



Telefonica

TELEFÓNICA'S ESG SESSION

27th June 2019, London

Disclaimer

This document and the Q&A session may contain forward-looking statements and information (hereinafter, the “Statements”) relating to the Telefónica Group (hereinafter, the "Company" or "Telefónica") or otherwise. These Statements may include financial forecasts and estimates based on assumptions or statements regarding plans, objectives and expectations that make reference to different matters, such as the customer base and its evolution, growth of the different business lines and of the global business, market share, possible acquisitions, divestitures or other transactions, Company’s results and other aspects related to the activity and situation of the Company.

The Statements can be identified, in certain cases, through the use of words such as “forecast”, "expectation", "anticipation", “aspiration”, "purpose", "belief" or similar expressions or variations of such expressions. These Statements reflect the current views of Telefónica with respect to future events, do not represent, by their own nature, any guarantee of future fulfilment, and are subject to risks and uncertainties that could cause the final developments and results to materially differ from those expressed or implied by such Statements. These risks and uncertainties include those identified in the documents containing more comprehensive information filed by Telefónica before the different supervisory authorities of the securities markets in which its shares are listed and, in particular, the Spanish National Securities Market Commission.

Except as required by applicable law, Telefónica does not assume any obligation to publicly update the Statements to adapt them to events or circumstances taking place after the date hereof, including changes in the Company's business, in its business development strategy or any other unexpected circumstance.

This document and the Q&A session may contain summarized, non-audited or non-GAAP financial information. The information contained herein and therein should therefore be considered as a whole and in conjunction with all the public information regarding the Company available, including, if any, other documents released by the Company that may contain more detailed information.

Information related to Alternative Performance Measures used in this presentation are included in our consolidated financial statements and consolidated management report for the year 2018 submitted to the Spanish National Securities Market Commission (CNMV), in Note 2, page 17 of the .pdf filed. Recipients of this document are invited to read it.







Neither this document nor the Q&A session nor any of their contents constitute an offer to purchase, sale or exchange any security, a solicitation of any offer to purchase, sale or exchange any security, or a recommendation or advice regarding any security.

Agenda

Christian Kern
Investor Relations Director



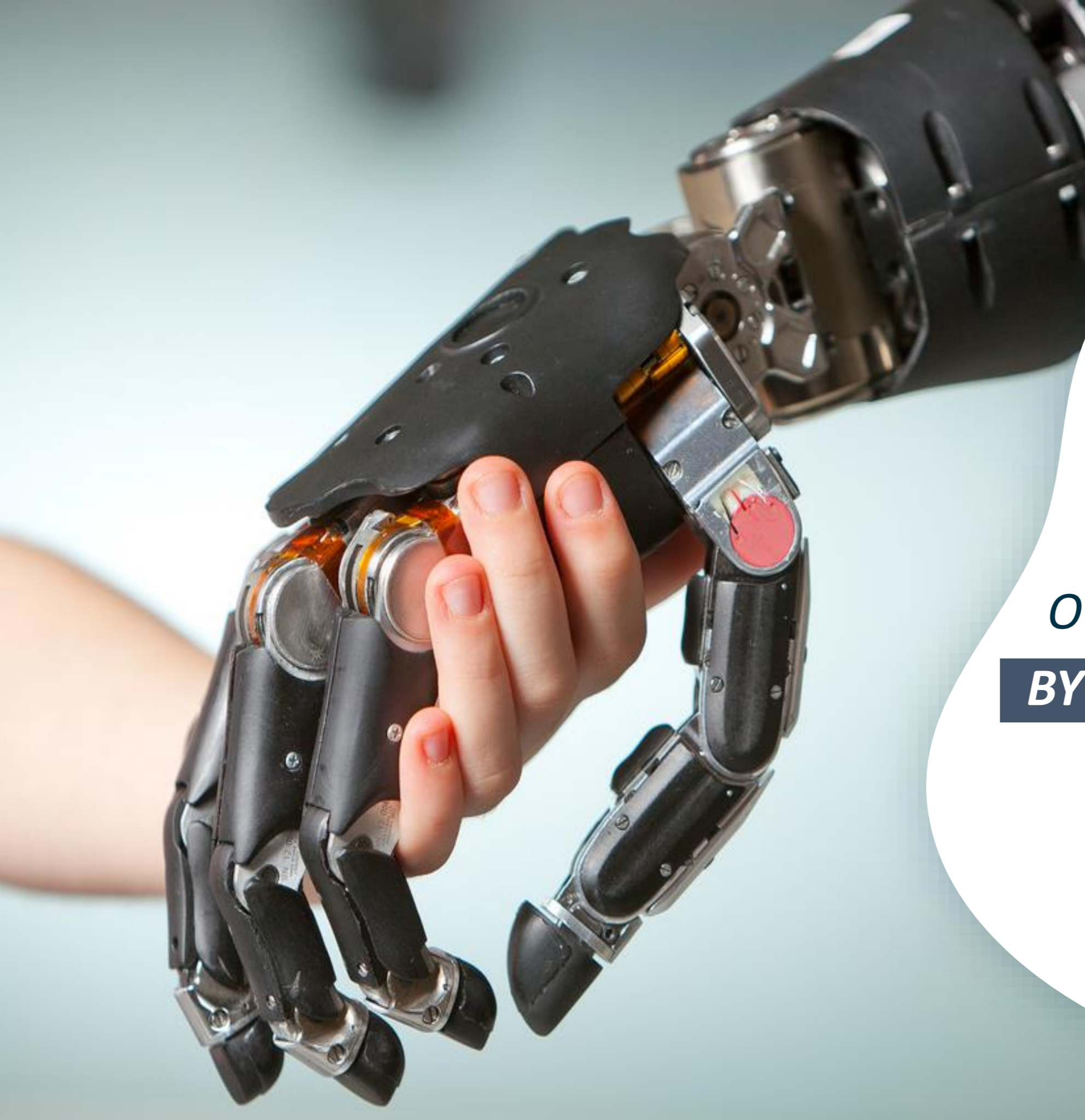
Agenda: Telefónica's ESG session

	Time	Topic	Speaker	Duration
	9:30-9:35	Welcome	Christian Kern	5 min
	9:35-9:50	Long term strategy	Laura Abasolo	15 min
	9:50-10:05	Governance	Pablo de Carvajal	15 min
	10:05-10:20	Sustainability	Elena Valderrábano	15 min
	10:20-10:25	Key Takeaways	Laura Abasolo	5 min
	10:25-10:55	Q&A session	All	30 min

Telefonica's long term strategy

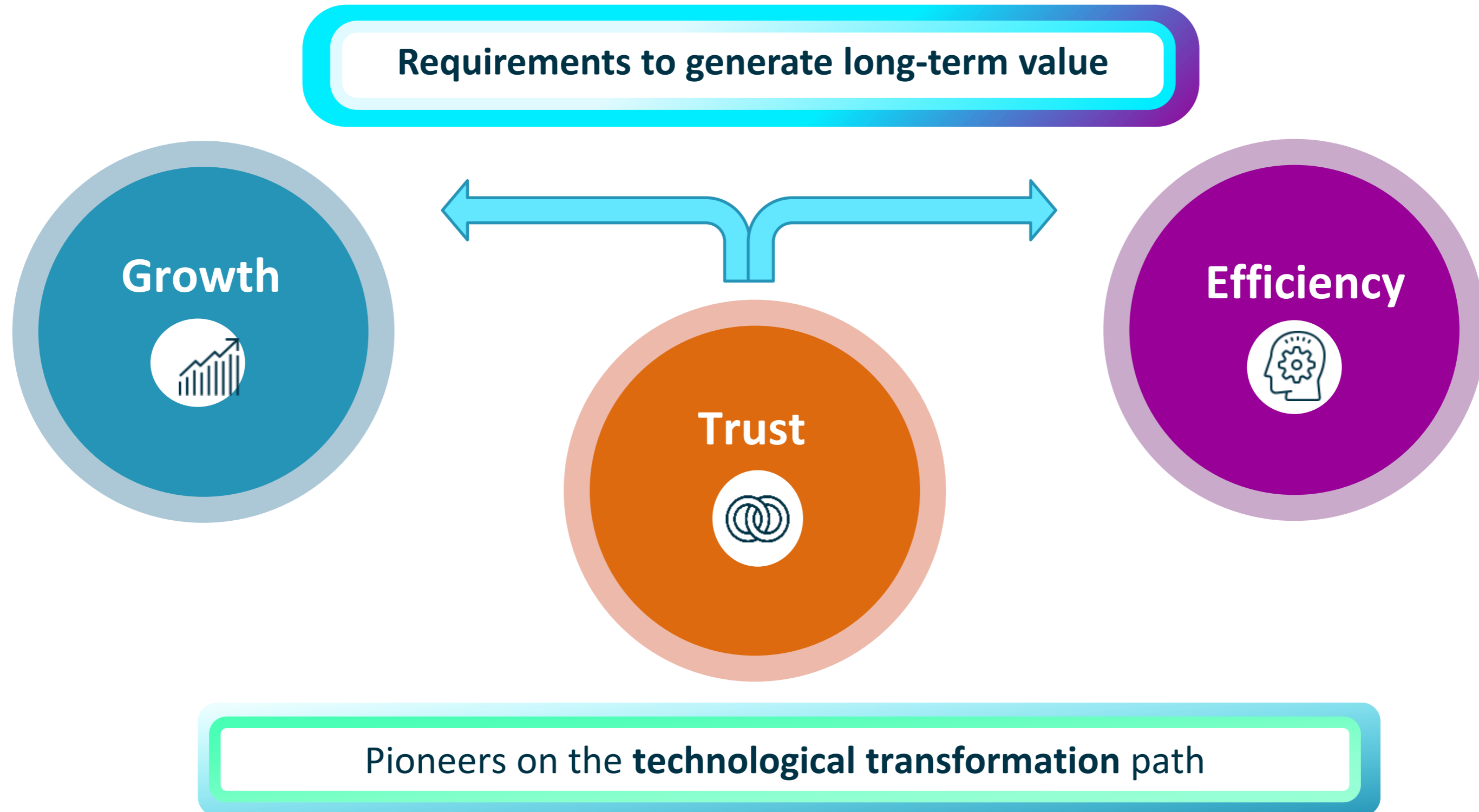
Laura Abasolo
Chief Finance and Control Officer



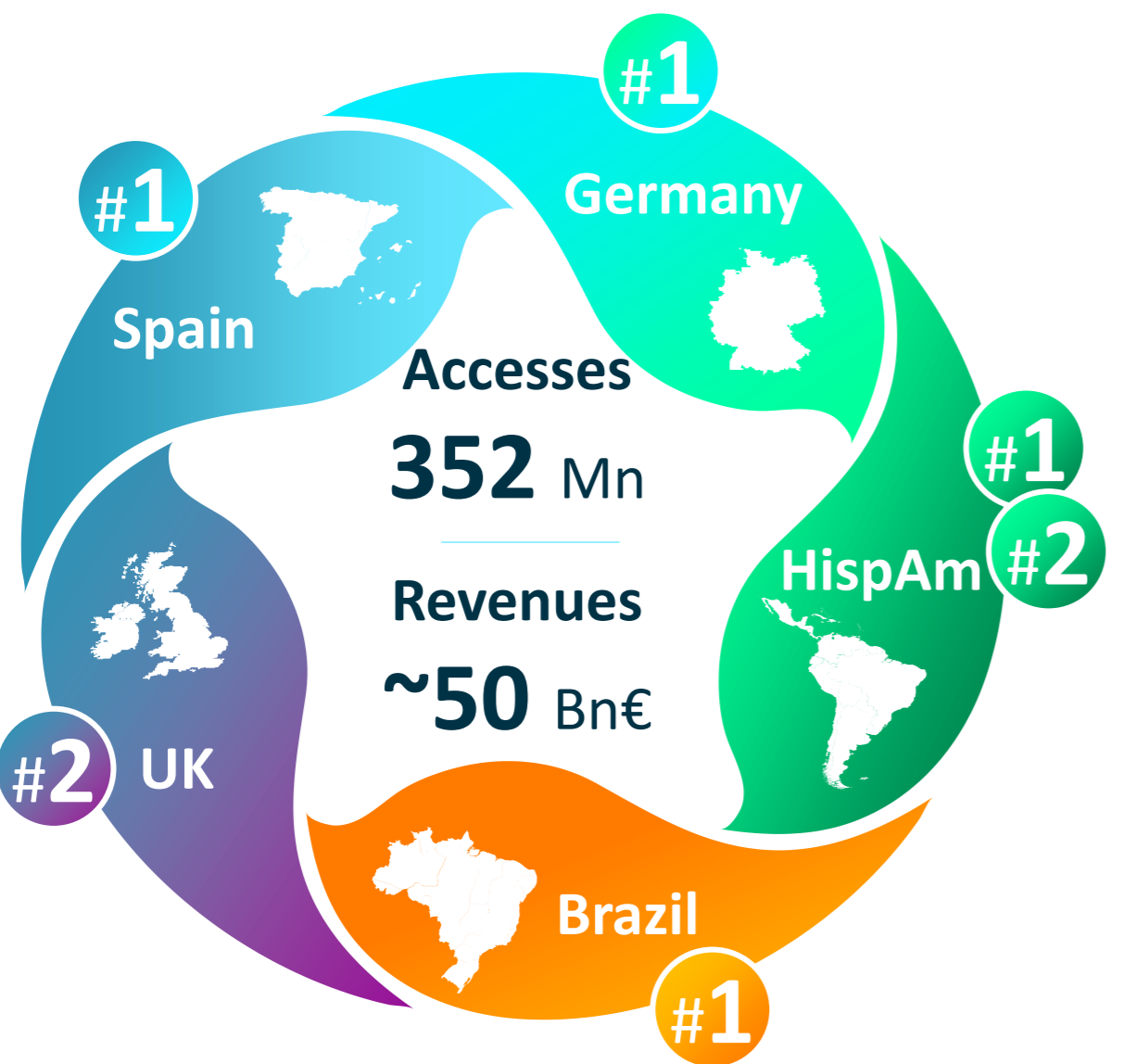


*WE WANT TO MAKE
OUR WORLD **MORE HUMAN**
BY CONNECTING LIVES*

Sustainable long-term business strategy

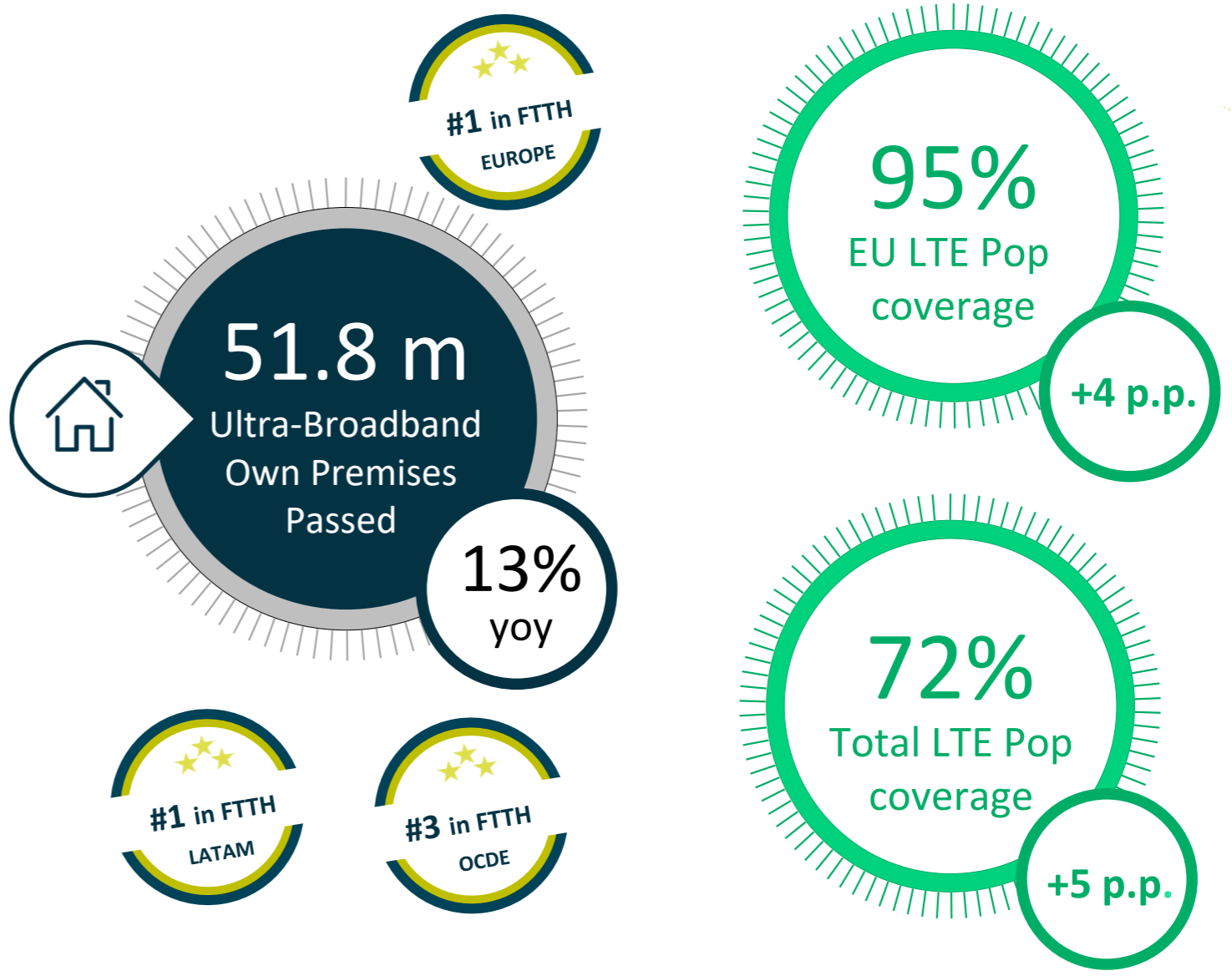


Global scale leader providing best-in-class connectivity



Accesses
352 Mn
Revenues
~50 Bn€

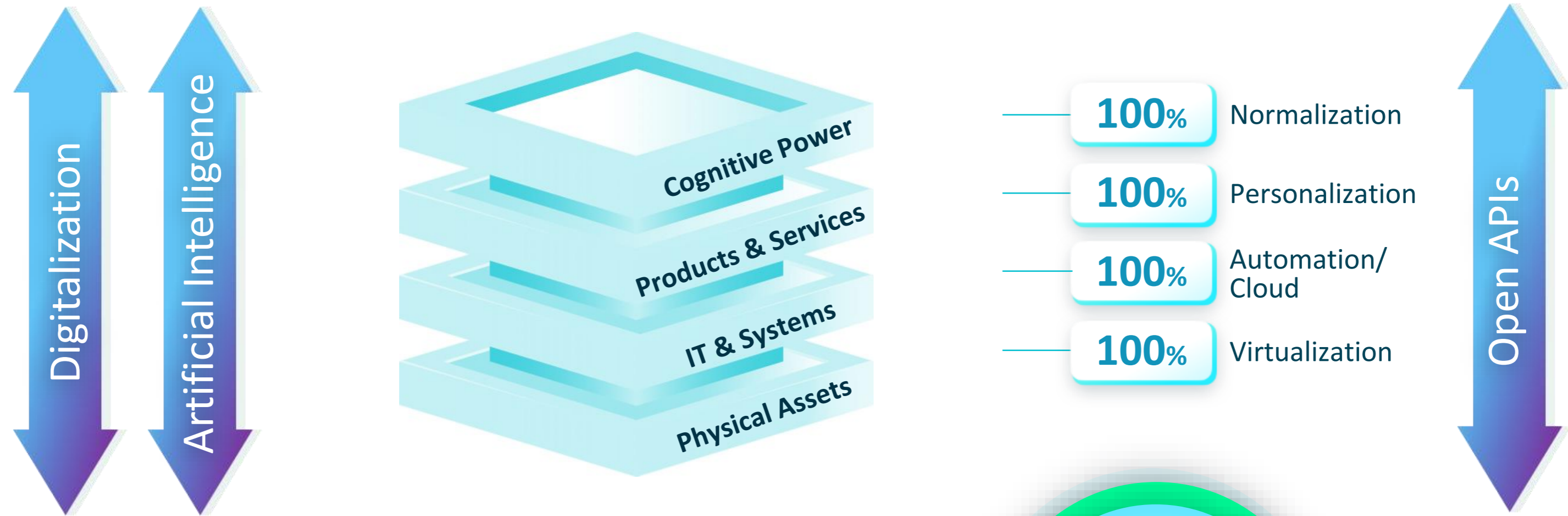
Leading positioning in main markets



63% of Fixed Broadband access is **FTTx/Cable**

71% of traffic is **LTE**

Future-proof technological platforms, a sustainability-based strategy

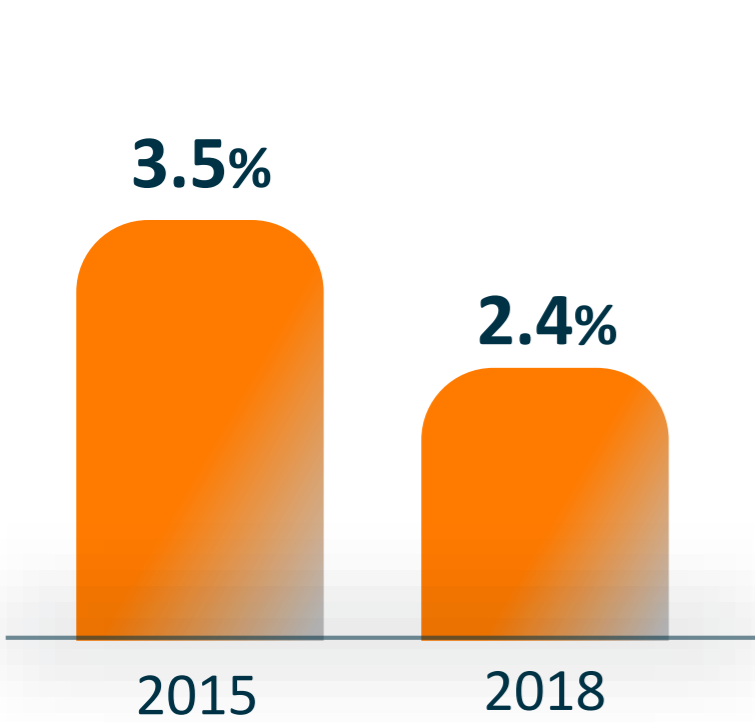


Record Investment levels

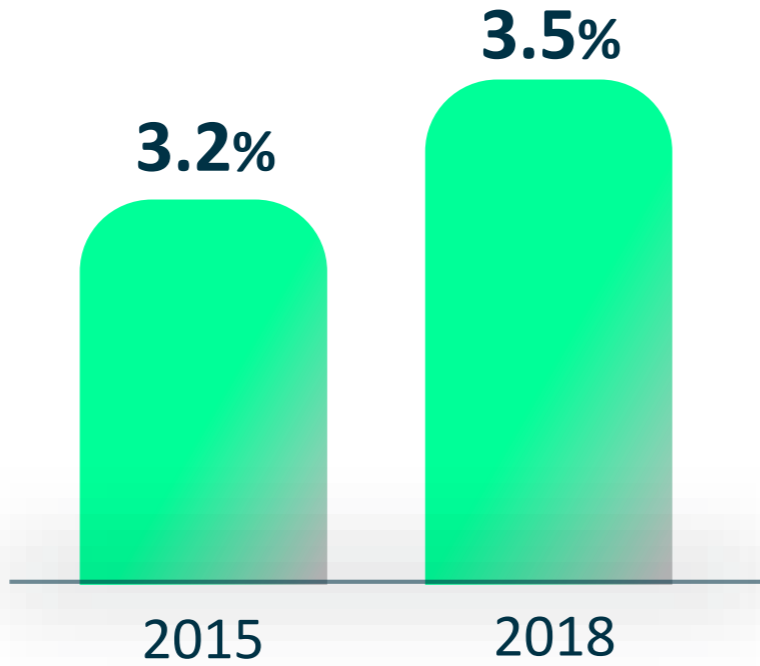
CapEx + M&A
~€82bn
2012-2018

Consolidating path of profitable growth

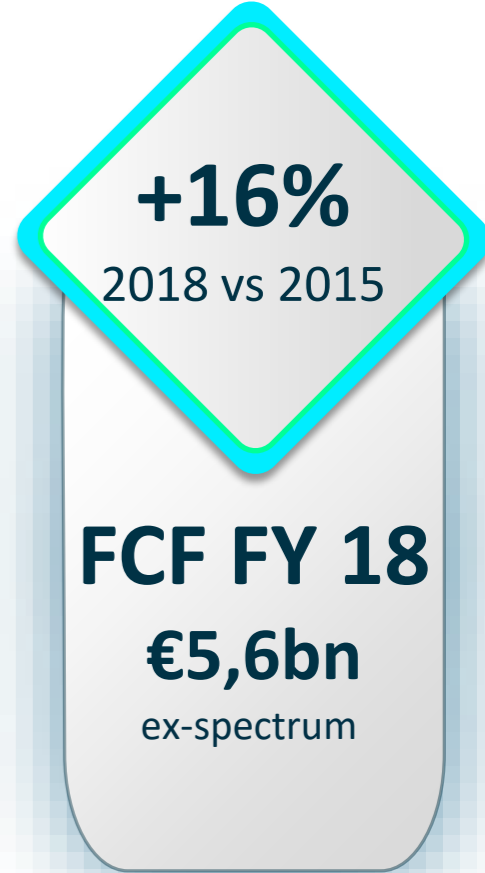
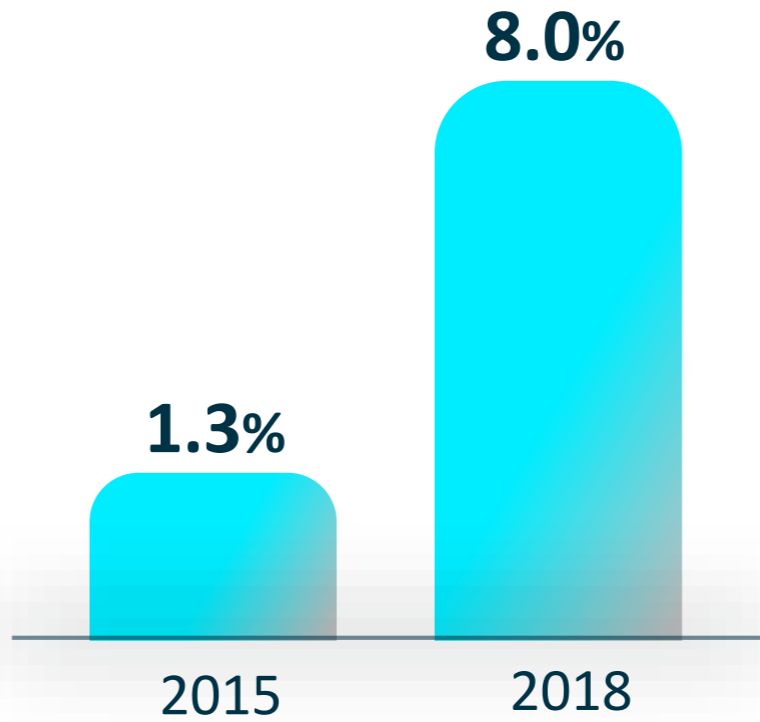
Revenues



OIBDA



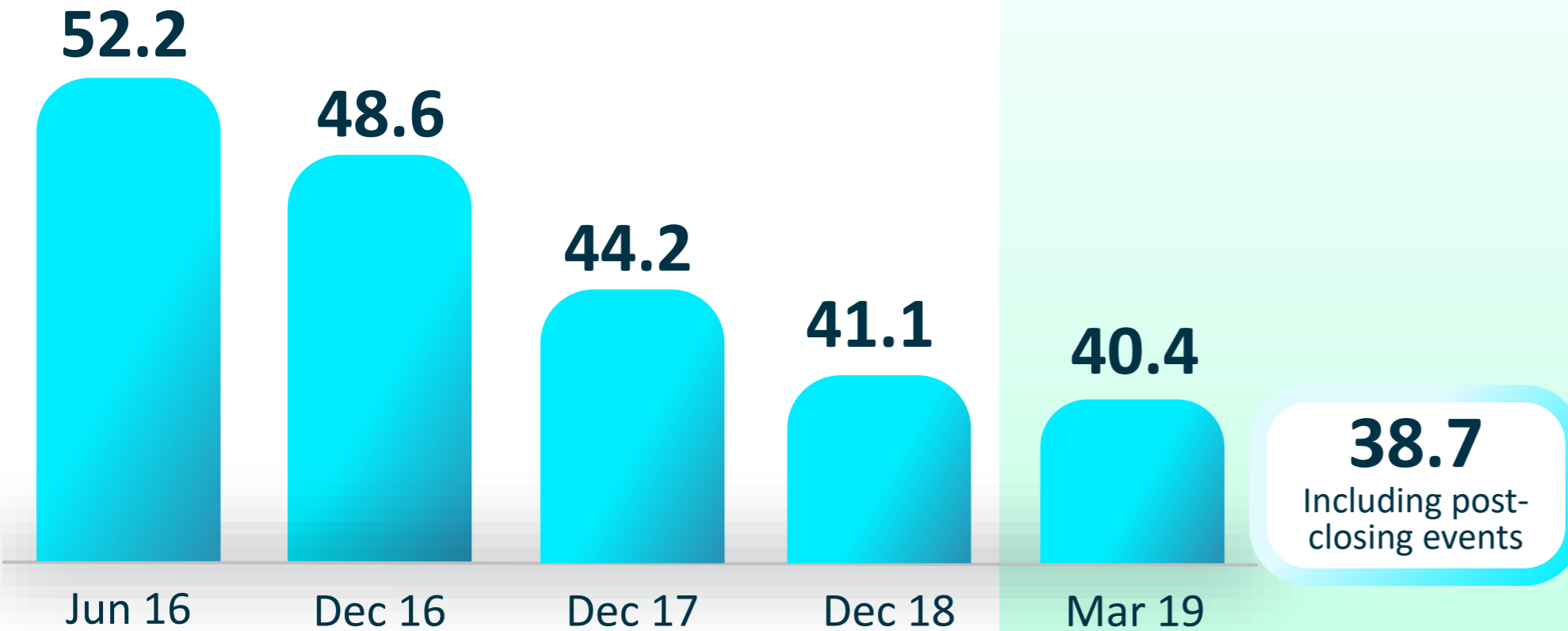
OpCF



Growing across metrics for 4 years in a row

Reducing our total net debt volume

Net Debt
Bn€



~€14bn Net Debt reduction since June 2016

Solid investment-grade rating

Increasing ROCE

78%
Debt in fixed rates
vs **46%** in Jun'16

10.2Y
Avg. debt life
vs 5.1Y in Jun'16

3.39%
Interest payment costs
vs **4.58%** in Jun'16

Building our commitment for sustainable long-term value creation

Complying with our
2018 guidance

Growth



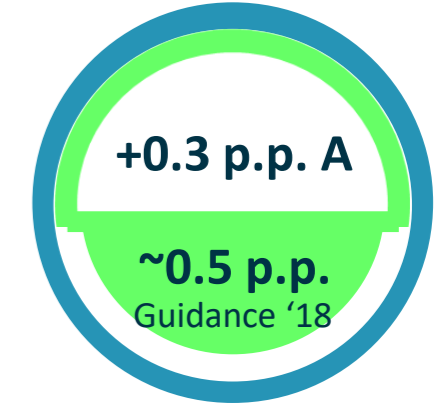
Revenues

Trust



CSI

Efficiency



OIBDA Margin

**2019 guidance, our
commitment one-
step ahead**



Revenues

OIBDA

+ Growth



More relevant for our customers

+ Trust = Digital welfare



Energy consumption per Petabyte

+ Digital = + Efficient

Governance

Pablo De Carvajal
General Counsel & Regulatory Affairs



Board Of Directors Overview

Our Board is committed to ensuring the skillsets of our directors are aligned with TEF's long-term business strategy

<p>José María Álvarez-Pallete López</p> <p>Chairman & CEO – Telefónica <i>Committees: E (Chair)</i></p>	<p>Ángel Vilá Boix</p> <p>Chief Operating Officer – Telefónica <i>Committees: E</i></p>	<p>Francisco Javier de Paz Mancho</p> <p>Lead Independent Director Former Chairman – MERCASA <i>Committees: NCCG (Chair), E, AC, RIA</i></p>	<p>José María Abril Pérez</p> <p>Vice Chairman Former Managing Director – BBVA <i>Committees: E, SI</i></p>
<p>Isidro Fainé Casas</p> <p>Vice Chairman Chairman – Criteria Caixa <i>Committees: E</i></p>	<p>Juan Ignacio Cirac Sasturain</p> <p>Director – Max-Planck-Gesellschaft Recognized prestigious Awards <i>Committees: SI</i></p>	<p>José Javier Echenique Landiribar</p> <p>Vice-Chairman – Banco Sabadell <i>Committees: E, AC (Chair), NCCG</i></p>	<p>Peter Erskine</p> <p>Former CEO – O2 Plc. <i>Committees: SI (Chair), E, NCCG</i></p>
<p>Sabina Fluxà Thienemann</p> <p>Vice-Chairman & CEO – Iberostar Group <i>Committees: NCCG</i></p>	<p>Luiz Fernando Furlán</p> <p>Former Minister of Development, Industry & Foreign Trade – Brazil <i>Committees: NCCG</i></p>	<p>Carmen García de Andrés</p> <p>Chairwoman – Tomillo Foundation <i>Committees: AC, SQCS</i></p>	<p>María Luisa García Blanco</p> <p>Founding Partner – Salama García Blanco <i>Committees: RIA, SQCS</i></p>
<p>Jordi Gual Solé</p> <p>Professor – UC Berkeley, Chairman – CaixaBank <i>Committees: RIA, SI</i></p>	<p>Peter Löscher</p> <p>Chairman of the Supervisory Board – OMV Aktiengesellschaft and Sulzer AG <i>Committees: SQCS (Chair), SI</i></p>	<p>Ignacio Moreno Martínez</p> <p>Chairman – Metrovacesa <i>Committees: AC, RIA (Chair), SQCS</i></p>	<p>Francisco José Riberas Mera</p> <p>CEO – Gestamp Automoción <i>Committees: None</i></p>
<p>Wang Xiaochu</p> <p>Chairman and CEO – China Unicom <i>Committees: None</i></p>	<p>Committee Key</p> <p><i>E = Executive Commission</i> <i>AC = Audit and Control Committee</i> <i>NCCG = Nominating, Compensation and Corporate Governance Committee</i> <i>SQCS = Service Quality and Customer Service Committee</i> <i>RIA = Regulation and Institutional Affairs Committee</i> <i>SI = Strategy and Innovation Committee</i></p>		

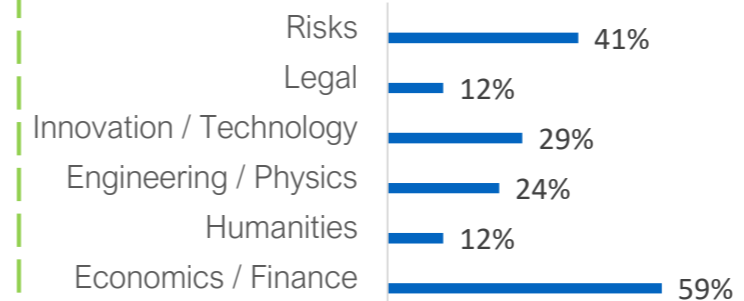
Board Of Directors Overview

Our Board of Directors committed with Diversity

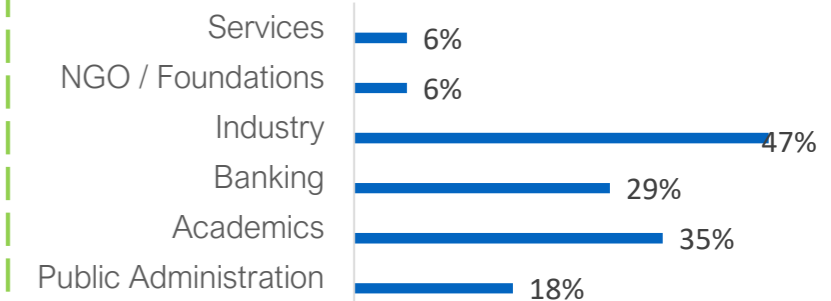


- Our average Director tenure is 6.6 years
- Directors own in the aggregate, directly or indirectly, 5,793,066 shares of the Company (0.111% of the share capital)

Knowledge and Skills



Professional Experience



International Diversity



+50%

Independent

18%

Women

Diversity policy

The BoD has a Diversity Policy, updated in 2017, that ensures BoD diverse and balanced composition

Board Committees

Our Committees

Audit and Control Committee

- Independent Chairman
- Oversee external auditor selection, audit plan execution, audit report issuance and report to shareholders on audit results
- Oversee company financial & non-financial reporting
- Supervise internal audit function; Monitor effectiveness of internal control, internal audit and risk management systems
- Responsible for risk control and management policy
- Monthly meetings

Nominating, Compensation and Corporate Governance Committee

- Independent Chairman
- Reviews proposals for the appointment, re-election and dismissal of Directors and Senior Managers
- Evaluate skills, knowledge, diversity and experience of Director candidates
- Oversee assessment of the Chairman
- Propose executive remuneration for the Chairman and other Executive Director(s) and the Senior Executive Officers of the Company
- Oversee, along with the Chairman, Board evaluation process
- Coordinate succession planning for both the Chairman and the Board
- Monthly meetings

Service Quality and Customer Service Committee

- Examine, analyse and regularly monitor quality indices: main services provided by the Company
- Evaluate the standards of customer service and the levels of customer satisfaction
- Quarterly meetings

Regulation and Institutional Affairs Committee

- Oversee the main themes of the regulatory order that affect TEF
- Promote the development of TEF's Corporate Reputation and Responsibility project and implementation of its core values
- Continuously monitor TEF's most significant areas of focus regarding sustainability, including Responsible Business Plans, Integrated Annual Report, action of the Advisory Panel on Responsible Business
- Review the relevant sponsorships or patronages according to the Group's Sponsorship and Patronage Policy
- Monthly meetings

Strategy and Innovation Committee

- Support Board's analysis of the TEF's global strategy policy
- Advise and support Board on all matters related to innovation, including monitoring of TEF's innovation projects
- Monthly meetings

Executive Commission

- Allow the Board greater operability and effectiveness in the exercise of its functions
- Meets twice a month

"According to Spencer Stuart, just over half (52 percent) of companies in the S&P 500 Index are led by a dual chairman/CEO, while 29 percent have an independent chair and 19 percent an executive or other outside chair"

Our Leadership



José María Álvarez-Pallete
Chairman and CEO

Responsible for leading the long-term strategic focus for our business

The Chairman & CEO owns 1,351,958 shares of the Company



Ángel Vilá Boix
Chief Operating Officer

Executes day-to-day management of the business

The COO owns 357,016 shares of the Company



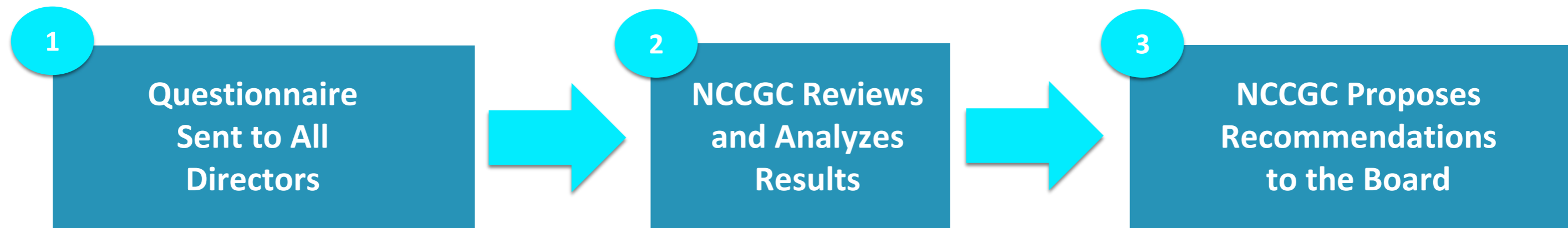
Francisco Javier de Paz Mancho
Lead Independent Director
Former Chairman of MERCASA

Robust set of responsibilities:

- Ability to include items on Board's Agenda
- Leads Board's evaluation of the Chairman
- Coordinate Chairman's succession plan
- Maintain contacts with investors and shareholders, especially concerning corporate governance
- Give voice to concerns of Non-executive Directors
- Chair the Board in absence of the Chairman or Vice Chairman

Robust Annual Board Evaluation Process

Following the annual evaluation 2018, the Nominating, Compensation and Corporate Governance Committee (NCCGC) identified areas of improvement, which the Board of Directors has approved for implementation



Questionnaire Grouped into 5 Sections:

1. Composition, functioning and powers of the BoD
2. Composition, functioning and powers of the Committees
3. Performance of the Executive Chairman
4. Rights and duties of Directors
5. AGM

2019 Board Approved Suggested Improvements:

- ✓ Continue with implementation of measures that allow for optimum performance of the AGM
- ✓ Continue analyzing the composition of the Board: succession plans and the application of the Diversity Policy
- ✓ Include more items on the Board and Ex. Commission meeting agendas (Co. strategy to foster debate)

Every 3 years, the annual evaluation is generally conducted by an independent, external 3rd party consultant

2019 Remuneration Program Overview

Our Remuneration Program integrates key metrics to drive long-term performance, which are also key KPIs from our #Reconnect program, which the Board of Directors has approved for implementation

	Component	Pay Element	Purpose	Metrics & Weighting
Annual	Fixed Remuneration (Salary) 21%	Cash	<ul style="list-style-type: none"> Promotes retention of top talent Creates sufficient economic independence to balance the significance of other items of remuneration 	Level of responsibility, leadership and performance
	Variable Remuneration 39%	Cash	<ul style="list-style-type: none"> Rewards achievement of pre-determined, quantifiable, economic-financial, operational and sustainability targets aligned with the Company's interests and Strategic Plan 	Financial Metrics (80%): <ul style="list-style-type: none"> # OIBDA (30%): Reflects growth and progress in operating performance # Operating Income (30%): Measures growth # Free Cash Flow (20%): Generation makes reduction of debt load possible Non-Financial Metrics related to long term (20%): <ul style="list-style-type: none"> Customer Trust (15%): NPS+NPS gap Society Trust (3%): Reprack improvement Climate Change (1%): GHG Emissions Reduction Gender Equality (1%): % Women in Executive positions
Long-Term	Long-Term Incentive Plan 40%	Equity	<ul style="list-style-type: none"> Align incentives with the Company and its strategic plan Link remuneration to the creation of shareholder value and sustainable achievement of strategic targets 	Shares delivered based on 3-year performance: <ul style="list-style-type: none"> Relative TSR (50%): Measures shareholder value generation over medium- and long-term # Free Cash Flow (50%): Encourages commitment to sustainable achievement of long-term strategic goals 25% of shares awarded subject to a 1-year holding period

Executive Directors are subject to shareholding guidelines of 2X gross Fixed Remuneration as long as they are members of the Board

Key Governance takeaways

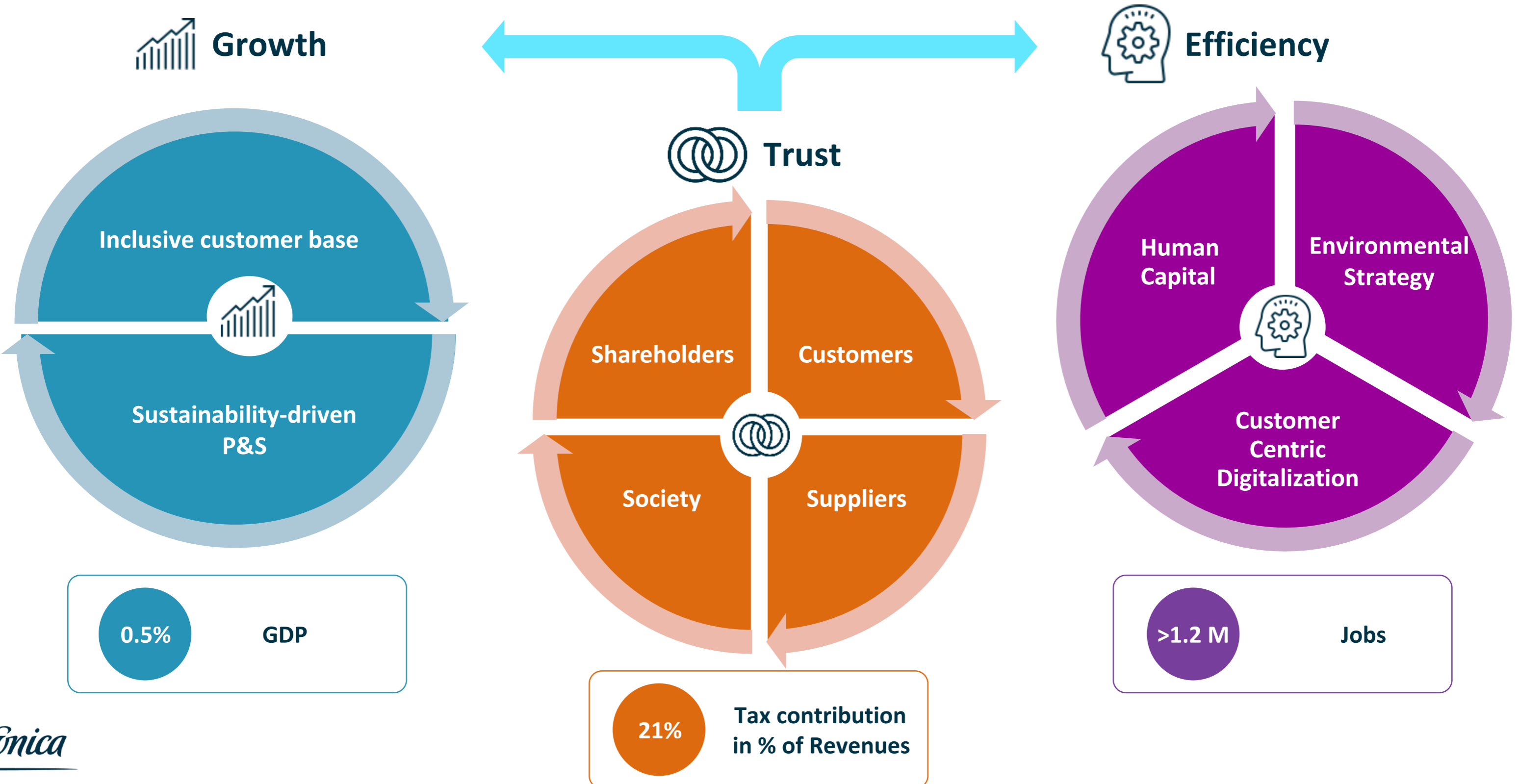
- Annual Schedule, Planning sessions and Monthly meetings
- Majority voting standard
- Strong Board oversight of enterprise risk
- Robust code of conduct
- The Board has exclusive competence over certain matters such as general policies and strategy, the appointment of Senior Executives, the remuneration of Directors and Senior Management and strategic investments
- Commitment to Board refreshment and diversity
- Shareholders holding $\geq 3\%$ may request agenda items and submit proposals for AGM
- First IBEX 35 company to issue annual corporate governance report – issued in 2002 when not yet mandatory
- First IBEX 35 company with a Board-level CSR committee
- Consultative Committees focused on key areas of long-term strategy

A sustainability-based strategy

Elena Valderrábano

Corporate Ethics and Sustainability Director

Generating value through a sustainability-based strategy





Gain customer relevance through connectivity

No one left unconnected

Diverse footprint including key emerging markets

€15.6bn

Revenues from emerging markets (32% of total)

Ambitious network deployment, including remote / rural areas

- 76% LTE coverage across the whole footprint
- 83M premises passed with FTTx/cable
- "Internet para Todos": an innovative way to connect 100M currently unconnected in Latam

Premium for all



Contributing to customer sustainability

€6.8bn

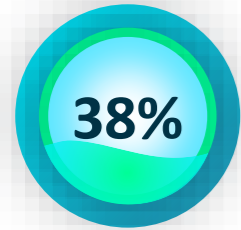
Revenues in digital services (2018) (14% of TEF's revenues)

- Cloud
- IoT
- Security

1.4M KtCO2e avoided by our clients through our services → +15% over our own direct emissions (Net positive contribution)

Optimising our capabilities for a sustainable digital future

Diversity: culturally wider



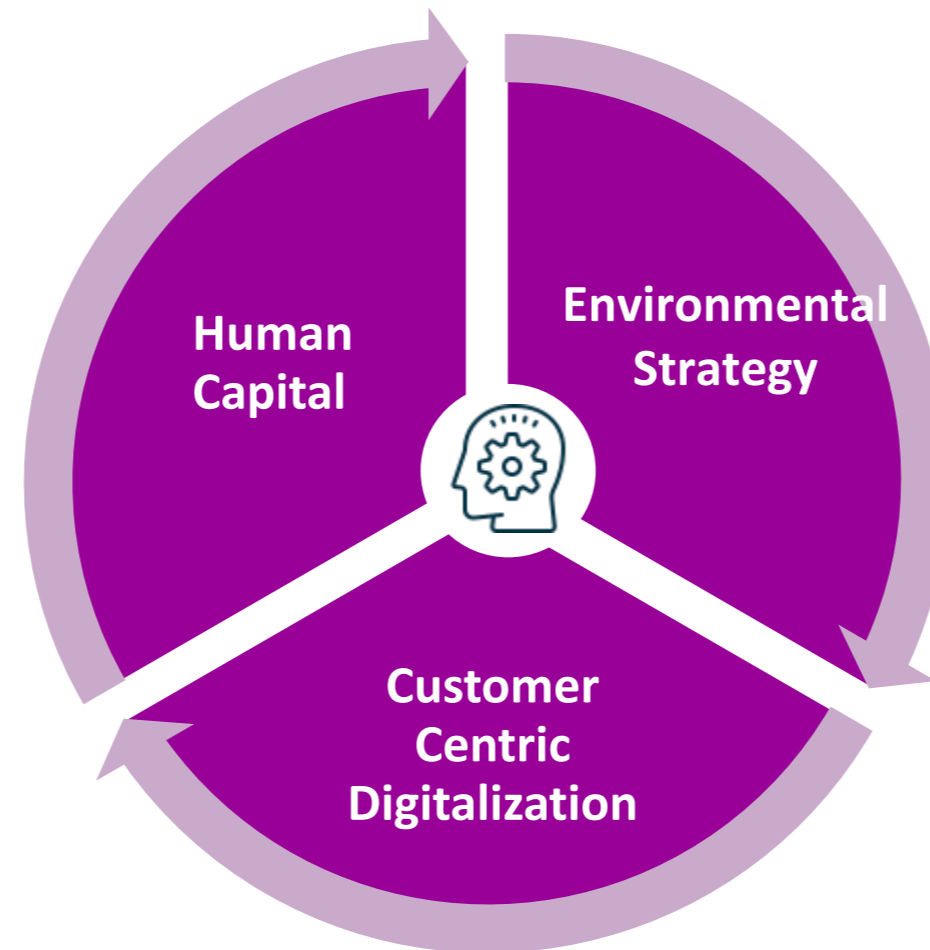
Women in workforce



Women in Management positions

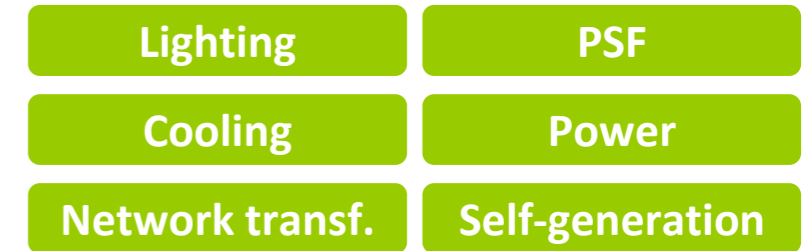


- 2nd consecutive year
- Only 10 telcos out of 230 companies



Committed to optimised energy use

Global Energy Program



Renewable energy



Serving our customers better



Customers migrated to Full Stack



Commercial operations in digital channels

Switching off legacy to obtain environmental and operational gains



Less energy per customer



Legacy network already switched off



GWh already saved (2016-2019)

Ambitious Science-based environmental targets with solid performance



2020 targets already met

1st Green Bond in the telco industry



- €1bn 5Y term
 - Coupon 1.069%
 - 5x oversubscription
 - ~50% green investors
- 

¹ All our targets are referenced in comparison to our 2015 performance

² Energy consumption per unit of traffic (PB). Reviewed for 2019-20 (-70%)

³ Scope 1 and 2

Creating Trust Capital



Ensure alignment with shareholders / investors interests

- Telefónica was 1st IBEX 35 Co. with a Board-level CSR committee & Variable remuneration scheme linked to sustainability

Advocate digital rights as well as technological progress

- Responsible use of technology
- Ethical AI
- Freedom of expression

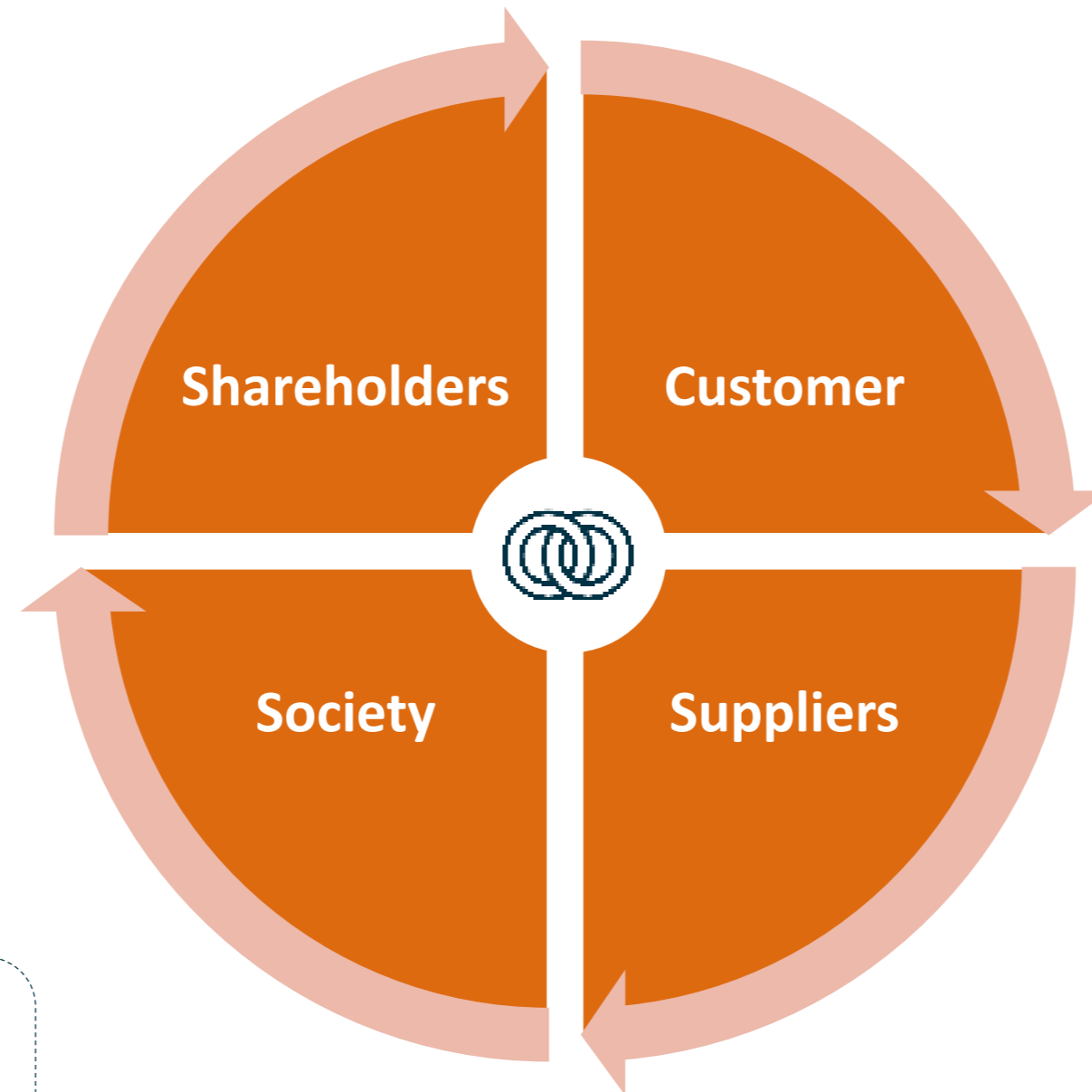


Reprak

#1
2019



**RANKING
DIGITAL
RIGHTS**



Securing customers data and Company resilience

- GDPR-based Global Privacy Policy throughout footprint
- Internal and external audits + Employee training



CSI



NPS

Securing a responsible value chain



Purchases volume
awarded



Total
suppliers



High-risk
suppliers



Administrative or on-site
audits to high-risk
suppliers in 2018

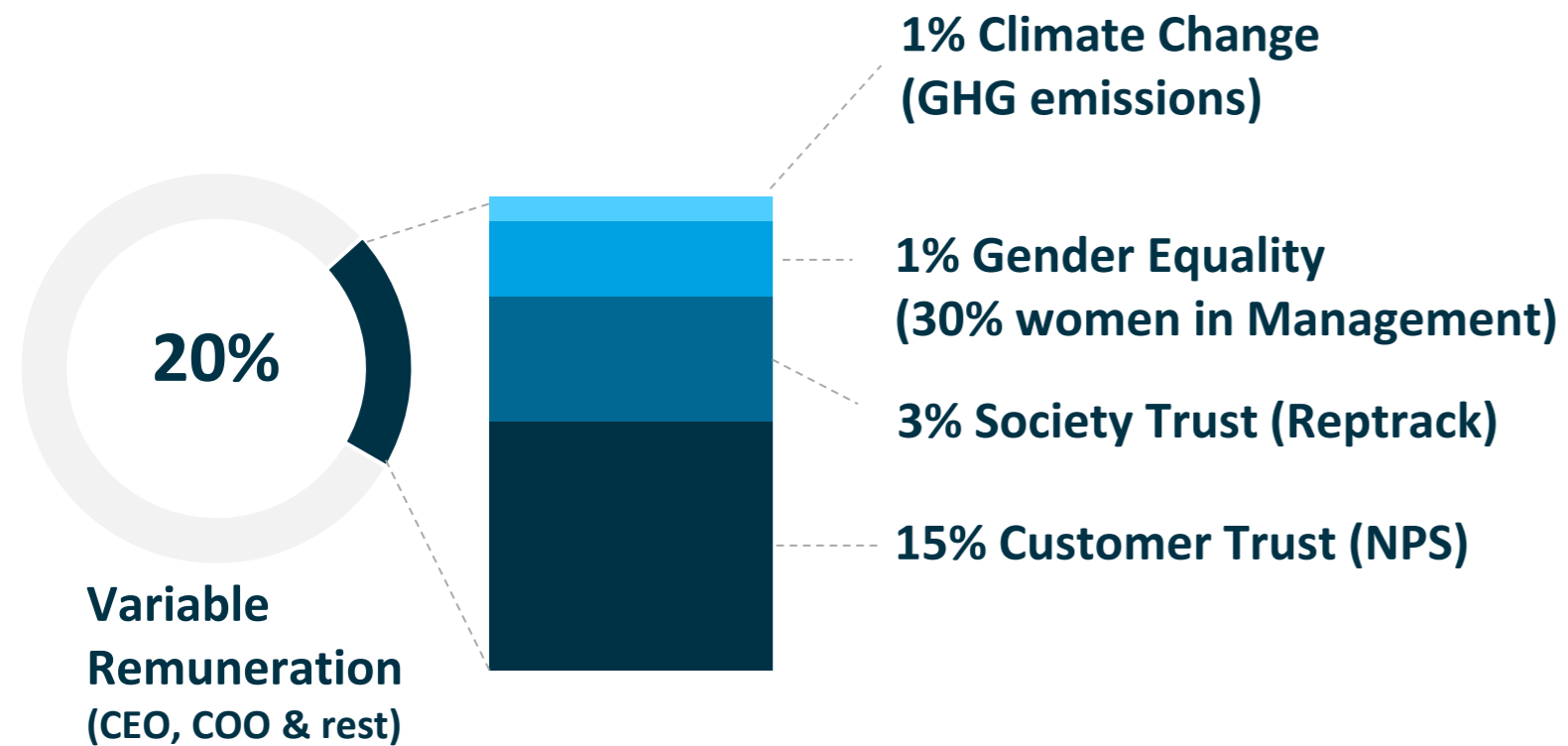


Suppliers blocked
for compliance

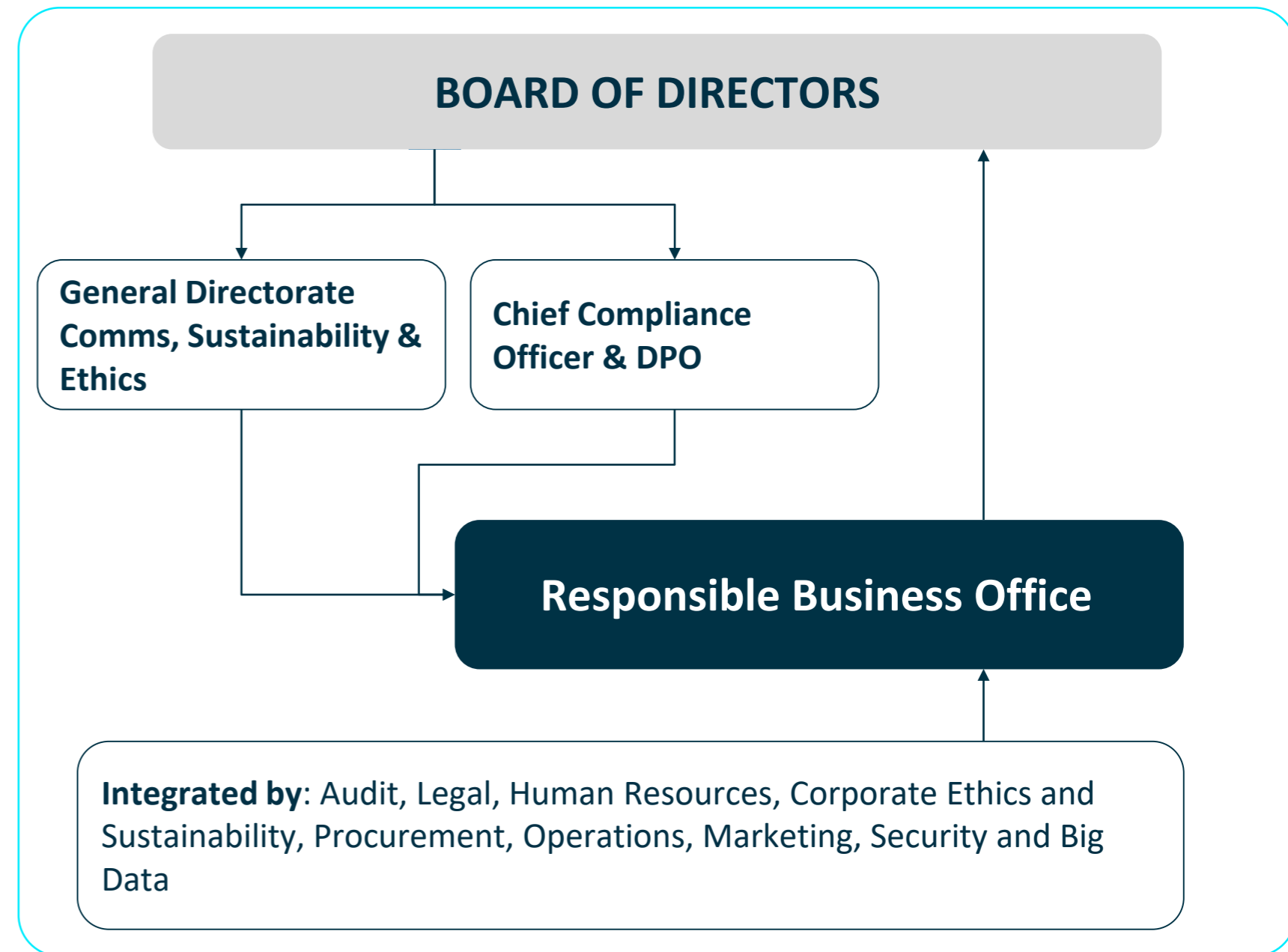
Commitment from the top

Remuneration linked to Long term & Sustainability

Starting in 2019...



Direct Board oversight



Solid ESG track record with external recognition



DJSI
Member DJSI Europe, 81 points



Bloomberg Gender-Equality Index
Included, 72.3 points out of 100

Global ESG Industry Ranks



FTSE4Good
Listed 4.4 points out of 5



Ecovadis
CSR Rating 68/100



MSCI Global Sustainability Index Series
A Rating



Sustainalytics
83 points out of 100



A-List



Ethibel Sustainability Index
Excellence IR Global member

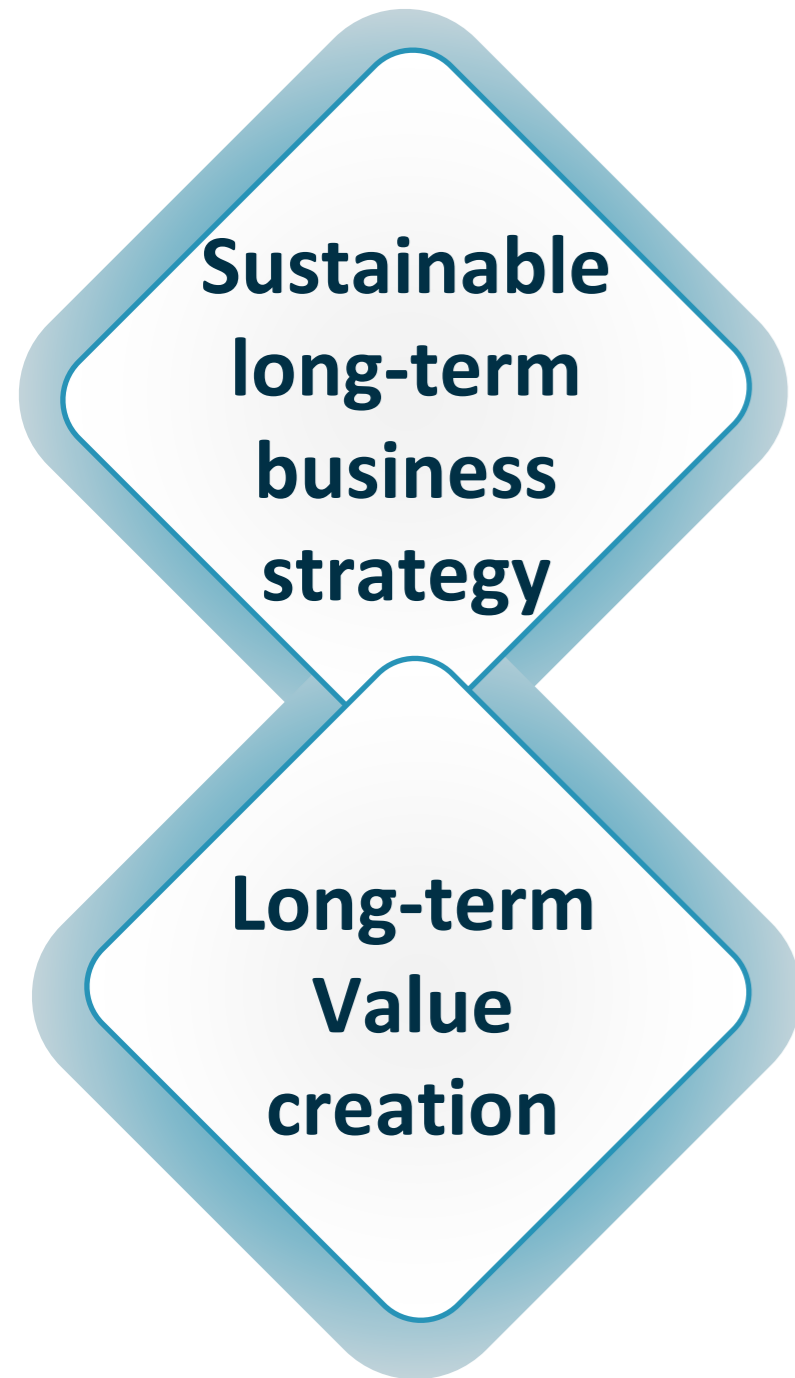
Key Takeaways

Laura Abasolo

Chief Finance and Control Officer



Key Takeaways



- Transformation strategy underpinned by 3 principles: Trust, Growth & Efficiency
 - Trust: solid engagement with all our stakeholders
 - Growth: increased relevance; the best technology at the service of society
 - Efficiency: growing returns, efficient use of resources, digitalization benefits
- Positive contribution across footprint
 - GDP, Taxes, Jobs
- Shareholder friendly governance practices
 - Commitment of Directors and top executives (0.12% share capital)
- Profitable growth, Net Debt reduction and ROCE improvement

Best-in-class in ESG score

Telefónica
