

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

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AUDITOR
(ERNST & YOUNG)**

In accordance with paragraph 4 of Article 529 quaterdecies of the Companies Act ("Ley de Sociedades de Capital or LSC"), the Audit and Control Committee of Telefónica, S.A. issues this report about all the requirements established in the related legislation, all in the following terms:

- 1º.- Considering the letter issued by Ernst & Young, SL, dated on February 23, 2016, and in compliance with the mentioned provision, the Audit and Control Committee of Telefónica, S.A. considers that Ernst & Young, S.L., auditor of this Company, is independent from the Company and its related companies, direct and indirect in accordance with the terms set forth in the Consolidated Text of the Account Auditing Law ("Ley de Auditoria de Cuentas"), approved by Royal Legislative Decree 1/2011, of July 1, and the implementing Regulation, approved by Royal Decree 1517/2011, of October 31, as well as paragraph 4 of Article 529 quaterdecies of the Companies Act, about the functions of the Audit Committee.

To that end, the performance period for incompatibilities provided in Article 14 of the Consolidated Text of the Account Auditing Law, includes from the beginning of the first year preceding the Financial Statements fiscal year audited by Ernst & Young, up to the date of issuance of the Report mentioned in the previous paragraph (i.e., from January 1, 2015).

- 2º.- Moreover, the Audit and Control Committee has been informed that, since the beginning of the incompatibilities calculation period outlined above, the services provided by Ernst & Young, S.L. and related entities, to the Company and its directly and indirectly related companies in addition to the services of audit, were as follows:

| | <u>Millones de Euros</u> | |
|-------------------------------------|--------------------------|-------------|
| | 2015 | 2014 |
| Audit-related services ¹ | 0.56 | 1.28 |
| Fiscal Services | 0.00 | 0.00 |
| Other Services | 0.00 | 0.00 |
| Total: | 0.56 | 1.28 |

¹ **Fiscal Year 2015:** Correspond mainly to cost audits required by the Telecommunications regulator, Corporate Social Responsibility reports, emissions certificates Public Accountant referring to goodwill in Argentina and 44568 RES certification in Colombia, and the related diagnostic services on the model for the Prevention of Crimes.

Fiscal Year 2014: Correspond mainly to cost audits required by the Telecommunications regulator, Corporate Social Responsibility reports, audits according to "SSAE16" and "ISAE3402, issuing of prequalification reports on magnetic media, and the related diagnostic services on the model for the Prevention of Crimes.

In conclusion, this Committee considers the Auditor of the Company is independent because the fees paid to the auditor for additional or different services of the account auditing are relatively minor compared to those paid by its audit work and because it is not known whether there are additional circumstances that may compromise their objectivity and impartiality.

In witness thereof, for legal purposes laid down by that provision, the Audit and Control Committee issues this Report, in Madrid, on February 23, 2016.

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