Description of the remuneration system for the Management Board members (item 7 of the agenda)

Remuneration system for the Management Board members of 1&1 Aktiengesellschaft ("Company")

Introduction

As from the 2021 Annual General Meeting, this remuneration system will form the basis for concluding new service contracts with the Management Board members. Any service contracts already existing at this point in time will not be affected hereby; however, these contracts for the most part comply with the requirements of the remuneration system.

The remuneration for the members of the Company's Management Board is aligned with the Company's sustainable and long-term development. The Management Board members are to receive appropriate remuneration commensurate with their responsibilities. In determining the remuneration, the economic climate, the Company's success, the personal performance of an individual Management Board member, the interests of the Company's stakeholders and societal issues must be taken into account. The remuneration is to create an incentive for being successful from all of these aspects. That success is to be achieved in the long term, which is why the remuneration must not encourage the taking of short-term risks.

Remuneration system, procedure, peer groups & remuneration structure

The remuneration system for the Management Board members is set down, and regularly reviewed, by the Supervisory Board in accordance with the legal requirements. The provisions of the German Stock Corporation Act and of the German Corporate Governance Code (GCGC) that apply to the treatment of conflicts of interest are complied with. The remuneration of each Management Board member is determined based on the remuneration system.

The total remuneration of each Management Board member ("target total remuneration") is set by the Supervisory Board at an appropriate amount based on a performance assessment and on performance expectations. Criteria for determining the appropriateness of each Management Board member's remuneration are based on the responsibilities of the individual Management Board member, the performance of the entire Management Board, that member's personal performance and experience, the financial position of the Company, the performance and outlook of the Company, and a review of the comparability of the remuneration with data from external and internal peer groups. For the purposes of the internal (vertical) comparison, the Supervisory Board considers Management Board remuneration in relation to remuneration for senior management and the workforce of the Company, including for that of affiliated companies of the 1&1 Group, and its development over time. When it comes to the external (horizontal) comparison, companies are looked at that belong to comparable sectors and/or that are also listed in the TecDAX/SDAX and that are comparable to the Company as regards market position, revenues and employee headcount. In this regard, the Supervisory Board uses, among other things, findings of independent providers of remuneration studies, as well as the published annual reports and remuneration reports of peer companies, and also seeks the advice of experienced and independent remuneration consultants. The Supervisory Board also performs these comparisons when setting down the remuneration system as a whole.

The total remuneration of the Company's Management Board members consists of (i) a fixed, non-performance-based base salary, (ii) fringe benefits and (iii) a variable, performance-based element. The variable element itself consists of a short-term and a long-term component. To determine the specific amount of each remuneration component, the remuneration system provides for ranges and limits, within which the Supervisory Board operates in order to set the total remuneration in due consideration of the variable element.

Overview of the remuneration structure	
Non-performance-based remuneration components	
Base remuneration	Fixed salary, paid on a monthly basis
Fringe benefits/other benefits	Insurance coverage (D&O, etc.); company car; accommodation, relocation, estate agent, journey home and tax adviser costs up to a certain amount; where applicable, special allowances and signing bonus
Performance-based remuneration components	
Short-term variable remuneration	STI: based on the achievement of certain targets (revenues and earnings figures; operating/strategic aspects; personal performance; non-financial performance criteria (ESG))
Long-term variable remuneration	Participation in the SAR Plan; participation in the increase in value of the Company's share; 5-year term to maturity

The total remuneration generally also constitutes compensation for services performed for, and positions held in corporate bodies of, the Company's affiliated and associated companies and companies in which the Company is involved.

Where such functions and offices have been assumed, any remuneration paid for these activities (e.g. attendance fees) is in principle credited against the total remuneration and – in due consideration of tax requirements – generally deducted from the short-term variable remuneration to be paid. As regards the remuneration for functions and offices in associated companies and companies in which the Company is involved, the Supervisory Board may agree to something different with the relevant Management Board member.

Remuneration and corporate strategy/long-term development of the Company

The remuneration of the members of the Company's Management Board promotes its corporate strategy in a number of different ways:

Within the framework of the short-term variable remuneration (see below for more information in this regard), targets are agreed with the Management Board members that, firstly, ensure economic success through the achievement of certain figures. Secondly, individual targets are agreed that may also entail specific strategic objectives. The inclusion of target criteria relating to environmental and social aspects is to also credit societal successes.

The long-term variable remuneration (see below for more information in this regard) ensures by means of its focus on the share price and with its multi-year term to maturity that an incentive is created for sustainable economic success. In addition, the interests of the Company and of its shareholders are linked to those of the Management Board in the long term. Each Management Board member thereby participates in the sustainable success of the Company, but must also shoulder together with the Company economically negative developments. This bonus/penalty system allows the Management Board members to engage in entrepreneurial activities having a long-term perspective in the best interests of the Company.

Non-performance-based remuneration components

Fixed remuneration

The fixed remuneration has the function of a guaranteed base remuneration and is paid monthly as a salary. The fixed remuneration is reviewed at regular intervals and adjusted as necessary. In each review, a comparison with internal and external peer groups is also made (see above).

Fringe benefits/other benefits

As a standard rule,

- D&O and occupational accident insurance coverage (see below for more detail in this regard) and
- a company car with the option to use it for private purposes (alternatively, a car allowance or a BahnCard)

are offered as fringe benefits.

In addition, as part of the onboarding of new Management Board members, the following fringe benefits may also be granted:

- assumption of reasonable relocation and/or estate agent costs;
- assumption of accommodation costs customary to the location (e.g. as an allowance for the maintenance of two households) for a reasonable period of time;
- payment of a market-based monthly allowance for family journeys home (outbound and return) for a reasonable period of time;
- assumption of tax adviser costs customary on the market due to the establishment of the service relationship;
- assumption of tax adviser costs customary on the market in special tax-related circumstances (e.g. matters with a foreign element) during the term of the service contract.

In addition, on the occasion of their move from another employment relationship, the Supervisory Board may grant a signing bonus to new Management Board members that serves to compensate lost remuneration from the previous employment. In any instance, the amount of the signing bonus is to be offset against any payment claims under the long-term variable remuneration scheme. If the Management Board member at his or her request leaves the Company before the signing bonus is entirely offset, the remaining amount of the signing bonus must be repaid to the Company by the Management Board member. In such cases, the Supervisory Board is allowed to agree on a provision with the Management Board member that gradually reduces the amount to be repaid over an extended period of time, in which case the period of time is to be less than 24 months after the assumption of the role for the Company only in justified exceptional cases.

Furthermore, in justified exceptional cases – e.g. if a Management Board member assumes departmental responsibilities in addition to his or her actual department responsibilities (e.g. due to the illness or absence of another Management Board member or the reallocation of departmental responsibilities) – reasonably increasing the fixed remuneration accordingly is also permitted.

Pension benefits are not granted.

Performance-based remuneration components

Short-term variable remuneration (short-term incentive ("STI"))

In addition to base remuneration, each Management Board member receives an STI, the reference period of which is a fiscal year of the Company. For an STI, a target award is offered that will be earned if the average target achievement is 100%. The targets are set in each case by the Supervisory Board at the beginning of a fiscal year. The following is an overview of possible targets:

STI Targets	Share of STI (min/max)
• Growth in revenues and earnings figures (such as EBITDA) as well as capital efficiency metrics (such as ROI) of the 1&1 Group	50-70%
• Operating/strategic targets (e.g. business development, increase in efficiency, market share)	5-20%
• Personal performance targets (e.g. being responsible for certain projects; achieving individual/department-related key performance indicators)	5-20%
• Non-financial performance criteria such as the interests of stakeholders, environmental and social issues ("**ESG Elements**")	5-20%

To achieve an appropriate target structure, the Supervisory Board may deviate from the recommended percentages indicated above when weighting the individual targets.

The different categories allow the Company to align short-term variable remuneration optimally with its interests:

The 1&1 Group's revenues (growth) and earnings (primarily EBITDA) are the decisive criteria for measuring its economic success in a past fiscal year. For that reason, this category is to make up the greatest share among the targets for the STI. The dedication and contribution of each Management Board member to the benefit of the Company and the 1&1 Group are thereby acknowledged. A lack of economic success has a direct adverse impact on the remuneration of each Management Board member.

By contrast, operating and strategic targets create a specific incentive to achieve certain short-term metrics or to take certain measures and, thereby, they can reflect more fittingly certain operating and strategic decisions than the 1&1 Group's revenues and earnings. These targets are to be set for the Management Board as a whole.

Personal performance targets can be set for each individual Management Board member and thereby create an incentive to successfully complete certain projects for which the Management Board member is responsible; to solve unique challenges relating to that member's department and to achieve certain department-specific metrics (e.g. customer satisfaction).

ESG Elements must be included and, unlike the previous categories, take into account the interests of stakeholders and environmental goals. By means of this STI component, the Supervisory Board is to direct Management Board members' attention to social issues and create an incentive for addressing these issues. In view of the variety of conceivable interests, there is a broad spectrum to choose from in this regard, which is why the Supervisory Board is to react dynamically to societal and environmental challenges when setting these targets. In this respect, the ESG Elements are not limited to issues outside of the 1&1 Group, but are to also aid in solving similar challenges within the Company and affiliated companies (e.g. diversity).

The target achievement range is generally between 90% and 120%. If the average target achievement is less than 90%, the claim to payment of the STI lapses entirely. If the average target achievement is more than 120%, the excess achievement is taken into account only up to 120% of the STI target award. In a year in which a member joins the Management Board, particularly in a short fiscal year, a minimum STI award may be guaranteed to that Management Board member by the Supervisory Board for the first six to twelve months of his or her period of office. A portion of that minimum award may also be paid out to the Management Board member on a monthly basis.

The Supervisory Board discusses and determines the degree of achievement as relates to the STI in a meeting in each case after the adoption of the annual financial statements for the 1&1 Group. The Supervisory Board prepares for this meeting together with the Management Board members and the competent departments so that it has all of the information and, where applicable, additional expertise necessary for an estimation.

In this context, the figures calculated in the Corporate Financial Affairs & Investor Relations division are used as a basis with respect to the revenues and earnings category. Revenues and earnings targets are a part of forecasting; target figures are compared with the actual figures based on audited annual financial statements.

The Supervisory Board determines the degree of achievement of operating and strategic targets by assessing the concepts submitted by the Management Board and, where applicable, any further documentation required. The achievement of personal performance targets is also determined based on documents submitted by the Management Board member and assessed by the Supervisory Board (where applicable, with the aid of external expertise). For determining target achievement with regard to ESG Elements, the Supervisory Board looks at the metrics and success criteria laid down in each case.

After that meeting of the Supervisory Board ends, provided that no further facts or circumstances are to be ascertained, the STI will be paid out with the next salary payment.

Long-term variable remuneration (long-term incentive ("LTI"))

As an LTI, there is a program based on virtual stock options (the stock appreciation rights ("**SARs**") plan (the "**SAR Plan**")). An SAR corresponds to a virtual subscription right for one share of the Company, i.e. it is not a (genuine) option to acquire shares of the Company. However, the Company reserves the right to fulfil its commitment to pay out SARs in cash by instead, at its own discretion, also transferring one share per SAR from its stock of treasury shares to the beneficiary at the exercise price.

Description of the SAR Plan of 1&1 AG	
Purpose	Participation in the increase in value of the 1&1 AG share
Systematics	Issuance of a number of SARs, which can be exercised at certain times to a certain extent. Vesting occurs in four stages: 1. 25% of the SARs are exercisable for the first time after two years, 2. another 25% of the SARs are exercisable for the first time after three years, 3. another 25% of the SARs are exercisable for the first time after four years, 4. and the remaining 25% of the SARs are allocated and exercisable for the first time after five years.
Maturity/Fulfilment	Term to maturity: 5 years. All SARs have vested fully after 5 years. The vested stock options must be exercised no later than 6 years after the plan begins; payment claim may be satisfied in cash or shares at the option of the Company.
Calculation parameters	Difference between the initial share price (closing price of the share at issuance) and the closing price of the share on exercising the SARs (in each case, the arithmetic mean of the last ten trading days).
Limitations	• Retention period of two years; • Two exercise windows each year; • Only SARs already allocated can be exercised. • Exercise hurdle: A vested SAR may be exercised only if there has been a share price increase of at least 20% compared to the initial share price at the time of exercise.
Cap	• 100% of the initial share price

The number of SARs offered to a Management Board member in each case (on average each year of the term to maturity of the plan) is determined based on the total remuneration intended for the Management Board member and assuming that internally prepared forecasts for the development of the share price are met. In due consideration of the stipulations of the remuneration system, in particular, those relating to maximum remuneration, during the term of an SAR agreement, the conclusion of a further SAR agreement is also possible.

Since the development in the value of the SARs is directly tied to the development of the price of the Company's share and vesting occurs over a total period of 5 years, the SAR Plan creates an incentive for a Management Board member to influence the Company's development positively in the long term in the interests of shareholders. At the same time, a Management Board member participates not only in the Company's positive development, he or she is also impacted by a negative development in the price of the share through the exercise hurdle and the calculation of the payout amount. Because the SAR Plan as a remuneration component has proven to strengthen the commitment of the Management Board members to the successful, sustainable development of the price of the Company's share, it is to be kept without any changes.

Maximum remuneration

The maximum remuneration that an ordinary Management Board member may receive when all remuneration elements, i.e., base salary, STI, LTI (remuneration under the SAR Plan/term to maturity in years) and fringe benefits, are added together must not amount to more than EUR 3.00 million gross p.a. (maximum remuneration).

The maximum remuneration for the CEO may be up to twice the maximum remuneration for an ordinary Management Board member.

The maximum remuneration is not the Management Board members' target total remuneration deemed appropriate by the Supervisory Board, but merely an absolute upper limit that must not be exceeded under any circumstances. If the maximum remuneration is exceeded as a result of the payout of the LTI, the claim derived from the LTI for the relevant year to the amount exceeding the amount of the maximum remuneration lapses. However, where payments are made based on the LTI, the LTI's term to maturity must be taken into account when the maximum remuneration is calculated. Therefore, when assessing whether or not the annual maximum remuneration is abided by, payments under the plan are to be distributed uniformly over the years during the term to maturity.

Proportion of fixed remuneration, STI and LTI to determined individual total remuneration

The following framework applies to the proportion of the individual remuneration elements to an individual's target total remuneration:

Relative share of individual remuneration elements in an individual's total remuneration (calculated p.a.)		Absolute share of individual remuneration elements in an individual's total remuneration (calculated p.a.)
Fixed remuneration:	20% to 40%	EUR 300,000 to EUR 500,000
STI (target amount):	10% to 40%	EUR 50,000 to EUR 200,000

LTI (target amount p.a.)	40% to 70%	EUR 200,000 to EUR 2,000,000

An individual's target total remuneration is determined by the Supervisory Board in view of

- the Management Board member's tasks,
- his or her responsibility in the Company,
- his or her experience,
- whether or not he or she has been appointed CEO and
- the internal/vertical and external/horizontal comparison

and, in so doing, it must also be ensured that the share of variable, performance-based remuneration (STI and LTI) in aggregate must amount to at least 60% of the target total remuneration.

Retirement benefits/insurance

The Company maintains D&O insurance, as well as group accident and travel insurance. As regards the performance of their services, the Management Board members are also included in these framework agreements. If any further insurance is taken out applicable to the entire Group, it will also apply to all members of the Company's Management Board.

A company pension plan is offered solely on the basis of deferred compensation (*Entgeltumwandlung*). A pension plan financed by the Company is not offered unless the Company is obligated to do so under legal requirements.

As a contribution to their health and long-term care insurance, the Company pays to each Management Board member no more than the amount of the employer contributions that would be due in the case of compulsorily insured employees. If a Management Board member decides to voluntarily join the statutory pension insurance scheme or is insured in the statutory pension insurance scheme upon joining the Company, the Company will also make the contributions for this up to no more than the amount of the employer contributions that would be due in the case of compulsorily insured employees.

In addition, in the event that a Management Board member is prevented from performing his or her work for reasons due to illness, the Company will continue to pay the remuneration for a period of six months, setting off all benefits that the Management Board member is paid by any statutory or private health insurance for lost earnings.

Remuneration-related legal transactions and severance pay/post-contractual prohibition of competition/clawback clause/extraordinary developments/change-of-control provisions

Remuneration-related legal transactions and severance pay

The term of the service contracts of the Management Board members is tied to their period of office. If a Management Board member's appointment is revoked, the service contract also terminates. If the revocation is not based on cause within the meaning of Section 626 of the German Civil Code [*Bürgerliches Gesetzbuch*], the service contract does not terminate until a 12-month period elapses (or, if this happens sooner, until the original period of office elapses). Claims to severance payments in the event of departure are not granted to the Management Board members. Otherwise, the Company follows the guidelines of the GCGC regarding payments in the event of early termination of a member's service on the Management Board. According to the GCGC, any payments made to a management board member due to early termination of their management board activity must not exceed twice the annual remuneration and must not constitute remuneration for more than the remaining term of the employment contract. If post-contractual non-compete clauses apply, any severance payments are taken into account in the calculation of any compensation payments.

Post-contractual prohibition of competition

The Management Board members' service contracts include a post-contractual prohibition of competition with a term of up to one year. Unless the prohibition of competition is waived by the Supervisory Board, the Management Board member is entitled to a compensation payment in the amount of 75% to 100% of the fixed remuneration last granted. The Management Board member must have any other income from any new activity credited against the compensation payment.

Clawback clause

Service contracts also contain a so-called "clawback" clause, by which short-term variable remuneration granted to the Management Board member can be reclaimed entirely or in part if it turns out that conditions for receiving that remuneration were in fact not met (e.g. manipulated or incorrectly calculated figures). A similar provision is integrated into the contracts on the long-term variable remuneration. Claims for damages and claims that arise on account of unjust enrichment remain unaffected by these provisions.

Extraordinary developments

The Supervisory Board takes extraordinary developments into account when determining the STI target achievement. Particularly with regard to financial figures, need for adjustment may arise as a result of exceptional effects. The Supervisory Board may also respond to extraordinarily adverse developments in accordance with Section 87 (2) AktG, which allows it to reduce the remuneration of the Management Board members to an appropriate amount if, after the setting of the remuneration, the situation of the Company deteriorates such that continuing to grant the remuneration without any changes would be inequitable to the Company.

Change of control provisions

Change of control clauses that commit to benefits in the case of early termination of a Management Board member's service contract due to a change of control have not been agreed upon.

Description of the remuneration and the remuneration system for the Supervisory Board members

Description of the remuneration system for the Supervisory Board including the information pursuant to Sections 113 (3) third sentence, 87a (1) second sentence AktG

The remuneration system for the Supervisory Board members on which the amendment of § 14 of the Company's Articles of Association proposed in item 8 of the agenda is based can be described in detail as follows:

The remuneration system for the Supervisory Board members is governed by the legal requirements and takes into account the provisions of the German Corporate Governance Code.

The system for remunerating the Supervisory Board members continues to provide for fixed remuneration, plus attendance fees, without any variable or share-based remuneration. The payment of fixed remuneration is consistent with established and widespread practice at other listed companies and has proven successful. The Management Board and the Supervisory Board believe that fixed remuneration for the Supervisory Board members is best suited to bolster the independence of the Supervisory Board and for it to observe its advisory and supervisory function, which is to be fulfilled irrespective of the Company's success. Fixed remuneration for supervisory board members is also advised in suggestion G.18 first sentence GCGC.

The members of the Supervisory Board receive fixed annual remuneration in the amount of EUR 45,000.00. In accordance with recommendation G.17 GCGC, the remuneration of the chairperson and deputy chairperson of the Supervisory Board is greater on account of the larger time commitment. The remuneration for the chairperson of the Supervisory Board is EUR 55,000.00 and for the deputy chairperson, it is EUR 50,000.00. Supervisory Board members who held office on the Supervisory Board or acted as its chairperson or deputy chairperson only for part of a fiscal year will receive a *pro-rata* share of the fixed remuneration, rounded up to whole months.

In addition, members will receive an attendance fee of EUR 1,000.00 for each time they attend Supervisory Board meetings that are held with the members being physically present. Where meetings of the Supervisory Board are not held in person but virtually (in particular if a meeting is conducted only by telephone or only via video conference), the members of the Supervisory Board will not receive an attendance fee if the meeting lasted no more than one hour; half the amount of the attendance fee if the meeting lasted for more than one hour but no more than two hours and the full attendance fee if the meeting lasted for two hours or more. Members who do not personally attend in-person Supervisory Board meetings (e.g. by participating via telephone or video conference) will in any event only receive 25% of the attendance fee; participating solely by submitting a voting rights message does not result in a claim to receive an attendance fee.

Furthermore, in accordance with recommendation G.17 GCGC, the chairperson of the audit and risk committee will additionally receive EUR 20,000.00 annually; each other member of the audit and risk committee will additionally receive EUR 15,000.00 annually. A Supervisory Board member holding office on the audit and risk committee or acting as its chairperson only for part of a fiscal year will receive a *pro-rata* share of the additional remuneration, rounded up to whole months. The Company must support the members of the audit and risk committee in participating in necessary further and advanced training and must also bear – to a reasonable extent – the costs incurred in this regard.

An attendance fee is not paid for participating in meetings of the audit and risk committee. The additional annual remuneration constitutes compensation for participating in meetings of the audit and risk committee.

The total remuneration is due and payable after the fiscal year end. Reimbursement of out-of-pocket expenses will be paid immediately. Furthermore, the members of the Supervisory Board will be reimbursed for any VAT to be paid on their remuneration or out-of-pocket expenses.