2015, Telefónica had 241 joint committees representing about 93% of the employees in the telecommunications businesses.

The Health and Safety Committees allow the implementation and consolidation of objectives established in this area, by means of continuous analysis and monitoring of the scheduled preventive activity.

ACCIDENTS

No special incidence or high risk of certain diseases is perceived among the professional activities performed within our Company. During 2015, twenty cases of occupational diseases were detected among the 129,890 employees of the Group and only two people, both males, were involved in accidents *in itinere*, in Argentina and Brazil. Both accidents resulted in the death of the employee.

During 2015 we renewed the OHSAS 18001 certification in all our companies in Spain and Colombia; we also plan to obtain it in Argentina during 2016

To facilitate transparency and comparison with other companies in our sector, only the businesses of Telefónica's main activity have been included in the ratios, that is: fixed and mobile telecommunications in all countries in which we operate, as well as all the activities carried out in Spain, as this is the corporate centre of our Company. However, ATAM's social recruitment companies have not been taken into account because the comparability of Telefónica with the other operators would be distorted, as these are activities whose primary purpose is the integration of people with disabilities.

Country	Incidence rate ⁽¹⁾			Gravity ratio ⁽²⁾			Average length ⁽³⁾		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Spain	7.0	7.3	6.2	227.0	274.6	238.9	32.6	37.7	38.6
Germany	2.1	1.2	1.8	27.6	9.1	20.0	12.9	7.8	11.1
Brazil	1.2	0.9	6.4	92.6	12.6	98.3	76.2	14.4	15.5
LatAm.	19.1	19.0	18.8	489.7	476.8	488.4	25.7	25.2	26.0

(1) Total number of accidents/average number of workers during the period.
 (2) Total number of days lost due to work-related accidents/average number of workers in the period.
 (3) Total number of days lost due to work-related accidents/total number of accidents.

Accident rate			Occupational disease rate			Lost days rate			Absenteeism rate		
2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
0.9	1.0	1.0	0.4	0.2	0.0	26.1	27.6	27.3	5,599.4	5,112.6	6,565.0

EMPLOYEE TRAVEL SAFETY

Telefónica is committed to going beyond the call of duty to protect employees on their business trips and, therefore, we establish indicators for monitoring the quality and perception of the traveller. Therefore, we offer

employees an app via our e-learning platform, which provides information on safety and comfort prior to journeys, a classification of risks by neighbourhoods, recommendations, assistance centres, local contacts, automatic reception of alerts, geolocation, etc.



7

Commitment
to society_



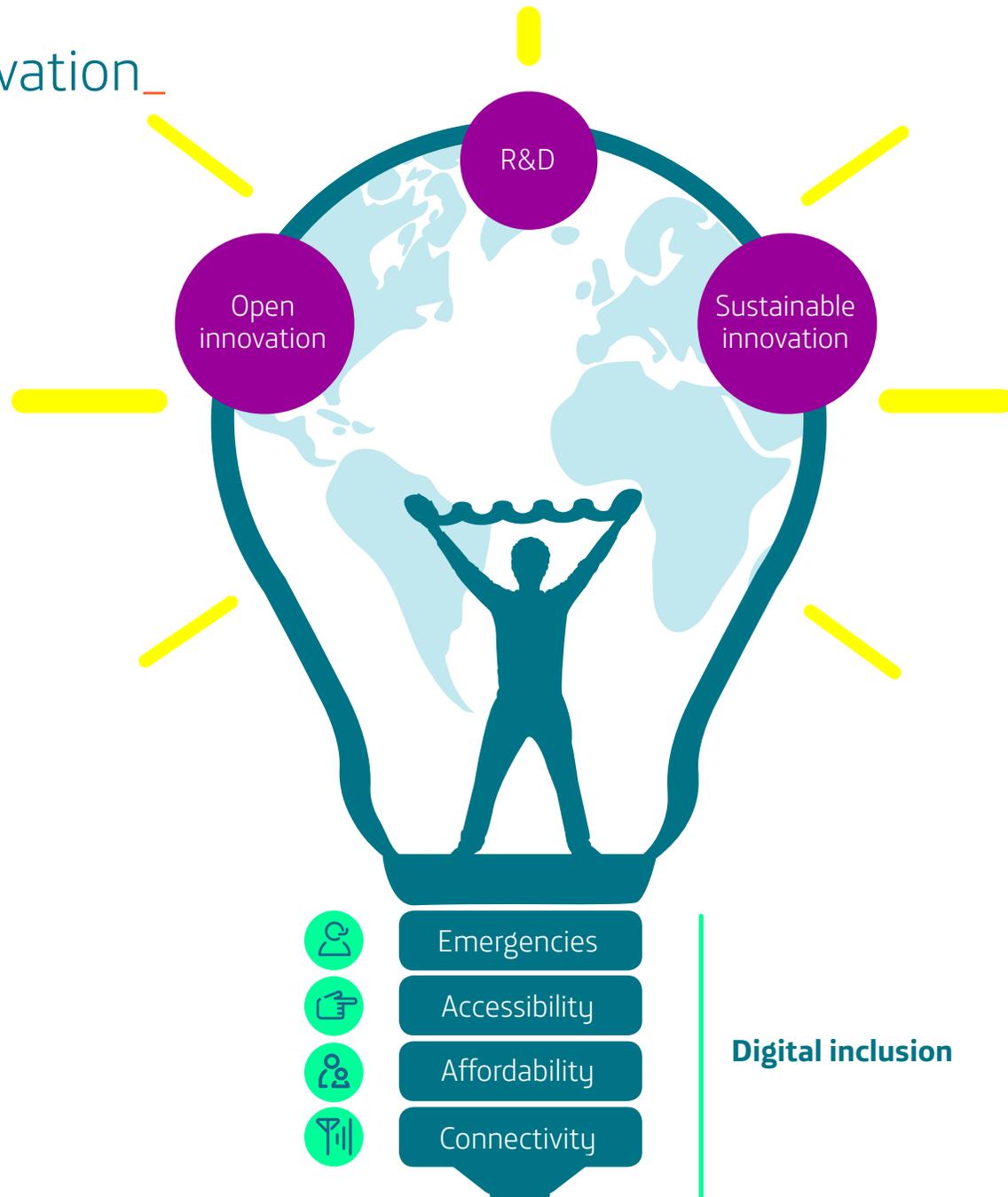
Digital inclusion and innovation

New digital technologies are the main driving force of social and economic transformation today. This premise is the basis upon which we build our Company vision: we want to guarantee access to digital life, using the best technology and without leaving anyone behind.

Connectivity is our ally in reducing the digital divide and, due to our fixed and mobile network infrastructure and the services we develop around it, we can aid progress in the communities in which we operate.

To move towards this vision, at Telefónica we work on two basic fronts:

- 1) Guaranteeing access to technology through digital inclusion, in other words, by means of Network roll-out and an accessible and affordable offer for all sectors of the population.
- 2) Developing innovative services that add value to our connectivity, and which we develop through innovation: Big Data, the Internet of Things (IoT), eHealth, digital education and eFinances.





Digital inclusion

CONNECTIVITY AND NETWORK ROLL-OUT

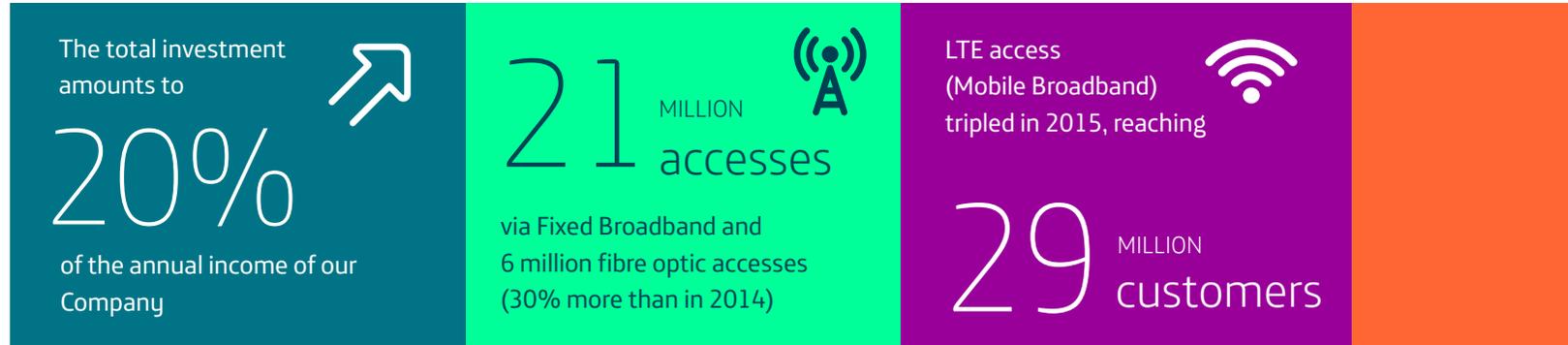
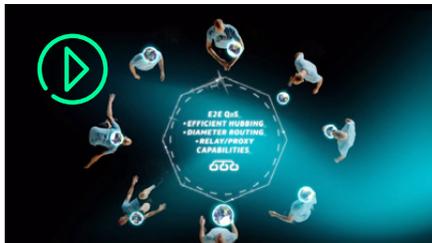
Over the last decade we have contributed substantially to improving access to the Internet, as well as its capacity and quality, as a result of our investment in infrastructures to ensure that more and more households have the opportunity to access the benefits of the digital economy.

Thus, in Latin America alone we have invested 130,000 million euros over the last 25 years, thanks to which nowadays virtually all households have access to telephony and, increasingly, access to broadband Internet, both fixed and mobile.

During 2015 we invested 9,578 million euros globally, a figure which represents an increase of 10% on the previous year and 20% of the annual income of our Company.

FURTHER INFORMATION

Watch the "Telefónica LTE - Football" Freestyle video.



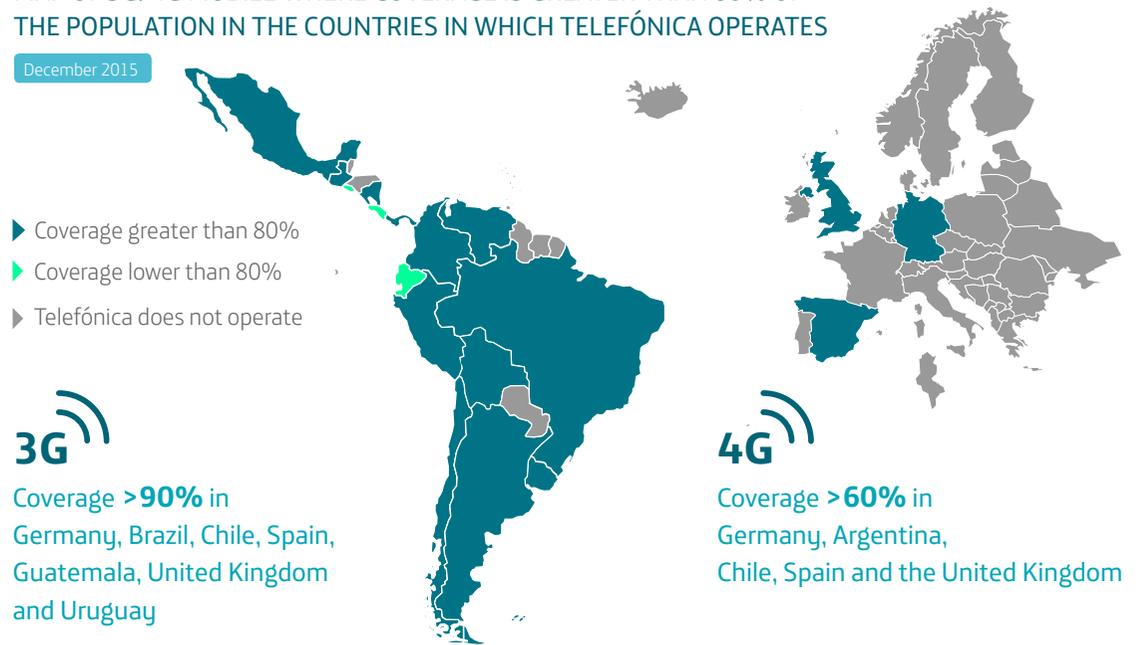
BEST PRACTICES

IMPROVEMENT OF THE 3G NETWORK IN BRAZIL

In the first nine months of 2015, Telefónica Vivo Brazil invested approximately 1,619 million euros in improving the 3G network in the country and in activating the 4G service in 11 cities and in five more states (Ceará, Minas Gerais, Paraíba, Pernambuco and Rio de Janeiro). Our Vivo customers can thus use this technology in 183 municipalities, reaching more than 88.7 million people.

MAP OF 3G/4G MOBILE WHERE COVERAGE IS GREATER THAN 80% OF THE POPULATION IN THE COUNTRIES IN WHICH TELEFÓNICA OPERATES

December 2015



Note: The coverage in Ecuador stands at 79%. The coverage in El Salvador stands at 72%. Source: GSMA Intelligence.



The investment in high-speed mobile networks is reflected in the significant increase, during 2015, of the percentage of the population in the countries in which we operate which were covered by 3G and 4G technology:

+ 8.2
average percentage points in 3G and

+ 17.7
average percentage points in 4G

BEST PRACTICES

DEPLOYMENT OF THE 3G NETWORK IN PERU

In 2015, at Telefónica in Peru we deployed a high-speed 3G Network as far as Moyobamba and Rioja, in the San Martín region. We thereby benefited more than 350,000 inhabitants, who will now have better access to communication and health, more tourism and business opportunities through fibre optic. This work is included in the investment plan we announced for the 2014-2016 period for Peru, which assigns about 1,639 million euros to the development of telecommunications infrastructure projects.

As a result of our investment in Network infrastructures, during 2015 we made great progress in terms of the penetration of high-speed Internet services, for both fixed and mobile technologies. Mobile accesses totalled 247 million, of which 113 million corresponded to smartphones, 1.4 times more than in 2014. LTE customers increased threefold in 2015, reaching a figure of 30 million. In addition, we registered 21 million Fixed Broadband accesses. 13 million of those were in Latin America, which counts for almost 50% of our fixed telephony customers in the region. We should also highlight the progressive improvement of the quality of the service. For example, in Chile and Peru, 77% and 73% of the broadband accesses have speeds greater than 4 MB.

We have 6 million fibre optic accesses (30% more than in 2014). The growth in Spain, with 2.2 million fibre optic customers, stands out, as it does in Brazil, where 53% of retail broadband accesses are fibre optic.

UNIVERSAL SERVICE PROVISIONS

Millions of euros	2015
Spain ⁽¹⁾	17,535,260
Argentina	141,895,234
Brazil ⁽²⁾	84,641,020
Peru ⁽³⁾	23,024,171
Colombia	50,291,295
Venezuela	2,352,881
Ecuador	4,507,146

(1) The Net Cost of the Universal Service in 2014 was recalculated to take into account the latest CNMC resolutions received.

(2) Data for 2014.

(3) Includes services of Telefónica Multimedia S.A.C., TIWS and Media Network S.A.C.

Universal service

The universal service is a public investment fund, financed by special taxes on telecommunications operators, whose aim is to guarantee connectivity to the entire population at a minimum quality and affordable prices.

We currently provide universal service funds in Argentina, Brazil, Colombia, Ecuador, Spain, Peru and Venezuela, where they are under the control and monitoring of the public organisms appointed for such purpose by each country.



AFFORDABLE SERVICE

We are aware that it is important for the services we offer to be affordable for the whole population. Especially in Latin America, for households with few resources, price can be an insurmountable barrier to accessing telecommunications services.

In the last decade there has been a significant fall in prices in the sector, particularly in Latin America. In the mobile market, competition, technological and commercial innovation and private investment have enabled millions of people to access telecommunications services.

Our mobile pay-as-you-go service, unique broadband offer and service packages are key tools for increasing penetration among sectors of the population with lower incomes.

Digital inclusion indicators	Dec. 2014	Dec. 2015
Penetration of smartphones	33.6%	48.5%
Pay-as-you-go	22.4%	37.5%
Contract	59.2%	71.0%
LTE smartphones (millions)	9,830.7	29,708.2
LTE penetration	4.1%	12.5%

Another important factor which has decisively influenced the affordability of these services is the advent of smartphones. Such devices are essential for accessing Internet, as their prices are significantly lower than those of other access terminals, and they are increasingly widespread in the region.

Smartphones are thus a key tool for reducing the gap in demand in the most economically vulnerable sectors. Moreover, smartphones do not require significant skills for use, which in turn can bring down certain barriers arising from a lack of digital literacy. 48.5% of our mobile customers currently have a smartphone, 37.5% of whom are on pay-as-you-go tariffs.

A unique and personalised offer

Just as pay-as-you-go products have been instrumental in universalising access to mobile services, a unique offer, adapted to the needs of each customer, encourages a widespread increase in Internet access. In this regard, within the limits of regulation, we strive to design an offer tailored to the needs and payment capacity of each of our customers.

We are convinced that it is possible to provide each of our customers with what they demand, in a transparent manner. Thus, by activating the service package they want, through the smart terminal they choose and adapting to the amount they are able to pay, customers can enjoy a distinctive offer which is adapted to their needs.

In countries where large sectors of the population have relatively low incomes, the existence of differentiated plans allows customers to enjoy Internet access on their pay-as-you-go mobiles at a price within their purchasing power.

In Latin America alone we have more than 130 million mobile pay-as-you-go customers.

BEST PRACTICES

SOCIAL PAY-AS-YOU-GO RATE

At Telefónica in Peru we have over 760,000 customers with access to the social pay-as-you-go rate, which is up to 50% cheaper and benefits the recipients of State social programmes and public servants working in rural areas.

130 MILLIONS OF customers of pay-as-you-go in Latin America

37.5% of our customers with smartphones are on pay-as-you-go tariffs



ACCESSIBILITY

Our strategy as an accessible Company is chiefly developed along two axes:

- ▶ The first is aimed at our customers and the society in which we operate, and is based on the conviction that access to the digital world is essential for improving people's lives. This is particularly applicable to a large segment of the world's population, namely, the collective which represents people with disabilities and their families.
- ▶ The second axis, the focus of which lies within the organisation, is aimed at Company employees and the facilities where they and our collaborators perform their work. Ensuring an accessible work environment and providing equal opportunities for all collectives is an essential goal for the fulfilment of our strategy.

Design For All

With the aim of making all our products and services accessible to any customer, we work with the "Design for All" attributes in mind, from the initial stages of development, through to the design phase.

"Design for All" is a concept integrated into our whole value chain, by means of training, testing and development activities, which are carried out by experts on accessibility in order to integrate this concept into everything we do.

Collaboration with leading associations helps us to understand the needs of the collectives of people with disabilities and to transmit these needs internally so that all areas of the Company incorporate accessibility criteria into their daily work, enabling Telefónica to become an accessible Digital Telco.

DESIGN FOR ALL PROCESS



BEST PRACTICES

CARE FOR CUSTOMERS WITH DISABILITIES IN CHILE

During 2015, Telefónica Chile implemented an ambitious plan to improve the care experience of our customers with disabilities. The starting point was direct dialogue with the different collectives affected, which allowed us to define the aspects most appreciated by these clients when they access a care service. Based on the foregoing, a pilot scheme was launched in two stores to expand physical, visual and auditory attention, with excellent results. The experience has therefore been extended to 6 branches, initially focusing on regions where the highest percentage of people with disabilities is concentrated. In addition, our work focus has expanded to the different care fronts: branches and stores, web pages, call centres, training and communication.



BEST PRACTICES

MOVISTAR + ACCESSIBLE

In Spain, our close collaboration with associations such as ONCE, CNSE, FIAPAS, CERMI and the Royal Board on Disability has allowed us to verify the viability of the pilot scheme we launched with Whatscine and Movistar +, whereby people with visual disabilities can access the content of our video platform via the Whatscine app.

Films can thus be followed by means of subtitles, sign language or audio description using a smartphone or tablet, without interfering with the user experiences of others.

MILESTONES 2015

► We developed the **Multi-channel Accessibility Project**, with the aim of improving our customers' experience by incorporating new accessibility criteria in all our channels: shops, the online channel and call centres. In this sense, our website has the AA certification established by the W3C (World Wide Web Consortium). In addition, since December 2014, our Movistar advertising campaigns in Spain have been accessible to any collective.

► **ATAM:** This initiative to support people with disabilities is organised by Telefónica in conjunction with 52,000 families belonging to both our active and disassociated workers. Regarded as a Public Utility entity, this private social protection system reached more than 17,000 users through its programmes providing psychosocial support to families, health, economic aid programmes, vocational integration and innovation.

COMMUNICATIONS IN EMERGENCY SITUATIONS

Information and communication technology has led to substantial improvements in the management of emergency situations. Having cutting-edge, secure and efficient technology optimises the coordination of both rescue and logistical operations, allows real-time action and deals more efficiently with the security challenges which occur after a catastrophe.

Beyond connectivity, new digital services based on the analysis of Big Data and the Internet of Things have great potential for improving the management of different emergency situations, including adaptation to climate change, migratory crises and pandemics.

At Telefónica we are fully aware of the importance of our networks and the potential of the innovative services we offer to address growing social and environmental challenges more effectively.

In the event of disasters, the response is primarily the responsibility of governments. We therefore encourage collaboration with these and humanitarian organisations in order to strengthen response strategies. Our action policy in these cases focuses on the

organisation and execution of the timely roll-out of telecommunications technology to assist and support efforts to prepare for and respond to natural disasters and emergencies.

We provide an early warning channel, facilitate the coordination of emergency team responses and logistical coordination, and we support vital communications between and to those who are affected.

Some of the initiatives we have undertaken are as follows:

► **Spain:** Agreement with the Military Emergency Unit (UME).

► **Brazil:** Agreement with the Ministry of Science, Technology and Innovation, and the National Centre for Natural Disaster Monitoring and Alerts (Cemaden).

Moreover, in early 2016, during the **Mobile World Congress**, we signed the **Humanitarian Connectivity Charter, promoted by the GSMA**. This document seeks to improve coordination among mobile network operators before, during and after a disaster.



Our Action Policy

The good management of telecommunications networks and services is the key to a quick and efficient emergency team response in disaster situations. In addition to establishing the Continuity Plans, necessary for ensuring the normal provision of services to customers in all the countries in which we operate, we include specific actions for complementing humanitarian aid:

- ▶ We prepare simulations in order to build, improve and update the processes, action plans, capacities and priorities in one response.
- ▶ We establish a basic code of humanitarian aid in coordination with national regulators in order to organise the participation of public and private companies.

- ▶ We support access to our mobile services during emergency, providing simplified and free access to vital communications, to the extent of reactivating suspended or cancelled services.
- ▶ We solve the communication infrastructure deficit by means of our satellite services. We thereby complement the other solutions, either as the only possibility of communication or as 100% diversified backup solutions. In addition, we can offer these services globally, regardless of geography and distances to nodes and centres, and deploy them rapidly.



FURTHER INFORMATION

Refer to the "Accessible Telco" section of our corporate website.

- ▶ We actively participate in the GSMA Association –an organisation of mobile operators and related companies, dedicated to supporting the standardisation, implementation and promotion of the GSM mobile telephone system–, through the organisation of a specific working group on "Responses to Disasters and Emergencies".

BEST PRACTICES

THE "EL NIÑO" PHENOMENON IN PERU

In 2015, at Telefónica in Peru we presented a Business Continuity Plan to the Ministry of Transport and Communications, which has been allocated 10 million soles, and takes into account all the key areas which could suffer an impact from the El Niño phenomenon in the country. The Plan is based on Telefónica's global Business Continuity policies and improvement processes in terms of critical services and processes availability, and incorporates an action plan in the event of any incident, anticipating the communication needs of our customers in such an emergency.

CHALLENGES 2016

- ▶ To reinforce our commitment to digital inclusion, focusing our investment on improving access to high-speed Internet services and adapting our offer to the needs of our customers.
- ▶ To increase LTE coverage in Spain to over 85% (compared to 75% in December 2015).
- ▶ To expand LTE coverage in Brazil to 60% (compared with 46.6% in December 2015), to reach 352 cities.
- ▶ To improve the accessibility of our on-site and virtual customer care channels.
- ▶ To expand the scope of accessible Movistar + services.
- ▶ To further the implementation of "Design for All" throughout all areas of the Company.



HUMANITARIAN CONNECTIVITY CHARTER

DEMONSTRATING THE MOBILE INDUSTRY COMMITMENT TO PREPARING FOR AND RESPONDING TO HUMANITARIAN CRISES





Innovation

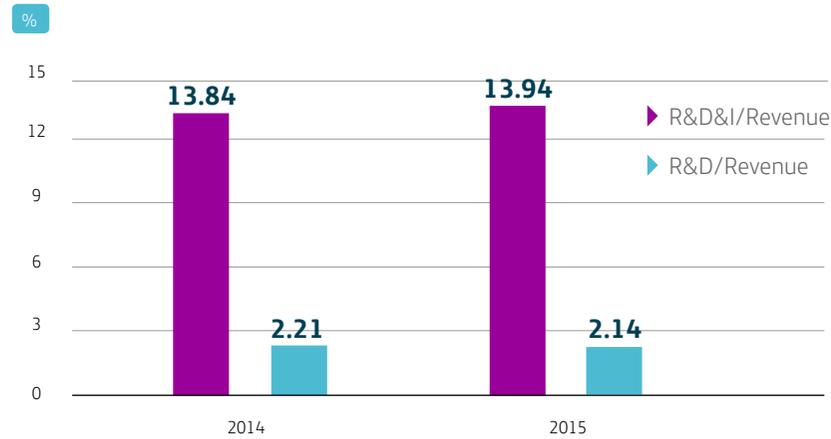
We are committed to technological innovation, seeing it as a fundamental tool for becoming one of the main actors in the new digital universe with the capacity to help create a more sustainable world and, in turn, obtain competitive advantages and unique products. Through the introduction of new technologies and the development of business solutions and processes, we aim to become a more effective, efficient and customer-oriented Group.

To this end, we base our innovation strategy on a balance between: promoting our own internal research and development capacities; fostering the creation of open innovation ecosystems; and developing sustainable services which generate a positive impact on economic, social and technological progress in the regions in which we operate.

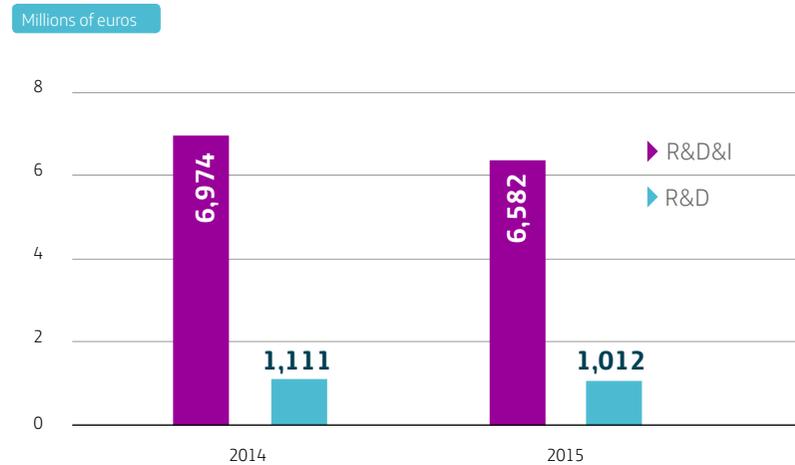
Spending on R&D totalled 1,012 million euros. It should be noted that according to the European Commission's *2015 EU Industrial R&D Investment Scoreboard*, we were fourth in the world ranking of telcos which most invest in R&D and second in Europe.

Note: These figures are not comparable due to the deconsolidation of O2UK.

R&D&I Investment/Revenue



Investment in R&D&I



Note: The 2015 data consolidates the results of GVT and DTS from May 1, 2015 and considers, from the first quarter of 2015, O2 United Kingdom as a discontinued operation. However, the 2014 data is not directly comparable in scope because of the exclusion of O2 United Kingdom and do not include GVT and DTS.

R&D AT TELEFÓNICA

Committing to innovation is the key to responsible and sustainable business because it allows us to put ourselves in the place of our customers and respond to their needs. Through research and development of solutions and technologies we seek to give our customers control over their digital lives.

Our centres of technological excellence represent one of the main tools used to manage our internal innovation. Five of them are located in Spain: Barcelona, Granada, Huesca, Madrid and Valladolid. There are also centres in the United States, Israel, Brazil and Chile.

The total expenditure on R&D was

1,012 MILLIONS OF EUROS



We also have a User Experience laboratory, by means of which Telefónica can get to know and understand the customer while working on the design of new products and services.

During 2015 we continued the implementation of the internal innovation methodology called Lean Elephants, which is already being recognised as an international reference in this area. So much so that the University of Berkeley is writing a business case based on it.

We also cooperate with other European operators and institutions. More than 50 Spanish and foreign universities and research centres have contributed to helping us create one of the most important innovation networks in the field of new technologies.

As a result of this work, in 2015 we submitted 23 new patent applications and utility models to the Spanish Patent and Trademark Office (SPTO), taking our total to 545 patents granted.

Regarding the main areas of research and innovation, this year we focused mainly on three pillars: Big Data, Internet of Things, Innovation in the Network and transparency.

Evolution of portfolio of patents granted



Big Data

We seek to study and analyse anonymous data as a tool to get a better understanding of our customers and thereby improve the products and services we offer. As a sign of the importance of responsible management in this field, in 2015 we created the area of Chief Data Office, which is responsible for Telefónica's overall strategy in matters of Big Data.

Examples of applications developed in this area include Smart Tourism, which analyses the behaviour of tourists, facilitating the design of strategies to increase customer acquisition, locate businesses and develop a more attractive and targeted offer; and Drives, an application

which analyses the driving patterns of users, allowing insurers to establish cost depending on the user's actual driving. As a result the premium paid by the driver can be determined depending on his or her actual driving and not, as until now, on purely statistical factors. The application has a social nature, as it encourages the user to improve his driving. In fact, 55% of drivers improved within three months of use.

In addition, the activities of the Data Transparency Lab continued during 2015. These can be viewed in the Digital Trust section of this Report.

Internet of Things (IoT)

During 2015 we focused on promoting development of the Internet of Things as a key tool for improving the connectivity and development of cities (Smart Cities). In this field we designed an advanced technological solution for the integrated management of cities and municipalities, making them smart and connected. Our platform for Smart Cities is based on FIWARE technology, developed in the European Union promoted project PPP Future of Internet, to increase agricultural productivity and manage energy consumption more effectively.



FURTHER INFORMATION

Refer to the "Big Data" section of our corporate website.

BEST PRACTICES

MOBILE CONNECT

The end of 2015 saw the launch in the first set of countries of **Mobile Connect**, the identification solution for Internet services sponsored by the GSMA. Instead of having to remember an infinite number of usernames and passwords, this solution allows the use of a phone number as an identifier and one unique password, which is entered into the phone by the user. We should mention that during the project's initial development Telefónica R&D used Lean Startup methodologies to standardise activity, making it a unique project and a world first.

FURTHER INFORMATION

Watch the "Telefónica wins a Glomo Award for the Mobile Connect solution" video.





FURTHER INFORMATION

Watch the "Telefónica is an "On life Telco". Choose a city full of possibilities" video.



We must also mention the official opening this year of the Telefónica R&D centre in Chile. The centre focuses on research and development of Internet of Things projects applied to agriculture, mining and urban environments.

Innovation in communications networks

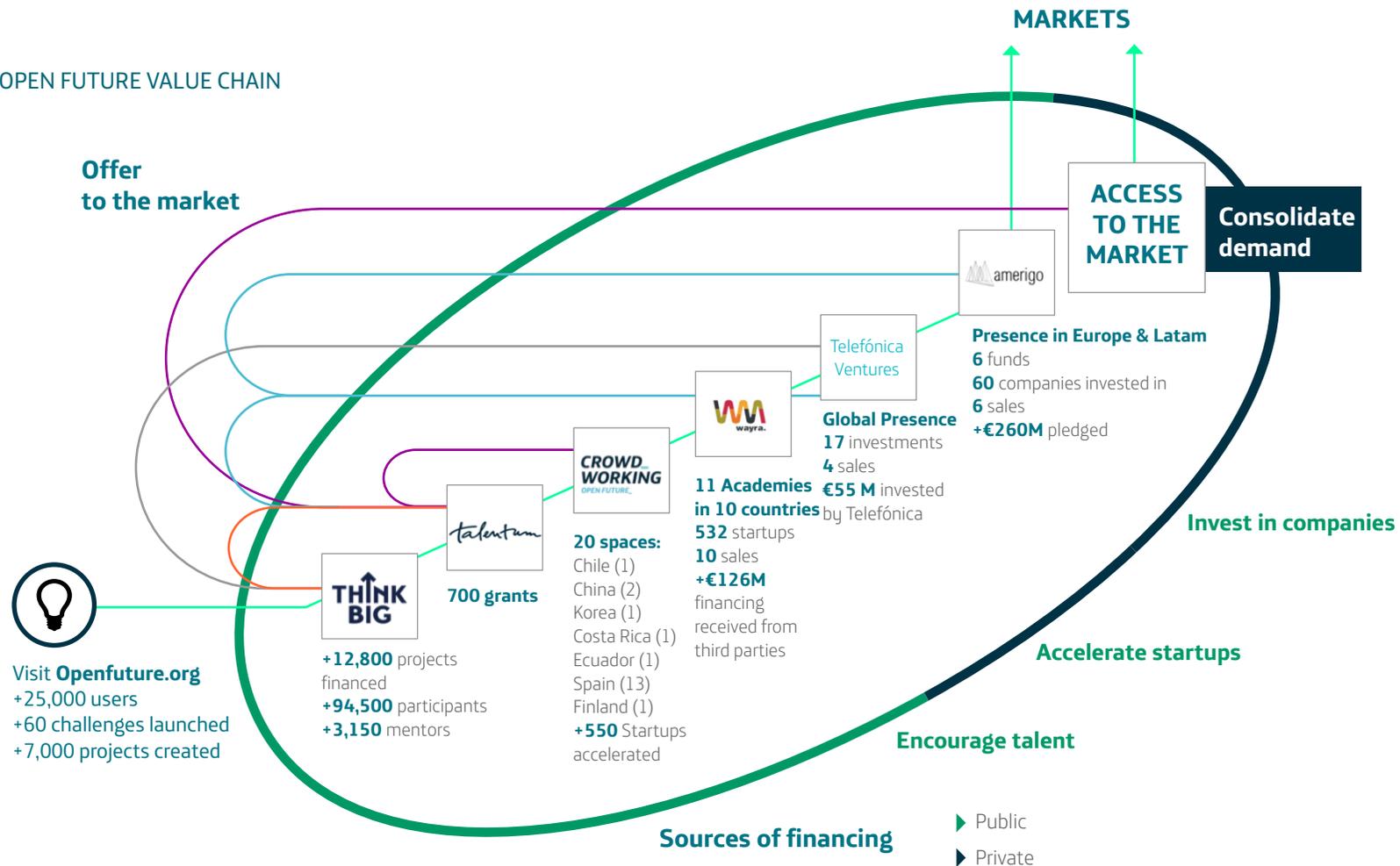
As a complement to innovation in services, we also focus on innovation and the improvement of our communications networks. Thus, for example, we worked in fields such as the virtualisation of network elements (NFV) and software-based networks (SND), the latter being an initiative we also promoted within the European Union's PPP 5G programme.

We also participated in the development and standardisation of the future 5G networks. In doing so, together with IMDEA Networks, we created 5TONIC, the first laboratory for 5G excellence in Spain, with the aim of fostering an open innovation and research ecosystem in which industry and academia can work together to promote the development of 5G technologies and their entrepreneurial environment.

OPEN INNOVATION: OPEN FUTURE_

Telefónica Open Future is Telefónica's global platform which brings together all our activities, initiatives and projects in the field of open innovation.

OPEN FUTURE VALUE CHAIN





Through tools such as Think Big, Talentum, Crowdfunding spaces, Wayra, Telefónica Ventures and the Amérigo and CIP venture capital funds, we can invest in people, ideas and viable projects based on technology, at any stage of their growth, openly and in connection with public and private organisations.

Our open and transformative nature is one of the most defining characteristics of Telefónica Open Future, whose initiatives enjoy the cooperation and participation of public and private organisations, universities, co-investors and other stakeholders in the telecommunications sector and other industries.

With a team of 60 employees, a global Network of 120 collaborators and more than 7,000 entrepreneurs, we have helped to accelerate more than 850 startups and invested in more than 600. We have a direct presence in 16 countries in Latin America, Europe and Asia.

Telefónica Open Future ended 2015 as one of the main investors in the Spanish area of open innovation and positioned itself as one of the major Venture Capital investment funds in Europe and Latin America. We also helped to create more than 10,000 jobs.

BEST PRACTICES

QUANTENNA

This Telefónica Ventures startup was one of the success stories of 2015. We currently offer the Quantenna *chipset* in next-generation broadband entertainment services (IPTV) and wireless domestic network boxes for high-definition video transmission in countries like Brazil and Spain.

We promoted participation in various startups, allowing us to fuel project turnover. Thus, during 2015, we can highlight launches such as Marfeel, IAMAT and TRUSTEV by Wayra and BOX by Telefónica Ventures.

Furthermore, some of Amérigo's new startups are escalating with

TELEFÓNICA OPEN FUTURE_ IS A UNIQUE OPEN INNOVATION NETWORK

We encourage global talent by transforming innovative ideas into successful companies

Programme initiatives

- ▶ Crowdfunding
- ▶ Wayra
- ▶ Telefónica Ventures
- ▶ Amérigo
- ▶ CIP (Open Innovation Factory)
- ▶ China Open Future
- ▶ Finland Open Future
- ▶ Korea Open Future



very promising expectations, such as Job & Talent (23 M€), Carto DB (21 M€), the Peer transfer (18 M€), Packlink (12 M€ return) Inbenta (10 M€ return), Tadó (45 M€ return) and Wallapop (38 M€), with valuations close to 150 M€ in some cases.

At Telefónica Open Future we generate benefits in all aspects of society. According to the latest European Platform for startups report, in Spain we have invested in nearly one third of new companies and many others are in our flow of operations.

<p>+600 Companies invested in</p>	<p>+1,000 startups accelerated</p>	<p>+85 public & private partners</p>	<p>16 countries</p>	<p>550 M€ of total investment committed with our partners</p>
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SUSTAINABLE INNOVATION

During 2015 we not only maintained our commitment to sustainability but we continued to promote the values of sustainable innovation in all areas of the Company, in such a way that it is a constant throughout the life cycle of the solutions we offer.

To do this, sustainable innovation is defined as innovation whose main objective is to address a social or environmental challenge, within our Company or outside it, while generating value; in other words, creating solutions which, as well as generating economic value, have a positive impact on society and the planet.

During 2015 we promoted the development of new initiatives for sustainable innovation via the Telefónica Open Future platforms, such as the first call for "Sustainable Innovation", whose aim was to detect ideas and projects with a strong social or environmental impact. Similarly, our research and development units continued to analyse the potential of our technologies for generating social benefit, such as Big Data for Social Good and research into agricultural solutions.

Although sustainable innovation is regarded as a transversal principle within the Company and is integrated into our internal processes, we defined a series of categories of services and solutions which stand out for the value they bring to society and the positive impact they generate, upon which we placed special emphasis during the year:

CATEGORIES OF SUSTAINABLE PRODUCTS AND SERVICES



Health – eHealth:

eHealth solutions are a key tool for meeting major challenges arising from the demographic, social and economic changes faced by society. For this reason, during 2015, we invested in the development of innovative services in the areas of Health and Telecare.

FURTHER INFORMATION

Watch the "Telefónica eHealth" video.



Services like Saluspot have attracted over 200,000 customers in Latin America, allowing their users to resolve queries related to health and ask a community of thousands of associated health professionals questions over the mobile phone.

Other projects such as Valcronic and ICOR, for chronic patients or patients with heart failure, have demonstrated an improvement in the care of these people. More than 80% of the patients cared for expressed their preference for these projects over traditional monitoring, while there was a 30% reduction in hospital emergency admissions for chronic or heart failure symptoms.



FURTHER INFORMATION

Refer to the "Sustainable innovation" section of our corporate website.



Financial services:

In developing countries the financial inclusion indicators display a significant gap with other countries. According to the World Bank, in Latin America 51% of the population have bank accounts, set against ratios above 95% in developed countries.

We undertook to stimulate, in particular, the most disadvantaged segments, working closely with governments and financial institutions, and developing ecosystems which allow the whole population to access financial services. More specifically, in Brazil we have launched the sale of **iZettle card** readers, devices with which payments can be made by credit card or debit card via a smartphone or tablet. This initiative offers our customers the possibility of accessing the financial ecosystem in order to perform daily banking operations.



Environment and Smart Societies:

The so-called "Smart Societies" solutions, whose aim is to promote environmental sustainability through the management and development of "Green ICT" solutions, include projects such as Smart Heritage, which strives to transform the current management model focused on the corrective restoration of assets into more efficient and sustainable preventive

conservation. This solution is aimed at preserving both historical sites and the assets they house (sculptures, paintings, furniture, etc.).



Education:

During 2015, we gave new impetus to **Telefónica Educación Digital**, through a new strategic orientation which has led to its expansion in Brazil, Chile, Colombia and Peru. It currently has more than 300 customers in Europe, USA and Latin America and provides training for 4 million students on different platforms; similarly, it has a content factory with an output of more than 40,000 hours of production per year.

At Telefónica Educación Digital we promote education via different learning platforms, including MiriadaX, the first Latin American platform for MOOC courses, with 2,089,986 students and a library with 404 courses from 77 Latin American universities and institutions. In order to lead the most innovative and disruptive experiences in this area, we are founding members of the MOOC World Expert Committee, a public-private partnership based in Washington.



Security:

On the one hand, we offer services and products via ElevenPaths, including, during 2015, Tacyt, a mobile cyberintelligence ecosystem which monitors, stores, analyses, correlates and classifies millions of mobile apps. Its advantages include the ability to detect threats to a company's brand and the possibility of preventing fraud against customers and employees, in addition to identifying the *modus operandi* which lies behind malware.

In addition, we have launched projects such as FILIP, the new *wearable* phone with a tracker for children. A device designed for children from 4 to 10 years of age to wear, with restricted calls, a tracker, a security area warning and emergency calls.

FURTHER INFORMATION

Watch the "In Spain Movistar markets the FILIP, the first smart watch for children between 4 and 11 years of age" video.



Sociocultural diversity:

This category encompasses projects which improve physical accessibility to the environment, as well as care for collectives with special needs.

Through ATAM, the non-profit social entity, and in partnership with other bodies and organisations, we have worked on the VIVE Libre solution, a tool which provides support for people with special needs via an application and a specialised care centre.

CHALLENGES 2016

- ▶ To continue leading investment in R&D in Spain, as a driving force for value creation and progress in the sector and society.
- ▶ To be a leading investor and accelerator in new technological companies in Spain and Latin America.
- ▶ To further enhance the values of sustainable innovation, throughout the life cycle of the processes and solutions we offer.
- ▶ In 2016 we will include metrics for measuring our social and environmental impact in key services.



Social and cultural action

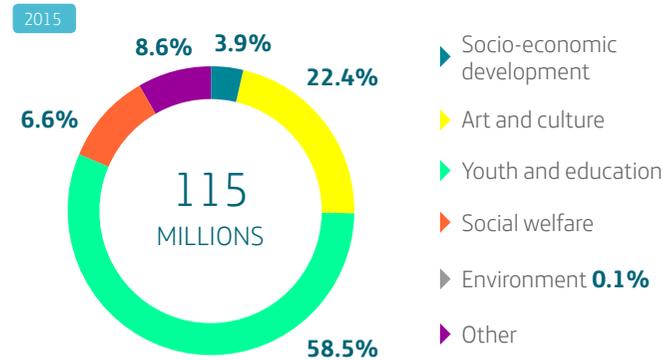
At Telefónica we promote social and cultural action in the countries in which we operate, in order to improve society and the quality of people's lives.

During 2015 we allocated 115 million euros to social and cultural initiatives, in accordance with the methodology of the LBG standard. This amount represents a percentage of 0.25% of the Group's revenue - a figure similar to that of the previous year.

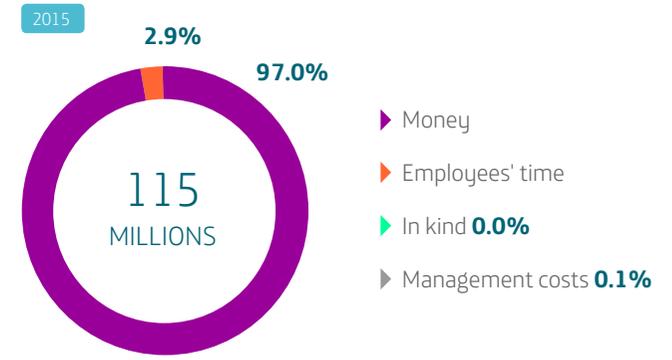
97% of the amount allocated was made up of monetary contributions.

FURTHER INFORMATION
Refer to the "Society" section of our corporate website.

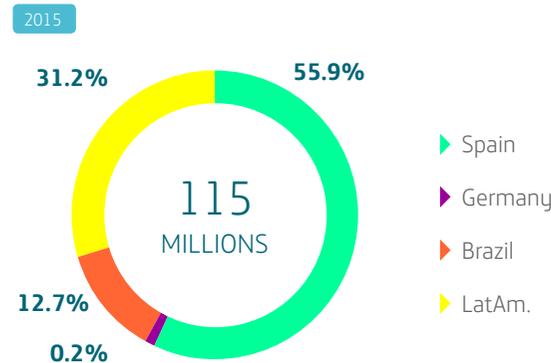
CONTRIBUTION TO SOCIAL AND CULTURAL ACTIONS⁽¹⁾



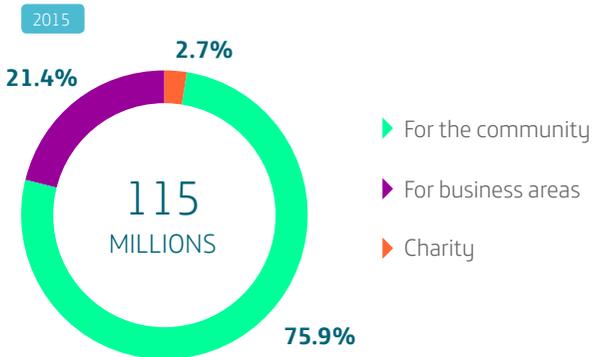
FORM OF CONTRIBUTION⁽¹⁾



CONTRIBUTION BY GEOGRAPHIC AREAS⁽¹⁾



CONTRIBUTION BY ACTIVITY TYPE⁽¹⁾



(1) The data from Fundación Telefónica and ATAM were pending audits at the time of completion of this Report.



BENEFICIARIES

Beyond the economic contributions we make to social and cultural initiatives, we care about the achievements obtained as a result of these contributions. In this regard, we should highlight that, in 2015, **Fundación Telefónica** programmes directly reached more than three million people, of whom almost half were children.

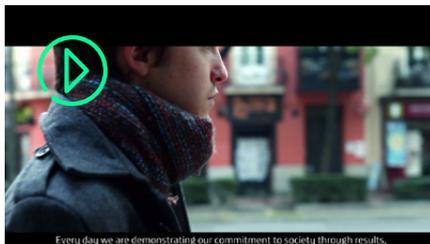
EDUCATION

At Telefónica we promote education as a tool for contributing to equal opportunities and encouraging the construction of a new, global and inclusive society. We therefore articulate our activity in this area by focusing on projects with social impact, through Fundación Telefónica, and business solutions, through **Telefónica Educación Digital**.

Our commitment is reflected in figures; we are the third company in the world in terms of educational investment, with an annual contribution of around 130 million

FURTHER INFORMATION

Watch the "What does Fundación Telefónica do?" video.



euros, according to the estimates of the **Varkey Foundation and UNESCO**.

65% of current primary school students will work in professions which do not yet exist today, in which digital knowledge will have a great influence. Therefore, at Fundación Telefónica, we trained 64,832 teachers in 2015, thereby affecting the education of 1,378,403 children.

We carried out social action projects which focused on five problems common to all the countries in which we operate: the Digital Divide, Functional Illiteracy, Lack of Personal Values and Skills, Youth Unemployment and Obsolete Educational Models.

	2015
Assisted child labourers	71,555
Children who receive training	280,659
Child beneficiaries of the training initiatives for teachers	1,101,953
Young people who receive training	77,239
Other young people actively participating in Think Big ⁽¹⁾	5,925
Teachers who have received training from Fundación Telefónica	67,552
Volunteers who participate in training	9,076
Adults who receive training (non-teachers)	71,007
Attendees at events (in person only)	132,491
Attendees at exhibitions	1,325,849
TOTAL BENEFICIARIES ⁽²⁾	3,154,635

(1) Think Big: an innovation and social entrepreneurship programme aimed at young people between 15 and 25 years of age.

(2) This data includes Fundación activities in the United Kingdom.

VOLUNTEER WORK

At Telefónica we put the time, talent and professionalism of our employees towards the service of charitable causes. Telefónica Volunteers is currently one of the largest corporate volunteer initiatives in the world.

The Telefónica International Volunteering Day, held on 16 October, is an initiative whereby thousands of Company employees all over the world devote the day to conducting different charitable activities. In 2015 about 14,000 people were involved in more than 500 activities organised by Telefónica in 33 countries in Europe, Asia and Latin America. This year the day was marked by debate and support for the

refugees arriving in Europe. Thus, a double solidarity challenge was launched: to get 100 volunteers to support this collective and 80 partners to collaborate with the Spanish Commission for Refugee Aid (CEAR).

In addition to the International Volunteering Day, our employees performed other volunteer activities throughout the year, such as solidarity meals, the campaign to raise funds for the fight against cancer, the Fundación Telefónica employment drives, etc. All these activities can be viewed on [its website](#), which is open to proposals from the employees themselves.

FURTHER INFORMATION

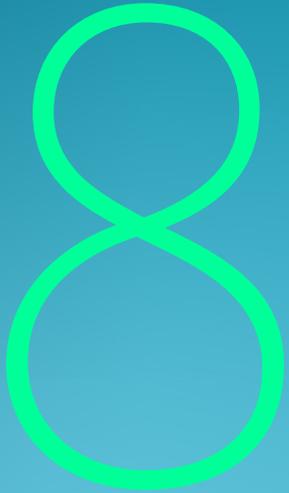
Watch the "Teresa Perales: objective Rio 2016" video.



The total number of employees who participated in Telefónica volunteer programmes in 2015 was

27,110

PEOPLE



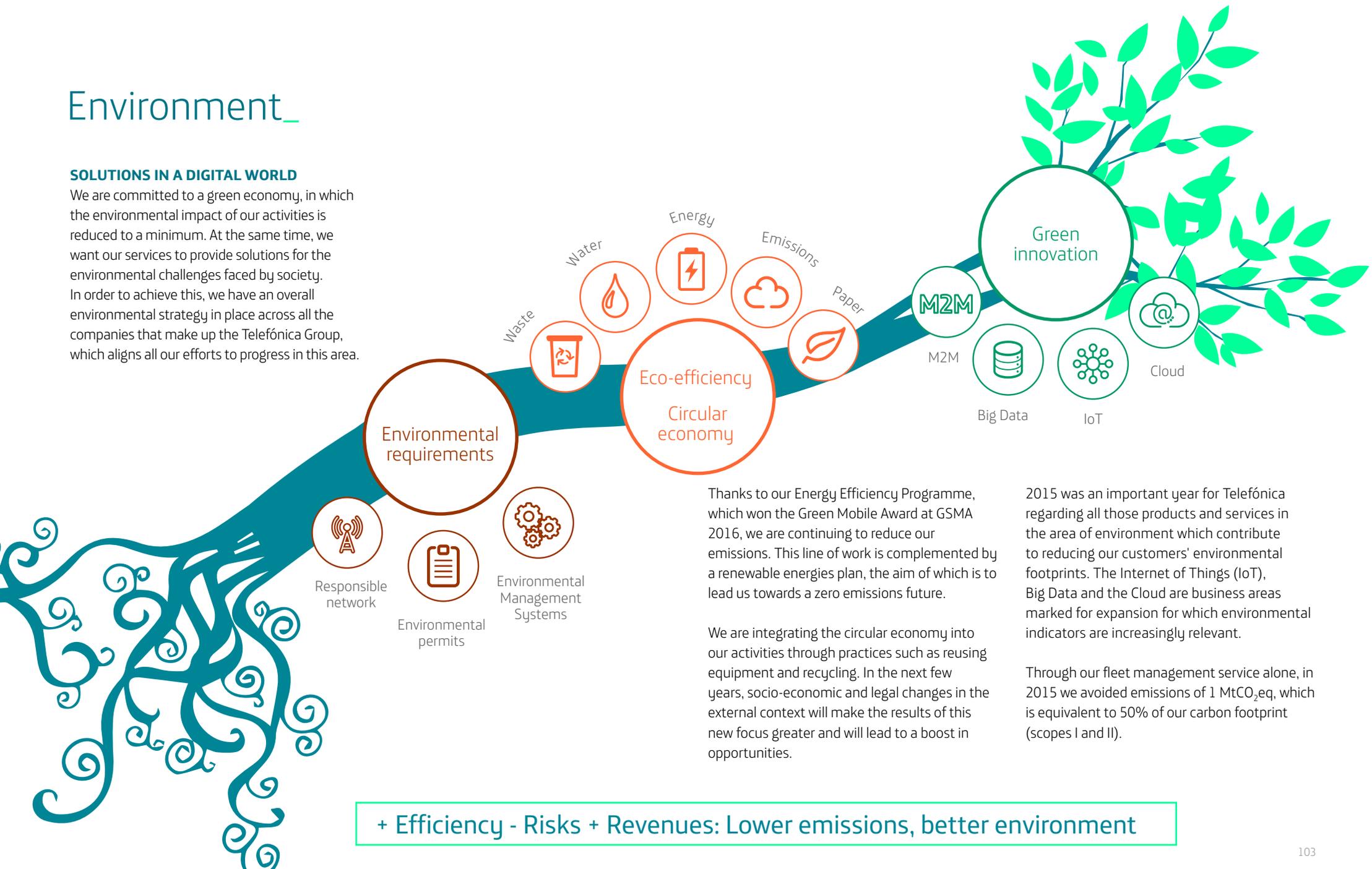
Commitment to the environment_



Environment_

SOLUTIONS IN A DIGITAL WORLD

We are committed to a green economy, in which the environmental impact of our activities is reduced to a minimum. At the same time, we want our services to provide solutions for the environmental challenges faced by society. In order to achieve this, we have an overall environmental strategy in place across all the companies that make up the Telefónica Group, which aligns all our efforts to progress in this area.



Thanks to our Energy Efficiency Programme, which won the Green Mobile Award at GSMA 2016, we are continuing to reduce our emissions. This line of work is complemented by a renewable energies plan, the aim of which is to lead us towards a zero emissions future.

We are integrating the circular economy into our activities through practices such as reusing equipment and recycling. In the next few years, socio-economic and legal changes in the external context will make the results of this new focus greater and will lead to a boost in opportunities.

2015 was an important year for Telefónica regarding all those products and services in the area of environment which contribute to reducing our customers' environmental footprints. The Internet of Things (IoT), Big Data and the Cloud are business areas marked for expansion for which environmental indicators are increasingly relevant.

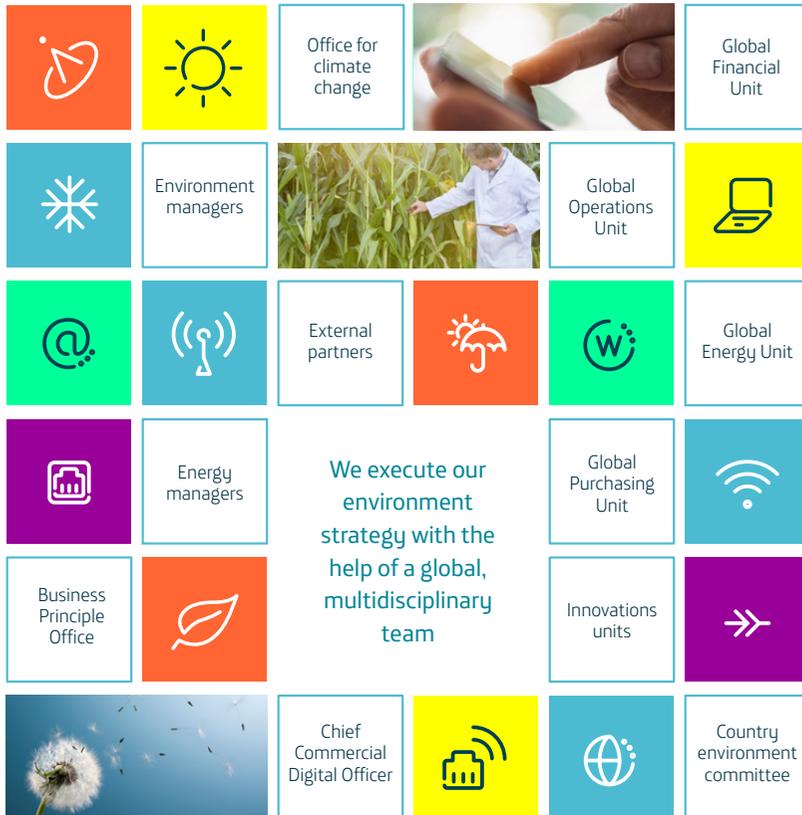
Through our fleet management service alone, in 2015 we avoided emissions of 1 MtCO₂eq, which is equivalent to 50% of our carbon footprint (scopes I and II).

+ Efficiency - Risks + Revenues: Lower emissions, better environment



GOVERNANCE

We have a multidisciplinary team operating both at a global level and within each of the Group Companies, which is in charge of carrying out our strategy at each of the different responsibility levels. The environmental strategy is the responsibility of the Management Committee within the framework of the Business Principle Plan.



MATERIALITY

Based on our materiality analysis, the environmental matters that have the greatest repercussion on our activities and on that of our stakeholders, and which should therefore be highlighted in this report are:

ENVIRONMENTAL MATERIALITY

	Supply Chain	Internal processes	Customers
Energy consumption			
Green innovation and services			
Carbon emissions			
Circular economy			
Renewable energy			X
Electromagnetic fields			
Responsible network roll-out			
Environmental management systems			
Adaptation to climate change			
Water			

▶ Very high priority ▶ High priority ▶ Medium priority X Not applicable



OUR IMPACT

2015



ENERGY 6,439 GWh Var. 2014: -0.51% / access	WATER 3.9 hm ³ Var. 2014: -7.24% / access	WASTE 25,896 t Var. 2014: +12.5% / access
EMISSIONS scope 1 95,677 tCO _{2eq} Var. 2014: +2.08% / access	EMISSIONS scope 2 1,908,230 tCO _{2eq} Var. 2014: -0.42% / access	



RENEWABLE ENERGY 16% Var. 2014: +1%	RECYCLED WASTE 97%	ENVIRONMENTAL INVESTMENT 16 M€
EMISSIONS avoided by energy efficiency 41,114 tCO _{2eq} Var. 2014: +37,414 tCO _{2eq}	EMISSIONS saved by energy efficiency 162 GWh Var. 2014: +150 GWh	
REVENUE from green services 130 M€	EMISSIONS avoided by fleet management service 1 MtCO _{2eq}	

ENVIRONMENTAL MANAGEMENT

Annually, based on the precautionary principle, we analyse the environmental and climate change risks across all our operations under the Company's global risk model, with the aim of reducing such risks and further identifying opportunities for improvement. The possible risks are associated with the regulatory aspects of environmental legislation, such as waste or noise, vulnerability of our Network to climatic disasters and energy costs. To keep checks on

this, our Company has different mechanisms set up such as common environmental management practices that go beyond regulations and a programme of global energy efficiency. In 2015, in Telefónica we did not receive any environmental penalties in this area.

The environmental management systems help us to keep checks on environmental risks, at the same time as bringing opportunities linked to eco-efficiency and allowing our Company

ENVIRONMENTAL MANAGEMENT SYSTEMS

ISO14001 CERTIFICATES

2015



OBJECTIVE % CERTIFIED REVENUE



to reduce its environmental footprint. Today, 65% of the business has environmental management systems in place in accordance with international standard ISO 14001, as endorsed by external certification. Furthermore, in 2015 we adopted a new **Environmental Policy** and are continuing to work on achieving our objective of having 100% of our operators certified by an external body in 2017.

We are making a big effort to take our best environmental practices over to our operators in Latin America. Thus, Telefónica Brazil, our most important regional operator, will certify its environmental management system at the start of 2016.



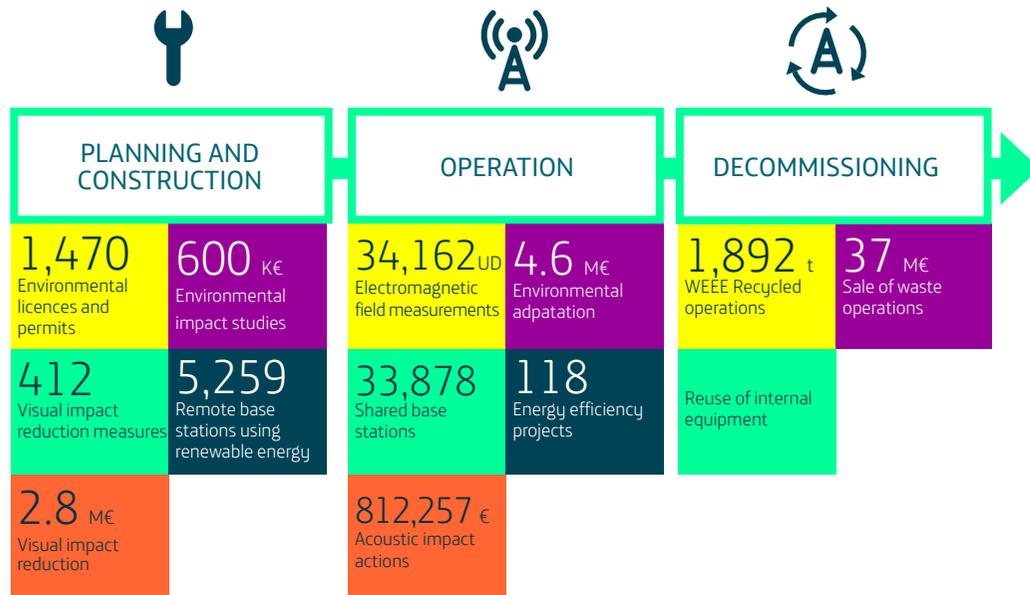
A RESPONSIBLE NETWORK

It is in our Network that we see the greatest environmental impact due to energy consumption, but also as a result of physical elements, such as visual impact or waste. To roll out and maintain the Network responsibly, we apply the best available practices and we manage all the environmental aspects of these from design to decommissioning.

For example, we share, where possible, the location of our facilities with other operators or communication tower management companies. This leads to a lesser visual and energy impact, as well as a reduction in waste creation. This practice is increasingly widespread in Telefónica. As a result, during 2015, 33,878 of our base stations were shared.

MORE INFORMATION
 Refer to the 'Environmental management' section of our corporate website.

RESPONSIBLE NETWORK ROLL-OUT

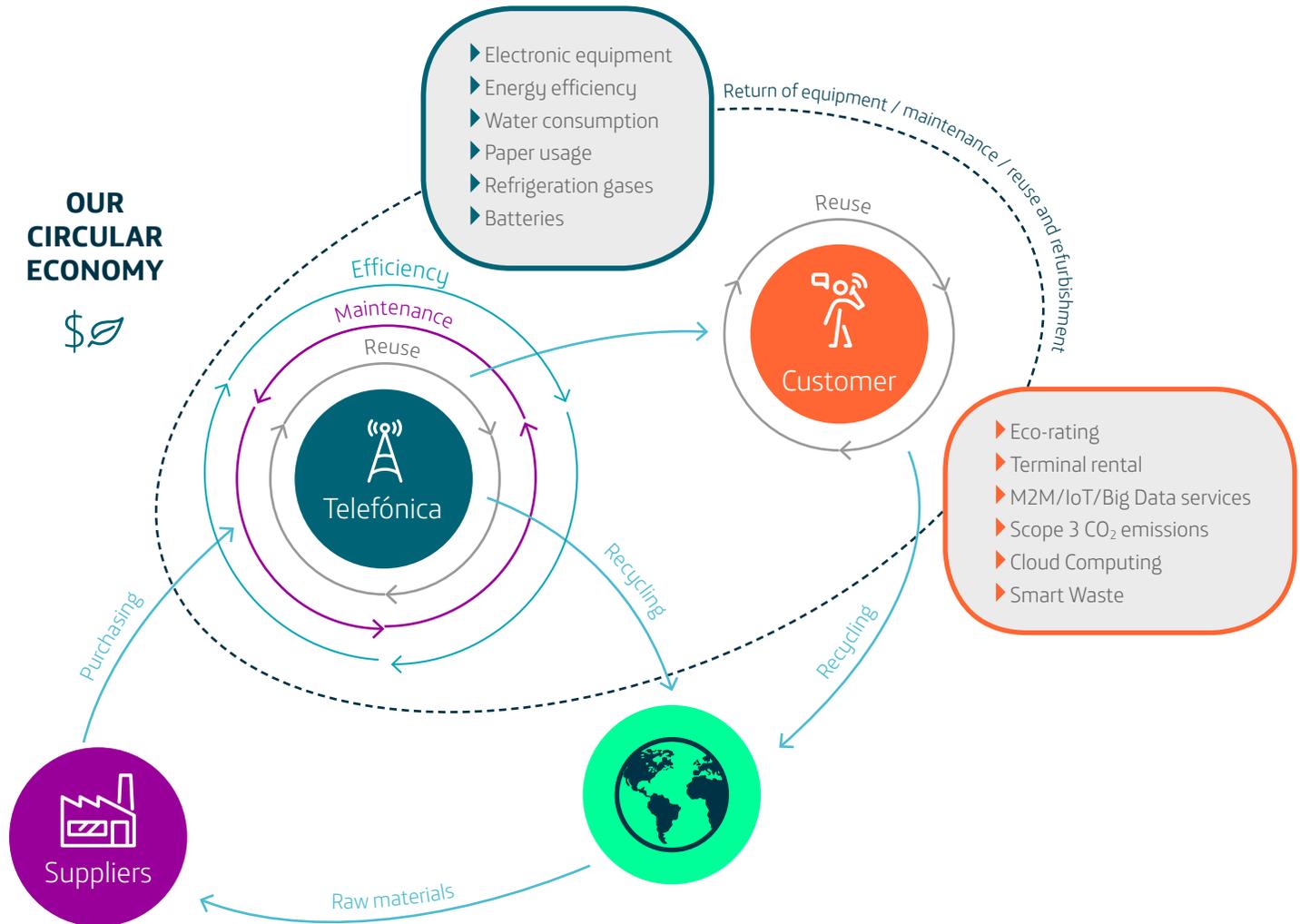


Circular economy

The circular economy emulates the behaviour of ecosystems, in which there is no waste and the balance and sustainability of the system is based on the relationships with different actors. This presents many business opportunities; thus, Telefónica has already integrated in large part this philosophy into our activities through reusing and recycling, but also in our value chain through practices such as low carbon purchasing, renting terminals or eco-rating among others.

We are implementing various strategies to optimise the consumption of our resources along the whole value chain and to promote the return of used goods to the production cycle. These initiatives are based mainly on Network and customer processes, as these represent the greatest consumers of materials and resources. Furthermore, we are focusing on the development of digital services which provide possibilities for the circular economy, such as Smart Waste.

OUR CIRCULAR ECONOMY



- ▶ Eco-design
- ▶ Eco-rating
- ▶ TCO, low carbon purchasing
- ▶ Scope 3 CO₂ emissions

PRINCIPLES OF THE TELEFÓNICA CIRCULAR ECONOMY

- 
 Renewable and eco-efficient resources and materials
- 
 Sharing and reusing
- 
 Eco-efficiency and eco-design, less waste
- 
 Closing the circle, recycling
- 
 Virtualisation, dematerialisation
- 
 Innovation



RESPONSIBLE PROCUREMENT

Little by little, we are incorporating practices to reduce the consumption of resources, besides trying to acquire cleaner materials. Thus, for example, we have incorporated the TCO (Total Cost Ownership) for low carbon purchasing, we set minimum criteria common to all substances and materials in electronic devices, and we purchase recycled and sustainable goods.

Furthermore, we are committed to responsible paper consumption, promoting the use of recycled paper and virgin fibre paper from sustainable origins, through using paper that carries a seal, such as from the FSC (in Spain, Argentina, Brazil, Germany, Colombia, Ecuador⁽¹⁾ and Uruguay). Our paper consumption increased in 2015 to 1,163 t, around 230 t of which were recycled paper which avoided 129 t of CO₂.

More information can be found in 'Supply chain management'.

INTERNAL ECO-EFFICIENCY

Eco-efficient practices allow us to provide more services to a greater number of customers, and reducing our environmental footprint at the same time. Resource consumption is reduced thanks to practices such as adequate maintenance or by reusing equipment internally.

Given its relevance, a separate chapter is dedicated to energy consumption: 'Energy and climate change'.

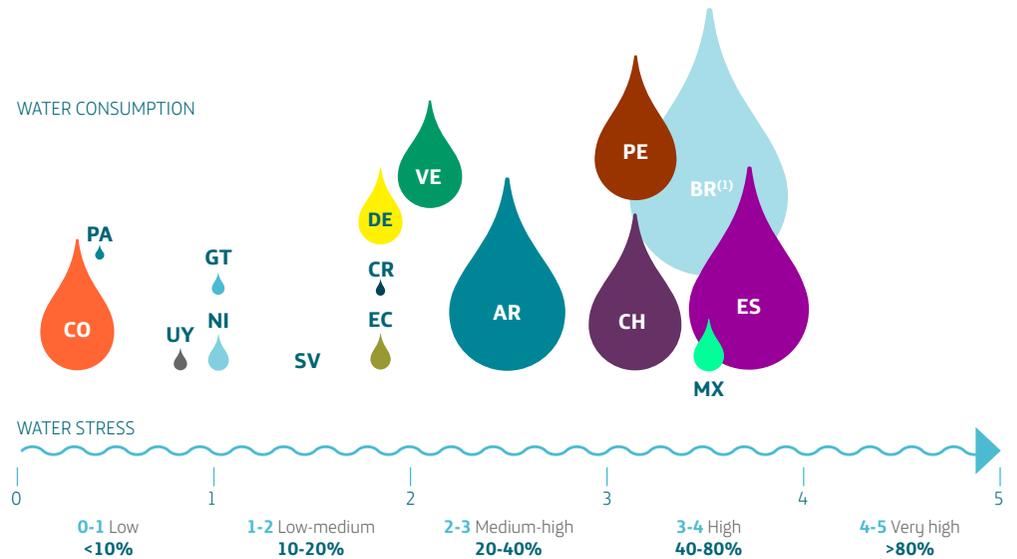
As for our water consumption, this principally corresponds to sanitation use and, to a lesser extent, air-conditioning. Each of our operations takes specific measures to reduce consumption, especially in those places where water stress is greater, for example in Mexico City D.F. and São Paulo, or in countries like Spain. In these cases, our Company carries out **specific plans** for sustainable water management. Thanks to these, in 2015 we reduced our overall water consumption by 5%.

Another example of eco-efficiency is the introduction of digital billing for our customers thanks to new technology. In 2015, 45 million customers chose this way of receiving their bills.

WASTE AND UNUSED EQUIPMENT

Across all our activities (Network, offices and customers) we generate waste and unused equipment. These represent a very relevant aspect of environmental management and are key to the circular economy. Some can have dangerous components, such as batteries, while others have other associated risks, such as electronic waste or e-waste. Thus, for several years we have been carrying out audits on waste internally and among suppliers, in order

TELEFÓNICA'S WATER CONSUMPTION VS. WATER STRESS



Source: World Resources Institute. (1) Brazilian Cities

to ensure that it is managed with maximum guarantees and with an emphasis on improving traceability.

Our main aim is to reduce waste generation and to promote a circular economy, advocating reuse and recycling. To achieve this, we are encouraging practices that promote the

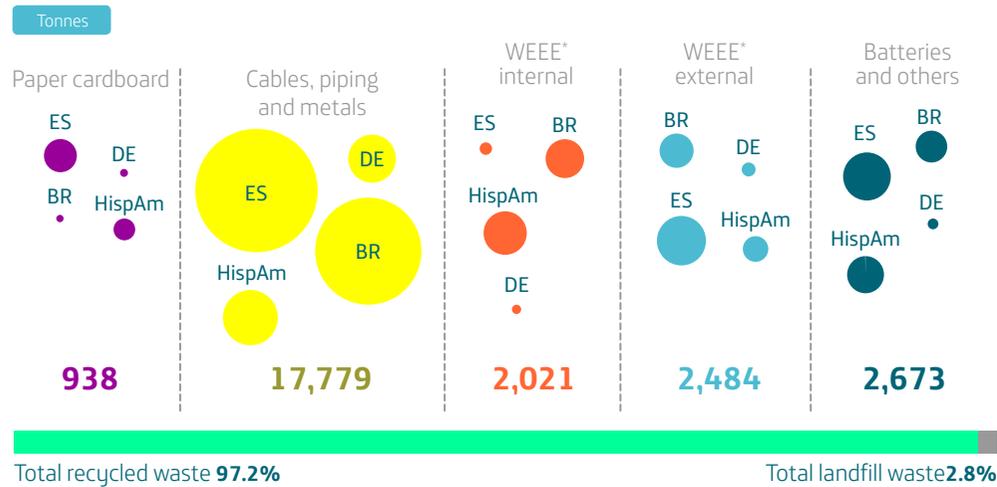
reutilisation of equipment, where possible, both internally and among our customers.

When reutilisation is not an option, recycling is the best alternative for dealing with waste. Thus, in 2015, we generated 25,896 t of waste, of which 97.2% was recycled.

⁽¹⁾ Only 50%.



TELEFÓNICA WASTE



*WEEE: Waste Electrical and Electronic Equipment.

About 70% of our waste corresponds to cables that come from our Network transformation process. Their reuse is not possible but we can recycle them, and therefore 97% get recycled by specialist companies. The increase in the generation of this type of waste in Brazil, caused by the incorporation of GVT into our Telefónica Brazil operator, was the reason for the rise in waste in 2015.

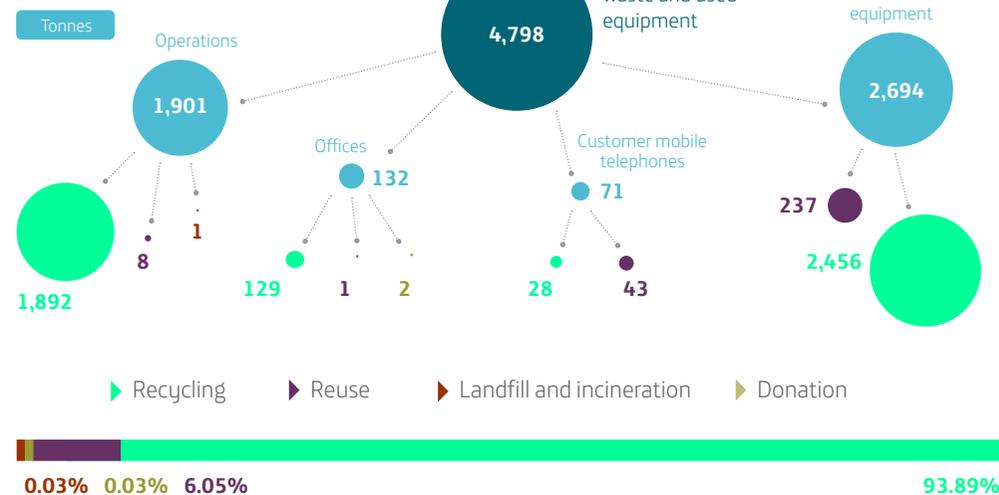
ELECTRONIC WASTE

According to the United Nations, of the 42 million tonnes of electronic waste or e-waste that is generated each year, only 12% is recycled, despite being the fastest growing source of waste. Thus, in Telefónica we consider that the solution to this problem has to come from shared responsibility from all those actors involved. Our contribution to change is based on the following principles:

- ▶ Carry out reutilisation and recycling practices.
- ▶ Encourage the development of a regulatory framework for reutilization and recycling.
- ▶ Guarantee adequate treatment with monitoring in our supply chain.
- ▶ Provide our customers with environmental information during purchase (Eco-rating) and alternatives for their used telephones.
- ▶ Promote the best eco-design in line with international standards.

Thanks to this, nearly 94% of devices used in our operations and by our customers have been recycled, and more than 6% reused. The boost from the circular economy will bring with it an increase in reutilization over the coming years.

ELECTRONIC WASTE AND USED EQUIPMENT



CUSTOMERS

We want to help our customers to join in with the circular economy and reduce their environmental impact. Thus, we facilitate the reutilisation of terminals, through leasing or refurbishment initiatives, and promote the recycling of their telephones and supply them with environmental information on terminals through eco-rating, which allows them to choose the most eco-efficient terminal.

We promote the reuse of terminals through programmes in which our customers can return their mobile, still working but that they wish to change, in return for a financial incentive. In this way we are able to prolong the useful life of the mobile in collaboration with specialist partners. In the past year, we received 52,000 terminals in Spain and 100,000 in 7 countries in Latin America, 94% of them

still in working order. This programme will be extended to 9 more countries in 2016 and it is hoped that it the number of returned terminals will increase 4-fold in three years. Thanks to this project we are also promoting advances in service supply, with the move from 2G to 4G equipment in Latin America.

Through our services we are also encouraging the circular economy. Virtualisation reduces the consumption of raw materials and resources, while existing M2M services, like Smart Waste, help to improve the management of municipal waste (85% recycled, 60% incidences, 18% maintenance costs).

This circular economy brings with it many possibilities, and we are in a position to make the most of them and contribute solutions through sustainable innovation.



Energy and Climate Change

We want a more efficient and cleaner Network in terms of energy and carbon.

Climate change is one of the most pressing challenges for society today, affecting quality of life and the planet as a whole. Thus, it is urgent to boost economic growth which is less dependant on carbon. We are aware of the role we can play as a digital company in the search for solutions through our services, but we are also aware of the responsibility we have to reduce our own carbon footprint.

With this aim, in 2008, we set up a Global Office for Climate Change and set some ambitious goals for energy and emissions. This has led to there being 100 people working today to achieve these goals.

In 2015, some of these goals were finalised, and it is therefore time for analysis. The Energy Efficiency Plan has resulted in a saving of 64 million euros since 2010, and our energy

intensity has been reduced by 25%. Even though the initial goal of a reduction of 30% has not been achieved, the result is nonetheless very positive.

All of this spurs us on to continue down this line and we are now setting a new framework of goals for 2020. These will set the road map for energy efficiency and also for renewable energies.

Renewable energies are necessary to achieving the decarbonisation of our activities and to reducing our carbon footprint in absolute terms. Today this transition has already begun, and more than 16% of energy now comes from renewable sources, mainly in Brazil and Germany. We are defining a Renewable Energies Plan which, through the purchasing of electricity from renewable energies, micro-generation and Energy Procurement Agreements, will lead the Company to a zero emissions future.



MEASUREMENT

We measure our energy consumption and we monitor the Network by installing smart meters in our facilities. Thanks to these, we can determine our consumption more precisely, identify faults in the Network and optimise the operational energy costs.

Monitoring of stations in Telefónica España

In 2015, we carried out the monitoring of the National Centre for Supervision and Operations (CNSO) in Madrid. The building was monitored to measure energy consumption, hourly consumption patterns (daily and seasonal), as well as the environmental variables and thermal characteristics of the building. In parallel to this we carried out load studies of the building to measure the degree of correlation between consumption and occupation. The information obtained from the meters was subsequently presented to a Big Data technology company with the aim of analysing, calculating and homogenising the behaviour and response of the building to its usage needs.



CALCULATION

We calculate our total energy consumption, as well as green house gas emissions for each of the scopes one, two and three, in line with a global model based on the GHG Protocol, ISO 14064 and the ITU-T L. 1420 recommendation.

Leadership in the Carbon Disclosure Project

For 5 consecutive years, Telefónica has remained among the leading 5 telecommunications companies in the Carbon Disclosure Project (CDP) with a rating of 99A, the second best rating in our sector. Furthermore, we were recognised by the 'CDP Supply Chain' programme as one of the companies that best manages energy and climate change risks and opportunities globally, and informs its customers about the impact of the services provided on emissions.

We **measure** our energy consumption and we **calculate** our carbon footprint. We **analyse** and identify new opportunities for energy and green house gas emissions (GHG) reduction, and we implement energy efficiency and renewable energy projects in each of our operations. As a result of this, we **are reducing** the operational energy consumption and the environmental impact of our activities.



ENERGY INVENTORY AND GHG EMISSIONS

Energy (GWh)

Base stations 2,609



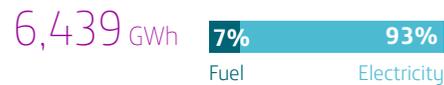
Technical buildings 2,936



Offices 635



Vehicles 259



Note: 16% energy from renewable sources.

GHG emissions (tCO_{2eq})

Base stations 882,695



Technical buildings 864,785



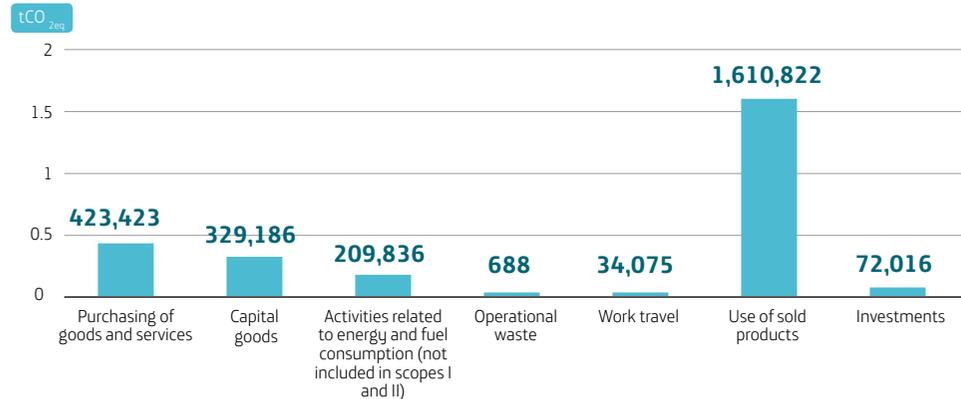
Offices 206,656



Vehicles 49,771



OTHER INDIRECT SCOPE 3 EMISSIONS



G4-EN3, G4-EN4, G4-EN5, G4-EN6, G4-EN7, G4-EN17, G4-EN18, G4-EN19



ANALYSIS

We carry out an analysis of operational energy consumption and of our carbon emissions. Based on this, we assess how we meet our global goals for the reduction of energy and GHG emissions, and work with different groups and associations in the sector to identify risks and opportunities regarding energy and climate change.

MORE INFORMATION

Watch the video 'Telefónica Global Energy Efficiency Programme'



GLOBAL ENERGY AND EMISSIONS GOALS

KPI	Unit	Base year	Goal year	Base year value	Value 2015	Reduction goal	Current
Energy consumption in networks per customer	kWh/ea ^(*)	2007	2015	32.7	24.7	30%	-25%
Energy consumption in offices per employee	MWh/emp ^(**)	2007	2015	6.3	5.5	10%	-13%
Carbon emission per customer	tCO _{2eq} /ea	2010	2020	10.2	9.3	30%	-9%
Energy OPEX	M€	2013	2017	-	27.7	50 M€	-

(*) ea = equivalent access (**) emp = employee

6th Global Energy and Climate Change Workshop

In 2015, we hosted the **6th Global Energy and Climate Change Workshop** at Telefónica in Quito, where 200 participants came together, including energy and environmental managers, technological partners and other special guests. During the event, Telefónica Brazil was recognised for its energy management in 2015. Telefónica Ecuador and Telefónica España received the prize for best energy efficiency project and best Green project respectively. Telefónica Colombia received the prize for best efficiency plan, while Evolution Networks was recognised as best Green partner at this event.



REDUCTION

In 2015, we carried out more than 100 energy efficiency and GHG emissions reduction initiatives in our networks and offices. As a result of these, we reduced our energy consumption by 162 GWh and avoided more than 41,000 tonnes of CO₂eq emissions.

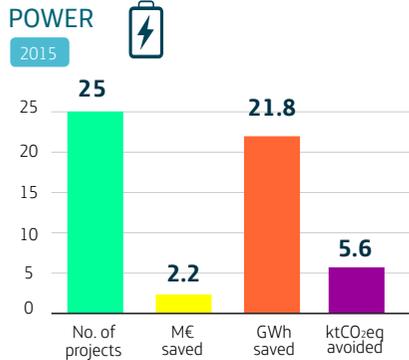
Winner of the Green Mobile Award

Telefónica was awarded the GSMA Glomo in 2016 at the MWC for our global energy efficiency programme. The jury agreed that it was a noteworthy example of what all operators should be aiming to achieve: improvements in energy efficiency, reduction of their carbon footprint and preservation of the environment.

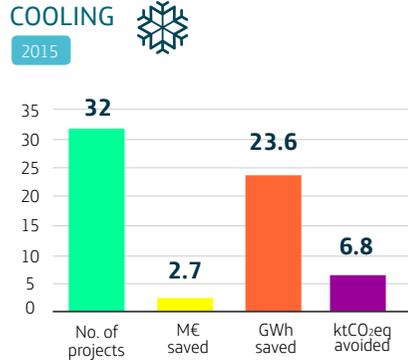
CHECKS

Additionally, in Telefónica we carry out an independent energy and emissions data checking process on an annual basis, which allows us to better identify areas for improvement in our processes and manage energy and carbon in a transparent manner.

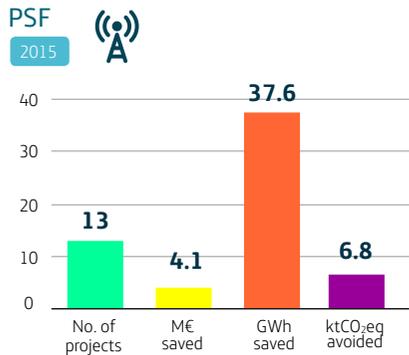
ENERGY EFFICIENCY PROJECTS



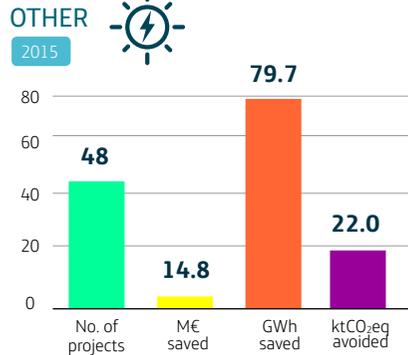
Improvement in the efficiency of electronic equipment (rectifiers, UPS and inverters).



Improvement in the efficiency of refrigeration and air conditioning equipment (modernisation of equipment, free cooling).



Reduction in energy consumption at radio bases during periods of low load.



Lighting, selective shut-off, hybrid and renewable generation.

ENERGY INVENTORY AND CO₂ ⁽¹⁾

Energy		2014	2015	% Var
Total energy consumption	MWh	6,352,388	6,438,573	1.4%
Electricity	MWh	5,951,515	5,997,388	0.8%
Fuel	MWh	400,870	441,185	10.1%
Energy from renewable sources	%	15	16	6.7%
GHG emissions				
Direct emissions (Scope 1)	tCO ₂ eq ⁽²⁾	92,004	95,677	4.0%
Indirect emissions (Scope 2) (method based on localisation)	tCO ₂ eq	1,880,938	1,908,230	1.5%
Indirect emissions (Scope 2) (market-based method)	tCO ₂ eq	-	1,609,677	-
Avoided emissions ⁽³⁾	tCO ₂ eq	1,324	6,547	394.5%

(1) Inventory based on ISO 14.064, GHG Protocol & ITU-T L.1420 (02/2012).
 (2) CO₂eq = CO₂, CH₄ & N₂O.
 (3) Emissions avoided as a result of renewable energy generation for self-consumption.

MORE INFORMATION
 Refer to the 'Energy and Climate Change' section of our corporate Website.



Electromagnetic fields_

The roll-out of mobile telephone networks has been frenetic over the last few years. Scientific research in this field, supported by technological progress, has investigated the possible effects of emissions on health for more than 40 years. Telefónica actively works with such institutions, with citizens, businesses, public authorities and with society in general to boost the maximum guarantees for safety and the most scientific and objective perception possible on awareness of electromagnetic fields.

WE COMPLY WITH INTERNATIONALLY RECOGNISED RESTRICTIONS

All terminals and equipment that we provide meet the international standards established by the SAR (Specific Absorption Rate) parameter.

Furthermore, in 2015, all the measurements taken at our base stations were below the internationally recognised levels, in some countries comfortably fulfilling these requirements by some way. These measurements are available to the public in the majority of countries in which we operate.

Furthermore, at Telefónica Deutschland we have worked with IZMF (Mobilfunk Information Centre) and the Technical

University of Ilmenau in the [study on radio frequency exposure in every day life](#), the results of which confirmed that good coverage is an important contributor to reducing total exposure to a minimum.

WE COOPERATE IN RESEARCH: WE INCREASE OUR KNOWLEDGE

For the World Health Organisation, scientific research in this field is a priority in their research schedule. At Telefónica we follow these projects closely and we even work directly with some of them:

▶ **Mobikids**



▶ **Gerónimo:**



▶ **COSMOS:**



▶ **SCAMP study:**



All measurements that we have taken at our base stations have always been below internationally recognised levels

COLLABORATING WITH INSTITUTIONS

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 population in general.

In 2015, our work in Peru on the '[Antenas Buena Onda](#)' campaign stands out, which was carried out in conjunction with the Ministry of Transport and Communications in order to establish base stations in the country.

In Colombia, we have adhered to the Colombian Mobile Industry Association (Asomovil) and GSMA initiative called '[Nos Importa Colombia](#)' ([We Care about Colombia](#)) to tackle the subject of responsible roll-out of Network infrastructures.

WE TALK TO COMMUNITIES

In Ecuador we implemented a pioneering social information process with a view to strengthening citizen participation processes, this being the first step in the roll-out of our 'Best Practice Manual'. This methodology allows us to manage the social component of the Network roll-out and improve our relationships with communities. We have noted that achieving a successful Network roll-out results in a decrease of community health-related conflicts.



MORE INFORMATION

Refer to the 'Electromagnetic fields' section of our corporate website.



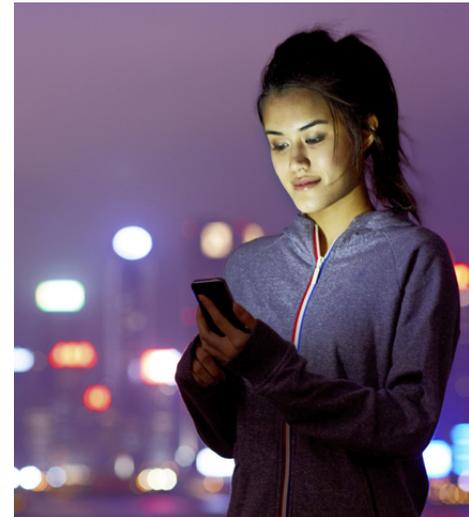
Also in Ecuador, and in association with the Fundación Telefónica, we launched the 'Digital Literacy' project. This has allowed us to reduce the digital divide in rural and marginal areas, and to bring communities the benefits of technology for their daily activities. This has been a determining factor for Network roll-out in these areas, where before there was absolute rejection of the construction of base stations due to the lack of knowledge of their operation and importance to local development.

In Colombia, in collaboration with local institutions, we have launched an initiative called 'Aerials for Progress', with the aim of improving public perception of

telecommunications infrastructure, generating confidence and promoting a favourable environment for the roll-out, quality and stability of the Network.

BUILDING AWARENESS AMONG OUR EMPLOYEES

Our employees are our best ambassadors. For this reason, in 2015, in Colombia we launched the campaign 'On the waves with aerials' with the aim of creating a forum for sharing solid arguments that will help us to break the myths surrounding the infrastructure in our sector.



Furthermore, in Venezuela we gave training to Huawei Technologies, the company whose job it is to assess our performance in electromagnetic fields in the country, with the aim of improving and making its measuring tasks more efficient. In Ecuador we have also provided continuous training to our employees so that they can explain how mobile telecommunications work and the benefits that they bring.

COMMITMENTS WITH OTHER ORGANISATIONS

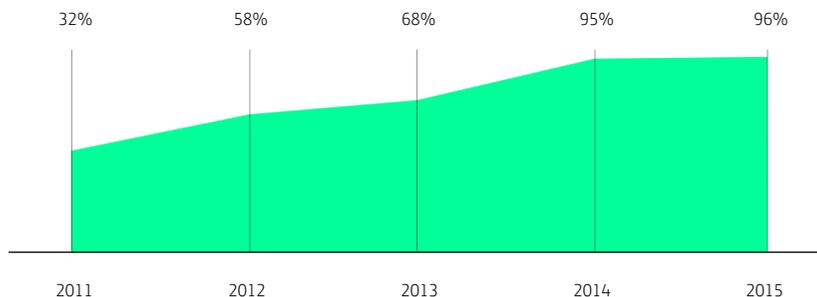
In 2015, we participated in various different forums. In Colombia we collaborated on the training event 'ICT, health and the application of the precautionary principle', directed at judges and magistrates with the aim of clarifying doubts and myths about electromagnetic fields and their effects on health.

WE COMMUNICATE

We believe that information is fundamental for society to overcome myths related to electromagnetic fields and understand the operation of telecommunications. Thus, we provide [links of interest](#), [expert information](#) on the subject and [frequently asked questions](#), which we update periodically.

% EFFECTIVENESS IN THE SOLUTION OF COMMUNITY CONFLICTS

Network roll-out: Ecuador



We believe that information is fundamental for society to overcome the myths related to electromagnetic fields

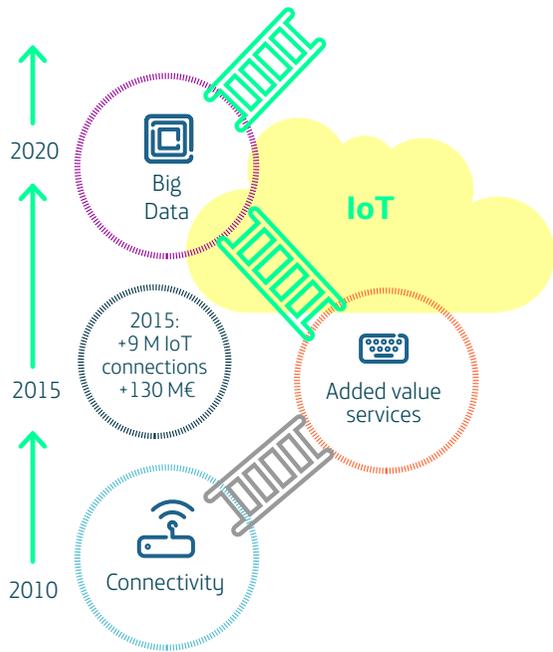


Green services

In the current context, where environmental challenges affect the whole of society, Telefónica is developing services based on the 'Internet of Things' (IoT), Cloud Computing and Big Data to reduce the consumption of resources and the environmental impact of our customers. These will be key in the area of reduction of and adaptation to climate change.

We align our business and environmental strategies, looking to secure opportunities linked to the search for solutions to environmental questions. We want to position ourselves as a key actor in the green economy and, therefore, sustainable innovation is essential.

1 Mt CO₂
Emissions avoided in 2015 by our fleet management service



Note: IoT connections also support services other than Green services.





INTERNET OF THINGS

IoT will be the next industrial revolution in a hyperconnected world. It is expected, according to Gartner, that more than 6 billion 'things' will be connected in 2016, 30% more than the previous year. It is estimated that this figure could rise to 50 billion in 2020.

For us, the Internet of Things has become one of the main areas for investment, where the main points of interest are better connectivity and value added services. Today, more than 1,000 customers around the world use our Smart M2M. Although we are still at the early stages of this process, we are laying the bases and the next few years will be critical. Thus, there are elements that will speed up the growth of the IoT: new technologies that are more accessible and open; favourable regulations with medium-term public investment strategies; and an increase in customer needs as well as the development of new business models.

Therefore Telefónica is committed to total connectivity and open platforms. We cooperate with technology partners to find solutions for our customers' needs. According to recent studies on

MORE INFORMATION

Watch the video 'What is the Internet of Things?'



the subject, the IoT could reduce 200 million tonnes of CO₂ emissions, approximately 23% of the 2030 goal for the European Union in the areas of transportation and buildings. Therefore, the potential for these services to mitigate climate change is enormous and we want to be part of it.

IOT services

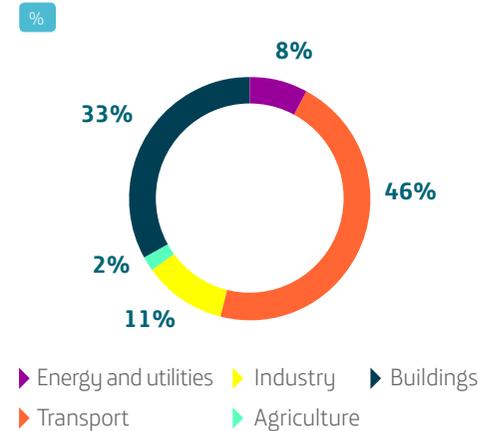
15%
reduction of fuel consumption with our fleet management services

15%
irrigation water reduction with Smart Water

10%
fuel savings and 85% improvement of black points where there is bad waste separation, thanks to Smart Waste

A reduction of **30%**
in the consumption of public street lighting with Smart Lighting

REVENUE FROM GREEN SERVICES



BEST PRACTICES

SMART CITIES

In the urban environment, where the great majority of the population is concentrated, sustainability challenges are multiplied and efforts to create 'Smart Cities' are already a priority for local authorities.

In this regard, the Internet of Things currently allows us to provide cities with effective digital solutions that converge in one integrated and open platform, thanks to which costs can be reduced, revenues increased, urban resource administration can be improved, as can the lives of inhabitants.

Our platform 'Thinking Cities' has already been implemented in cities like Valencia and Santander (Spain).

BIG DATA

It is already clear how the data analysis of social behaviour models and movement flows can have important uses in terms of the environment, such as in climate change adaptation. Our Company vision is to become a benchmark, in the medium-term, for the data economy, whereby the Internet of Things will also be a key element, as without it we would not have Big Data.

We currently have some services in place, such as Smart Steps, which utilise anonymous data to help take decisions, for example on transportation in cities. Furthermore, we recently acquired Synergic Partners, an expert consultancy in science and data engineering.

HOSTING AND CLOUD

As a result of our hosting services at Data Center, we have managed to dematerialise contents and services, thereby reducing energy consumption and greatly optimising space usage. This all contributes to reducing our customers' carbon footprint significantly. At Telefónica we see virtualisation as a first step towards Cloud Computing.

We currently operate four Data Centers globally, located in Alcalá de Henares (Spain), Brazil, Miami and Mexico. They all comply with international Green IT principles for eco-efficiency and sustainability, and have electric infrastructure and air-conditioning, which allows us to reduce energy consumed by the infrastructure itself by about 75%. The average PUE of our strategic Data Centers is 1.8.



9

Annexes_



Principles for the preparation of the Report

The 2015 Telefónica Annual Integrated Report sets out the progress achieved during the year by the Company and its value chain in economic, social and environmental matters, as well as its strategic and market positioning, thus enabling the reader to better understand the Company's business model and its ability to generate value through its capital and its stakeholders.

In this document Telefónica reports on its commitment to the following International Standards:

- ▶ The United Nations Universal Declaration of Human Rights.
- ▶ The International Covenant on Civil and Political Rights.
- ▶ The International Covenant on Economic, Social and Cultural Rights.
- ▶ Convention on the Rights of the Child.
- ▶ Convention on the Rights of Persons with Disabilities.
- ▶ International Labour Organization Conventions.
- ▶ The Basel Convention (on hazardous waste).

- ▶ The Sarbanes-Oxley Act (USA).
- ▶ ISO Standards.
- ▶ International guidelines (ICNIRP).

Information is also presented regarding the different voluntary standards to which Telefónica subscribes:

- ▶ The United Nations Global Compact.
- ▶ GRI G4.
- ▶ OECD Guidelines for Multinational Enterprises.
- ▶ Spanish Good Governance Code of Listed Companies.
- ▶ UN Principles for Responsible Investment (UNPRI).
- ▶ Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas.
- ▶ Global e-Sustainability Initiative (GeSI).
- ▶ London Benchmarking Group (LBG).
- ▶ The United Nations Sustainable Development Goals (SDG).

- ▶ Collaboration with ETNO (European Telecommunications Network Operators Association), ITU (International Telecommunication Union) and GSMA (World Association of Mobile Telephone Operators).

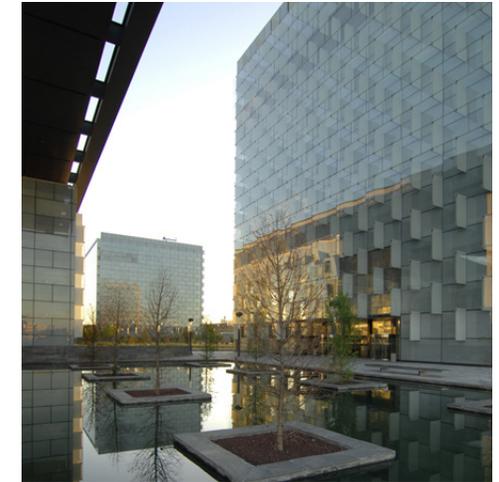
- ▶ Carbon Disclosure Project.
- ▶ GHG Protocol.

- ▶ Code of Good Advertising Practices, Self-Monitoring.

This Report has been prepared in line with the general G4 'In Accordance' criteria issued by the Global Reporting Initiative (GRI). Telefónica has chosen to use the "Comprehensive option" of the GRI G4 guidelines. This option has been subsequently subjected to external verification by EY.

The inventory of GHG emissions has been prepared on the basis of the Greenhouse Gas Protocol, and subsequently verified by AENOR in accordance with the ISO 14064 standard.

Below appears an explanation of how these standards have been applied, along with details of those which determine content and quality, and which ensure a balanced and reasonable presentation of the organisation's performance. This whole process has been carried out taking into account both the experience and purpose



of Telefónica, as well as the usefulness for its stakeholders. Moreover, the review carried out by EY has been conducted in accordance with the principles defined by the AA1000AS (2008) Standard, the purpose of which is to "ensure the quality of the organisation's Sustainability Report and that of the processes, systems and competences that serve as a basis for its implementation by the entire organisation."

Both the principles issued by the Global Reporting Initiative (GRI) and those defined by AA1000AS (2008) are the standards which are most commonly referenced and used in the preparation of sustainability and corporate social responsibility reports.



PRINCIPLES FOR DETERMINING THE CONTENTS OF THIS REPORT

▶ Stakeholder participation

The "Relationships with our stakeholders" chapter identifies our stakeholders and explains how Telefónica has responded to their reasonable expectations and interests.

▶ Context of sustainability

Telefónica contributes to the progress of the communities in which it operates and to their social and environmental sustainability throughout its value chain: from working with our suppliers, marketing sustainable products and services, to showing respect for consumer rights.

▶ Materiality

We address those aspects which reflect the significant economic, environmental and social impacts of the Company and which substantially influence the assessments and decisions of our stakeholders. For this purpose we have conducted a materiality analysis at corporate, local and regional level.

▶ Comprehensiveness

We indicate material aspects and their coverage, scope and time in a manner that reflects their significant economic, environmental and social effects. As such, stakeholders can analyse Telefónica's performance for the corresponding period.

PRINCIPLES FOR DETERMINING THE QUALITY OF THE INFORMATION IN THIS REPORT

In accordance with GRI (Global Reporting Initiative) reporting standards:

▶ Balance

This testimony reflects both the positive and negative aspects of the Company's performance in order to propitiate a well-founded assessment.

▶ Comparability

The information contained herein is presented in a systematic manner in order to enable stakeholders to analyse the evolution of the Company's performance, so that it can be compared with that of other organisations.

▶ Accuracy

This Report is accurate in qualitative and quantitative terms, enabling the stakeholders to assess the organisation's performance.

▶ Punctuality

This Report is presented on the occasion of the convening of Telefónica's Ordinary Shareholders's Meeting in order to maintain a regular schedule so that stakeholders have the information necessary at the time of the meeting to be able to make informed decisions.

▶ Clarity

The information is set out in a manner which is understandable to stakeholders who have a reasonable knowledge of the Company and its activities. In addition, the information regarding indicators is presented in three-year periods.

▶ Reliability

This Report is externally reviewed by EY, as reflected in the attached independent assessment report.

In accordance with the AA1000 sustainability assurance standards:

▶ Inclusiveness

This refers to stakeholder participation in the development and achievement of a responsible and strategic response to sustainability.

▶ Relevance

Telefónica has determined the importance of each issue to stakeholders based on this criteria.

▶ Responsiveness

This is Telefónica's reaction to the demands of its stakeholders, demonstrated by the Company's sustainability milestones and challenges.



Structure and scope of consolidation of the Report

During 2015 the following variations took place in the scope of consolidation:

- ▶ On 28 May the acquisition of Vivendi, S.A. from GVT was approved, for the amount of 4,663 million euros, together with delivery of 12% of the corporate capital of the new Telefónica Brazil which resulted from the integration. In June, Vivendi, S.A. exchanged 4.5% of the above percentage with Telefónica, S.A. for 8.3% of the ordinary shares of Telecom Italia.
- ▶ GVT and its subsidiary companies were incorporated into the scope of consolidation of the Telefónica Group by means of the global integration method.
- ▶ On 29 July 2015 it was agreed with Vivendi, S.A. to deliver treasury shares of Telefónica, S.A. representing 0.95% of its corporate capital, in exchange for preferred shares belonging to Telefónica Brazil, S.A., representing approximately 3.5% of its corporate capital.
- ▶ In June 2015 the company Telco TE, S.p.A. was established, owned entirely by Telefónica. Following the split of Telco, S.p.A., Telefónica received, through this company, the proportional part of shares in Telecom Italia, S.p.A. (14.72% of its ordinary capital) corresponding to it upon the basis of its participation in Telco, S.p.A.
- ▶ The total divestment of Telecom Italia, S.p.A. occurred prior to 30 June, in accordance with the regulation and competition commitments it had assumed.
- ▶ On 30 April, once the necessary regulatory approval had been obtained, Telefónica de Contenidos, S.A.U. acquired 56% of DTS Distribuidora de Televisión por Satélite, S.A.(DTS). DTS and its subsidiary companies were incorporated into the scope of consolidation of the Telefónica Group by means of the global integration method. Prior participation was recorded by means of the equity method.
- ▶ On 24 March 2015 Telefónica reached a definitive agreement to sell its operations in the United Kingdom (O2 UK) to the Hutchison Whampoa Group.
- ▶ Following the signing of the definitive agreement, and as of 31 December 2015, O2 UK remains part of the scope of consolidation of the Telefónica Group, but is now reported as a discontinuing operation and its assets and liabilities as "held for sale", in accordance with IFRS standards.
- ▶ The completion of the process is subject, among other conditions customary in these transactions, to the relevant regulatory approvals and the obtaining of waivers on the change of control clauses.
- ▶ On 2 January 2015 the sale of Yourfone GmbH was finalised. The company, which was consolidated by means of the global integration method, has left the scope of consolidation.

it from the scope of consolidation of the non-financial indicators so that it receives the same treatment as the financial indicators, in order to make all ratios and comparisons homogeneous. Information corresponding to previous years has not been redefined.

The complete list of all the companies that comprise the Telefónica Group is published in Annex VI: "Main companies of the Telefónica Group" of the Consolidated Financial Statements, which accompany this Report and can be found on the corporate website.

In short, some important variations occurred in Telefónica's scope of consolidation during 2015, which are basically reflected in this Report through the incorporations of GVT in Brazil and DTS in Spain, and the classification of O2 UK as "held for sale", given that, as it is regarded a discontinuing asset, we have decided to remove



SOURCE OF INFORMATION IN THIS REPORT

Corporate governance and shareholders

Drawn from the same sources used to prepare the information contained in the 2015 Annual Corporate Governance Report, included in full in the annexes.

Economic and financial information

Drawn from the same sources used to prepare the information contained in the 2015 Financial Report, audited by EY and included in full in the annexes.

Innovation

Consolidated through the corporate area of the CCDO, both for R&D and open innovation. The data in these sections is sourced from the purchasing systems and are consolidated without applying any proportionality criteria.

Customers

Sourced from Telefónica S.A. management control systems of and country operations. The Company's total number of accesses does not have to equal the partial sum of accesses from country to country since, for the sake of homogenisation, the Corporate Management Control area standardises some access accounting criteria. The standardisation criteria are explained in the relevant chapter.

2015 saw the incorporation of GVT and DTS, and the exit of O2 United Kingdom, regarded as a discontinuing asset following the sale agreement

Employees

Figures come from the Corporate Human Resources management systems. This Report uses the concept of people instead of employees, as this term is more commonly used in financial reports. In cases in which the information is presented in consolidated form, the number of employees is used as a proportionality factor. The section devoted to them includes the entire economic scope of the Telefónica Group, except in the Employee Health and Safety chapter, in which the rates reported correspond only to the Group's telecommunications businesses. This is to facilitate comparison with other companies in the sector, as rates are produced taking into account the sector specific circumstances and legislation (e.g. listing of occupational diseases) and account for a proportion greater than 86% of the total number of employees.

Environment and climate change

Information is drawn from the Environment and Operations areas of each country by means of online questionnaires and other information media. The data is consolidated by simple addition and, in the case of climate change, emission factors of the GHG Protocol are taken into account. For the "Circular Economy" and "Green Services" chapters, quantitative and qualitative information is compiled from the global business area (Chief Commercial Officer).

	Telecommunications businesses	Other companies
Revenue	96.9%	3.1%
People	86.6%	13.4%



Suppliers

Sourced from the contract allocation system through the purchasing areas. The consolidation of information is performed without applying any criteria as a proportionality factor and is presented broken down by countries and business lines. The chapter devoted to them includes the entire economic scope of the Telefónica Group. It is important to underline the difference between the supply data in the consolidated accounts of the financial statements (on an accrual basis and in accordance with the accounting scope of consolidation of the Telefónica Group) and the criterion for allocated purchases used in different sections of this Report, which refers to the purchases which were approved in this period, regardless of their accounting criterion or accruals and deferrals as an expense.

Digital inclusion

The information reaches the systems of the local operators in each country and from Fundación Telefónica.

Social action

The data comes from the management control systems and sponsorship committees of Fundación Telefónica, ATAM and the Telefónica Group, and is integrated under LBG criteria.

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 financial statements published by the Company (balance sheet, consolidated and individual accounts) in order to facilitate the integral relationship between financial variables and non-financial variables.

Throughout this Report we include links to further information, which provide greater detail on certain subjects covered herein. However, the information available via these links does not from an integral part of this Report.

Scope of treatment of each section of this Report

	"Core"	Other subsidiaries	Corporate centres	Outside the organisation
Market indicators	▲			
Financial indicators	▲	▲	▲	
Non-financial indicators	▲	▲	▲	▲
Corporate governance			▲	
Impacts on the community	▲		▲	▲
Social and cultural action	▲	▲	▲	▲
Business model	▲		▲	
Relationships with our stakeholders	▲	▲	▲	▲
Reputation management	▲		▲	
Sustainability governance and management	▲	▲	▲	▲
Ethics and compliance	▲	▲	▲	
Supply chain management	▲			▲
Customer promise	▲			▲
Digital trust	▲		▲	▲
Human resources	▲	▲	▲	
Digital inclusion and innovation	▲			▲
Environment	▲	▲	▲	▲



Awards and acknowledgements

MEXICO

- ▶ Our Ixtlahuaca Data Center (Mexico) obtained TIER III certification endorsing its sustainability.

COLOMBIA

- ▶ We are the telco with the best talent in Colombia.
- ▶ The government of Colombia highlighted our "Fishing with Mobile Networks" project as an example of social inclusion through technology.
- ▶ Telefónica received the "Silver Seal" from the Government of Colombia for its gender equality policy.
- ▶ We are the telco with the best reputation in Colombia.

BRAZIL

- ▶ Our Tamboré Data Center in Brazil received the Tier III Gold certificate.
- ▶ Vivo received the "Most Innovative" Award at the TMForum, for development of the first smart city in Brazil.
- ▶ We obtained the highest GHG Protocol recognition in Brazil.

GERMANY

- ▶ Germany occupies second position for global Network and the first for value.

PERU

- ▶ Cine Papaya, Wayra Peru's startup, was selected as an "Endeavor" entrepreneur.
- ▶ Our "Insurance on the Internet" complaints portal won the "2015 National Digital Democracy Award" in Peru.

SPAIN

- ▶ César Alierta received the CODESPA award from the King of Spain for our social action programme "Fundación Telefónica Classrooms".
- ▶ The TELEMAT management project for chronic patients obtained a new award for innovation in Catalonia.
- ▶ The "WhatsCine" Platform received the 2015 Queen Letizia Award for Accessibility Technologies.
- ▶ Movistar rated market leader for value according to the XIII Observatory of the Spanish Consumers Union (UCE-UCA).

CHILE

- ▶ Young people rated Telefónica Chile as one of the best companies for their first job.

EXTERNAL EVALUATIONS



GLOBAL

- ▶ Valencia chosen as a model Smart City at a global summit in Washington.
- ▶ Telefónica Vivo named company of the year in the 2015 Telecom Yearbook.
- ▶ Telefónica is one of the nine leading telcos in the world in terms of sustainability.
- ▶ Telefónica ranked world leader for the second consecutive year at the M2M Magic Quadrant.
- ▶ We are the fifth best company and the best telco to work for in the world, according to GPTW.
- ▶ We are the second best telco in the world in the transparent management of climate change, according to CDP.
- ▶ Telefónica is the telco with the best reputation in Spain and Latin America.
- ▶ Brazil, Spain, Ecuador and Colombia won Telefónica's Energy Efficiency Awards.
- ▶ Telefónica won the 2016 GSMA Glomo Award at the Mobile World Congress for our global "Energy Efficiency" programme.
- ▶ We are the third company in the world in terms of investment in education, according to UNESCO and the Varkey Foundation.
- ▶ Telefónica is one of the most sustainable suppliers in the world, according to the CDP index.
- ▶ Telefónica was among the winners of the 2015 EuroCloud Awards.
- ▶ We are the Telco with the most 5G projects endorsed by the European Union to define future networks.
- ▶ The UN acknowledges Telefónica's contribution to the global development of telecommunications.
- ▶ LATCH, our cybersecurity solution, won best multi-device mobile app at the 2015 Internet Awards.
- ▶ "Senior OS", the accessible mobile for the elderly, won "gold" at the 2015 HackforGood Awards.
- ▶ Our Movistar TV customers once again placed us at the top of the ISSCE satisfaction ranking in 2015.
- ▶ Telefónica climbs to second place in the ranking of best multinationals to work for in Latin America.
- ▶ Telefónica I+D won a GlobbTV award for the "best Internet of Things solution".



GRI compliance tables_

GRI G4 Content Index

For “in accordance” - Comprehensive

GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance
Strategy and Analysis			
G4-1	3		Statement from the most senior decisionmaker of the organisation.
G4-2	40, 41 and 52		Description of key impacts, risks, and opportunities.
Organisational Profile			
G4-3	7		Name of the organisation.
G4-4	7		Primary brands, products, and services.
G4-5	7		Location of the organisation's headquarters.
G4-6	9		Countries where the organisation operates.
G4-7	7		Nature of ownership and legal form.
G4-8	9		Markets served.
G4-9	7		Scale of the organisation.
G4-10	80		Total number of employees by employment contract, region and gender.



GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance
G4-11	78		Percentage of total employees covered by collective bargaining agreements.
G4-12	58, 59, 60, 61, 62, 63 and 64		Organisation's supply chain.
G4-13	120		Significant changes during the reporting period.
Commitments to External Initiatives			
G4-14	105 and 114		Precautionary approach or principle addressed by the organisation.
G4-15	118		Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.
G4-16	46		Memberships of associations.
Identified Material Aspects and Boundaries			
G4-17	ICA: 274, 275, 276, 277 and 278		Entities included in the organisation's consolidated financial statements or equivalent documents.
G4-18	119, 121 and 122		Process for defining the report content and the Aspect Boundaries.
G4-19	48		Material Aspects identified in the process for defining report content.
G4-20	48 and 122		Report the Aspect Boundary within the organisation.
G4-21	48 and 122		Report the Aspect Boundary outside the organisation.
G4-22	120		Restatements of information provided in previous reports.
G4-23	120		Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.
Stakeholder Engagement			
G4-24	44 and 45		List of stakeholder groups engaged by the organisation.
G4-25	43, 44 and 45		Basis for identification and selection of stakeholders with whom to engage.
G4-26	43		Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group.
G4-27	44 and 45		Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded.
Report Profile			
G4-28	7		Reporting period.



GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance
G4-29	7		Date of most recent previous report.
G4-30	7		Reporting cycle.
G4-31	145		Contact point for questions regarding the report or its contents.
G4-32	118		'In accordance' option, GRI Content Index, reference to the External Assurance Report.
G4-33	118 and 119		Organisation's policy and current practice with regard to seeking external assurance for the report.
Governance			
G4-34	IAGC: 12, 13, 30, 31, 32, 33, 34 and 35		Governance structure of the organisation.
G4-35	55		Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.
G4-36	55		Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.
G4-37	55		Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics.
G4-38	21		Composition of the highest governance body and its committees.
G4-39	20		Report whether the Chair of the highest governance body is also an executive officer.
G4-40	IAGC: 16		Report the nomination and selection processes for the highest governance body and its committees.
G4-41	IAGC: 38		Report processes for the highest governance body to ensure conflicts of interest are avoided and managed.
G4-42	55		Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.
G4-43	IAGC: 27		Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.
G4-44	IAGC: 22 and 23		Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics.
G4-45	IAGC: 32 and 33		Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities.



GENERAL STANDARD DISCLOSURES

General standard disclosures	Page	Omissions	External Assurance
G4-46	IAGC: 40		Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.
G4-47	55		Frequency of the highest governance body's review of economic, environmental and social impacts, risks and opportunities.
G4-48	3		Highest committee or position that formally reviews and approves the organisation's sustainability report.
G4-49	57		Process for communicating critical concerns to the highest governance body.
G4-50	44-45		Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.
G4-51	IAGC: 90, 91, 92, 93, 94, 95 and 96		Remuneration policies for the highest governance body and senior executives.
G4-52	IAGC: 86, 87 and 88		Report the process for determining remuneration.
G4-53	IAGC: 86 and 87		How stakeholders' views are sought and taken into account regarding remuneration.
G4-54	IAGC: 114 ICA: 151	On the referenced pages you can find the information which allows calculation of this ratio.	Ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees.
G4-55	IAGC: 114 ICA: 151	On the referenced pages you can find the information which allows calculation of this ratio.	Ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees.
Ethics and Integrity			
G4-56	56 and 57		Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.
G4-57	56 and 57		Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity.
G4-58	56 and 57		Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
CATEGORY: ECONOMIC			
Indirect Economic Impacts			
G4-DMA	32, 33 and 34		Disclosures on management approach.
G4-EC7	38		Development and impact of infrastructure investments and services supported.
G4-EC8	32 and 33		Significant indirect economic impacts, including the extent of impacts.
Procurement Practices			
G4-DMA	58 and 59		Disclosures on management approach.
G4-EC9	9		Proportion of spending on local suppliers at significant locations of operation.
CATEGORY: ENVIRONMENTAL			
Energy			
G4-DMA	110		Disclosures on management approach.
G4-EN3	111 and 112		Energy consumption within the organisation.
G4-EN4	111		Energy consumption outside of the organisation.
G4-EN5	111 and 112		Energy intensity.
G4-EN6	111		Reduction of energy consumption.
G4-EN7	111		Reductions in energy requirements of products and services.
Emissions			
G4-DMA	110		Disclosures on management approach.
G4-EN15	112		Direct greenhouse gas (GHG) emissions (Scope 1).
G4-EN16	112		Energy indirect greenhouse gas (GHG) emissions (Scope 2).
G4-EN17	111 and 112		Other indirect greenhouse gas (GHG) emissions (Scope 3).
G4-EN18	111		Greenhouse gas (GHG) emissions intensity.
G4-EN19	111		Reduction of greenhouse gas (GHG) emissions.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
G4-EN20		Not relevant. Emissions of these pollutants are not significant to our business.	Emissions of ozone-depleting substances (ODS).
G4-EN21		Not relevant. Emissions of these pollutants are not significant to our business.	NO _x , SO _x , and other significant air emissions.
Effluents and Waste			
G4-DMA	107 and 108		Disclosures on management approach.
G4-EN22	108		Total water discharge by quality and destination.
G4-EN23	109		Total weight of waste by type and disposal method.
G4-EN24		There have been no significant spills.	Total number and volume of significant spills.
G4-EN25	109		Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention ² Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
G4-EN26		Pouring water in Telefónica is just a sanitary issue and is poured into municipal sanitation systems.	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff.
Products and Services			
G4-DMA	115 and 116		Disclosures on management approach.
G4-EN27	116		Extent of impact mitigation of environmental impacts of products and services.
G4-EN28	116		Percentage of products sold and their packaging materials that are reclaimed by category.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
CATEGORY: SOCIAL			
SUBCATEGORY: LABOUR PRACTICES AND DECENT WORK			
Occupational Health and Safety			
G4-DMA	84		Disclosures on management approach.
G4-LA5	85		Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programmes.
G4-LA6	85	Breakdown by gender is only available for mortal victims.	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.
G4-LA7	85		Workers with high incidence or high risk of diseases related to their occupation.
G4-LA8	85		Health and safety topics covered in formal agreements with trade unions.
Training and Education			
G4-DMA	79		Disclosures on management approach.
G4-LA9	79	Breakdown by gender is not available. We are adapting our information systems to be able provide these figures shortly.	Average hours of training per year per employee by gender, and by employee category.
G4-LA10	79 and 80		Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
G4-LA11	79		Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.
Diversity and Equal Opportunity			
G4-DMA	78		Disclosures on management approach.
G4-LA12	80		Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.
Equal Remuneration for Women and Men			
G4-DMA	81		Disclosures on management approach.
G4-LA13	82		Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
Supplier Assessment for Labour Practices			
G4-DMA	61		Disclosures on management approach.
G4-LA14	62		Percentage of new suppliers that were screened using labour practices criteria.
G4-LA15	61 and 62		Significant actual and potential negative impacts for labour practices in the supply chain and actions taken.
SUBCATEGORY: HUMAN RIGHTS			
Investment			
G4-DMA	138 and 139		Disclosures on management approach.
G4-HR1	59		Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.
G4-HR2	71		Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
Non-discrimination			
G4-DMA	138		Disclosures on management approach.
G4-HR3	57		Total number of incidents of discrimination and corrective actions taken.
Freedom of Association and Collective Bargaining			
G4-DMA	83		Disclosures on management approach.
G4-HR4	62		Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.
Forced or Compulsory Labour			
G4-DMA	60		Disclosures on management approach.
G4-HR6	61		Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.
Supplier Human Rights Assessment			
G4-DMA	59		Disclosures on management approach.
G4-HR10	60		Percentage of new suppliers that were screened using human rights criteria.
G4-HR11	138		Significant actual and potential negative human rights impacts in the supply chain and actions taken.



SPECIFIC STANDARD DISCLOSURES

Management focus and indicator	Page	Omissions	External Assurance
SUBCATEGORY: SOCIETY			
Anti-corruption			
G4-DMA	56		Disclosures on management approach.
G4-S03	57		Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.
G4-S04	56 and 57		Communication and training on anti-corruption policies and procedures.
G4-S05	57		Confirmed incidents of corruption and actions taken.
Anti-competitive Behaviour			
G4-DMA	PNR: 8		Disclosures on management approach.
G4-S07	ICA: 86, 87 and 88		Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.
SUBCATEGORY: PRODUCT RESPONSIBILITY			
Customer Health and Safety			
G4-DMA	113		Disclosures on management approach.
G4-PR1	113		Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.
G4-PR2	113		Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.
Customer Privacy			
G4-DMA	69 and 70		Disclosures on management approach.
G4-PR8	72		Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.



OTHER NON MATERIAL SPECIFIC STANDARD DISCLOSURES REPORTED

Management focus and indicator	Page	Omissions	External Assurance
CATEGORY: ECONOMIC			
Market presence			
G4-EC5	82		Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
CATEGORY: ENVIRONMENTAL			
Materials			
G4-EN1	105 and 106		Materials used by weight or volume.
G4-EN2	105 and 106		Percentage of materials used that are recycled input materials.
Water			
G4-EN8	16		Total water withdrawal by source.
Supplier Environmental Assessment			
G4-EN32	61		Percentage of new suppliers that were screened using environmental criteria.
G4-EN33	62 and 108		Significant actual and potential negative environmental impacts in the supply chain and actions taken.



OTHER NON MATERIAL SPECIFIC STANDARD DISCLOSURES REPORTED

Management focus and indicator	Page	Omissions	External Assurance
CATEGORY: SOCIAL			
SUBCATEGORY: LABOUR PRACTICES AND DECENT WORK			
Labour/Management Relations			
G4-LA4	83		Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.
Labour Practices Grievance Mechanisms			
G4-LA16	57		Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms.
Child Labour			
G4-HR5	63		Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.
Product Responsibility			
G4-PR5	66		Results of surveys measuring customer satisfaction.
ICA Financial Report.			
IAGC Annual Report on Corporate Governance.			
20F Form 20-F of SEC.			
IAR Annual Compensation Report.			
PNR Business Principles.			



Compliance with the Global Compact



		Chapters
Human Rights	Principle 1	Businesses should support and respect the protection of the internationally proclaimed Human Rights within their sphere of influence. Compliance with Human Rights
	Principle 2	Businesses should ensure that they are not complicit in Human Rights abuses. Management of the supply chain Human resources
	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. Human resources
Labour standards	Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labour. Management of the supply chain
	Principle 5	Companies should uphold the effective abolition of child labour. Management of the supply chain
	Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation. Human resources

		Chapters
Environment	Principle 7	Businesses should support a precautionary approach to environmental challenges. Environment
	Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility. Environment
	Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies. Energy and Climate Change Green services
Anti-corruption	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery. Ethics and compliance

 **FURTHER INFORMATION**
Refer to the United Nations Sustainable Development Goals website.



Compliance with Sustainable Development Goals

- ▶ Digital inclusion and innovation:
- ▶ Energy and Climate Change:
- ▶ Environment:
- ▶ Commitment to our team:
- ▶ Circular economy:
- ▶ Relationships with our stakeholders:
- ▶ Economic impacts:
- ▶ Management of the supply chain:
- ▶ Sustainability governance:



FURTHER INFORMATION
 Refer to the United Nations Sustainable Development Goals website.



Compliance with Human Rights

Matter assessed	Description	Due Diligence
1. Non-discrimination	We promote equal opportunities and treat all people fairly and impartially, without discriminating on the basis of race, skin colour, nationality, ethnic origin, religion, gender, sexual orientation, marital status, age, disability or family responsibilities. During 2015, in order to alleviate inequality between men and women in the technology sector, we worked on different initiatives intended to promote women's access to careers in technology. 38% of the Company's workforce was made up of professional women in 2015, with 19% holding managerial positions.	Diversity management
2. Health and safety	Safety, Health and Well-being at Telefónica are among the main priorities for the Company. They are safeguarded through the occupational risk prevention management system, which ensures safety and health via the integration of prevention criteria in our processes and services. During 2015, OHSAS 18001 certification was renewed for all the firms owned by the Company in Spain and Colombia, and we plan to obtain it in Argentina in the course of 2016.	Health and safety
3. Collective bargaining and freedom of association	We guarantee the right of our employees to belong to the union of their choice and will not tolerate any retaliation or hostile action towards employees who take part in union activities. In 2015 we maintained the agreement with Union Network International (UNI), continuing our commitment to the fundamental ILO labour standards which relate to freedom of association and the right to collective bargaining.	Collective bargaining
4. Working conditions in the supply chain	Our responsibility with regard to respect for Human Rights extends to our business relationships. We require certain levels of performance in relation to the ethical, social and environmental conditions to be met by our suppliers. In this sense, we analyse and assess our risk suppliers' level of compliance through the EcoVadis platform, check compliance levels using on-site audits and we agree improvement plans with those suppliers that do not meet the minimum performance levels required.	Supply chain management

Matter assessed	Description	Due Diligence
5. Privacy	We respect the rights and freedoms of individuals, which includes the fundamental right to the protection of personal data. We are aware that our commitment to privacy is key to ensuring that all our relationships are built on trust. This commitment is expressed in our Privacy Policy, approved in March 2013 and updated in 2015 to align it with the new challenges faced by our sector.	Privacy
6. Freedom of expression	We are convinced that the best way of achieving global progress in terms of respect for freedom of expression is through dialogue between governments, industry, civil society (including human rights experts), investors, supranational organisations and other affected interested parties. Telefónica continues to form part of the Telecom Industry Dialogue and to implement its Guiding Principles, signed in 2013.	Freedom of expression
7. Children's rights	For more than a decade, we have been active in promoting and respecting children's rights as part of our business strategy and from various lines of action. During 2015 the Company continued to focus its efforts on self-regulation as a way of promoting the development of products and services which help children and teenagers to take full advantage of the new technologies. Proof of the above is the expansion of "Digital Family" to Latin America.	Good use of the Internet by children
8. Corruption and bribery	Telefónica is reinforcing its commitment to ethics and regulatory compliance. In 2015 the principle of Integrity was reinforced in the Business Principles for those aspects related to corruption. A new Anti-Corruption Policy governing the acceptance and offering of gifts and invitations, prohibiting any form of bribery, was also approved, together with a corporate standard on conflicts of interest, which provides all our employees with a mechanism for reporting any situations which involve conflicts of interest.	Ethics and compliance



Matter assessed	Description	Due Diligence
9. Healthcare access	We are convinced that digital technology enables new models of access to health. Telefónica has spent years investing heavily in the development of innovative services in the areas of Health and Telcare. Several projects were launched in 2015, such as Saluspot, Connected Wellness and Te acompaña.	eHealth
10. Inclusion and access to ICT	<p>At Telefónica, aware of the potential that the digital technologies have to offer, we work along three lines of activity:</p> <ul style="list-style-type: none"> ▶ Enabling access to communications and the Internet in all places, including remote and difficult-to-access areas. For example, the Intégrame project in Peru managed to provide mobile communications in more than 800 rural areas in 2015. ▶ Development of products and services under the "design for all" criteria, with the aim of allowing all environments, products, services and systems to be used with people with special needs, such as the Whatscine project, which provides audiovisual services for people with visual and hearing problems. 	Digital inclusion
11. Social innovation	We define sustainable innovation as innovation whose main objective is to address a social and/or environmental challenge, both within the Company and outside it, in turn generating value for the Company. Telefónica remains committed to technological innovation as a tool fundamental to our goal of being one of the leading actors in the new digital universe, with a capacity to help to create a more sustainable world while producing competitive advantages and distinctive products. New solutions such as Smart Heritage, which ensures the control of monuments of social interest, projects for the protection of wildlife like Smartfieb and health solutions such as Saluspot which guarantee information and access to health care by telephone in several countries in Latin America, are just some examples of innovative projects on which Telefónica has worked throughout the past year.	Social innovation

Matter assessed	Description	Due Diligence
12. Language	We support the Right of minorities to enjoy their own cultures, to profess and practice their own religions and to use their own languages. We have developed initiatives which promote this respect at a local level.	Diversity
13. Access to education	Fundación Telefónica's priority is to explore, together with experts, specialists and research centres, solutions in the world of educational innovation, publicising them, testing them and encouraging reflection and knowledge of their results in order to contribute to accelerating the changes which are leading society towards a digital world. Education is the most important tool for reducing inequality and laying the foundations for sustained growth, especially in vulnerable environments. And the digitisation of education facilitates new learning opportunities and further democratises access to quality knowledge. Fundación Telefónica structures its activity for the education of children, educators and young people with this premise in mind - so that they can develop, learn, communicate and work in the online society, and because we firmly believe in a more solidary digital world.	Digital education
14. Deployment and management of network infrastructures	Telefónica's practices for conducting responsible roll-out of its mobile and fixed networks are uniform across the whole Group, and seek to achieve the greatest possible coverage, even in remote areas, with the least possible impact. The Company thereby goes beyond legal compliance in each country and establishes guidelines to minimise its impact on the environment by sharing infrastructures, and thus reducing the visual impact. In addition, Telefónica maintains dialogue and communication with the communities in which it rolls out its network, on topics which may be of interest to them, such as electromagnetic fields.	Electromagnetic fields



External validation



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INDEPENDENT REVIEW REPORT ON TELEFÓNICA S.A.'S 2015 INTEGRATED REPORT

To the Institutional Affairs Committee of Telefónica, S.A.

Scope of work

We have reviewed the contents of Telefónica, S.A.'s 2015 Integrated Report (the Report) which was prepared in accordance with:

- The Global Reporting Initiative (GRI) Preparation Guide 4 (G4).
- The principles stated in the AA1000 Assurance Standard Guide issued by AccountAbility (Institute of Social and Ethical Accountability).

The scope determined by Telefónica for the preparation of this report is defined in the section "Structure and scope of consolidation" of the accompanying Report.

The preparation of the accompanying Report, as well as the information contained therein, is the responsibility of the Institutional Affairs Committee of Telefónica, S.A. They are also responsible for defining, adapting, and maintaining the management and internal control systems from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

Criteria

Our review was carried out based on:

- Standard ISAE 3000, 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), with a limited scope of assurance.
- AA1000 AccountAbility Assurance Standard 2008, with a moderate level of type 2 assurance.
- The Guidelines for reviewing Corporate Responsibility Reports, issued by the Official Register of Auditors of Accounts (ICJCE).

Applied procedures

Our review consisted in requesting information from Telefónica S.A.'s Corporate Reputation & Sustainability Direction and the management of business areas participating in the preparation of the Report, and applying certain analytical procedures and sampling review tests as described in general terms below:

1. Interviews with the persons in charge of Telefónica, S.A.'s Corporate Reputation & Sustainability Direction and a selection of managers and key management personnel involved in the Report's preparation. The purpose of these was to obtain awareness of the opinion of Corporate Sustainability objectives and policies, as well as how they are put into practice and integrated into Telefónica's strategy.
2. Review of the principal processes and systems through which Telefónica establishes its commitments with stakeholders, along with the relevance and integrity of the information included in the Report.
3. Analysis of the adaptation of the structure and content of the Report as indicated in G4 Global Reporting Initiative (GRI).
4. Checks, on a sample basis, of the quantitative information included in the Report, as well as its adequate compilation from data supplied by information sources. The review tests have been defined to provide assurance levels in line with the criteria described in this report. The review was carried out based on Telefónica's operations in Spain, Brazil, Argentina, Peru, Germany, Chile, Ecuador, Venezuela, Colombia and Mexico.

This review is considerably less in scope than a reasonable assurance report. Therefore, the degree of assurance is also less extensive. This report should in no case be considered an audit report.

These procedures were performed on the information contained in the accompanying Report and GRI tables with the perimeter and scope indicated above.

Independence

We have performed our work in accordance with the standards of independence required by the Code of Ethics of the International Federation of Accountants (IFAC).



Conclusions

As a result of our review of the Telefónica S.A.'s 2015 integrated report, and the scope indicated in "Applied procedures" above, we conclude that:

- No matter came to our attention that would indicate that the Report had not been prepared according to the Guidelines included in the Global Reporting Initiative (GRI) Preparation Guide for Sustainability Reports.
- No matter came to our attention that would lead us to believe that the Report has not been prepared in accordance with the principles established in standard AA1000 APS (2008), such as:
 - ✓ **Inclusiveness:** The mechanisms are in place to identify stakeholders, as well as to gain an awareness and understanding of their expectations, as explained in the "Interaction with stakeholders" section of the accompanying Report.
 - ✓ **Relevance:** Relevance is analyzed and a survey conducted to select the most significant matters to be included in the Report, as described in its "Materiality" section.
 - ✓ **Responsiveness:** Telefónica has the mechanisms to design, develop, evaluate and communicate the responses necessary to meet the principal expectations of stakeholders, which are reflected in the "Interaction with stakeholders" section and included in the various sections of the accompanying Report.

Recommendations

We also presented to the Institutional Affairs Committee of Telefónica, S.A. our recommendations regarding areas of improvement related to the application of standard AA1000 APS (2008), as well as to actions taken with main stakeholders. The most significant recommendations are summarized below:

a) **Inclusiveness:**

Telefónica performed a materiality study in which takes into account the views of its stakeholders to establish the importance of the materiality issues. Our recommendation is to publish the most relevant issues for each stakeholder and report on the actions to be undertaken by the Group in order to focus its action on the real needs and expectations of stakeholders, facilitating greater alignment between sustainability and business.

b) **Relevance:**

In 2015 Telefónica approved stakeholder's panel as a platform for regular dialogue that allows continuous updating of the material matters. Our recommendation is to continue promoting this initiative so that it can be implemented fully in 2016.

c) **Responsiveness**

Telefónica provided in each section of the report accompanying the challenges for each stakeholder. Our recommendation is to group these challenges and align with the Telefónica's sustainability strategy to improve understanding of the actions taken in sustainability by the stakeholders.

We also suggest the following actions related to the various dimensions referred to in the Report:

1) **Economic issues:**

During 2015 it has been reported the indirect employment impact generated by Telefónica on the communities in which it operates. Our recommendation is to include milestones and challenges in the chapter on "Contribution to progress."

2) **Environmental issues:**

In 2015, Telefónica has made a more detailed analysis of their environmental performance report. Our recommendation, in order to increase the accuracy and robustness of the report, continue to work on improving definitions of environmental indicators.

3) **Social issues:**

In 2015 report Telefónica includes information about diversity, as breakdowns by gender and people with disabilities. Our recommendation is to encourage more initiatives in line with the challenges set for 2016 to incorporate more diversity in the Group's workforce.

This report has been prepared solely for the attention of the Institutional Affairs Committee of Telefónica, S.A., in accordance with the terms set out in our engagement letter.

ERNST & YOUNG



(signed in the original issued in Spanish language)

(Free translation from the Original Report on Independent Review in Spanish dated April 14th 2016. In case of any discrepancy, the Spanish version always prevails)

Verification Statement of AENOR for Telefónica on the Inventory of greenhouse gas emissions corresponding to the year 2015

DOSSIER: 2009/1133/HCO/01

Introduction

Telefónica (hereinafter the company) commissioned the Spanish Association for Standardisation and Certification (AENOR) to make a limited revision of the inventory of greenhouse gases (GHG) for the year 2015 of its activities included in the GHG report of 2015, 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).

Representative of the Organisation: Ignacio González-Blanch Rodríguez, 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 y N₂O.

Direct, indirect activities and exclusions from the verification.



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- Scope 1- Direct GHG emissions
- Scope 2 – Energy indirect GHG emissions
- Scope 3- Other indirect emissions:
 - Purchased goods and services
 - Capital goods
 - Fuel- and energy-related activities (not included in scope 1 or scope 2)
 - Waste generated in operations
 - Business travel
 - Use of sold products
 - Investments

General Exclusions

GHG inventory of Telefónica does not register emissions from hidrofluorocarbons (HFCs) and perfluorocarbons (PFCs), thus fugitive emissions from air conditioning and refrigeration equipments are excluded. In addition, GHG emissions from petrol combustion in stationary combustion are excluded.

Those figures were estimated and resulted below the level of materiality. Thus, these emissions are considered not significant.

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

Spain

Fixed and Mobile Network

Distrito Telefónica

Telefónica Soluciones

Germany (Fixed and Mobile network)*

Latin America

Argentina (Fixed and Mobile network)

Brazil (Fixed and Mobile network)

Chile (Fixed and Mobile network)

Colombia (Fixed and Mobile network)

Ecuador (Mobile Network)

El Salvador (Mobile Network)

Guatemala (Mobile Network)



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Telefónica Business Solutions

Mexico (Mobile Network)
Nicaragua (Mobile Network)
Panama (Mobile Network)
Peru (Fixed and Mobile network)
Costa Rica (Mobile network)
Uruguay (Mobile Network)
Venezuela (Mobile Network)

Base year

Telefónica has selected 2015 as base year. A new base year has been chosen due to two reasons. Firstly, the changes in organizational and operational boundaries make difficult the base year recalculation. Secondly, a new period in order to set reduction targets for GHG emissions and energy consumption (2015-2020) has started.

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.



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The GHG inventory is calculated on the basis of the energy and mobility data from operations of Telefónica Group, reported according to the internal procedure “Telefónica Energy data collection process” dated January 08, 2016.

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 2015, dated March 31st, 2016 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: 2015	t CO ₂ e
Scope 1: Direct GHG emissions	95.677
Scope 2: Energy indirect GHG emissions (Location-Based Method)	1.880.938
Scope 2: Energy indirect GHG emissions (Market-Based Method)	1.609.677
Scope 3: Other indirect emissions	2.680.046
○ Purchased goods and services	423.423
○ Capital goods	329.186
○ Fuel- and energy-related activities (not included in scope 1 or scope 2)	209.836
○ Waste generated in operations	688
○ Business travel	34.075
○ Use of sold products	1.610.822



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Year: 2015	t CO ₂ e
○ Investments	72.016
Emissions from biofuels	15.282

Lead Verifier: Raúl BLANCO BAZACO

Madrid, 08 April 2016

Environment Manager: José MAGRO GONZÁLEZ



Telefónica, S.A.
Integrated Report 2015

This report is available on the Telefónica website at:
<http://www.telefonica.com>

Likewise, the mandatory information that must be provided under prevailing legislation is also available to shareholders and the general public.

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