

# Corporate governance report

The German Corporate Governance Code has been in existence in Germany since 2002. It was last updated in May 2010 and contains regulations, recommendations and suggestions for good and responsible corporate management. The purpose of the Code is to create greater transparency, thus increasing the confidence of investors, customers, employees and the public in the corporate management of German companies. 3U HOLDING AG welcomes the provisions of the German Corporate Governance Code (GCGC), which serves the interests of the companies as well as its investors.

## Declaration of conformity

The Management and Supervisory Boards of 3U HOLDING AG discussed continuously the contents of the Corporate Governance Code at length and decided that the recommendations are largely observed. In the business year 2010 initially the Corporate Governance Code as amended on June 18, 2009 was applied, and later the version last amended on May 26, 2010.

3U HOLDING AG submitted the declaration of conformity required according to the German Stock Corporation Act in the fiscal year 2010 on March 23, 2010 and updated it on March 24, 2011. It can be viewed permanently on its website ([www.3u.net](http://www.3u.net)) under the path "Investor Relations/Corporate Governance".

## Deviations from the recommendations in the fiscal year 2010

In the fiscal year 2010, 3U HOLDING AG deviated in the following respects from the recommendations of the Corporate Governance Code:

### Deductible D&O insurance

The D&O insurance of the Company does not contain deductibles for the Supervisory Board. Regarding this, 3U HOLDING AG thinks that the responsibility and motivation with which the members of the Supervisory Board of the Company perform their tasks cannot be improved by such deductibles.

### Composition of the Management Board

The Board had no chairman or spokesman until December 31, 2010. Specific objectives of the composition of the Supervisory Board are not given and therefore not published in the corporate governance report.

### Diversity

In the allocation of managerial functions the Management Board acts according to the requirements of the respective function and searches for the person who fulfils these requirements in the best possible way. If several candidates of similar qualification are available, the Management Board looks for diversity and an appropriate consideration of women in the Company in the allocation without elevating those criteria to an overriding principle.

**Age limits & Diversity for members of the Management Board and Supervisory Board**

The Supervisory Board chooses the members of the Management Board according to suitability and qualification and looks for the best composition possible for management positions. The Company is of the opinion that the special weighting of further criteria predetermined by the code would restrict the choice of possible candidates for the Management Board. Furthermore it has to be considered that the Management Board consists of just two members at this time.

The cast of the Supervisory Board is chosen according to suitability, experience and qualification as well. To follow other guidelines for choosing suitable members would restrict the flexibility without gaining other advantages for the Company. This is true all the more since the Supervisory Board currently consists of only three members.

There is a no general age for members of the Management Board.

**Formation of committees**

The Supervisory Board of 3U HOLDING AG consists of three members. In derivation of article 5.3 of the code, the Supervisory Board has not formed any committees at this time. The committee tasks are carried out by all of the members of the Supervisory Board.

**Executive remuneration**

In calendar year 2010, the Supervisory Board decided to align the performance-based remuneration of Members of the Management Board to sustainable management accordant to the provisions of the Act on the appropriateness of executive remuneration (VorstAG). The employment contract of Management Board member Michael Schmidt, which was effective during the reporting period, had a fixed term till December 31, 2010. Therefore the Supervisory Board agreed to implement the changes for both Members of the Board together on January 1, 2011.

**Recent changes to meet the recommendations of the GCGC**

Starting with the calendar year 2011 it applies for both Members of the Board of 3U HOLDING AG that a part of future remuneration of a fiscal year shall be paid on the proviso that the Board manages the Company in the two years following the respective business year sustainably. A cap for compensation to be paid to Members of the Management Board (max. two years' salary) has not been stipulated because the contracts have only a limited period of three years. Accordingly, the proposed limit of possible compensation claims of Board Members is already inherently included in the employment contracts of the Board Members.

Moreover, the Supervisory Board appointed Board Member Michael Schmidt to the position of CEO with effect from January 1, 2011 (section 4.2.1 GCGC). For Members of the Management and Supervisory Boards an age limit of 65 years applies starting with the business year 2011 (section 5.1.2 and 5.1.4 GCGC).

## Remuneration Report

The remuneration report is part of the Group Management Report at the same time.

The remuneration report summarises the principles determining the remuneration of the Management Board at 3U HOLDING AG and explains the amount and structure of Management Board remuneration. The remuneration report is created on the basis of the recommendations of the German Corporate Governance Code, also containing the disclosures required in line with the German Commercial Code, supplemented by the Disclosure of Management Board Remuneration Act (VorstOG).

### Remuneration of the Management Board

The structure and amount of remuneration of Board Members are determined by the Supervisory Board and reviewed regularly. The Supervisory Board conducted a review of the remuneration system particularly in light of the law stipulating the appropriateness of executive remuneration (VorstAG) which became effective August 5, 2009.

All Members of the Management Board of 3U HOLDING AG receive a fixed basic salary (fixed component), which is paid in monthly instalments. In addition, all members of the Management Board receive variable performance-based remuneration (performance related components). The performance-based remuneration is composed of a quantitative sub-goal and a qualitative sub-goal. If the quantitative sub-goal is achieved, the Supervisory Board primarily assesses the audited value of the EBITDA performance of the Group in relation to the budgeted value: a significant miss of budgeted sales targets can lead to deductions. Within the scope of achieving the qualitative target the Supervisory Board assesses the processing of priority tasks of the Management Board as well as the achievement of personal goals of the Management Board as set by the Supervisory Board. The Supervisory Board always determines objectives at the beginning of each financial year under consideration of the Group's situation.

Furthermore, the Members of the Management Board were granted a specific number of stock options (component with long-term incentive effects) in the 2004/2005 stock option plan. The granting of stock options aims to honour the contribution of the Management Board (and the other employees of the 3U Group) to increasing the enterprise value and to encourage the long-term success of the Company. Due to the fact that the stock price in the exercise period March 9, 2007 to March 9, 2010 traded well below the exercise price no stock options under the stock option plan of 2004/2005 were exercised. Therefore all options expired on March 9, 2010.

In the calendar year of 2010 the Supervisory Board decided to further adjust the remuneration structure for sustainable corporate governance in accordance with the legal standards. The Supervisory Board used the expiration of the Management Board employment contract of the member of the Management Board Michael Schmidt as of December 31, 2010 to discuss respective contractual changes in the calendar year 2010. The same is valid for the contractual relationship with the other member of the Management Board, Michael Göbel, who was appointed to the Board during the financial year. Beginning with the calendar year 2011, the following change is valid for both members of the Management Board of 3U HOLDING AG: from now on, a part of the performance-related remuneration of a financial year will be paid under the condition that the Management Board is also going to sustainably manage the affairs of the Company in the next two years following the financial year in question. Regarding sustainability, especially the stability of the EBITDA performance of the Group and the investment structure as well as the motivation of the employees is considered. The Supervisory Board will assess the sustainability in the two years following the financial year and

reclaim the partial amounts of the performance-related remuneration paid, if the sustainability in business management is not warranted. A performance-related remuneration which has to be refunded by the Management Board has to be paid by the Management Board within 90 days after receipt of the written reclaim demand from the Supervisory Board.

In accordance with article 87 par. 2 par. 1 AktG, the Supervisory Board is entitled to lower the remunerations of the Management Board appropriately if the situation of the Group worsens after the fixation of the remunerations and the continued granting of these remunerations would be inequitable for the Group. This also applies for the granting of any share options for remuneration purposes.

If the appointment to member of the Management Board is revoked for an important reason according to article 84 par. 3 AktG, there exists no entitlement for a performance-related remuneration for this financial year as well as for any further financial years until expiration of the employment contract as member of the Management Board.

No pension commitments were given to the Members of the Management Board. The remuneration of the Members of the Management Board with individual details, broken down into fixed and performance-related components are shown below.

Name	Fixed remuneration in TEUR		Variable remuneration in TEUR		Compensation in TEUR		Total remuneration in TEUR	
	2010	2009	2010	2009	2010	2009	2010	2009
Michael Schmidt	311	330	300	275	0	0	611	605
Oliver Zimmermann (Chief Financial Officer until March 1, 2010)	54	345	13	168	470	0	537	513
Michael Göbel (Chief Financial Officer since March 1, 2010)	128	0	35	0	0	0	163	0
<b>Sum</b>	<b>493</b>	<b>675</b>	<b>348*</b>	<b>443</b>	<b>470</b>	<b>0</b>	<b>1,311</b>	<b>1,118</b>

\*Near term payable (with maximum variable remuneration)

Neither in 2009 nor 2010 did Members of the Management Board receive stock options.

All remuneration for Management Board activities was made by 3U HOLDING AG. The Subsidiaries did not pay any remuneration. With regard to the components with long-term incentive effects, we refer to the chapter "Detailed information on stock option programmes".

#### Remuneration of the Supervisory Board

Remuneration of the Supervisory Board is stipulated in Article 9 of the Company's Articles of Association. According to this, the Members of the Supervisory Board receive fixed basic remuneration of EUR 5,000.00 per year. The Chairman of the Supervisory Board and the Deputy Chairman receive twice and one and a half time the aforementioned remuneration respectively.

Furthermore, each Supervisory Board Member receives a bonus of EUR 1,000.00 per EUR 0.01 of the dividend in excess of EUR 0.05 per share distributed to shareholders for the past financial year as well as annual remuneration related to long-term company success of EUR 1,000.00 per EUR 100,000.00 earnings before taxes in the consolidated financial statements of the Company ("EBT")

in excess of the average earnings before taxes in the consolidated financial statements ("EBT") for each of the three preceding financial years. However, total remuneration shall not exceed EUR 50,000.00 for the Chairman, EUR 37,500.00 for the Deputy Chairman and EUR 25,000.00 for the other Supervisory Board Members. In addition, all Supervisory Board Members receive a meeting fee of EUR 2,500.00 for each supervisory board or committee meeting that they attend. The Company reimburses the Supervisory Board Members for value added tax payable on their remuneration and expenses.

The remuneration for 2010 amounted to TEUR 84 (previous year: TEUR 83). In addition the members of the Supervisory Board received performance related remuneration for the year 2009 in the amount of TEUR 90 in accordance with Article 9 sec. 1c of 3U HOLDING AG's Articles of Association. A performance based remuneration of TEUR 90 was accrued for 2010.

Name	Fixed remuneration in TEUR		Attendance-fee in TEUR		Performance related remuneration in TEUR		Total remuneration in TEUR	
	2010	2009	2010	2009	2010	2009	2010	2009
Ralf Thoenes (Chairman)	10	10	20	20	40	40	70	70
Gerd Simon	8	8	20	20	30	30	58	58
Peter Coch (until August 19, 2010)	3	5	13	20	13	20	29	45
Stefan Thies (since August 19, 2010)	2	0	8	0	7	0	17	0
<b>Sum</b>	<b>23</b>	<b>23</b>	<b>61</b>	<b>60</b>	<b>90</b>	<b>90</b>	<b>174</b>	<b>173</b>

In the past financial year, the law firm Altenburger Rechtsanwälte – of which Ralf Thoenes, the Chairman of the Supervisory Board, is a partner – received a total of TEUR 22 for its consultancy services for the 3U Group (previous year: TEUR 27) plus VAT. This figure is broken down as follows: 3U HOLDING AG TEUR 5 (previous year: TEUR 14), 3U TELECOM GmbH TEUR 7 (previous year: TEUR 1), 010017 Telecom GmbH TEUR 2 (previous year: TEUR 7), LambdaNet Communications Deutschland AG TEUR 6 (previous year: TEUR 5) and SEGAL Systems GmbH TEUR 2 (previous year: TEUR 0).

## Detailed information on stock option programmes

### 2004/2005 stock option plan

By way of resolution dated May 15, 2003, the Annual General Meeting authorised contingent capital of up to EUR 4,560,000.00 (EUR 912,000.00 before the stock split on July 6, 2004) for issuing stock options to members of the Management Board, executives and employees in the context of a stock option plan and authorised the Management Board accordingly. With the approval of the Supervisory Board, the Management Board made use of this authorisation on March 9, 2005 and established a stock option plan for 2004/2005.

Due to the fact that the share price was quoted well below the strike price during the exercise period March 9, 2007 till March 9, 2010 no stock options from the 2004/2005 stock option plan were exercised. Therefore, all options expired on March 9, 2010.