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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.

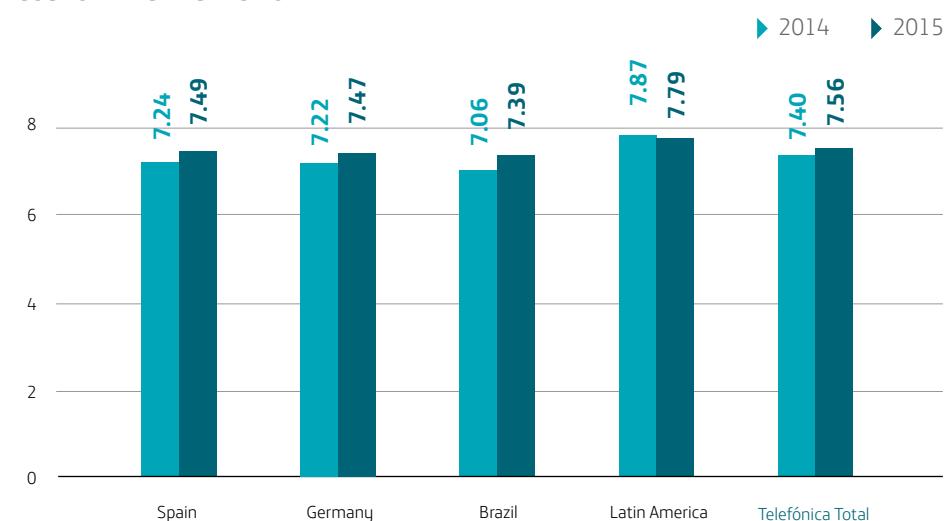
Today digital is normal, and the barriers between life and digital life are becoming blurred. Technology permanently co-exists with people. Digital life is life. And this is precisely our new strategic vision as a Company.

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



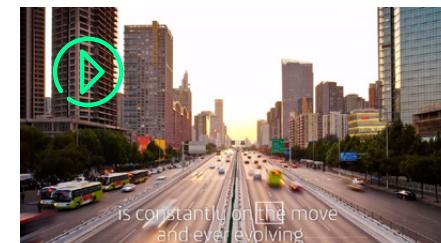
Customer satisfaction is the best proof that we are moving forward. To measure the above, we use the CSI (Customer Satisfaction Index), an indicator that is regularly reported to the Board of Directors. We are currently number 1 in our sector in the CSI in 11 of our markets and we have set ourselves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

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.

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 Bollaín'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.

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.

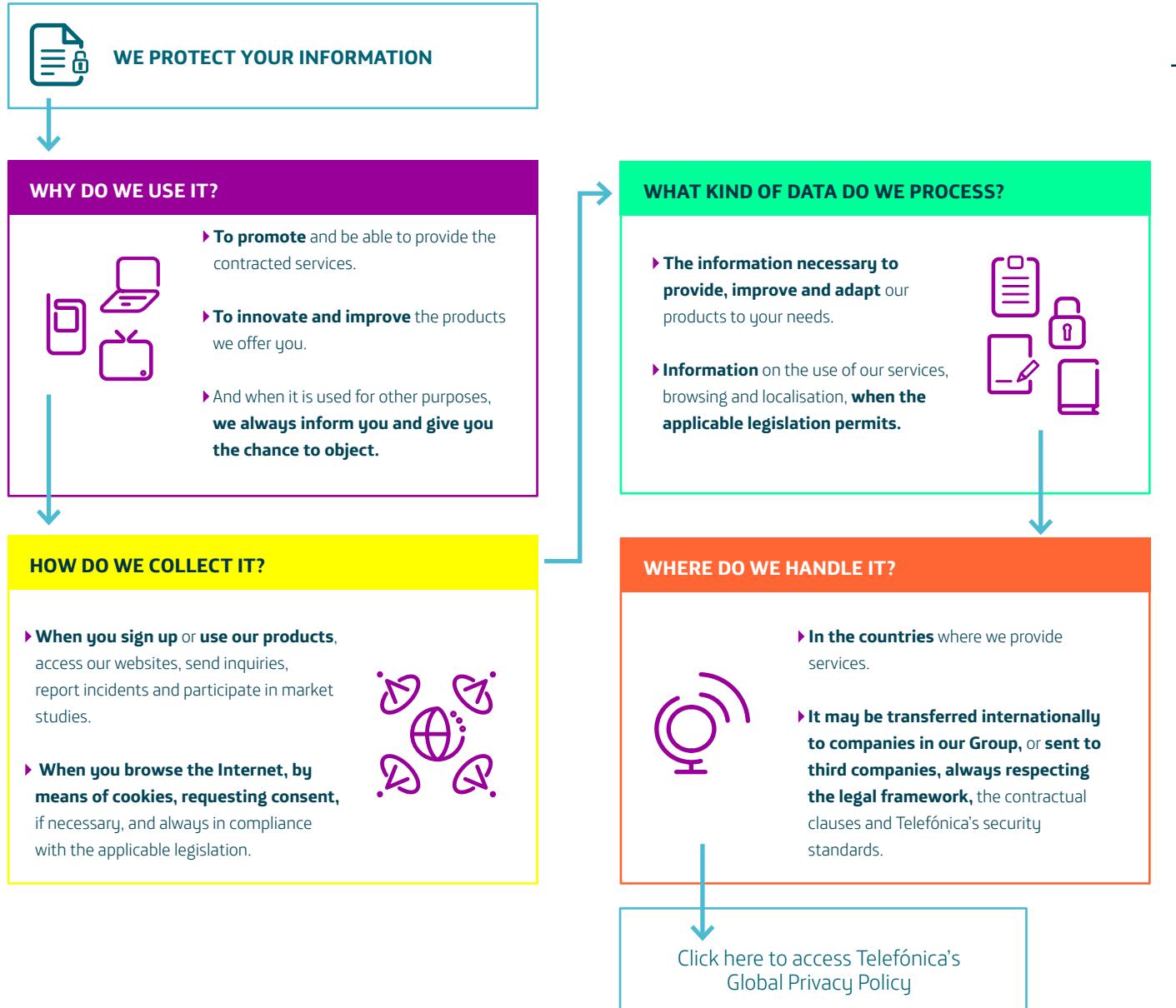
► Service security

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



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.

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

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.

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.

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.

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.

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.

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.

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".

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.

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](#).

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



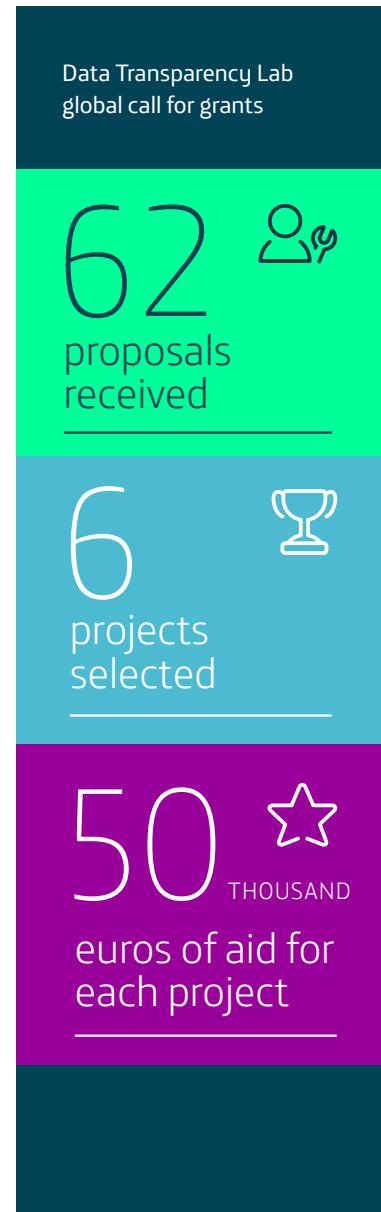
Transparency

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.



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.

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

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.