

1. General Information and Overview of Scope of IIC E&S Review

Movistar Ecuador is one of three major Mobile Network Operators (MNOs) in Ecuador with approximately 30% of the market share.

The Company has strong senior management, E&S team, and a sound Environmental and Social Management System (“ESMS”) fully implemented across all the sectors of the Company. The environmental and social due diligence occurred in the Company’s office in Quito on June 5th, 2018. Attendees to the meeting were the E&S Officer assigned to the operation, the investment team (by phone) and four Company representatives: Environmental and Sustainability Manager, Treasurer Manager and 2 other senior officers from both E&S and Treasurer divisions.

During the meeting and subsequent calls with the E&S representative, IDB Invest assessed the ESMS of Movistar Ecuador as well as its internal capacity to implement it. Also, detailed information related to the following were analyzed: Annual Sustainability Report[1], Environmental Policy[2], Supply Chain Sustainability Policy and Customer’s service procedures, among others.

Environmental and Social Categorization and Rationale

The Project has been classified as a Category C operation, according to the IDB Invest’s Environmental and Social Sustainability Policy as the project are likely to result in very limited or no adverse environmental and social impacts or risks. The project consists of a financial transaction to facilitate the Company’s to provide the installment handset sales program that is being offered to its subscribers. However, the compliance to PS- 1 - Assessment and Management of Environmental and Social Risks and Impacts was fully assessed, focused on the life cycle of the handsets and the commitment to its subscribers.

Environmental and Social Context

Telefonica S.A., the parent company of Movistar Ecuador, has presence in 21 countries and an average of 130,000 employees. Telefonica S.A.’s revenue in 2017 was EUR52.1 billion.

Movistar Ecuador operations are organized in nine Vice President divisions that directly employ more than 1.300 people of which 5% are persons with disabilities. Movistar’s cellular network is available in all 24 provinces and to approximately 4.8 million subscribers.

Telefónica Movistar is the most respected company in the Telecommunications sector in Ecuador, according to the Monitor Empresarial de Reputacion Corporativa (“MERCOR”)[3]. It was also selected among the 10th Best Place to Work in Ecuador by the Great Place to Work Institute (“GPTW”)[4] from 2005 to 2009 (ranked first).

Given the limited environmental and social impacts associated with the construction and operation of the wireless network, no Environmental Impact Assessment (“EIA”) but an Environmental Register and an Environmental Management Plan (“EMP”) is required by the Ministry of Environment (“MAE”). The Company follows applicable requirements of the licenses and overall with applicable environmental and health and safety regulations in Ecuador.

2. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures.

2.1 Assessment and Management of Environmental and Social Risks and Impacts

a. E&S Assessment and Management System

Movistar Ecuador has developed an Environmental Management System (“EMS”) compliant and certified with ISO 14001:2004, OHSAS 18001-2007 and ISO 9001-2008[5]. First ISO 14001:2004 was achieved 12 years ago and its last recertification was in 2017. The EMS has specific processes for the operation and maintenance of the voice and data network as well as for network development and construction (viability, search and negotiation of sites; construction of infrastructure and platforms). The process of site selection involves an interdisciplinary team that participates in the selection of the sites, the assessment of the environmental impacts, the processing of applicable permits, communication with the local community and regulators addressing any community or legal concerns.

The Company has a Health and Safety management system that is aligned with the OHSAS 18001-2007. The Company’s Integrated Occupational Health System includes 5 main components: prevention against falls, psychosocial factors, ergonomics and sport culture, preventive work medicine, and environment. Under this health and safety system incidents are tracked, procedures for specific job functions (like work on heights) are implemented, training is conducted, and corrective actions are implemented. The scope of the system includes training and supervision of contractors. Currently the main activity producing health and safety incidents is the mobilization of workers which produces traffic incidents. These incidents are continually reviewed under the Company's prevention plan.

Contracts between Movistar and its suppliers include specific environmental clauses[6]. These clauses aim to guarantee compliance with environmental legislation, including waste management. Workshops have also been implemented for training, monitoring and sensitizing the contractors to the relevant significant environmental aspects. Critical suppliers in the areas of construction, maintenance, fuel, cleaning and security are subject to Movistar internal training processes.

b. Policy

The Company, as part of the Integrated Management System (IMS) has the following policies: i) occupational health and safety; ii) global environmental policy[7] and iii) quality policy. The Supply Chain Sustainability Policy and the Energy Policy are also the relevant E&S policies.

c. Identification of Risks and Impacts

The most relevant environmental and social impacts from the operation of the network are the visual impacts from the towers, emissions from the use of refrigerants, and air conditioning and the possible adverse effects on human health due to the emission of radio frequency (“RF”) signals to workers which can be exposed to higher RF signals from working near the antennas during maintenance tasks. Minor and sporadic operational impacts include generation of noise and air emissions during occasional operation of back-up diesel generators and the generation of waste (hazardous and non-hazardous) such as batteries and wasted oil from maintenance activities.

From 2014 to 2016, The Company measured the electromagnetic emissions nearly 700 times. In all cases, the results were under the regulatory established limit. The Company provides information to the public on the possible effects of electromagnetic fields.

While the local regulation does not require an EIA for installation of base stations, Telefonica has performed E&S assessment to obtain 20 Environmental Register corresponding to 100% of the total number of sites (20 towers installation) in 2017.

Movistar has programs in place to manage the collection and disposal of different kinds of waste, including the disposal of hazardous waste. A project has been established to collect, reuse and

recycle electronic waste including mobile phone batteries. As 2016, approximately 25,000 pieces of electronic equipment had been collected and shipped for reuse/recycling. A client-oriented marketing campaign are in place to strengthen the collection of electronic waste for its further recycling. Also 26.4 tons of paper were collected for recycling.

Movistar is not directly affected by regulations regarding climate change or emission trading, but the Company has voluntarily committed to define an action plan[8] to mitigate its effect on climate change, aligned with the Climate Change Agreement of Paris signed on 2016. Efforts in 2016 were centered in the implementation of energy efficiency solutions among three areas: i) High tech air conditioning; ii) Smart building; and iii) Shipping management. After investing more than 800 thousand USD on innovative technologies, the results are: i) 74% of actions within the energy efficiency plan are being implemented on towers of urban areas; ii) 6,500 tons of CO2 avoided indirectly (shipping management) and 1,200 tons of CO2 directly avoided due to the high-tech HVAC and smart building solutions.

d. Management Programs

The Responsible Business Plan (“RBP”)[9] established in 2015 allows the corporate sustainability growth strategy (aligned with 17 UN Sustainable Development Goals) to be implemented and managed across all the Company’s processes. The RBP has 10 principles that includes: i) Ethical and responsible management, ii) Commitment to the client; iii) Commitment to the employees; iv) Corporate governance and internal control, v) Rights of privacy and freedom of expression; vi) Information security commitment; vii) Responsible communication; viii) Responsible supply chain management; ix) Commitment to the environment; and x) Commitment to the society. The RBP is implementing 6 top priority projects focused on clients, employees, suppliers and the environment: i) Client promise; ii) Digital trust; ii) Supply chain; iv) Diversity and Talent management; v) Environmental management; and vi) Sustainable Innovation.

e. Organizational Capacity and Competency

In order to implement the RBP Movistar Ecuador has set a Responsible Business Plan Office (“RBPO”) led by the Executive President and comprised by the following Vice President areas: i) Regulatory and External Affairs; ii) Human Development and Organizational; iii) Commercial; iv) Legal; and vi) Internal Audit. These areas are responsible for the fully implementation of the RBP across the Company. The Environmental and Sustainability area are under the Regulatory and External Affairs Vice Presidency. However, as stated previously, the RBPO acts across the organization. It is worth pointing out that 92% of the workforce has been trained on the principles of the RBP.

f. Emergency Preparedness and Response

The Company has implemented as part of the legal requirements an Emergency and Preparedness and Response Plan for the administrative offices Senior management and all units and shifts, including contract and temporary workers, participate in emergency risk assessment, preparedness planning and mock drills. Continual improvement of these plans is part of the ESMS in place. Some room for improvements is detected to reach regular engagement with local community and government for onsite and offsite emergency plan and formal resource-sharing agreements with neighboring companies.

g. Monitoring and Review

The EMS has an internal auditing program in place that includes scheduled audits. Over 10

employees are trained for environmental auditing. Findings are presented as corrective actions and implemented. Additionally, for compliance with the ISO 14001-2015 norm, external auditing of the system is conducted every year.

As part of the RBP's Ethical and responsible management, an internal auditing process is in place. Among the 38 reports produced on 2016, 2% were related to legal compliance accomplishment and 14% to the appraisal of main technological risks and the legal compliance related to the service and the information systems.

h. Stakeholder Engagement

i. Stakeholder Mapping/Analysis and Engagement Planning (and ongoing)

Stakeholders are clearly identified based on the relevance and impact for the Company. Moreover, the entire RBP was based on the identification of key aspects for stakeholders. Fluent and inclusive communication and consultation process with stakeholders are in place through the following RBP principles: i) Commitment to the customer; ii) Commitment to the employees; iii) Responsible supply chain management; iv) Commitment to the environment; and v) Commitment to the society. The indirect beneficiaries of the proposed financing will be the Company's subscribers. The Company measures the level of subscriber's satisfaction by the Customer Satisfaction Index (ISC), in 2016 the indicator was of 8.32 over 10. An effort is being devoted to improve this indicator. As a result, a Simplified Commercial offer was implemented by increasing the digital channels for Customer Support to allow real time attention and solving requirements. An experience zone was implemented at Sales Attention areas to allow previous interaction with the products and services before the purchase. Also, as part of the Digital Confidence program, the Company implemented a triple bottom program to increase Privacy, Information Security and Transparency.

ii. Disclosure of Information

Starting in 2006, the Company publishes annually an environmental report and an externally verified corporate responsibility report, both of which are available to the public on the company's website. The last Integrated Sustainability Report 2014, 2015 and 2016 was published following the G4 standard of the Global Reporting Initiative (GRI).

iii. External Communication and Grievance Mechanisms

In 2015, the Company approved the creation of a communication platform with stakeholders in formal and structured way. This communication platform is composed by 16 active members coming from key stakeholders' groups, such as: i) clients; ii) suppliers, iii) investors; iv) NGO's; and v) sector and multilateral organizations. RepTrak Methodology is applied for this dialog and is based on surveys. Results are the identification of 7 relevant items: i) Supply chain; ii) Digital reliance; iii) Diversity; iv) Client; v) Ethical behavior; vi) Sustainable innovation; and vii) Environment and Climate Change. Results of this broader dialog platform are significant in terms of strengthening the positive impacts both to the organization and the stakeholders. Digital channels and On-Line solutions increased in 2016, reaching 1.7 million of followers on social media (Facebook, Twitter and YouTube).

1. Local Access of Project Documentation

All information of the Company can be accessed through this two main Web Sites: http://telefonica.com.ec/ir_4.php and <https://www.movistar.com.ec/>

1. Environmental and Social Action Plan (ESAP)

The Company will comply with all applicable environmental, health and safety regulations in Ecuador, applicable IDB Invest sustainability policy and all aspects and components of Movistar Ecuador ESMS. Therefore, the client will attend a training on IFC Performance Standards and submit yearly an Environmental and Social Compliance Report (ESCR) aligned with the applicable IFC performance standards: PS1, PS2, PS3 and PS4. IDB Invest will perform supervision and monitoring activities of the accomplishment of the ESAP during the life of the Facility.

[1] <https://www.telefonica.com/documents/153952/13347843/Informe-Integrado-2017.pdf/c2e7a9b1-3976-9660-f84b-fd0747ef7f0b> and <http://telefonica.com.ec/informes.php>

[2] http://telefonica.com.ec/pdf/PoliticaAmbiental_VF.PDF

[3] <http://merco.info/ec/ranking-merco-empresas?edicion=2017>

[4] <http://www.greatplacetowork.com.ec/mejores-empresas/buscar-a-las-mejores>

[5] http://telefonica.com.ec/ir_4.php

[6] http://telefonica.com.ec/pdf/politica_responsabilidad_cadena_suministro.pdf

[7] http://telefonica.com.ec/pdf/PoliticaAmbiental_VF.PDF

[8] http://telefonica.com.ec/seccion_practicas_sostenibles.php

[9] <http://telefonica.com.ec/informes.php>