

## **Report of the Management Board to the Annual General Meeting on item 9 of the agenda pursuant to section 71 para. 1 no. 8 in conjunction with section 186 para. 4 sentence 2 German Stock Corporation (AktG)**

Agenda item 9 contains the proposal of the Management Board and Supervisory Board to authorize the Company pursuant to section 71 para. 1 no. 8 German Stock Corporation Act (AktG) to acquire treasury shares itself or via dependent companies or companies majority-owned by the Company or via third parties acting on its or their behalf up to an amount of 10% of the current share capital or - if this value is lower - of the share capital of the Company existing at the time the authorization is exercised.

In accordance with sections 71 para. 1 no. 8, 186 para. 4 sentence 2 German Stock Corporation Act (AktG), the Management Board submits a written report on this matter which is published below:

There is currently no effective authorization. To create room for maneuver, the temporary authorization is to be renewed for a period of five years.

### **Types of acquisition**

The proposed resolution on item 9 of the agenda provides for the Management Board to be authorized, with the prior approval of the Supervisory Board, to acquire treasury shares representing a maximum of 10% of the share capital existing at the time the resolution is adopted or - if lower - at the time the authorization is exercised, thus exhausting the legal framework for such authorizations. The shares must be purchased on the stock exchange, by means of a public purchase offer to all shareholders or on the basis of a public invitation to all shareholders to submit offers for sale. The principle of equal treatment under the German Stock Exchange Act must be observed in each case. The acquisition via the stock exchange may also be carried out as part of a structured buy-back program with which a credit institution or an enterprise operating pursuant to section 53 para. 1 sentence 1 or section 53b para. 1 sentence 1 or para. 7 of the German Banking Act (KWG) or a syndicate of such credit institutions or enterprises is commissioned.

In the case of the public invitation to all shareholders to submit offers for sale, the addressees of this invitation may decide how many shares they wish to offer to the Company and at what price (if a price range is specified).

If the shares are purchased by means of a public purchase offer addressed to all shareholders or by means of a public invitation to submit offers for sale, the volume of the offer or invitation to submit offers for sale may be limited. This may result in the volume of shares in the Company offered by shareholders exceeding the volume of shares demanded by the Company. In this case, an allocation must be made on a quota basis. In this context, it shall be possible to carry out a reallocation according to the ratio of the shares subscribed or offered in each case (tendering quotas) instead of according to participation quotas, because the acquisition procedure can be technically better handled in this way within an economically reasonable framework. In addition, it should be possible to provide for preferential acceptance of small lots of up to 100 tendered shares per shareholder. This possibility serves to avoid fractional amounts when determining the quotas to be acquired and small residual amounts and thus to facilitate the technical handling of the share buyback. A de facto impairment of small shareholders can also be avoided in this way. Finally, it should be possible to provide for rounding in accordance with commercial principles in order to avoid arithmetical fractions of shares. In this respect, the acquisition quota and the number of shares to be acquired by individual tendering shareholders can be rounded as necessary to represent the acquisition of whole shares in terms of processing. The Management Board and Supervisory Board consider the exclusion of any further tender rights of shareholders to be objectively justified.

The respective price offered or the limits of the purchase price range per share determined by the Company (excluding incidental acquisition costs) may not be more than 10% higher and may not be more than 20% below than the arithmetic mean of the closing prices of the Company's shares in the XETRA trading system (or a comparable successor system) on the Frankfurt Stock Exchange on the last three trading days prior to the date of the public announcement of the offer or the date of acceptance of the offers to sell. If there are significant deviations in the relevant price after publication of a public offer directed to all shareholders or a public invitation to all shareholders to submit offers to sell, the purchase offer or invitation to submit offers to sell may be adjusted. In this case, the arithmetic mean of the closing prices on the last three stock market trading days prior to the public announcement of the adjustment shall be used. The purchase offer addressed to all shareholders or the invitation to submit offers to sell addressed to all shareholders may provide for further conditions.

### **Use of treasury shares**

The proposed possibility of selling or using treasury shares serves to simplify the raising of funds. Pursuant to section 71 para. 1 no. 8 sentence 5 German Stock Corporation Act (AktG), the Annual General Meeting may also authorize the Management Board to dispose of treasury shares in a form other than via the stock exchange or on the basis of an offer to all shareholders. According to the proposed resolution, the Management Board also requires the prior approval of the Supervisory Board for the use of treasury shares.

In the alternative proposed here under item 9 lit. c) no. (1) of the agenda, the prerequisite is that the treasury shares are sold in accordance with section 186 para. 3 sentence 4 German Stock Corporation Act (AktG) at a price which is not significantly lower than the stock market price of essentially equivalent shares in the Company already listed at the time of the sale. This makes use of the option of a simplified exclusion of subscription rights, which is permitted by law and customary in practice. The idea of protecting shareholders against dilution is taken into account by the fact that the shares may only be sold at a price which is not significantly lower than the relevant stock market price. The final selling price for the treasury shares will be determined shortly before the sale. The Management Board - with the approval of the Supervisory Board - will set the discount on the stock market price as low as possible in the light of the market conditions prevailing at the time of placement. The discount on the stock market price will in no case exceed 5% of the stock market price. In view of the strong competition on the capital markets, the possibility of selling treasury shares with subscription rights excluded and in a form other than via the stock exchange or by means of an offer to all shareholders is in the interests of the Company. For the Company, this opens up the opportunity to offer treasury shares quickly and flexibly to national and international investors, to expand the shareholder base and to stabilize the value of the share. The sale at a purchase price not significantly lower than the stock market price and the limitation of the proportion of treasury shares that can be sold under this type of exclusion of subscription rights to a maximum of 10% of the share capital (at the time the authorization becomes effective and at the time it is exercised) ensure that the financial interests of the shareholders are adequately protected. Other shares issued or sold during the term of the authorization with exclusion of subscription rights in direct or analogous application of section 186 para. 3 sentence 4 German Stock Corporation Act (AktG) shall be counted towards the maximum limit of 10% of the share capital. Shares to be issued to service option and/or conversion rights or obligations under bonds with warrants and/or convertible bonds and/or profit participation rights shall also be included, provided that these bonds or profit participation rights are issued during the term of this authorization with exclusion of subscription rights in corresponding application of section 186 para. 3 sentence 4 German Stock Corporation Act (AktG). As the treasury shares are placed close to the stock market price, each shareholder can in principle acquire shares on the market at approximately the same conditions in order to maintain his shareholding quota.

In accordance with the resolution proposed under item 9 lit. c) no. (2) of the agenda, the Company also has the option to offer available treasury shares as consideration for the acquisition of non-cash contributions, in particular in connection with the acquisition of companies, parts of companies, equity interests in companies or business combinations, other assets or claims to the acquisition of other assets including rights and receivables against the Company as consideration. The authorization proposed here is intended to give the Company the necessary room for maneuver to be able to exploit opportunities for such acquisitions or mergers quickly and flexibly. The proposed exclusion of subscription rights takes this into account. In determining the valuation ratios, the Management Board and Supervisory Board will ensure that the interests of the shareholders are adequately protected. In particular, they will be guided by the stock market price of the Company's shares when measuring the value of the treasury shares granted as consideration. However, in order not to call into question the results of negotiations once they have been reached as a result of any fluctuations in the stock market price, no systematic link to a stock market price is planned.

Furthermore, the authorization under item 9 lit. c) no. (3) of the agenda provides that the treasury shares acquired on the basis of the proposed authorization may be used, excluding shareholders' subscription rights, to fulfill conversion and/or option rights or conversion obligations under convertible bonds or bonds with warrants issued by the Company or its Group companies in which the Company directly or indirectly holds a 100% interest. The proposed resolution does not create a new authorization to grant further conversion and/or option rights. It merely serves the purpose of giving the management the option of using treasury shares in whole or in part to fulfill conversion and/or option rights or conversion obligations already established on the basis of other authorizations instead of using conditional capital. There will be no burdens for the shareholders that go beyond the dilution effects possibly associated with an exclusion of subscription rights when issuing convertible bonds and/or bonds with warrants. Rather, the flexibility of the Management Board is merely increased in that it does not necessarily have to service convertible bonds and other instruments from conditional capital, but can also use treasury shares for this purpose if this appears more favorable in the specific situation in the interests of the Company and its shareholders. Conversion and/or option rights or conversion obligations which could be serviced by treasury shares do not currently exist, but could be established, for example, on the basis of the authorization granted by the Annual General Meeting on 21 May 2019 to issue convertible bonds and other instruments.

Repurchased treasury shares may be used in connection with share-based payment programs in accordance with item 9 lit. c) no. (4) of the agenda. The issue of shares to employees of Telefónica Deutschland Holding AG or its affiliated companies within the meaning of sections 15 et seq. German Stock Corporation Act (AktG) as well as to members of the Management Board of Telefónica Deutschland Holding AG provides the company with adequate scope for action. There is currently no share-based remuneration program for employees. The remuneration system for the members of the Management Board provides for the Telefónica Deutschland Performance Share Plan as a component for long-term remuneration. Depending on the share price development of Telefónica Deutschland Holding AG and defined performance criteria, a payment can be made in cash or optionally in shares of Telefónica Deutschland Holding AG at the end of a three-year performance period. It is possible at any time that the Company will create share-based remuneration programs for employees and further programs for Management Board members in the future. Shares to be granted under future programs may also be used under the proposed authorization. The Supervisory Board shall decide on the further details regarding the design and the service method of the Telefónica Deutschland Performance Share Plan.

In addition, the Management Board is to be authorized under item 9 lit. c) no. (5) of the agenda to use treasury shares in a way other than by offering them to all shareholders to pay a so-called scrip dividend. In the case of a scrip dividend using treasury shares, shareholders are offered to assign to the

Company their claim to payment of the cash dividend arising from the resolution on the appropriation of profits adopted by the Annual General Meeting in exchange for treasury shares. The implementation of a stock dividend using treasury shares can be carried out as an offer directed to all shareholders, with subscription rights and in compliance with the principle of equal treatment. In the practical implementation of the stock dividend, only whole shares are offered to the shareholders for subscription in each case; with regard to the portion of the dividend entitlement which does not reach or exceed the subscription price for a whole share, the shareholders are referred to the subscription of the cash dividend and cannot receive any shares to this extent. An offer of partial rights or the establishment of trading in subscription rights or fractions thereof does not normally take place because the shareholders receive a pro rata cash dividend instead of the subscription of treasury shares. However, the Management Board is also to be authorized to exclude shareholders' subscription rights in connection with the implementation of a stock dividend in order to be able to implement the stock dividend on optimum terms. Depending on the capital market situation, it may be advantageous to structure the implementation of the stock dividend using treasury shares in such a way that the management board, while offering all shareholders entitled to dividends treasury shares for subscription in return for the assignment of their dividend claim in compliance with the general principle of equal treatment (section 53a German Stock Corporation Act (AktG)), thus economically granting shareholders a subscription right, legally excludes shareholders' subscription rights to new shares. Such exclusion of subscription rights enables the stock dividend to be implemented on flexible terms. In view of the fact that all shareholders are offered the treasury shares and excess dividend amounts are settled by cash payment of the dividend, an exclusion of subscription rights in this case appears justified and appropriate.

Finally, the treasury shares acquired on the basis of this authorization resolution may be retired by the Company in accordance with the resolution proposed under item 9 lit. c) no. (6) of the agenda without a new resolution of the Annual General Meeting being required for this purpose. Pursuant to section 237 para. 3 no. 3 German Stock Corporation Act (AktG), the Annual General Meeting of a company may resolve to cancel its fully paid-up non-par value shares without this necessitating a reduction in the Company's share capital. The authorization proposed here expressly provides for this alternative in addition to the retirement with capital reduction. The retirement of treasury shares without a capital reduction automatically increases the notional interest of the remaining non-par value shares in the Company's share capital. The Management Board is therefore also to be authorized to make the necessary amendment to the Articles of Association with regard to the number of non-par value shares that changes as a result of a retirement.

Shareholders' subscription rights to acquired treasury shares are excluded to the extent that these shares are used in accordance with item 9 lit. c) nos. (1) to (5) of the agenda in a way other than by sale via the stock exchange or by offer to all shareholders. In addition, in the event of a sale of treasury shares by way of an offer for sale to all shareholders, it shall be possible to exclude shareholders' subscription rights for fractional amounts. The exclusion of subscription rights for fractional amounts is necessary in order to be able to technically carry out the disposal of acquired treasury shares by way of an offer to shareholders. The treasury shares excluded from shareholders' subscription rights as fractional shares are either sold on the stock exchange or otherwise disposed of in the best possible way for the Company.

The Management Board will report to the Annual General Meeting on each utilization of the authorization.