

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

**ANNUAL REPORT OF THE AUDIT AND CONTROL COMMITTEE
OF TELEFÓNICA, S.A., REGARDING THE INDEPENDENCE OF THE
EXTERNAL AUDITOR
(PricewaterhouseCoopers Auditores, 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 PricewaterhouseCoopers Auditores, S.L. dated February 20, 2018, and in compliance with the aforementioned provision, the Audit and Control Committee of Telefónica, S.A. believes that PricewaterhouseCoopers Auditores, 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 PricewaterhouseCoopers Auditores, 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>€ thousand</u>
	2017
Corporate Social Responsibility Reports	246
Agreed Procedures Reports	202
Other services	40
Audit-related services¹	488

¹ *Audit-related services are essentially services corresponding to work relating to the review of information required by the applicable regulatory authorities for companies of the group, agreed financial information procedures that are not requested by legal or regulatory bodies, as well as the review of corporate social responsibility reports.*

Additionally, during fiscal year 2016, services were engaged relating to tax consultancy, transfer pricing studies and other kinds of services mainly relating to advice on migration services, all permitted by the applicable legal provisions on independence, which were occasionally concluded and invoiced during fiscal year 2017. Considering the nature of these services, they did not have a direct effect on the annual accounts for fiscal year 2017.

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 20, 2018 for the legal purposes set forth in such provision.

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