Amended remuneration system for the members of the Management Board

1. Changes to the remuneration system

The remuneration system for the members of the management board was presented to the Annual General Meeting in 2021 and approved with 84.72 %. The supervisory board reviewed the remuneration system after the preliminary referral by the remuneration committee and approved slight adjustments to it. Management board members who conclude a management board contract with the company for the first time will receive a cash payment instead of a pension commitment in the future (pension allowance). In addition, the equity component will be strengthened as part of the remuneration system. Under Bonus II, if the payout is made in shares, an additional holding period of up to two years for the shares is provided for. To further align the interests of the management board with those of the shareholders, the supervisory board introduced share ownership guidelines for the members of the management board. According to these guidelines, the Chief Executive Officer has to hold shares in the amount of at least 100 % of gross base salary and other members of the management board in the amount of at least 50 % of gross base salary, whereby this obligation predominantly relates to shares in Telefónica Deutschland and partly to shares in Telefónica, S.A.

2. Principles of the remuneration system

Telefónica Deutschland Holding AG (Telefónica Deutschland) provides mobile network and fixed-line services for private and business customers as well as digital products and services. With around 44 million mobile network connections and 2.3 million broadband connections, Telefónica Deutschland is one of the three leading integrated network operators in Germany. Telefónica Deutschland is part of the Spanish telecommunications group Telefónica, S.A., one of the world’s largest telecommunication providers of mobile and fixed-line services for private and business customers, which directly and indirectly holds 70.6 % of the shares of Telefónica Deutschland.

Telefónica Deutschland has the long-term goal of increasing value for shareholders, customers, employees and the society through sustainable growth and innovative products. To achieve this goal, in addition to continued efforts to strengthen the O_2 brand, the company aims to utilize its strong market position in order to benefit from being actively involved in the digitalization process. Strategic growth areas for reaching new customers include in particular rural areas, stronger marketing of bundled products such as bundling mobile and fixed-line products and successfully addressing the business customer segment.

With its strong mobile network infrastructure, Telefónica Deutschland is situated at an important interface for the digital interconnectivity that is ever-increasing across all areas of life. Building on the foundation of the 5G spectrum that has now been secured and the further expansion of the LTE network, Telefónica Deutschland aims to provide significant impetus to the digital future of society.

This will keep Telefónica Deutschland on a sustainably profitable growth trajectory. In order to continue on this path, the management board remuneration is aligned with corporate strategy and provides incentives for implementing the corporate strategic goals just mentioned. To ensure that the remuneration of the management board members reflects performance, the amount of remuneration is linked to key performance criteria and parameters that are essential for the success of the company.

The remuneration of the management board members increasingly focuses on long-term components to promote the long-term and sustainable development of the company. Alongside key financial indicators, the performance criteria for the variable remuneration specified by the supervisory board may include non-financial targets such as ecological or social aspects to promote the focus on sustainability. In addition, components with long-term incentive effects are largely linked to the development of the Telefónica Deutschland share price to ensure that the interests of the management board are continually aligned with those of the shareholders.

The remuneration system complies with the requirements of the German Stock Corporation Act (AktG), as amended by the Act on Transposition of the Second European Shareholders' Rights Directive (ARUG II).

3. Procedure for determining, implementing and reviewing the remuneration system

The supervisory board defines the remuneration system for the management board pursuant to section 87a (1) AktG. In this context, the supervisory board takes the preliminary referrals and recommendations of the remuneration committee into account. The remuneration system is submitted to the annual general meeting for approval in accordance with the requirements of the German Stock Corporation Act (AktG).

Following the preliminary referral by the remuneration committee, the supervisory board regularly reviews the remuneration system to identify any need for action.

3.1. Appropriateness of the management board remuneration

In accordance with section 87 (1) AktG, the supervisory board determines the remuneration of management board members, ensuring that it appropriately reflects the responsibilities and performance of each management board member, as well as the company's economic situation, and does not exceed the usual remuneration without a specific reason. In addition, the remuneration structure is to be oriented towards the promotion of a sustainable and long-term development of the company.

The supervisory board reviews the appropriateness of the management board remuneration on a regular basis, taking into account the recommendations of the remuneration committee. The supervisory board uses both a horizontal comparison with management board members of peer companies and a vertical comparison with employees of Telefónica Deutschland.

To evaluate the appropriateness on a horizontal level, the supervisory board considers TecDAX companies as a peer group because Telefónica Deutschland is listed in this index and it includes the largest exchange-listed national technology companies, as well as any other relevant companies.

The senior management and the workforce of the German group is taken into account for evaluating appropriateness on a vertical level. In this process, both the current ratio of the management board's remuneration compared to the remuneration of senior management and the workforce as a whole, as well as the change of the ratio over time is assessed. Furthermore, the supervisory board takes the respective employment conditions such as working hours and vacation periods into account.

3.2. Measures for avoiding conflicts of interest

The relevant statutory regulations and provisions in the supervisory board's rules of procedure apply to avoid conflicts of interest. Accordingly, each supervisory board member must immediately report any conflicts of interest to the chairperson of the supervisory board. In its report to the annual general meeting, the supervisory board reports on any conflicts of interest that have occurred and how they were handled.

4. Overview of the remuneration system

The remuneration system of Telefónica Deutschland is primarily as follows:

Components		Description
Fixed remuneration components	Base salary	▪ Fixed remuneration paid out in twelve equal monthly amounts
	Fringe benefits	▪ Primarily a company car, insurance, D&O insurance with a deductible as well as other allowances and, if necessary, compensation for forfeited remuneration from previous employment or service contracts
	Pension allowance/ commitments	▪ Conclusion of a management board contract for the first time from 1 June 2023: Payment of pension allowance; otherwise: Financial contribution in the amount of a fixed percent of the annual base salary stipulated in the employment agreement that is invested in a reinsured support fund

Variable remuneration components	One-year variable remuneration (Bonus I)	▪ One-year cash bonus
		▪ Performance criteria
		    ▪ At least 70 % selected performance criteria of Telefónica Deutschland
		    ▪ At most 30 % business performance of Telefónica, S.A.
		▪ Cap: 150 % of the target amount

	Telefónica Deutschland Performance Share Plan (Bonus II)	▪ Performance Share Plan ▪ At least three-year performance period ▪ Selected performance criteria ▪ Target achievement: 0 % up to a maximum value (Cap) ▪ Cap: 200 % of the target amount
	Telefónica, S.A. Performance Share Plan (Bonus III)	▪ Performance Share Plan ▪ At least three-year performance period ▪ Selected performance criteria ▪ Target achievement: 0 % up to a maximum value (Cap)
Additional contractual components	Share Ownership Guidelines	▪ Obligation to hold shares ▪ Chief Executive Officer: At least 100 % of gross base salary ▪ Ordinary Management Board members: At least 50 % of gross base salary
	Malus/Clawback	▪ Partial or complete reduction or reclaim of the variable remuneration possible
	Maximum remuneration	▪ Chief Executive Officer: €4,900,000 ▪ Ordinary Management Board members: €2,300,000

4.1. Components of the remuneration system

The remuneration system for the management board is comprised of fixed and variable components, which add up to the total compensation of a management board member.

Fixed remuneration comprises base salary, fringe benefits and pension allowance/commitments. Variable remuneration components comprise the one-year variable remuneration (Bonus I) and the components with long-term incentive effects. These include the Telefónica Deutschland Performance Share Plan (Bonus II), the Telefónica, S.A. Performance Share Plan (Bonus III), the Telefónica, S.A. Restricted Share Plan as a special remuneration instrument in individual situations and the possible participation of the management board members in the employee participation program of Telefónica, S.A.

4.2. Management board remuneration structure

The majority of the total target remuneration (base salary + fringe benefits + pension allowance/commitments + target value of the one-year variable remuneration + grant value of long-term incentive components) of the management board is made up of performance-based components as a general rule, in order to strengthen the pay-for-performance aspect of the remuneration system.

The remuneration structure is oriented towards a sustainable and long-term development of the company. To make sure this is the case, the supervisory board ensures that the grant value of the long-term incentive components always exceeds the target amount of the one-year variable remuneration. In addition, the supervisory board ensures that the fixed and variable remuneration components which are linked to the success of Telefónica Deutschland significantly outweigh those components that are linked to the success of Telefónica, S.A. At the same time, Telefónica Deutschland has a strategic interest in belonging to an economically successful group of companies and benefiting from the associated synergies, and therefore up to 30 % of the one-year variable remuneration (Bonus I) may depend on the economic success of Telefónica, S.A. In order to meet this strategic interest, including in the long term, the supervisory board may approve the participation of the management board members in the Telefónica, S.A. long-term share-based remuneration programs (Telefónica, S.A. Performance Share Plan (Bonus III), Restricted Share Plan, employee participation program).

Base salary accounts for between 31 % and 43 % of the target direct remuneration (base salary + target amount of one-year variable remuneration + grant value of the long-term incentive components). The one-year variable remuneration (Bonus I) makes up between 28 % and 31 % of the target direct remuneration, whereas the long-term incentive components account for between 29 % and 38 %.

The fringe benefits regularly amount to around 9 % of the base salary. The share of the pension allowance/commitments regularly amounts to 20 % of base salary.

The total target remuneration (target direct remuneration + fringe benefits + pension allowance/commitments) of the management board members regularly consists of 36 % to 53 % fixed remuneration (base salary + fringe benefits + pension allowance/commitments), of 23 % to 29 % one-year variable remuneration (Bonus I), and of 24 % to 35 % long-term incentive components.

In the event the Restricted Share Plan is granted as a special remuneration instrument or a management board member participates in the employee participation program, the portion of the components with long-term incentive effects may be higher.

The portions of the individual elements may differ slightly for members of the management board who work for Telefónica Deutschland as part of an international assignment, are recruited from abroad or receive an entry bonus as part of their initial appointment.

4.3. Maximum remuneration

In order to ensure that the remuneration for the management board members is appropriate, it is capped in two aspects. Firstly, there are caps for the variable components of the remuneration. Secondly, the supervisory board has set a maximum remuneration for the management board members, which comprises all fixed and variable remuneration components pursuant to section 87a (1) sentence 2 no. 1 AktG. The maximum remuneration for the Chief Executive Officer is EUR 4,900,000.00 and EUR 2,300,000.00 for each of the other management board members. The possible capping of the amount exceeding the maximum remuneration is applied upon payment of Bonus II or Bonus III granted in the relevant financial year and due for payment.

5. The individual elements of the remuneration system in detail

5.1. Fixed remuneration components

5.1.1. Base salary

The annual base salary is a fixed remuneration paid out in twelve equal monthly amounts.

5.1.2. Fringe benefits

In addition, management board members receive fringe benefits. These primarily include a company car, life insurance and accident insurance, travel allowances, reimbursement of social security payments, compensation for committee work and other allowances. Furthermore, management board members are provided with D&O insurance with a deductible of 10 % of the damage for up to 150 % of the annual base salary of the individual management board member. In order to attract qualified candidates for the management board, the supervisory board may complement the remuneration of first-time management board members in an appropriate and market-compliant manner with an entry bonus (sign-on bonus), e.g., to compensate for forfeited remuneration from previous employment or service contracts.

5.1.3. Pension allowance/commitments

Management board members with whom an employment contract as a member of the management board of the company is concluded for the first time from 01 June 2023 receive a pension allowance as a lump sum to be paid out annually. The amount is determined in individual contracts as a fixed percentage of the annual base salary stipulated in the management board contract.

Management board members with whom an employment contract as a member of the management board of the company was concluded for the first time before 01 June 2023 and who participate in the company pension plan receive an annual financial contribution in the amount of a fixed percent of the annual base salary stipulated in their employment agreement that is invested in a reinsured support fund (*rückgedeckte Unterstützungskasse*). The members of the management board each year may select the benefit package that best covers their respective needs for surviving dependants’ insurance, disability insurance and old age pensions from among several options. There is no additional guaranteed interest beyond the statutory guaranteed interest. They may select between a one-off payout, a payout in three or six instalments or a pension annuity. Management board members receive their old-age pension or payout as soon as they have reached retirement age and have left the company.

In individual cases, management board members can also receive a pension commitment in accordance with the benefit scheme B of the Essener Verband, as well as a fixed payment as a contribution to the so-called BOLO (*Beitragsorientierte Leistungsordnung des Essener Verbande*s: defined contribution plan of the Essener Verband, an industrial pension association).

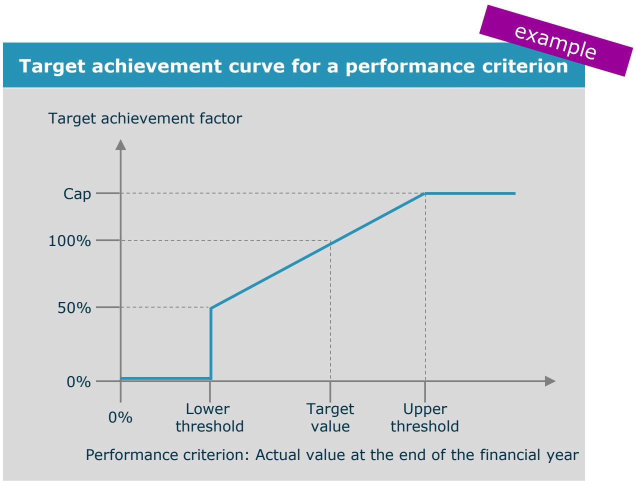
For management board members who work for Telefónica Deutschland within the scope of an international assignment, the pension commitment of the home country company may be continued in deviation from the above. In this case, Telefónica Deutschland covers the pension expenses incurred for the duration of the appointment.

5.2. Variable remuneration components

For the one-year variable remuneration (Bonus I) and two components with long-term incentive effect (Telefónica Deutschland Performance Share Plan (Bonus II), Telefónica, S.A. Performance Share Plan (Bonus III)), different performance criteria may be used to measure success. In addition to internal and external financial performance criteria, these also include non-financial performance criteria (ESG-criteria – Environmental, Social, Governance). The following table shows the performance criteria and their relation to the corporate strategy as well as their significance for the company's long-term development:

Performance criteria for variable remuneration components (Bonus I, Bonus II, Bonus III)			
Performance criteria			**Description / Relation to corporate strategy**
Financial	Internal	**Revenues**	The development of revenues is an essential basis for measuring company success. They represent the total value of the company's operating activities and are therefore a key indicator of the success of sales of our products and services in the market. In order to provide an appropriate incentive to achieve our revenue targets, they can be integrated in the variable remuneration.
Financial	Internal	**OIBDA**	The profitability of the operating business is measured by OIBDA (Operating Income before Depreciation and Amortization). OIBDA provides a comprehensive view of the income and expense structure. In order to reflect not only absolute growth but also the strategic relevance of profitable growth, OIBDA can be implemented in the variable remuneration.
Financial	Internal	**Operating Cash Flow**	Operating Cash Flow is calculated as the difference between OIBDA and CapEx (Capital Expenditure). Operating Cash Flow provides information about the amount of cash generated by our operational business. In order to incentivize the generation of cash from our business operations, Operating Cash Flow can be integrated into the variable remuneration.
Financial	Internal	**Free Cash Flow (FCF)**	Free Cash Flow (FCF) provides information on the change in the available financial resources, which enable us, for example, to make growth investments to ensure the expansion of the network as well as product development, to make dividend payments or to service financial liabilities. Due to this significance, the integration of FCF into the variable remuneration can ensure an adequate incentive to achieve operational targets.
Financial	Internal	**Return on Capital Employed (ROCE)**	Return on Capital Employed (ROCE) is calculated as the quotient of EBIT (Earnings before Interest and Taxes) and the capital employed. ROCE provides information about how efficient and profitable our investments are. In order to incentivize the efficient use of the capital made available, ROCE can be integrated into the variable remuneration.
Financial	External	**Relative Total Shareholder Return (rTSR)**	The relative Total Shareholder Return (rTSR) is an external performance criterion geared to the capital market and therefore promotes the alignment of interests. In addition, the consideration of the share price development compared to a peer group provides an incentive to remain competitive in the long-term and to outperform the peer group.
Non-financial		**ESG-criteria**	The use of non-financial performance criteria in the variable remuneration ensures that, in addition to a positive financial development, an otherwise sustainable development is incentivized. Non-financial targets can directly and indirectly relate to customer satisfaction and social and ecological factors (e.g. Net Promoter Score (NPS), NPS difference to the best competitor, reputation of the company in society measured by means of the RepTrak Pulse, reduction of greenhouse gas emissions, gender diversity as measured by the proportion of women in management positions)

Target achievement curves are defined for the different performance criteria to determine target achievement. These curves assign a target achievement factor to the value actually achieved for a performance criterion. The following illustration shows an example for a target achievement curve:

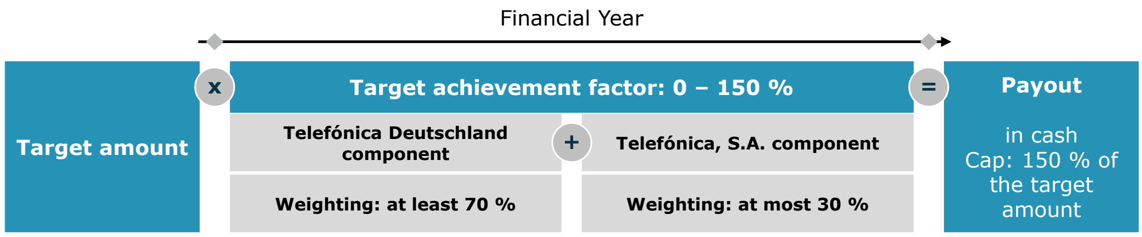


If the actual value of the performance criterion falls below a lower threshold at the end of the financial year or at the end of the performance period, the target achievement factor is 0 %. Once the lower threshold is reached, the target achievement factor is typically 50 %. Once the target value is reached, the factor is 100 %. If the actual value reaches or exceeds the upper threshold, the factor assumes a maximum value (cap). If the actual value falls between the lower threshold, target value and upper threshold, the target achievement factor is determined by linear interpolation or by a similar structure of the curve.

The supervisory board determines the actual value of the performance criterion after prior consultation of the remuneration committee at the end of the financial year or performance period. Besides information from audited results, internal assessment rules may apply. In particular, any risks in connection with the target setting and the target achievement may be taken into account. Furthermore, adjustments for special effects due to extraordinary events may be made to reflect the long-term quality of the results and associated risks.

5.2.1. One-year variable remuneration (Bonus I)

Bonus I is an annually granted cash bonus that incentivizes business success in the respective financial year. The target amount equals 100 % of annual base salary for the Chief Executive Officer and 65 % of annual base salary for ordinary management board members. The payout amount is calculated at the end of the financial year as the product of the target amount and a target achievement factor, which can have a minimum value of 0 % and a maximum value of 150 % depending on the annual performance. The members of the management board can therefore receive a maximum payment of 150 % of the respective target amount (cap). In addition, the supervisory board reserves the right to limit the Bonus I in case of extraordinary developments at its reasonable discretion. The payment is made in cash after the end of the respective financial year.



The target achievement factor consists of two components: The first component is based on the annual success of Telefónica Deutschland (Telefónica Deutschland component) and has a weighting of at least 70 %. The second component is based on the annual success of Telefónica, S.A. (Telefónica, S.A. component) and has a weighting of at most 30 %. The supervisory board determines the actual weighting on an annual basis.

Telefónica Deutschland component: In addition to financial performance criteria, the target achievement factor for the Telefónica Deutschland component is also measured with non-financial performance criteria (ESG-targets; Environmental, Social, Governance). The supervisory board selects the performance criteria relevant for a financial year from the possible performance criteria as described above. Moreover, the supervisory board determines their weighting, target values, and target achievement curves on an annual basis. The target values are derived from the strategic planning.

When the supervisory board determines the individual target achievement curves, it may decide that the target achievement factors of the different performance criteria shall be increased to predefined values if all target values are met or exceeded to create a stronger incentive for the simultaneous fulfillment of the target values of all performance criteria relevant for a respective year. The sum of the weighted target achievement factors of the selected performance criteria result in the Telefónica Deutschland component.

Telefónica, S.A. component: The supervisory board determines the target achievement factor for the Telefónica, S.A. component with due discretion. Such discretion shall be guided by the business performance of Telefónica, S.A. in the respective year.

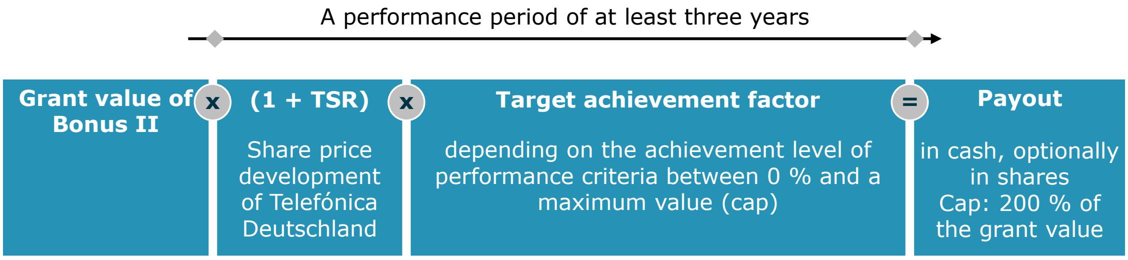
5.2.2. Components with long-term incentive effects

The long-term incentive components are share-based remuneration programs. The first two components are the Telefónica Deutschland Performance Share Plan (Bonus II) and the Telefónica, S.A. Performance Share Plan (Bonus III). The total grant value for the two components per year equals 120 % of annual base salary for the Chief Executive Officer, and 66 % for ordinary management board members. The supervisory board allocates the grant values at the beginning of each calendar year with the proviso that the Chief Executive Officer may receive a maximum of 40 % and ordinary management board members may receive a maximum of 33 % of the annual base salary as grant value for the Telefónica, S.A. Performance Share Plan (Bonus III).

Further components with a long-term incentive effect are the Telefónica, S.A. Restricted Share Plan as a special remuneration instrument in individual situations and the possible participation of the management board members in the Telefónica, S.A. employee participation program.

5.2.2.1. Telefónica Deutschland Performance Share Plan (Bonus II)

Bonus II is a Telefónica Deutschland Performance Share Plan. The respective allocation cycle begins on 1 January of the financial year and has a performance period of at least three years. At the beginning of the performance period, the supervisory board determines the grant value as a percentage of the annual base salary of the management board member. The payout after the end of the performance period equals the product of the respective grant value, a TSR-factor (1+TSR), which reflects the development of the Telefónica Deutschland share price (Total Shareholder Return (TSR)) over the plan term, and a target achievement factor, which can range between 0 % and a maximum value (cap), depending on the achievement level of Telefónica Deutschland's performance criteria. The payout is limited to 200 % of the grant value (cap) and is made in cash. However, the supervisory board reserves the right to alternatively settle the claims in shares. In this case, the shares granted on the basis of the net payout amount are subject to an additional holding period of up to two years.



TSR-Factor (1+TSR): Total shareholder return ("TSR") means the percentage change in the share price over the plan term assuming that (gross) dividends paid per share during the plan term were directly reinvested. For the calculation of the TSR-factor (1+TSR), the Total Return Index at the end of the performance period (defined as the average of daily Total Return Index values over the last 30 trading days of the performance period) is divided by the Total Return Index at the beginning of the performance period (defined as the average of daily Total Return Index values over the last 30 trading days prior to the beginning of the performance period). The calculation may be adjusted to reflect changes in the share capital (if any) during the performance period.

The consideration of the share price development in the performance measurement aligns the interests of the management board directly with those of the shareholders, and creates an incentive for a sustainable and long-term increase in the company's value.

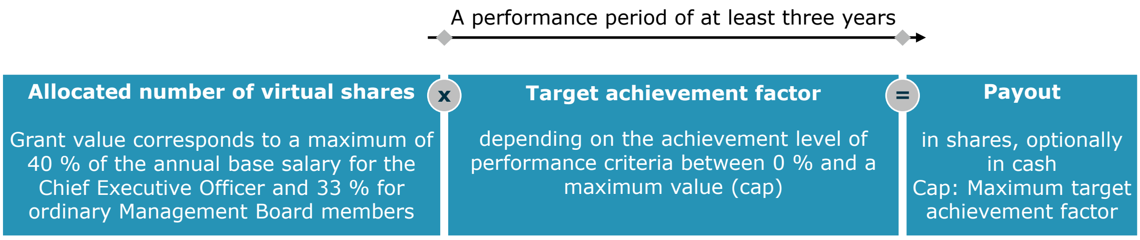
Target achievement factor: The achievement level of performance criteria determines the target achievement factor. The supervisory board determines the performance criteria relevant for a specific performance period, their weighting and target achievement curves before or at the beginning of the performance period. The supervisory board selects the performance criteria from the possible performance criteria as described above. In case of internal financial performance criteria and ESG-criteria, the target values are either annual targets that are set annually by the supervisory board, or targets that relate to the end of the respective performance period. The target values are derived from the strategic planning. In the case of annual targets, the target achievement factor of a performance criterion for the entire performance period is typically calculated as the weighted sum of annual target achievement factors.

In case of the external financial performance criterion (rTSR), the target achievement factor depends on the development of Telefónica Deutschland's total shareholder return compared to the total shareholder return of a peer group during the performance period. The peer group is determined before or at the beginning of the performance period.

The sum of the weighted target achievement factors of the selected performance criteria results in the target achievement factor for the allocation cycle.

5.2.2.2. Telefónica, S.A. Performance Share Plan (Bonus III)

Bonus III is a Performance Share Plan of Telefónica, S.A. The respective allocation cycle begins on 1 January of the financial year and has a performance period of at least three years. Based on the grant value approved by the supervisory board, the management board members receive a certain number of Telefónica, S.A. virtual performance shares at the beginning of the performance period. For the calculation of the number of performance shares, the grant value is divided by the weighted average Telefónica, S.A. share price of the last 30 trading days prior to the start of the respective performance period. The number of shares actually earned after the end of the plan term equals the product of the number of allocated performance shares and a target achievement factor, which can range between 0 % and a maximum value (cap) depending on the achievement level of performance criteria. A holding period of at least 12 months for at least 25 % of the earned shares applies for plan participants who are also members of the Executive Committee of Telefónica, S.A. However, in addition to a settlement in shares, the supervisory board reserves the right to settle the claims in cash.



<u>Target achievement factor:</u> The achievement level of performance criteria determines the target achievement factor. The performance criteria relevant for a performance period, their weighting and target achievement curves are determined before or at the beginning of the performance period. The performance criteria are selected from the possible performance criteria as described above. In case of internal financial performance criteria and ESG-criteria, the target values are either annual targets that are set annually or targets that relate to the end of the respective performance period. The target values are derived from the strategic planning. In the case of annual targets, the target achievement factor of the performance criterion for the entire performance period is typically calculated as the weighted sum of annual target achievement factors.

In case of the external financial performance criterion (rTSR), the target achievement factor depends on the development of the total shareholder return compared to the total shareholder return of a peer group during the performance period. The peer group is determined before or at the beginning of the performance period.

The sum of the weighted target achievement factors of the selected performance criteria results in the target achievement factor for the allocation cycle.

5.2.2.3. Telefónica, S.A. Restricted Share Plan

In order to attract or retain qualified candidates for the management board, the supervisory board has the option to grant them an amount under the Restricted Share Plan on a one-time or recurring basis, for example, to compensate them for forfeited compensation claims at their previous employer. Therefore, this plan serves as a special compensation instrument.

The plan term according to the Restricted Share Plan is between one and five years. At the beginning of the term, the participant receives a certain number of virtual shares at an amount, which corresponds to a certain proportion of the participant's annual base salary. At the end of the term, the participant receives a certain percentage of the initially allocated virtual shares in the form of real shares. The percentage corresponds to the proportion of the active employment period in the total plan term and is therefore between 0 % and 100 %, i.e., the plan participant can only be entitled to a maximum of 100 % of the initially allocated virtual shares in the form of real shares (cap). The allocation of real shares requires an active employment relationship for at least 12 months during the plan term and an active employment relationship at the time of payment. The supervisory board may determine further requirements. In addition to a settlement in shares, the supervisory board reserves the right to settle the claims in cash.

5.2.2.4. Telefónica, S.A. employee participation program

The management board members are eligible to participate in the Telefónica, S.A. employee participation program. A tranche has a term of at least one year. First, the participant invests a certain amount (maximum: EUR 2,500.00) over a period of at least 6 months to acquire shares of Telefónica, S.A. at market price. Subsequently, a holding period of at least 6 months applies. After the end of the holding period, the participant receives a maximum of one Telefónica, S.A. share free of charge for each share purchased. However, in addition to a settlement in shares, the supervisory board reserves the right to settle the claims in cash.

6. Share ownership guidelines

The service contracts of the members of the management board will comprise share ownership guidelines. The share ownership guidelines oblige the management board members to hold shares during their appointment. Such holding further aligns the interests of the management board with those of the shareholders. The obligation amounts to at least 100 % of the annual gross base salary for the Chief Executive Officer and at least 50 % of the respective annual gross base salary for the other members of the management board, whereby this obligation predominantly relates to shares in Telefónica Deutschland and partly to shares in Telefónica, S.A. The required shareholdings are to be built up over several years and held until the end of the appointment. The share ownership guidelines in the service contracts of the members of the management board will regulate further details that are necessary or advisable for the legally effective design of these provisions.

7. Malus & Clawback provision

The service contracts of the members of the management board will comprise so-called Malus and Clawback provisions. In case of particularly serious violations of material duties of care, material duties under the service contract or other material principles of conduct (in particular the Business Principles applicable to the company), the supervisory board may, at its reasonable discretion, reduce the outstanding variable remuneration partially or completely to zero (Malus). Furthermore, in these cases, the supervisory board may at its reasonable discretion partially or fully reclaim any variable remuneration already paid out (Clawback). In addition, the management board member will have to repay variable remuneration already paid out in part or in full if and to the extent that it becomes apparent after payment that the relevant financial data underlying the calculation of the payout amount was incorrect and therefore needs be corrected, and that on the basis of the corrected financial data a lower or no payment of the variable remuneration would have been owed. The Malus and Clawback provisions in the service contracts of the members of the management board will regulate further details that are necessary or advisable for the legally effective design of these provisions, such as the possibility of agreeing on repayment plans to avoid undue hardship.

8. Legal provisions concerning remuneration

8.1. Terms of management board contracts

When appointing members of the management board and determining the duration of their contracts, the supervisory board adheres to the provisions of section 84 AktG and the recommendations of the German Corporate Governance Code. The service contracts for management board members are limited to the respective term of the appointment period. The appointment period is usually between three and five years.

8.2. Premature termination of management board membership without good cause

In case of premature termination of the service contract without good cause, the contracts contain a clause stipulating that the agreed payments to the management board member in question should not exceed two years of remuneration and in no case the remuneration for the remaining period of the contract (severance cap).

8.3. Premature termination of management board membership for good cause

If a contract is ended prematurely for a reason attributable to the management board member, that member has no claim to any payments.

8.4. Change of control

In the event of a change of control, management board members are entitled to extraordinarily terminate their service contract after giving three months' notice to the end of any given month and to resign from their position as a member of the management board. This right of extraordinary termination may only be exercised in the six months following the date of change of control. In this case the company pays the management board member a one-off severance payment in the amount of one year's base salary and the most recently paid one-year variable remuneration (Bonus I). This payment must not, however, exceed the remuneration that would have been payable up to the end of the contract.

8.5. Joining or leaving the management board during the financial year

If a member of the management board joins or leaves the management board during the financial year, the base salary, the target amount of the one-year variable remuneration as well as the grant value of the long-term incentive components is to be reduced pro rata temporis to correspond to the duration of the employment contract in the respective financial year.

8.6. Death grant

If a member of the management board dies during the term of the service contract, the widow/widower or the registered civil partner and the children, if they are under 27 years of age, may claim as joint and several creditors the continued payment of the full amount of the annual base salary for the month of death and the six subsequent months. These payments, however, may in any case not continue beyond the end of the contract term.

8.7. Post-contractual non-compete clause

Management board members agree to a post-contractual non-compete clause. The management board member will receive compensation of 50 % of the most recent contractual payments for the duration of the non-compete clause. The company may waive compliance with the non-compete clause at any time. If a management board member receives a severance payment in connection with the termination of the employment agreement, it will be offset against the compensation.

9. Temporary deviations from the remuneration system

If statutory requirements are met, in particular in special and exceptional circumstances (e.g., in case of a serious financial or economic crisis), the supervisory board is entitled to temporarily derogate from the remuneration system pursuant to section 87a (2) sentence 2 AktG, if this is in the interest of the long-term wellbeing of the company. Unfavorable market developments are not considered to be special and exceptional circumstances that would permit a derogation from the remuneration system.

Even if there is a derogation from the remuneration system, the remuneration must still remain oriented to the long-term and sustainable development of the company and must be aligned with the success of the company and the performance of the management board member.

Any derogation from the remuneration system under the aforementioned circumstances is only permitted after careful analysis of these exceptional circumstances and the options for responding to them, and taking into account the preliminary treatment by the remuneration committee stipulated by a corresponding resolution of the supervisory board that has identified the exceptional circumstances and the necessity of a derogation.

A temporary derogation from the remuneration system is possible for the following components: performance parameters relating to the one-year variable remuneration and to the long-term incentive components and the bandwidths of possible target achievement for the individual components of variable remuneration. If existing remuneration components have been adjusted but the incentive effects of management board remuneration cannot be adequately restored, the supervisory board is also entitled, under the same conditions, to temporarily grant additional remuneration components, or to replace individual remuneration components with other components.