

10 Corporate governance report

The German Corporate Governance Code has been applied 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.

3U HOLDING AG submitted the most current declaration of conformity required according to the German Stock Corporation Act on March 23, 2012. It can be viewed permanently on its website (www.3u.net) under the path "Investor Relations/Corporate Governance".

Deviations from the recommendations

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.

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.

Executive remuneration

The Supervisory Board has not stipulated a cap for compensation to be paid to Members of the Management Board (max. 2 years' salary) because the contracts have only a limited period of 3 years. Accordingly, the proposed limit of possible compensation claims of Board Members as intended with 4.2.3 is already inherently included in the employment contracts of the Board Members.

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 three 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.

Remuneration Report

Comments on the remuneration of the Management Board and the Supervisory Board can be found in the remuneration report, which is part of the Group Management Report, as well as part of this statement on corporate governance.

Remuneration Report

The remuneration report is part of the Corporate Governance 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. The following statement on remuneration of the Management Board does not apply to the interim Board Member Andreas Odenbreit.

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 in the 2011 stock option plan. The granting of stock options aims to reward the contribution of the Management Board (and the other employees of the 3U Group) to increased enterprise value and to encourage the long-term success of the Company.

Starting with the calendar year 2011, 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 | |
|---|-------------------------------|------------|----------------------------------|------------|-------------------------|------------|-------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Michael Schmidt | 308 | 311 | 300 | 300 | 0 | 0 | 608 | 611 |
| Oliver Zimmermann (Chief Financial Officer until March 1, 2010) | 0 | 54 | 0 | 13 | 0 | 470 | 0 | 537 |
| Michael Göbel (Chief Financial Officer since March 1, 2010) | 153 | 128 | 85 | 35 | 0 | 0 | 238 | 163 |
| Andreas Odenbreit* (Interim Management Board Member since May 26, 2011) | 65 | 0 | 17 | 0 | 0 | 0 | 82 | 0 |
| Sum | 526 | 493 | 402** | 348 | 0 | 470 | 928 | 1,311 |

*Andreas Odenbreit gets no compensation for his work on the Management Board, but receives his salary in accordance with his employment contract.

**In an amount of TEUR 125 already paid in 2011, the remaining amount of TEUR 277 is payable near term (with maximum variable remuneration).

Stock option plan 2011

By way of resolution dated August 19, 2010, the Annual General Meeting authorized a contingent capital of up to EUR 4,684,224.00 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 February 7, 2011 and established a stock option plan 2011.

Information on the number of stock options at December 31, 2011:

| Name | Function | Number of stock options |
|-------------------|---------------------------------|-------------------------|
| Michael Schmidt | Speaker of the Management Board | 200,000 |
| Michael Göbel | Member of the Management Board | 200,000 |
| Andreas Odenbreit | Interim Management Board Member | 0* |

*Mr. Odenbreit, however, has received stock options as an employee of 3U HOLDING AG.

The stock options are exercisable only after specified periods (vesting period). 3U HOLDING AG is entitled to reject the exercise of option rights to the extent that such exercise would result in a disproportionately high remuneration of the beneficiaries due to extraordinary, unforeseen developments.

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 2011 amounted to TEUR 68 (previous year: TEUR 84). The members of the Supervisory Board did not receive performance related remuneration for the year 2010 in accordance with Article 9 sec. 1c of 3U HOLDING AG’s Articles of Association. The provision formed in 2010 was completely reversed. The values in the table below have been adjusted. A performance based remuneration of TEUR 90 was accrued for 2011.

| Name | Fixed remuneration in TEUR | | Attendance-fee in TEUR | | Performance related remuneration in TEUR | | Total remuneration in TEUR | |
|--------------------------------------|----------------------------|-----------|------------------------|-----------|--|----------|----------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Ralf Thoenes (Chairman) | 10 | 10 | 15 | 20 | 40 | 0 | 65 | 30 |
| Gerd Simon | 8 | 8 | 15 | 20 | 30 | 0 | 53 | 28 |
| Peter Coch (until August 19, 2010) | 0 | 3 | 0 | 13 | 0 | 0 | 0 | 16 |
| Stefan Thies (since August 19, 2010) | 5 | 2 | 15 | 8 | 20 | 0 | 40 | 10 |
| Sum | 23 | 23 | 45 | 61 | 90 | 0 | 158 | 84 |

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 20 for its consultancy services for the 3U Group (previous year: TEUR 22). This figure is broken down as follows: 3U HOLDING AG TEUR 0 (previous year: TEUR 5), 3U TELECOM GmbH TEUR 12 (previous year: TEUR 7), 010017 Telecom GmbH TEUR 2 (previous year: TEUR 2), LambdaNet Communications Deutschland AG TEUR 0 (previous year: TEUR 6) and SEGAL Systems GmbH TEUR 0 (previous year: TEUR 2) and 3U SOLAR Systemhandel AG TEUR 6 (previous year: TEUR 0).

Detailed information on stock option programmes

By way of resolution dated August 19, 2010, the Annual General Meeting authorised contingent capital of up to EUR 4,684,224.00 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 February 7, 2011 and established a stock option plan for 2011.

Stock option plan 2011

The stock option plan (SOP) 2011 has the following key details:

The following are beneficiaries:

- Group 1: Members of the Company's Management Board
- Group 2: Employees of the Company and affiliated companies in Germany and abroad in key positions at the first level of management below the Management Board as well as members of the management of affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act)
- Group 3: All other employees of the Company and of the affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act)

A total of 4,602,500 stock options were issued within the scope of the SOP 2011. The distribution between the individual groups is as follows (the value in parentheses indicates the maximum number of shares to possibly be issued):

| | | | |
|----------|-----------|----------------|---------------|
| Group 1: | 400,000 | (of 468,422) | stock options |
| Group 2: | 2,800,000 | (of 2,810,535) | stock options |
| Group 3: | 1,402,500 | (of 1,405,267) | stock options |
| Total: | 4,602,500 | (of 4,684,224) | stock options |

The SOP 2011 has a term of five years. The non-transferable option rights can be exercised after a four-year qualifying period on February 7, 2015 at the earliest and no later than February 6, 2016.

The option rights may only be exercised within a period of fifteen banking days in Frankfurt am Main following the publication of the annual financial statements and/or consolidated financial statements, the Annual General Meeting or the publication of a quarterly report and/or the annual report. The options are not transferable. Each option right authorizes the purchase of a share in the company at the exercise price. The exercise price for the options is EUR 1.00 per share. At the time of inception of the SOP on February 7, 2011 the share was quoted at EUR 0.66, the premium thus amounted to 51.5 %. The fair value of the stock options given in 2011 has been calculated at EUR 0.17. This determination is made using the Black-Scholes model. The model assumptions are based on a share price of EUR 0.66 at the time of acquisition, at an exercise price of EUR 1.00, an expected volatility of 39.7 % (Source: Bloomberg) and a risk-free interest rate of 2.85 % and an expected dividend yield of 0 %. The evaluation was carried out as a European option and the volatility is derived from the historical volatility. Other features are not included in the assessment.

The beneficiary may only sell shares received through the exercise of stock options within a month of the publication of the quarterly reports or after the publication of periodical reporting.

Of the 4,602,500 options issued in the framework of the SOP 582,500 options were forfeited at the balance sheet date.