

**Regarding item 2**  
**Management Board report to the General Meeting in accordance with section 203(2) sentence 2 in conjunction with section 186(4) sentence 2 AktG**

In accordance with section 203(2) sentence 2 in conjunction with section 186(4) sentence 2 AktG, the Management Board of NFON AG provides the company's Extraordinary General Meeting convened for 12 December 2019 with the following written report on the creation of Authorised Capital 2019 against cash or non-cash contributions with authorisation to disapply pre-emption rights, as proposed under item 2:

Authorised Capital I created by the Annual General Meeting on 9 April 2018 of EUR 4,820,075 has been largely exhausted. The amount of Authorised Capital I in accordance with Article 4(3) of the Articles of Association still remaining of EUR 368,671 does not even nearly make full use of the legal framework for authorised capital. Thus, this remaining Authorised Capital I is to be cancelled and new Authorised Capital 2019 created.

The new authorisation proposed is designed to make moderate use of the legal opportunities to expand the company's equity base. Adequate capitalisation is key to future business, especially given the company's purpose and the desire to secure further financial resources to invest in the future of our company. Moderate new Authorised Capital is therefore to be created. The extent permitted by law will not be exhausted. A limited option for disapplying pre-emption rights is also to be created for both cash and non-cash capital increases. Here, too, the extent permitted by law for disapplying pre-emption rights will not be exhausted.

There are not currently any specific plans in place for the utilisation of the Authorised Capital 2019 proposed to the General Meeting. From a current standpoint, funds from the Authorised Capital 2019 proposed to the General Meeting could be used, in particular, to strengthen the equity base so as to avoid increased reliance on debt financing for future investment projects.

The company could also use new equity to finance acquisitions. As a capital increase in order to make an acquisition must be carried out at short notice, the resolution on this at the General Meeting does not constitute an alternative to using authorised capital. Creating authorised capital allows the Management Board to quickly and easily take advantage of any opportunities that arise to acquire companies in the interests of shareholders in order to meet the company's business requirements and bolster its competitive standing.

If Authorised Capital 2019 is utilised, shareholders have statutory pre-emption rights. The new shares resulting from a cash capital increase are either to be offered to shareholders for subscription directly or acquired by banks with the obligation to offer them to shareholders for subscription (indirect pre-emption rights). However, the Management Board is to be authorised, with the approval of the Supervisory Board, to disapply shareholders' pre-emption rights in several cases:

The disapplication of pre-emption rights in a capital increase against cash contributions within the 10% limit set out in section 186(3) sentence 4 AktG makes it easier for the company to obtain financing by raising equity. This provides the company with the opportunity to raise new capital on the capital markets flexibly and inexpensively. This authorisation makes it easier for the company to meet any potential capital requirements at very short notice and benefit from market opportunities. The disapplication of pre-emption rights makes it possible to act quickly and place shares close to the stock market price, without the markdowns on account of high volatility that are otherwise common for issues with pre-emption rights. This can improve the proceeds from the issue. This also results in significant cost advantages for the company in the case of smaller capital increases in particular, as it is not necessary to go through the costly process of preparing a prospectus if pre-emption rights are disapplied. This form of capital increase is thus also in the interests of shareholders. Dilution of the value of existing shares is minimized in line with statutory limits by the fact that the issue price is not allowed to be significantly lower than the stock market price. This means that shareholders' pre-emption rights would have very little economic value. Shareholders can maintain their stake by making corresponding purchases on the stock exchange.

The total cash capital increase, using this authorisation to disapply pre-emption rights in accordance with section 186(3) sentence 4 AktG, must not exceed 10% of the share capital, either in relation to the amount on 12 December 2019 or at the time this authorisation becomes effective or at the time it is exercised.

In the event of non-cash capital increases, pre-emption rights should also be moderately disapplied in the amount of 10% of the existing share capital, with the approval of the Supervisory Board. This disapplication of pre-emption rights allows the Management Board in appropriate cases, with the approval of the Supervisory Board, for example, to acquire companies or investments in companies or to combine with other companies in return for transferring NFON AG shares. This should make it possible for the company to respond quickly and flexibly on national and international markets to favourable offers or other opportunities that arise to acquire companies or investments in companies or to combine with companies that operate in related business areas, in order to improve its own competitiveness in the interests of shareholders. During negotiations, it may become necessary to offer shares, as opposed to money, as consideration in order to meet sellers' expectations or maintain its own liquidity. The proposed option to disapply pre-emption rights takes this into account. The dilution resulting from disapplying pre-emption rights is offset by the fact that the business expansion through increased equity is financed by third parties and that existing shareholders – albeit with a lower equity and voting share than previously – share in company growth which, if pre-emption rights were granted, they would have to finance using own funds. However, all shareholders can maintain or increase their stake by purchasing additional shares through the stock exchange listing.

Pre-emption rights are also to be disapplied for fractional shares. This is intended to make it easier to handle an issue with a shareholder pre-emption rights. Fractional shares can result from the issue volume in question and from the fact that it is necessary to achieve a technically feasible pre-emption rights ratio. The value of these fractional shares for the individual shareholder is generally low. The possible dilution effect is also negligible due to the limitation to fractional shares. Nonetheless, the effort involved for the company in issuing shares without with pre-emption rights disapplied is considerably higher, which incurs additional costs. The new fractional shares excluded from shareholder pre-emption rights are realised either by selling them on the stock exchange or in another way that most benefits the company. Disapplying pre-emption rights therefore improves feasibility and cost efficiency and makes it easier to execute an issue, and is thus in the interests of shareholders.

The proportion of share capital represented by shares issued on the basis of this proposed authorisation in accordance with item 2, with pre-emption rights disapplied, must not exceed 10% of the share capital, either in relation to the amount on 12 December 2019 or at the time this authorisation becomes effective or at the time it is exercised.

Both the limit of 10% and the limit of 10% of share capital for the authorisation to disapply pre-emption rights in accordance with section 186(3) sentence 4 AktG and for non-cash contributions include the pro rata amount of the share capital attributable to shares that are issued or sold from the period between 12 December 2019 and the end of the term of this authorisation, with pre-emption rights disapplied, in direct or indirect application of section 186(3) sentence 4 AktG. Finally, these limits include the pro rata amount of the share capital of shares issued from 12 December 2019 onwards on the basis of an authorisation to use treasury shares in accordance with sections 71(1) no. 8 sentence 5, 186(3) sentence 4 AktG, with pre-emption rights disapplied.

These limits on disapplying pre-emption rights prevent excessive changes to shareholders' holdings.

Any time that shares are issued with pre-emption rights disapplied, the Management Board will carefully review whether this is in the interests of the company and thus of its shareholders. Only then will the Management Board exercise the option it has been granted and will provide a report on this at the next Annual General Meeting.

Munich, October 25, 2019

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(Hans Syzmansky)

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Courtesy Translation