

# **Statement on Corporate Management/ Corporate Governance Report**

The term “corporate governance” refers to responsible, effective corporate management aimed at securing long-term added value. Efficient cooperation between management and supervisory boards, respect for shareholders’ interests, openness and transparency of corporate communications are major aspects of good corporate governance, which has always enjoyed a position of high priority at our Company and is a major factor for a company's success.

In the following declaration, Management and Supervisory Boards jointly report on the corporate governance of the Company in accordance with Clause 3.10 of the German Corporate Governance Codex (DCGK) as well as in accordance with Section 289f HGB [German Commercial Code] regarding corporate management.

## **Declaration of Conformity pursuant to Section 161 AktG [Germany Company Law]**

The most recent Declaration of Conformity issued by the Management Board and Supervisory Board on 21 March 2018, which has been made permanently accessible on the internet at the site [www.1und1-drillisch.de](http://www.1und1-drillisch.de) (to be found there under the section “Corporate Governance”, subsection “Declaration of Conformity”), reads as follows:

### **1&1 Drillisch Aktiengesellschaft**

#### **Declaration of the Management Board and Supervisory Board of 1&1 Drillisch**

**AG**

**regarding the recommendations of the**

**“Government Commission German Corporate Governance Codex”**

**pursuant to Section 161 AktG**

Management Board and Supervisory Board of 1&1 Drillisch Aktiengesellschaft hereby declare that the Company has acted, and continues to act, in conformity with the recommendations of the “Government Commission German Corporate Governance Codex” announced by the Federal Ministry of Justice in the official section of the Federal Gazette, subject to the following exceptions. For the period since the issue of the last Declaration of Conformity, this Declaration is based on the previous version of the Codex of 5 May 2015 when referring to the time from 21 March 2017 to 23 April 2017. This Declaration is based on the new version of the Codex of 7 February 2017 when referring to the period since 24 April 2017.

#### **Clause 3.8 (2) and (3) (previous and new versions)**

**Agreement of an excess for Supervisory Board members in a D&O insurance policy for the Supervisory Board.**

A liability insurance policy covering pecuniary loss along with an excess of loss agreement which does not include an excess has been concluded for the Supervisory Board.

The Management and Supervisory Boards of the Company do not believe that the motivation and sense of responsibility of the officers and directors would be enhanced by the agreement of an excess. Equally, the Management and Supervisory Boards of the Company fear that there is a risk that the agreement of an excess for negligent actions and the related liability risks would counteract the efforts of the Company to obtain the services of highly qualified persons to serve on the Supervisory Board. This is the reason for the basic decision not to agree to an excess.

**Clause 4.1.3 third sentence (new version)**  
**Whistleblowing possibility for the employees of the Company**

The Company has not implemented any special whistleblowing system for employees. In view of the statutory regulation of Section 612a BGB [German Civil Code] regarding the labour law prohibition of any retribution, the Company does not see any need to set up additional protection mechanisms for whistleblowers. The statutory prohibition of any retribution forbids penalising any employee for appropriately and legally exercising his/her rights. In view of the open, solution-oriented culture of communication in the enterprise, the Company does not believe there is any practical need for a complicated whistleblowing system.

**Clause 5.3 (previous and new versions)**  
**Formation of committees**

As of the issue of this Declaration, the Supervisory Board has followed the recommendations of the Codex for the formation of committees found in Clause 5.3; in future, however, the Supervisory Board will no longer form any committees, but will perform all duties and responsibilities as a full body. The Supervisory Board believes that it can best serve the enterprise if all Supervisory Board members have the opportunity to participate in all subjects concerning the Supervisory Board. Moreover, efficient discussions and intensive exchange of opinions in a meeting of all members is possible even for a Supervisory Board comprising six members. In consequence, the Supervisory Board does not see any necessity for the formation of committees to increase the efficiency of its work.

**Clause 5.4.6 (1) second sentence (previous and new versions)**  
**Inclusion of the membership on committees in determining the compensation paid to Supervisory Board members and inclusion of deputy chairpersonship of the Supervisory Board in determining the compensation paid to Supervisory Board members**

In accordance with Section 14 of the Company Charter, an attendance fee is paid to Supervisory Board members for their activities on committees; the amount of the fee is dependent on the function of the specific member on the relevant committee. The Supervisory Board of the Company is of the opinion that this compensation system gives due regard to the chairmanship of and membership on the committees within the sense of the Codex. The special compensation for attendance at committee meetings simultaneously takes the committee membership into account. But since the possibility that other opinions will be held in this respect cannot be excluded, a deviation from the aforementioned recommendation of the Codex regarding the inclusion of membership on committees in determining the compensation paid to Supervisory Board members is hereby declared for the past as a precautionary measure. The dissolution of the committees in future also means that this deviation

from Clause 5.4.6 (1) second sentence of the Codex – declared as a precautionary measure – is no longer necessary

The recommendation for inclusion of the deputy chairpersonship on the Supervisory Board in determining the compensation paid to Supervisory Board members was followed in the past; pursuant to Section 14 of the Company Charter of the Company as most recently revised, the deputy chairperson of the Supervisory Board receives annual fixed compensation that is higher than that of an ordinary Supervisory Board member. Management is now planning to propose to this year's Annual General Meeting a revision of the provision in the Company Charter regarding Supervisory Board compensation that would pay higher annual fixed compensation solely to the Supervisory Board chairperson, but not to the Board's deputy chairperson. Subject to the approval of the General Meeting and the entry into effect of this amendment of the Company Charter, this Codex recommendation will no longer be followed in future. The new regulation is also regarded to be appropriate in view of the duties and responsibilities related to the position because the deputy chairperson of the Supervisory Board does not at this time perform any additional duties or responsibilities that would place a heavier burden on him/her than on ordinary Supervisory Board members.

Maintal, 21 March 2018

On behalf of the Supervisory Board

*Michael Scheeren*

The Management Board

*Ralph Dommermuth   André Driesen   Martin Witt*

## **Targets for the composition of the Supervisory Board/competence profile for the full body**

In accordance with Clause 5.4.1 of the German Corporate Governance Codex, the Supervisory Board of the Company has declared the following targets for its composition – including certain competence requirements for the body as a whole – which were taken into account during the election of the entire Supervisory Board by the Annual General Meeting 2013, during the by-election of a Supervisory Board member by the ordinary Annual General Meeting 2016 and during the most recently held by-election of two Supervisory Board members by the extraordinary General Meeting on 12 January 2018:

- The Supervisory Board should include at least two industry representatives from the sectors telecommunications, media and/or IT. At this time, all Supervisory Board members have pertinent knowledge of the industry and the competence that is required;
- The Supervisory Board should have at least one member with international experience (e.g. in the sector financial engineering, telecommunications, M&A). All members of the Supervisory Board have experience and competencies in these areas and meet all of these target requirements;
- No more than two former members of the Management Board should belong to the Supervisory Board. This target criterion is also met because only Mr Vlasios Choulidis was active as a Management Board member and CEO before his election to the Supervisory Board. Furthermore, the Supervisory Board members should reveal immediately to the Supervisory Board any conflicts of interest which have currently arisen and, in the event of a permanent conflict of interest, resign their position on the Supervisory Board. No conflicts of interest of this nature arose during the reporting period;
- The Supervisory Board should have at least two members who do not have a personal or commercial relationship to the Company, its officers and directors, a controlling shareholder or a company affiliated with the latter which can lead to a major conflict of interest which is not only temporary. In the estimation of the Supervisory Board, at least two members are independent, namely, Dr Claudia Borgas-Herold and Mr Norbert Lang;
- Supervisory Board members should resign from the Supervisory Board upon conclusion of the Annual General Meeting following their 75th birthday. This target criterion is also observed;
- At least one member of the Supervisory Board should be a woman. This target criterion is fulfilled by the membership of Dr Claudia Borgas-Herold on the Supervisory Board.

Furthermore, the Supervisory Board has established a general limit for the total length of membership on the Supervisory Board pursuant to Clause 5.4.1 of the German Corporate Governance Codex; at this time, the maximum period of 25 years has been implemented.

During the reporting period as in the past, the Supervisory Board has reflected on the aforementioned targets for its composition, given special regard to them with respect to the competence profile for the body as a whole and remains committed to them. The composition of the Supervisory Board is in line with the defined targets and the competence profile.

The Supervisory Board's nominations of candidates for election to the Supervisory Board, while taking these goals into account and seeking to fulfil the competence profile for the body as a whole, will continue to be oriented to the welfare of the Company.

In setting targets for the proportion of women on the Supervisory Board and Management Board pursuant to Section 111 (5) first sentence AktG in fiscal year 2017, the Supervisory Board remained committed to a target for the proportion of women on the Supervisory Board of 16.66% and for the proportion of women on the Management Board of 0% and set for itself 30 June 2022 as a new deadline for the achievement of these targets. Independently of these decisions, the selection of the potential members of the Boards, while taking these targets for the proportion of women into account, should always be based on the individual competence profiles of the candidates; nevertheless, the Supervisory Board will strive to give preference to women candidates whenever the qualifications of multiple candidates are equivalent.

### **Working methods of Management Board and Supervisory Board**

The corporate management is based on close, constructive cooperation in a spirit of trust between Management and Supervisory Boards as well as on detailed and constant flow of information – this is in line with the common understanding of good corporate governance held by Management and Supervisory Boards at the Company.

The current Management Board has three members. Following the completion of the step-by-step acquisition of 1&1 Telecommunication SE by the Company, Mr Vlasios Choulidis announced in September 2017 that he would be leaving the Management Board of our Company, effective per 31 December 2017. Mr Martin Witt was appointed as member of the Management Board of the Company, effective per 1 October 2017. Mr Ralph Dommermuth was appointed as CEO, effective per 1 January 2018. The Company and United Internet AG agreed to these changes on the Management Board in their basic agreement (Business Combination Agreement) of 12 May 2017. The current members of the Management Board are shown in the consolidated notes (page 145 and 146 of the Annual Report 2017). In fiscal year 2017, the Management Board once again set target values for the proportion of women in the two management levels below the Management Board in accordance with Section 76 (4) first sentence AktG and decided that the proportion of women in these two management levels below the Management Board should be 5.3%; this target has also been achieved. Currently, the proportion of women in the two management levels below the Management Board comes to 6.3% in total. Independently of these targets, selection of executives should always be based on the individual competence profiles of the candidates; nevertheless, the Management Board will strive to give preference to women candidates whenever the qualifications of multiple candidates are equivalent.

The Management Board manages the Company on its own responsibility and defines, in consultation with the Supervisory Board, the strategic direction of the Group. The distribution of authority on the Management Board is regulated in rules of procedure. Fundamentally, each member of the Management Board manages the Company on his sole authority within the framework of the business units assigned to him by the rules of procedure. Measures of special significance or which involve unusual risks always require the prior agreement of the full Management Board. The rules of

procedure contain in addition a catalogue of the major transactions and events which require approval by the Supervisory Board. The Management Board regularly and contemporaneously notifies the Supervisory Board, in written and oral form, about the course of business, the position and profitability of the Group, the planned business policies and other fundamental issues of corporate planning as well as about transactions which may be of major significance for the profitability or liquidity of the Group. Moreover, the Management Board reports to the chairperson of the Supervisory Board as required by other important events.

Legal provisions stipulate that the Supervisory Board must have six members. The current members of the Supervisory Board are shown in the consolidated notes (page 142, item 47 of the Annual Report 2017). One of the six Supervisory Board members was elected by the Company's Annual General Meeting on 19 May 2016, namely, Mr. Norbert Lang; he was elected to serve the remaining term of the Supervisory Board member Johann Weindl (elected by the Company's Annual General Meeting on 16 May 2013), who had resigned his position on the Board. Messrs Michael Scheeren, Kai-Uwe Ricke and Kurt Dobitsch were appointed to the Company's Supervisory Board by order of Hanau Local Court of 16 October 2017 as a consequence of the resignation of the Supervisory Board members Dr Bernd H Schmidt, Dr Susanne Rückert and Mr Frank A Rothauge, who had been elected by the Annual General Meeting on 16 May 2013. Dr Claudia Borgas-Herold and Mr Vlasios Choulidis were elected to the Company's Supervisory Board by the Extraordinary General Meeting on 12 January 2018 to serve the remaining terms of the departing Supervisory Board members Marc Brucherseifer and Horst Lennertz (*Dr.-Ing.*). The composition of the Supervisory Board takes into account the ownership structure.

The term of office of all of the elected Supervisory Board members will end upon the adjournment of the ordinary Annual General Meeting which adopts a resolution discharging the Supervisory Board members for fiscal year 2017. The Board has, in its appraisal, an appropriate number of members who are independent within the sense of Clause 5.4.2 of the German Corporate Governance Codex, i.e. who do not have any commercial or personal relationship to the Company, its officers and directors, a controlling shareholder or a company affiliated with the latter. In this sense, the Supervisory Board regards Dr. Claudia Borgas-Herold and Mr. Norbert Lang to be independent, meaning that a minimum of two of its members are independent.

The Supervisory Board carries out its duties as a supervisory body both by monitoring the Management Board and by advising the latter's members in the conduct of business. The Supervisory Board meets at least twice in every calendar half-year. It is quorate if and when announcements have been properly sent to all of the members and a minimum of three members participate in the adoption of resolutions. Unless otherwise provided by law or Company Charter, the Supervisory Board's decisions are adopted by simple majority vote. The Supervisory Board's working methods are regulated in detail in rules of procedure adopted by the Supervisory Board. The Supervisory Board reports on the Board's work in a separate Supervisory Board report. This report is printed on pages 9 to 15 of the Annual Report for fiscal year 2017. The names, professions and domiciles of the current Supervisory Board members and their membership on other supervisory boards formed in accordance with legal requirements and on comparable domestic and foreign governing bodies of commercial enterprises are listed on page 142, item 47 of the consolidated notes; the information can also be found in the CVs published on the Company's internet site.

## **Working methods and composition of the committees**

The Supervisory Board formed three committees in fiscal year 2017, namely, a Nominating Committee, an Audit Committee and a Personnel Committee. The Audit Committee was governed by its own rules of procedure. Moreover, unless otherwise mandated by legal provisions, the provisions of the Company Charter applicable to the Supervisory Board as well as the Supervisory Board's rules of procedure applied mutatis mutandis to this and to all other committees.

During its balance sheet meeting on 21 March 2018, the Supervisory Board decided to dissolve all of its committees so that in future all Supervisory Board members have the opportunity to participate in any and all Supervisory Board topics at peer level. In future, the Supervisory Board will be performing all of its duties and responsibilities as a full body.

Until its dissolution in March 2018, the Nominating Committee comprised all of the members of the Supervisory Board, was chaired by the Supervisory Board chairperson, and was responsible for proposing suitable candidates to the Supervisory Board for the latter's election proposals to the Annual General Meeting.

Members of the Audit Committee in fiscal year 2017 were Mr Rothauge (member and chairperson until 13 October 2017), Mr Lang (member from 29 September 2017 and chairperson from 13 October 2017), Dr Lennertz (until 31 December 2017) and Dr Schmidt (until 29 May 2017); its tasks concerned in particular the monitoring of the accounting process; the effectiveness of the internal controlling system, the internal risk management system and internal revision system; and the final audit. The chairperson of the Audit Committee was independent and, owing to his previous professional activities, was also qualified as an authority in the field of accounting. Most recently (until its dissolution in March 2018), the members of the Audit Committee were Mr Lang (chairperson), Mr Scheeren and Mr Dobitsch.

Members of the Personnel Committee in fiscal year 2017 were Mr Brucherseifer (chairperson until 13 November 2017 and member until 31 December 2017), Mr Scheeren (member and chairperson from 13 November 2017), Dr Rückert (until 10 October 2017) and Dr Lennertz (until 31 December 2017). The Personnel Committee was concerned with the affairs of the Management Board, including the terms and conditions of the employment contracts of its members. The compensation for the Management Board members is – and always has been – determined by the full Supervisory Board as required by statutory provisions.

Since there are three members of the Management Board, it has not formed any committees.

## **Information regarding relevant corporate management practices within the sense of Section 289f (2) no. 2 HGB – risk management/compliance – diversity concept**

If the Company's success is to be assured over the long term, it is essential to identify and analyse the risks of business actions effectively and to eliminate or restrict their effects by means of the appropriate steering mechanisms. The Company's risk

management system ensures the responsible handling of these risks. It is especially designed with the aim of recognising risks early, then assessing and controlling them. The system is subject to constant further development and adapted to changing circumstances. As necessary, the Management Board regularly reports to the Supervisory Board regarding current risks and the measures initiated to handle them. The effectiveness of the internal controlling system and of the risk management system – as well as the internal risk reporting – was previously monitored by the Supervisory Board's Audit Committee. In future, the Supervisory Board will be performing these duties and responsibilities as a full body.

The major features of the internal controlling and risk management system with regard to the accounting process are described in detail in the management report pursuant to Section 289 (4) HGB and in the consolidated management report (page 50) of the Annual Report 2017) pursuant to Section 315 (4) HGB. The Management Board also reports in detail in this document on current risks and their development.

Compliance is an important element of the management and corporate culture at 1&1 Drillisch Group. For the Company, compliance encompasses the totality of all measures and actions aimed at ensuring conformity with legal statutes and regulations as well as with the Company's own in-house standards, principles and rules. In the eyes of the Company, conduct that is legally and ethically beyond reproach lays the groundwork for all long-term company success. To this end, the Management Board has implemented a compliance management system that begins with, and builds on, a central compliance directive. The compliance directive applies to all of the officers, directors and employees of the corporate group and ensures that the values system is consistently and continuously practised across the full breadth of the Company.

Key elements of the compliance directive concern a fair, respectful and trustworthy approach when dealing with colleagues and business partners as well as the conduct displayed toward competitors. Bribery and corruption are not tolerated at the Company; the compliance directive unambiguously embodies this attitude through appropriate prohibitions and instructions. Violations of compliance requirements are unacceptable for us. We rigorously follow up on any indications of violations and obtain clarification of the root causes. Whenever any violations are determined, they are immediately rectified and, if necessary, strictly sanctioned as appropriate.

Diversity aspects are always given consideration when appointing the members of the Management Board and the Supervisory Board. The Company regards diversity as more than simply a desirable element; it is decisive for the success of the Company. Accordingly, the Company pursues overall a corporate culture of appreciation in which individual differences with respect to culture, nationality, sex, age group and religion are desired, and equal opportunity – without regard for age, disabilities, ethnic-cultural origin, sex, religion and philosophy or sexual identity – is encouraged.

The strengths of individuals – meaning everything that makes the individual employees unique and distinctive within the Company – have made it at all possible for the Company to become what it is today. A workforce comprising personalities from across all walks of life offers ideal general conditions for creativity and productivity – and for employee satisfaction as well. The resulting potential for ideas and innovation strengthens the Company's competitiveness and enhances its chances on the markets of the future. In keeping with this thought, a field of activity and function should be

found in which the potential and talents of each and every individual can be exploited to the fullest, and not only for every employee; diversity in terms of age, sex or professional experience, for example, should also be taken into consideration during the appointment of Management and Supervisory Board members – in the Company's own interest as well.

Owing to the size of its workforce and the open and trusting atmosphere, however, the Company does not pursue a concrete diversity concept going beyond this. The encouragement of diversity cannot be realised by a standard solution such as would be implemented by a concept of this type. The selection and appointment of persons to governing body positions should be based on objective factors such as qualifications and professional suitability and in line with the individual competence profile of the potential executives, whereby the Company strives to give priority to women candidates whenever the qualifications of multiple candidates are equivalent.

### **Compensation of Management Board and Supervisory Board**

The compensation paid to members of the Management and Supervisory Boards is commensurate with their tasks and the responsibility which has been assigned to them. The compensation system and the compensation paid to Management Board and Supervisory Board in fiscal year 2017 are shown in the management report and notes and in the consolidated management report on pages 59 until 62 of the Annual Report 2017 (compensation report) and in the consolidated notes on page 142, item 47 of the Annual Report.

### **Reportable transactions with financial instruments and holdings of officers and directors**

Officers and directors of the Company in their role as persons who exercise management functions as well as persons in close relationship to these people are obligated to disclose to the Company (and to BaFin [German Federal Financial Supervisory Authority]) their own transactions with stock or debt securities of the Company or any financial instruments related thereto if and when the total amount of the transactions carried out by a person obligated to reporting amounts to or exceeds a total of €5,000 within one calendar year.

Maintal, 21 March 2018