

# **Declaration 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 Drillisch AG and is a major factor for a company's success.

In the following declaration, both, the Management Board and the Supervisory Board, reports 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 289a 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 2017, which has been made permanently accessible on the internet at the site [www.drillisch.de](http://www.drillisch.de) (to be found there under the section “Corporate Governance”, subsection “Declaration of Conformity”), reads as follows:

### **Drillisch Aktiengesellschaft**

#### **Declaration of the Management Board and Supervisory Board of Drillisch AG regarding the recommendations of the “Government Commission German Corporate Governance Codex” pursuant to Section 161 AktG**

Management Board and Supervisory Board of Drillisch AG 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. This declaration is made pursuant to the Codex as revised on 5 May 2015:

Clause 3.8 (2) and (3)      Agreement of an excess for Supervisory Board members in a D&O insurance policy for the Supervisory Board

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

The Management and Supervisory Boards of Drillisch AG 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 at Drillisch AG 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 Drillisch AG to obtain the services of highly qualified persons to serve on the Supervisory Board. This is the reason for the decision not to agree to an excess.

Clause 4.2.3 (3)                      Determination of a pension level target when making pension commitments, giving due consideration to the annual and long-term expenses for the Company

The agreements with the Management Board members regarding company pensions were concluded in part before the entry into effect of the above recommendation; the Supervisory Board has not issued any pension commitments since the entry into force of the above recommendation. It cannot be determined from the Codex whether this recommendation requires the Supervisory Board to make any determinations when no decisions regarding pensions have been made. We are therefore, as a precaution, declaring an exception to this recommendation just as in the previous years. The pension benefits for the Management Board members are oriented to contributions. Defined components of the salary are contributed to a pension fund as deferred compensation. There has been no definition of a concrete pension level target. Nevertheless, the Supervisory Board can obtain a sufficiently precise picture of the annual and long-term expenses for the Company on the basis of the contractual provisions.

Clause 5.4.6 (1) second sentence      Inclusion of the membership on committees in determining the compensation paid to Supervisory Board members

In accordance with Section 14 of the Drillisch AG 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 at Drillisch AG 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 is hereby declared as a precautionary measure.

Maintal, 21 March 2017

On behalf of the Supervisory Board

*Marc Brucherseifer, Dipl.-Kfm.*

The Management Board

*Vlasios Choulidis      André Driesen*

## Targets for the composition of the Supervisory Board

In accordance with Clause 5.4.1 of the German Corporate Governance Codex, the Drillisch AG Supervisory Board defined the following targets for its composition, and these targets were given due consideration during the election of the complete Supervisory Board by the Annual General Meeting 2013 and during the by-election of a Supervisory Board member by the Ordinary Annual General Meeting 2016:

- The Supervisory Board should include at least two industry representatives from the sectors telecommunications, media and/or IT. At this time, five Supervisory Board members have relevant industry knowledge, namely Messrs Marc Brucherseifer (Dipl.-Kfm.), Norbert Lang, Horst Lennertz (Dr.-Ing.) and Frank Rothauge (Dipl.-Kfm.) in the telecommunications sector and Messrs Marc Brucherseifer (Dipl.-Kfm.) and Dr Bernd H Schmidt in the IT sector.
- 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 fulfil these target criteria.
- 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 Marc Brucherseifer (Dipl.-Kfm.) 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.
- 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: Dr Susanne Rückert and Mr Frank Rothauge (Dipl.-Kfm.).
- 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 Susanne Rückert on the Supervisory Board.

In addition, the Supervisory Board set targets for the proportion of women on the Supervisory Board — and Management Board — pursuant to Section 111 (5) first sentence AktG in fiscal year 2015 and determined 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%. 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. Furthermore, the Supervisory Board has established a general limit of a maximum of 25 years for the total length of membership on the Supervisory Board pursuant to Clause 5.4.1 of the German Corporate Governance Codex. These target criteria have also been taken into account. The Supervisory Board's nominations of candidates for election to the Supervisory Board, while taking these goals into account, will continue to be oriented to the welfare of the Company.

## **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 Drillisch.

The current Management Board has two members. Mr Paschalis Choulidis has resigned from his positions on the Management Board and left the Company for personal reasons. The current members of the Management Board are shown in the consolidated notes (page 103 of the Annual Report 2016). The Management Board established targets for the proportion of women at the two management levels below the Management Board in fiscal year 2015 in accordance with Section 76 (4) sentence 1 AktG and determined that the proportion of women at the two management levels below the Management Board should be 0%, which has been achieved. Currently, the proportion of women at the two management levels below the Management Board is 5.3% in total. Notwithstanding this, potential executives are always to be selected based on their individual competence profile, but the Management Board will endeavor to give preference to women candidates in cases where qualifications are equivalent. The members of the Management Board manage the Company on their own responsibility and define, in consultation with the Supervisory Board, the strategic direction of Drillisch 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 entire 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 103, item 34 of the Annual Report 2016). Five of the six Supervisory Board members were elected by the Company's Annual General Meeting on 16 May 2013, namely: Marc Brucherseifer (Dipl.-Kfm), Dr Susanne Rückert, Horst Lennertz (Dr.-Ing.), Frank A. Rothauge (Dipl.-Kfm.) and Dr Bernd H Schmidt; Mr Norbert Lang was elected to the Drillisch AG Supervisory Board by the Annual General Meeting on 19 May 2016 for the remaining term of the already resigned former member of the supervisory board, Johann Weindl.

The term of office of all of the current 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.

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 made 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 10 to 15 of the Annual Report for fiscal year 2016. 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 103, item 34 of the consolidated notes.

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

The Supervisory Board has formed three committees, namely, a Nominating Committee, an Audit Committee and a Personnel Committee. The Audit Committee has adopted 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 apply *mutatis mutandis* to this and to all other committees.

The Nominating Committee comprises all of the members of the Supervisory Board, is chaired by the Supervisory Board chairperson, and is responsible for proposing suitable candidates to the Supervisory Board for the latter's election proposals to the Annual General Meeting.

The Audit Committee consists of Mr Rothauge (chairperson), Dr Lennertz and Dr Schmidt and is concerned in particular with the monitoring of the accounting process, the effectiveness of the internal controlling system, the internal risk management system, the internal auditing system and the final audit. The chairperson of the Audit Committee is independent and, owing to his previous professional activities, is also qualified as an authority in the field of accounting.

The members of the Personnel Committee are Mr Brucherseifer, Dipl.-Kfm. (chairperson); Dr Lennertz; and Dr Rückert (vice-chairperson). The Personnel Committee is concerned with the affairs of the Management Board, including the terms and conditions of their employment contracts. The compensation for the Management Board members is determined by the Supervisory Board acting in its entirety as required by statutory provisions.

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

### **Information regarding corporate management practices within the sense of Section 289a (2) no. 2 HGB— Risk management/Compliance**

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 risk management system at Drillisch 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 — is monitored by the Supervisory Board's Audit Committee.

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 (5) HGB and in the consolidated management report (page 48 and 49 of the Annual Report 2016) pursuant to Section 315 (2) no. 5 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 Drillisch Group. For Drillisch AG, 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 Drillisch AG, 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 Drillisch Group and ensures that the values system is consistently and continuously lived 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 Drillisch AG; the compliance directive unambiguously realises 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.

### **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 and Supervisory Boards in fiscal year 2016 are shown in the management report and notes and in the consolidated management report on pages 53 to 56 of the Annual Report 2016 (compensation report) and in the consolidated notes under item 36 of the Annual Report.

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

Officers and directors of Drillisch AG 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 Drillisch AG 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.

#### **The following transactions with financial instruments were reported to Drillisch AG in fiscal year 2016:**

Date	Financial instrument	Type of transaction	Shares	Price/€	Reporting person	
22/01/2015	Stock	Sale	2,407	25.67	H Lennertz	Supervisory Board
24/03/2016	Stock	Purchase	12,000	39.43	P Choulidis	Management Board
24/03/2016	Stock	Purchase	25,000	39.43	SP Beteiligungs GmbH	Management Board
18/04/2016	Stock	Purchase	10,000	34.33	P Choulidis	Management Board
19/04/2016	Stock	Purchase	15,000	34.89	MV Beteiligungs GmbH	Management Board
21/04/2016	Stock	Purchase	20,000	36.05	P Choulidis	Management Board

The stock holdings of officers and directors that are to be reported pursuant to Clause 6.2 of the German Corporate Governance Codex are shown below:

Per 31/12/2016, the Management Board members currently in office held the following stock in Drillisch AG:

**Directors' Holdings per 31/12/2016**

Vlasios Choulidis	400,000 no-par shares
MV Beteiligungs GmbH	15,000 no-par shares

At the time of his withdrawal from the Management Board (30/06/2016), Mr Paschalis Choulidis held directly 467,000 no-par shares in Drillisch AG. Per 30/06/2016, 25,000 no-par shares of Drillisch AG were indirectly attributable to him via SP Beteiligungs GmbH.

**The Supervisory Board members held the following stock in Drillisch AG as per 31/12/2016:**

Marc Brucherseifer, Dipl.-Kfm.	1,019,775 no-par shares
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Maintal, 21 March 2017