English translation for convenience purposes only.

REPORT OF THE MANAGEMENT BOARD

of

Telefónica Deutschland Holding AG

pursuant to § 221 para. 4 sent. 2 AktG in conjunction with § 186 para. 4 sent. 2 AktG concerning

Agenda point 7 of the Annual General Meeting on 21 May 2019

Resolution on the cancellation of the Conditional Capital 2014/I, on the creation of a new authorization for the issuance of convertible bonds and other Instruments including the authorization to exclude shareholders' subscription rights as well as on the creation of a new Conditional Capital 2019/I along with related amendments of the Articles of Association

An adequate capital structure is an essential prerequisite for the development of the Company. An important financing instrument are convertible and option bonds, convertible and option participation rights, participations rights and profit-participation bonds, the issuance of which enables the Company, depending on the market situation, to use financing opportunities to initially provide the Company with debt capital at favourable interest rates or to optimize its capital structure.

The authorization for the issuance of convertible bonds, option bonds, participation rights and/or profit-participating bonds, as well as combinations of these Instruments, granted by the general meeting on 11 February 2014 expired on 10 February 2019. The management board of the Company did not use the authorization with the result that the Conditional Capital 2014/I is no longer required. For that reason, the Conditional Capital 2014/I shall be cancelled, a new authorization shall be resolved upon and a new Conditional Capital 2019/I shall be created. The core aspects of the authorization from 11 February 2014 remain unchanged, in particular the number of the option and conversion rights, and thereby the scope of the conditional capital increase, as well as the term of the options or the participation right capital. The same applies in significant part to the guidelines for the conversion or option price (subscription price) of the shares.

Therefore, the management board and supervisory board propose to the annual general meeting with respect to agenda item 7, to authorize the management board to issue, with the consent of the supervisory board, (i) convertible bonds and/or (ii) option bonds and/or (iii) convertible participation rights and or (iv) option participation rights and/or (v) participation rights and/or (vi) profit-participating bonds (as well as combinations of these instruments) (hereinafter (i) to (iv) together "Financial Instruments" and (i) to (vi) together "Instruments") in a total nominal amount of up to EUR 3,000,000,000.00. Conversion and option rights for up to 558,472,700 new non-par value registered shares can be granted with the Financial Instruments. The conversion or option price must not be lower than a minimum subscription price per share, the calculation basis for which is specified in detail.

This authorization for the issuance of convertible and/or option bonds, convertible and/or option participation rights and/or profit-participating bonds, as well as combinations of these Instruments, puts the Company in a position to also obtain capital by the issuance of bonds, as well as participation rights, which are endowed with option or conversion rights for shares in the Company. At the same time it should also be possible to issue convertible bonds, as well as convertible option rights, which are endowed with conversion obligations for shares of the Company. Furthermore, the Company should also be enabled to issue participation rights or profit-participating bonds. In principle, all shareholders shall have subscription rights with regard to the Instruments. In order to facilitate ease of handling, however, it is intended to provide for the option to make use of the possibility that the Instruments are subscribed by one or more credit institutions and/or one or more companies in the meaning of section 186 para. 5 sent. 1 AktG under the obligation to offer such shares for subscription to the shareholders.

The Company should have flexibility in its financing by being able to issue Instruments. In order to be able to make optimal use of this flexibility in the interest of the Company, the management board should be authorized to exclude, with the consent of the supervisory board, the subscription rights of the shareholders with respect to the Instruments in certain cases. The proposed authorizations to exclude subscription rights are in the interest of the Company are necessary, appropriate and reasonable. In detail:

1. Authorization to exclude subscription rights in connection with fractional amounts

   First the management board is authorized to exclude, with the consent of the supervisory board, fractional amounts that result from the subscription ratio, from the subscription rights of the shareholders. The authorization to exclude subscription rights with respect to fractional amounts allows the issuance of Instruments, while maintaining a practical subscription ratio, and thereby simplifies the settlement of the subscription rights of the shareholders.

2. Authorization to exclude subscription rights in connection with the acquisition of companies, etc.

   An exclusion of the subscription right should also be possible when the Instruments are issued in exchange for considerations in kind in the context of business combinations or for the purpose of acquiring (including indirectly acquiring) companies, parts of companies, interests in companies or other assets or rights to acquire assets. This is intended to enable the management board to also use the Instruments as an acquisition currency to acquire such contributions in kind against issuance of such Instruments in specific cases in connection with business combinations or for the purpose of acquiring (including indirect acquiring) companies, parts of companies, interests in companies or other assets or rights to acquire assets. Business expansions realized by way of acquisition of companies or participations in companies normally require quick decisions. The proposed authorisation enables the management board to react in a quick and flexible manner to advantageous offers or other opportunities arising on national or international markets and to seize business expansion opportunities by acquiring companies or participations in companies against the issuance of Instruments in the interest of the Company and its shareholders. The management board will carefully review in each case whether it should use the authorization to issue Instruments under exclusion of shareholders' subscription rights where actual opportunities for the acquisition of assets, in particular companies or participations in companies arise. The management board will not exclude the shareholders' subscription rights unless this would be in best interests of the Company and its shareholders.

3. Authorization to exclude subscription rights in connection with option and conversion rights already issued for dilution protection purposes

   Furthermore, the management board is authorized to also exclude, with the consent of the supervisory board, subscription rights to the extent it would be necessary to grant to the holders or creditors of then outstanding option rights, convertible bonds and convertible participation rights, a subscription right for Instruments in an amount that they would be entitled to after exercise of the conversion or option rights, as well as after fulfilment of the conversion obligation. This further authorization of the management board to exclude, with consent of the supervisory board, the subscription rights in order to grant a dilution protection to the holders or creditors of the Financial Instruments already issued by the Company, is based on the following considerations:

   The holders or creditors of the Financial Instruments to be issued by the Company or one of its affiliates are usually granted a dilution protection when the Company raises its share capital, subject to the grant of subscription rights to its shareholders, during the conversion or option period, or increases the share capital out of the Company's own means or issues further Instruments or grants other option rights. In capital markets practice, the dilution protection is granted either through adjustment of the conversion or option conditions (payment of a compensation in cash, reduction of any additional amount, as well as adjustment of the exchange ratio), or by the granting of subscription rights on the new Instruments. The management board, with consent of the supervisory board, determines which of the two possibilities is appropriate shortly before use of the authorization to issue further Instruments.

   In order not to be limited to the first alternative from the beginning (payment of a compensation in cash, reduction of any additional amount, as well as adjustment of the exchange ratio), the management board should be authorized to exclude the subscription rights of the shareholders on the new Instruments, with consent of the supervisory board, to the extent it is necessary to grant holders of already issued Financial Instruments a subscription right to the extent that they would be entitled to, if they had made use of their conversion or option rights before the issuance of the new Instruments. The new Instruments to be issued to holders of Financial Instruments subject to exclusion of subscription rights will be issued to them on the same conditions as they are offered to shareholders of the Company for subscription.

4. Authorization to exclude subscription rights under section 186 para. 3 sent. 4 AktG, by analogy

The subscription right can also be excluded by the management board, with the consent of the supervisory board, as long as the relevant issuance of Financial Instruments is made at a price that falls not significantly below their theoretical market value. Through such exclusion of subscription rights, the Company is enabled to take advantage of favourable capital market situations on short notice, and to issue the Financial Instruments in a private placement or a public offering. Through this mechanism of exclusion of subscription rights, the interests of the shareholders are maintained.

The volume of shares to be issued in connection with the exercise of the conversion or option rights of Financial Instruments issued under exclusion of the subscription rights, is limited to 10 % of the share capital of the Company, whereas the lesser of the following two amounts is to be applied: the nominal amount of share capital at the time the authorization becomes effective, or the nominal amount of the share capital at the time of the exercise of the authorization. The following are offset against the total amount: (i) the treasury shares and the shares out of the authorised capital, and subscription or conversion rights due to other authorizations, issued or disposed of during the term of this authorisation under exclusion of the subscription right in accordance with section 186 para. 3 sent. 4 AktG or with corresponding application of this rule, as well as (ii) those shares that were acquired subject to the exclusion of shareholders' disposal rights in corresponding application of section 186 para. 3 sent. 4 AktG. Thereby the shareholders are protected from a dilution of their percentage ownership interest.

The shareholders are protected from an economic dilution of their shareholding, since the Financial Instruments are issued at a price that is not significantly lower than their theoretical market value. In order to satisfy these requirements, the management board will determine the market value of the Financial Instruments with due care, if necessary by engaging an investment bank or auditing firm for such purpose. The Management Board will keep the discount from the market value as small as possible when setting its price, under consideration of the relevant situation in the capital markets. Because the authorization requires that the issue price determined not be significantly lower than the determined market value, the value of the (excluded) subscription right tends to be approximately zero, i.e. the shareholders do not experience any economic disadvantage through the exclusion of subscription rights, especially because they can maintain their percentage ownership interest through the additional purchase of shares on the stock exchanges. Independent of the review by the management board, a market appropriate determination of the conditions resulting in the avoidance of a significant dilution of value can be made through the implementation of a book-building process. In this procedure, the Instruments will not be offered at a fixed issue price; rather the issue price, or as the case may be the individual conditions of the Instruments such as interest and conversion or option price, will be determined on the basis of the indications of interest to purchase submitted by investors. In this manner, the total value of the Instruments will be determined close to the market rate.

Munich, in April 2019

Management Board