

***ANNUAL REPORT OF THE AUDIT AND
CONTROL COMMITTEE OF TELEFÓNICA, S.A.
REGARDING THE INDEPENDENCE OF THE
EXTERNAL AUDITOR***

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OF TELEFÓNICA, S.A., REGARDING THE INDEPENDENCE OF THE
EXTERNAL AUDITOR
(ERNST & YOUNG, S.L.)**

Pursuant to the provisions of subsection 4 of section 529 *quaterdecies* of the Restated Text of the Companies Act (*Ley de Sociedades de Capital*), the Audit and Control Committee of Telefónica, S.A. issues this report on the matters provided for in such legal provision, as follows:

- 1.- In view of the letter sent by Ernst & Young, S.L. dated February 21, 2017, and in compliance with the aforementioned provision, the Audit and Control Committee of Telefónica, S.A. believes that Ernst & Young, S.L., the auditor of such Company, is independent from the Company and its related companies, both directly and indirectly, as required by applicable legal provisions governing audit activities in Spain.

- 2.- Furthermore, the Audit and Control Committee has been informed that the non-audit services provided by Ernst & Young, S.L. and its related companies to the Company and the companies directly and indirectly related thereto during the period covered by the annual accounts were the following:

	<u>€ million</u>
	2016
Audit-related services ¹	3.10
Tax services	0
Other services	0
Total:	3.10

This Committee therefore believes that the Auditor of the Company is independent because the fees received by it for services additional to or other than the audit of financial statements are relatively minor by comparison to those received for its audit of the annual accounts, and because the Committee is not aware of any other circumstances that might compromise the objectivity or impartiality thereof.

In witness whereof, this Report is issued in Madrid, on February 21, 2017 for the legal purposes set forth in such provision.

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¹ *Fiscal year 2016: These mainly represent audits of costs required by the Telecommunications Regulator, Corporate Social Responsibility reports, services rendered in connection with the financial information to be submitted in the initial public offering of Telefónica UK, assessment and review of internal controls other than the audit of annual accounts, as well as services within the context of the diagnosis of the Crime Prevention Model. As a rule, the work approved during the fiscal year is included, regardless of when such fees were invoiced or when the services were rendered.*