

# Corporate Governance Report

## **Responsible company management and control**

To ensure sustainable, value-enhancing corporate development the Telekom Austria Group adheres to strict principles and is committed to transparency and a policy of open communication. The Group-wide areas of competency and responsibility are clearly regulated by the Articles of Association of Telekom Austria AG as well as the relevant statutory provisions. The duties, responsibilities and working methods are also described in greater detail in the Rules of Internal Procedure for the Management Board and the Supervisory Board.

The Management Board defines the strategic focus of the Group in consultation with the Supervisory Board and provides the latter with regular reports on the company's current situation including its risk situation. Furthermore, the Supervisory Board is authorised to ask the Management Board at any time to report on matters concerning the Telekom Austria Group.

In the course of the restructuring of the Telekom Austria Group in 2010, the strategic holding company was expanded to become a management holding company. Since then the Management Board of Telekom Austria AG has been supported by four Group Chief Officers who are responsible for Human Resources, Technology, Marketing and Finance.

## **Development of compliance management in the 2012 financial year**

In the year under review the Telekom Austria Group made significant efforts to resolve the accusations of corruption and misconduct from the past. In close cooperation with the Control Committee of the Supervisory Board, which was established in 2011, the company provided the responsible authorities with all of the information required for a full and complete investigation. In addition,

during the Annual General Meeting in May 2012 shareholders were provided with a comprehensive report on the forensic investigations initiated by the Management Board and the Supervisory Board in 2011.

Above and beyond these investigations a number of measures aimed at further establishing an effective compliance management system were implemented. A unit for Group Compliance was established in November 2011; compliance managers at all Telekom Austria Group subsidiaries support this unit, and it reports directly to the Management Board.

Details of the Telekom Austria Group compliance management system and the newly established Group Compliance unit can be found in the Compliance section on page 26 ff.

## **Austrian Corporate Governance Code**

Telekom Austria AG shares have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code (ÖCGK) enjoys general acceptance. The current version of the Code can be viewed at [www.corporategovernance.at](http://www.corporategovernance.at) or [www.telekomaustria.com/ir/codex-en.php](http://www.telekomaustria.com/ir/codex-en.php).

In 2003 the Telekom Austria Group committed itself to voluntary compliance with the ÖCGK. The Group complies with all the legal requirements laid down in the so-called "L" rules. As deviations from the ÖCGK's "C" rules must be explained, the Telekom Austria Group has made the following statement regarding Rules 28 and 28a of the ÖCGK:

Stock option plans and programmes for the beneficial transfer of shares, including the stipulated long-term and sustainable exercise criteria, are decided upon by the

Supervisory Board to ensure that they are in line with the business plan. The Annual General Meeting on 27 May 2010 introduced a “Long Term Incentive Program”, which replaced the previous stock option programme ESOP as of the 2010 financial year. Details can be found in the annual financial statements.

In accordance with Rule 62 of the ÖCGK, the Telekom Austria Group’s compliance with the provisions of the ÖCGK and the correctness of its reporting are evaluated externally every three years. The most recent evaluation, carried out by KPMG in early 2011, discovered no facts which conflicted with the declaration made by the Management Board and the Supervisory Board regarding observance and compliance with the “C” and “R” rules of the Austrian Corporate Governance Code for the 2010 financial year.

The Telekom Austria Group participates in the Austrian Working Group for Corporate Governance and is involved in the further development of the standard.

### Members of the Management Board

In 2012 the Management Board of Telekom Austria AG consisted of Hannes Ametsreiter, the Chairman, and Hans Tschuden, the Vice Chairman and Chief Financial Officer.

The Supervisory Board meeting on 3 December 2012 tasked the Personnel and Nomination Committee of the Supervisory Board with finding candidates for the position of a third Management Board member, or rather a Chief Technical Officer. There were no further developments with regard to this matter as of the reporting date.

### Hannes Ametsreiter

**Member of the Management Board since 1 January 2009, Chairman of the Management Board since 1 April 2009, appointed until 31 December 2016.**

Hannes Ametsreiter was born in Salzburg in 1967. After studying in Austria and the USA, he started his professional life as a brand manager at the international branded goods company Procter & Gamble. His career in the telecommunication industry began in 1996 at mobilkom austria; after holding various positions within the group, he became Chief Marketing Officer in 2001. In 2008 Booz & Company awarded him the international marketing prize “CMO of the Year”.

Since April 2009 Hannes Ametsreiter has held the position of Chairman of the Management Board of Telekom Austria AG and A1 Telekom Austria AG. He was also the only Austrian to serve on the Board of the global GSM

Association and was ranked 37th on the GTB Power 100, a list of the most powerful executives in the global telecommunication industry published by the international trade journal Global Telecoms Business.

### Areas of responsibility

#### Hannes Ametsreiter

- ✓ Marketing (Group)
- ✓ Technology (Group)
- ✓ Human Resources (Group) / Personnel Office
- ✓ International Business Development / Group Strategy
- ✓ Mergers & Acquisitions
- ✓ Regulation & European Affairs
- ✓ General Secretariat
- ✓ Communication (Group)
- ✓ Internal Audit (Group)

### Hans Tschuden

**Chief Financial Officer since 1 April 2007, Vice Chairman of the Management Board since 1 January 2009, appointed until 31 March 2015.**

Hans Tschuden was born in 1958 and is a graduate of the Vienna University of Economics and the International Executive Program (INSEAD) in Paris. In 1989 Hans Tschuden joined the Wienerberger Group, first in Controlling, then from 1993 onward as head of Wienerberger Rohrsysteme GmbH in Vienna. In 1995 he moved to Keramo Wienerberger in Belgium to take up a position as Managing Director and, in 1998, to Steinzeug Abwassersysteme GmbH in Cologne. In 1999 Hans Tschuden became a member of the Wienerberger Management Committee and, in May 2001, he was appointed Chief Financial Officer of Wienerberger AG.

Since 1 April 2007 Hans Tschuden has been Chief Financial Officer of Telekom Austria AG. On 1 January 2009 he was appointed Vice Chairman of the Management Board of Telekom Austria AG. Outside the Group Hans Tschuden is a member of the Supervisory Boards of APK Pensionskasse AG and HFA Zwei Mittelstandsfinanzierungs-AG. In June 2012 Hans Tschuden was recognised as the best CFO in Austria by the Thomson Reuters “Extel Survey 2012”, one of the most important capital market awards.

### Areas of responsibility

#### Hans Tschuden

- ✓ Investor Relations
- ✓ Controlling (Group)
- ✓ Treasury (Group)
- ✓ Accounting (Group)
- ✓ Purchasing (Group)
- ✓ Legal / General Counsel
- ✓ Group Compliance\*

\* Reports to the entire Management Board but organisationally assigned to the CFO

## Corporate Governance Report

### MEMBERS OF THE SUPERVISORY BOARD

Name (year of birth)	Profession	Other Supervisory Board positions and comparable functions
Markus Beyrer, Chairman (1965)		
Henrietta Egerth-Stadlhuber (1971)	Managing Director of Österreichischen Forschungsförderungsgesellschaft mbH	
Franz Geiger (1950)	CEO of Donau Chemie AG	
Edith Hlawati, Second Vice Chair (1957)	Partner in the law firm Cerha Hempel Spiegelfeld Hlawati	Österreichische Post AG
Rudolf Kemler, Chairman (1956)	Member of the Managing Board of Österreichische Industrieholding Aktiengesellschaft from 1.11.2012	Österreichische Post AG (Chairman), OMV AG (Chairman), Société Horlogère Reconvilier AG, Webster University Vienna
Peter J. Oswald (1962)	Member of the Boards of Mondi plc (UK) and Mondi Ltd (South Africa ), CEO of Mondi AG and Mondi Services AG	
Ronny Pecik, First Vice Chair (1962)	Entrepreneur	
Wolfgang Rutenstorfer (1950)		Vienna Insurance Group AG, Wiener Versicherung Group (Chairman), Flughafen Wien AG, CA Immobilien Anlagen AG (Chairman), RHI AG, NIS a.d. Novi Sad
Wilfried Stadler (1951)	Business consultant, bank consultant, honorary professor at the Vienna University of Economics and Business	ATP Planungs- u. Beteiligungs AG, East Centro Capital Management AG, Österreichische Staatsdruckerei Holding AG, Bankhaus Denzel AG, Wolfgang Denzel AG, Wolfgang Denzel Auto AG, Wolfgang Denzel Holding AG
Harald Stöber (1952)	Business consultant	Sirrix AG (Chairman), Vodafone D2 GmbH, Vodafone Holding GmbH, Medfort Sarl, Lux, Perseus SA
Oscar Von Hauske Solís (1957)	CEO of Telmex Internacional, Chief Fixed-Line Operations Officer at América Móvil, S.A.B. de C.V.	América Móvil S.A.B. de C.V., Teléfonos de México S.A.B. de C.V., Participações S.A, Telmex Brasil, Telmex Argentina, Telmex Colombia, Telmex Perú, Telmex Ecuador, Telmex USA, Hildebrando Software

#### Members of the Supervisory Board delegated by the Works Council

Silvia Bauer (1968)	Member of the Central Works Council of A1 Telekom Austria AG	
Walter Hotz (1959)	Chairman of the Central Works Council of A1 Telekom Austria AG	Österreichische Industrieholding AG, A1 Telekom Austria AG, Telekom Austria Personalmanagement GmbH, Tele-Post, Privatstiftung, APK Pensionskasse AG
Werner Luksch (1967)	Deputy Chairman of the Central Works Council of A1 Telekom Austria AG	Österreichische Industrieholding AG
Alexander Sollak (1978)	Chairman of the Trade Union Committee of Telekom Austria AG	
Gottfried Zehetleitner (1962)	Member of the Central Works Council of A1 Telekom Austria AG	

\* The term of office ends at the Annual General Meeting on 29 May 2013, which deals with the 2012 financial year.

First appointed	End of current term of office or date of retirement	Independent pursuant to Rule 53 and 54 of the Austrian Corporate Governance Code
19.5.2011	31.10.2012	Independent pursuant to Rule 53 but not Rule 54
20.5.2008	2013*	Yes
19.5.2011	2013*	Yes
28.6.2001	2013*	Yes
1.11.2012	2013*	Independent pursuant to Rule 53 but not Rule 54
20.5.2008	2013*	Yes
23.5.2012	2013*	Yes
27.5.2010	2013*	Yes
15.7.2005	2013*	Yes
4.6.2003	2013*	Yes
23.10.2012	2013*	Independent pursuant to Rule 53 but not Rule 54
26.7.2012		
Reappointed on 6.5.2011		
3.8.2007 to 20.10.2010, reappointed on 11.1.2011		
3.11.2010		
27.10.2010		

## Members and Committees of the Supervisory Board

The Supervisory Board of the Telekom Austria Group comprises ten members who are elected by the Annual General Meeting, four members who are delegated by the Central Works Council of A1 Telekom Austria AG and one member who is delegated by the trade unions of Telekom Austria AG. Employee participation on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria.

The Supervisory Board has set up four committees, which provide effective support by carrying out preparatory work on selected tasks and issues on behalf of the Supervisory Board.

The **Audit Committee** is responsible for auditing and preparing the approval of the annual financial statements, auditing the consolidated financial statements, the proposal for the distribution of profit, the Management Report and the Group Management Report as well as the Corporate Governance Report. High priority is also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. It also prepares the selection of the auditor and monitors the independence of the auditor and the auditor of the consolidated accounts, in particular with regard to the performance of additional services. As of 31 December 2012 the members of the Audit Committee were Rudolf Kemler, Chairman (since 1 November 2012, previously Markus Beyrer), financial expert Wilfried Stadler, Oscar Von Hauske Solís (since 23 October 2012), Peter Oswald, Ronny Pecik (since 23 May 2012), Wolfgang Rutenstorfer, Silvia Bauer (since 26 July 2012), Walter Hotz and Alexander Sollak as the employee representative.

The **Chairing Committee** and **Remuneration Committee** are made up of Rudolf Kemler (Chairman since 1 November 2012, previously Markus Beyrer), Ronny Pecik (since 23 May 2012) and Edith Hlawati. The Chairing Committee confers regularly with the Chairman of the Management Board, prepares the meetings of the Supervisory Board and is authorised to make decisions on matters of urgency. In its capacity as the Remuneration Committee the Chairing Committee is responsible for concluding contract negotiations with the Management Board and defining the remuneration of the Management Board; it also sets the targets for the calculation of performance-related bonuses and monitors the achievement of goals.

The **Personnel and Nomination Committee** submits proposals to the Supervisory Board for appointments to positions on the Management Board that have become

vacant and also deals with questions of succession planning. Its members are Rudolf Kemler (Chairman since 1 November 2012, previously Markus Beyrer), Edith Hlawati, Ronny Pecik (since 23 May 2012), Walter Hotz and Werner Luksch.

The members of the **Control Committee** for the investigation and prevention of fraudulent activities at the Telekom Austria Group were Markus Beyrer, Franz Geiger, Ronny Pecik (since 23 May 2012) and Walter Hotz. The Control Committee concluded its activities in September 2012.

### Supervisory Board activities in the year under review

In 2012 the Supervisory Board held extensive discussions on the strategic orientation of the Telekom Austria Group, its business development and the investigation of past misconduct in the past at nine meetings of the Supervisory Board, one strategy workshop, six meetings of the Audit Committee and three meetings of the Control Committee. The main activities of the Supervisory Board in 2012 are set out in the Supervisory Board's report to the Annual General Meeting, which is also available on the company's website.

In the year under review no member of the Supervisory Board attended fewer than 50% of the Supervisory Board meetings.

### Independence of the Supervisory Board

The guidelines laid down by the Supervisory Board in 2006 to determine the independence of its members were adjusted in 2009 to comply with the modified provisions of the Austrian Corporate Governance code and now conform to Appendix 1 of the Code. According to these provisions the members of the Supervisory Board are deemed to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest and thus influence the members' behaviour. The business relationship with the law firm Cerha Hempel Spiegelfeld Hlawati (CHSH), in which Edith Hlawati, the Second Vice Chair of the Supervisory Board, is a partner, was authorised by the Supervisory Board in 2006. The hourly rates charged by this firm conform to local practice and are consistent with those billed to third parties. In 2012 the consultancy fees paid to Cerha Hempel Spiegelfeld Hlawati amounted to EUR 1.679 million (2011: EUR 0.753 million). The law firm CHSH has provided written confirmation that Edith Hlawati will not receive any portion of the income derived from the partnership's work for the Telekom Austria Group while she is a member of the Supervisory Board of Telekom Austria AG.

The Annual General Meeting on 23 May 2012 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairs and

### SUPERVISORY BOARD REMUNERATION

Name	Remuneration awarded for the 2011 financial year and paid in 2012 (in EUR)	Meeting attendance allowances for 2012 (in EUR)
Markus Beyrer**	17,500	3,900
Henrietta Egerth-Stadlhuber	15,000	3,000
Franz Geiger	9,329	3,300
Edith Hlawati	22,500	3,000
Rudolf Kemler**	–	1,500
Peter Michaelis***	12,500	–
Peter J. Oswald	15,000	4,500
Ronny Pecik	–	3,000
Wolfgang Ruttenstorfer	15,000	4,200
Wilfried Stadler	15,000	4,200
Harald Stöber	15,000	2,400
Oscar Von Hauske Solís	–	–
Rainer Wieltsch*	5,712	–
Walter Hotz	–	3,600
Werner Luksch	–	3,000
Alexander Sollak	–	4,500
Gottfried Zehetleitner	–	3,000
Silvia Bauer	–	2,100

\* retired on 19 May 2011

\*\* Supervisory Board remuneration and attendance allowance are paid to the ÖIAG

\*\*\* Supervisory Board remuneration and attendance allowance were paid to the ÖIAG, retired on 19 May 2011

EUR 15,000 for all other members for the 2011 financial year, and thus remained unchanged from the previous year. Remuneration for the Supervisory Board for 2011 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in May 2012. Until further notice the attendance allowance for meetings of the Supervisory Board is set at EUR 300 per member and meeting. In 2012 remuneration (including expenses) amounting to EUR 0.192 million was paid to members of the Supervisory Board (2011: EUR 0.181 million).

### Report on Management Board remuneration

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. Besides a basic salary, a variable performance-based component was agreed with the members of the Management Board. This performance-based component is contingent upon the achievement of defined targets and is limited to 150% of the base salary. The targets are based to an equal extent on key financial indicators – such as the return on assets in excess of the cost of capital, operating free cash flow and net income – and strategic targets. The amount of the variable salary is calculated on the basis of the annual financial statements, which are approved by the Supervisory Board, and the implementation of the strategic projects discussed by the Supervisory Board and authorised by the Remuneration Committee. The performance-related remuneration for the performance targets for 2011 was paid out in 2012. In 2010 the stock option programme ESOP was replaced by a “Long Term Incentive Program”, which continued in the year under review.

Total expenses for the basic salaries of members of the Management Board in 2012 amounted to EUR 0.959 million (2011: EUR 0.936 million), with additional performance-based remuneration of EUR 0.780 million (2011: EUR 1.095 million). No benefits were paid under the multi-year stock option programme or the “Long Term Incentive Program” in 2012 or 2011.

The members of the Management Board Hannes Ametsreiter and Hans Tschuden receive a contribution to a voluntary pension plan amounting to 10% and 20%

of their fixed gross annual salary respectively. When they leave the company upon termination of contract, the amount of the severance payment is based upon the length of their employment and is limited to one gross annual salary. In the event that a Management Board member's contract is terminated prematurely due to a change of control, the member is entitled to 50% of the contractually agreed benefits and conditions, with 12 months of benefits forming the minimum basis. A change of control is deemed to have taken place if an investor holds at least 26% of all Telekom Austria AG shares or more shares than Österreichische Industrieholding AG.

### Long Term Incentive Program

The “Long Term Incentive Program” (LTI) of the Telekom Austria Group introduced in 2010 replaced the ESOP stock option programme established in 2004 and was continued in 2012. This new incentive scheme aimed at Management Board members, executives and selected employees runs in three-year cycles and started for the first time on 1 January 2010. Unlike the previous ESOP model, LTI is not based on options but on the allocation of shares contingent upon the achievement of specific targets. At the end of the cycle the targets or key figures defined by the Supervisory Board must have been met. Participants in the programme must hold an investment in the company through the purchase of Telekom Austria shares until the end of the incentive scheme period. The minimum amount of this investment is based upon the number of shares allocated to each of the participants. Payments are made in cash. The amount of the payment depends on the achievement of the key figures defined by the Supervisory Board within a three-year period, ranging from no less than 0% and no more than 175% of the participant's investment. A detailed description of the LTI and ESOP can be found in the Notes to the Annual Financial Statements.

The LTI of the Telekom Austria Group complies with the requirements of the Austrian Corporate Governance Code (C Rule 28). The relevant target figures focus on the long-term development of the company; moreover, the investment required by the participants is also an important motivating factor.

### REMUNERATION OF THE INDIVIDUAL MEMBERS OF THE MANAGEMENT BOARD

Management Board remuneration (in EUR '000)	Basic salary (incl. remuneration in kind)		Performance-based remuneration		Multi-year stock-based remuneration		Total remuneration	
	2012	2011	2012	2011	2012	2011	2012	2011
Hannes Ametsreiter	488	465	398	560	–	–	886	1,025
Hans Tschuden	471	471	382	535	–	–	853	1,006
<b>Total</b>	<b>959</b>	<b>936</b>	<b>780</b>	<b>1,095</b>	<b>–</b>	<b>–</b>	<b>1,739</b>	<b>2,031</b>

On 31 December 2012 the members of the Management Board Hannes Ametsreiter and Hans Tschuden held 25,674 and 40,000 Telekom Austria shares respectively, of which 25,674 and 34,000 respectively constitute the minimum investment required to ensure eligibility for the LTI programme. In compliance with the relevant statutory provisions transactions involving Telekom Austria shares conducted by executives, members of the Supervisory Board and related parties are reported to the Austrian Financial Market Authority (see the "Directors' Dealings" section at [www.fma.gv.at](http://www.fma.gv.at)).

### Promotion of female executives

Two of the ten shareholder representatives on the Supervisory Board of Telekom Austria AG are female. At 20% this proportion of female members is significantly higher than the average for the Austrian stock index ATX. A further eight Supervisory Board positions within the Telekom Austria Group are held by women, as are six Management Board and executive positions. Furthermore, one of the four Chief Group Officers is female.

Women accounted for around 32% of management positions in 2012. The Telekom Austria Group has made a voluntary commitment to gradually increase the proportion of women in managerial positions at all Group subsidiaries to 35% by 2015.

### Directors and officers (D&O) insurance

The Telekom Austria Group has concluded and also pays the costs of a directors and officers (D&O) insurance policy for the members of the Group's Management Board, managing directors and the members of the Supervisory Board.

### Auditor's fees

KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft has credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting pursuant to section 270 (1a) of the Austrian Commercial Code. A detailed analysis by the Audit Committee revealed no legal obstacle to the appointment of KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The Annual General Meeting on 23 May 2012 elected KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as the auditors of the single-entity and consolidated financial statements for the 2012 financial year.

The expenses incurred by the Telekom Austria Group for the audit of the 2012 single-entity and consolidated financial statements amounted to EUR 1.5 million after EUR 1.7 million in the previous year. A further EUR 0.3 million were incurred for other assurance services in the

2012 financial year. Expenses for the tax advisory services performed by the KPMG network in 2012 amounted to EUR 0.2 million (2011: EUR 0.4 million). Expenses for other consultancy services amounted to EUR 0.3 million after EUR 1.2 million in the previous year.

### Other corporate governance instruments

The Telekom Austria Group's risk management system enables a group-wide structured identification, evaluation and management of risks on the basis of a defined risk policy as well as strategic and operational objectives. Its suitability and effectiveness is subject to external evaluation by the auditors in accordance with Rule 83 of the Austrian Corporate Governance Code and, along with the effectiveness of the internal control system, is monitored by the Audit Committee.

The internal control system of the Telekom Austria Group is aimed at ensuring the effectiveness and profitability of business activities, the integrity and reliability of financial reporting as well as compliance with the relevant laws and regulations. To prevent the misuse or passing on of confidential information that might affect the share price, a Group-wide capital market compliance guideline has been implemented and classified units have been defined within the company.

The Telekom Austria Group has also implemented a group-wide Information Security Policy that governs the use of confidential information such as customer data, traffic data, content data, and business and industrial secrets. This policy is supplemented by country-specific guidelines at the local level. Dedicated information security and data protection managers have been appointed at all Group subsidiaries. Regular internal and external audits as well as staff training ensure the effective implementation of this corporate policy. A1 is the only network operator in Austria to be certified in accordance with the ISO 27001 standard. The processes laid down in this standard ensure the highest level of data security within the company. ✓

Vienna, 27 February 2013

The Management Board



Hannes Ametsreiter



Hans Tschuden

# Report by the Supervisory Board

## Ladies and Gentlemen,

In the 2012 financial year the Telekom Austria Group was again faced with major challenges, analogous to the entire telecommunications industry. Intense competition across all markets, radical regulatory provisions and the strained macroeconomic situation impacted the course of business. Despite this strong headwind the Group enjoyed significant success from an operational perspective. The strategy of promoting convergent communication solutions was successfully implemented in the markets of Austria, Bulgaria and Croatia, while substantial mobile customer growth was recorded in Belarus, Slovenia, the Republic of Serbia and the Republic of Macedonia. In addition, effective measures were realised to improve operational excellence and company-wide cost savings, and to thus curb the influence of negative external factors.

However, activities in the 2012 financial year also focused on the resolution of past misconduct. The Group compliance management system was reinforced and complemented with effective instruments. Major developments included an update of the Code of Conduct and the introduction of a platform for whistleblowing which allows information on potential misconduct to be reported anonymously. The Control Committee of the Supervisory Board, which was set up in 2011 with the aim of investigating and preventing fraudulent activities at Telekom Austria Group, came together three times in 2012 to analyse in depth past allegations of corruption and misconduct. It concluded its activities in September 2012, having completed its investigation.

Furthermore, América Móvil's acquisition of a stake in Telekom Austria AG in 2012 led to a significant change in the shareholder structure.

In 2012 the Supervisory Board also held extensive discussions on the strategic orientation, the most important fields of innovation and the business development of the Telekom Austria Group and its subsidiaries at nine meetings and one strategy workshop.

Together with the Management Board, the Supervisory Board prepared resolutions to be put forward to the Annual General Meeting on 23 May 2012. The shareholders attending this Annual General Meeting were also given a report on the forensic investigations initiated in 2011 in order to clarify past cases of misconduct and suggest improvements to the existing compliance system. In addition, Ronny Pecik was elected to the Supervisory Board; he was subsequently elected by the Supervisory Board to serve as Deputy Chairman.

The staff association nominated Silvia Bauer to the Supervisory Board with effect from 26 July 2012.

The Extraordinary General Meeting held in October 2012 elected Oscar Von Hauske Solís to the Supervisory Board with effect from 23 October 2012. I was also elected to the Supervisory Board at this meeting and succeeded Markus Beyrer as Chairman of the Supervisory Board with effect from 1 November 2012. I would like to take this opportunity to thank Markus Beyrer for his outstanding commitment to the Telekom Austria Group.

At its meetings in September and October 2012 the Supervisory Board discussed the market situation in Austria in detail. The strategy workshop was used to discuss the conditions, strategic opportunities and challenges facing the company, as well as the options for action with regard to optimising its financial structure. The main objectives of the corporate strategy include stabilising the earnings situation in saturated markets and leveraging growth potential in Telekom Austria Group's growth markets. Convergence is a central pillar of the overall strategy. A further aim is to secure the Group's earnings strength through further improvements in efficiency.

The budget for 2013, the business plan for the period 2014 to 2016 and a discussion of the financial strategy and dividend policy were the main topics of discussion at the Supervisory Board meeting in December 2012.



## Report by the Supervisory Board

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code (ÖCGK) and to responsible corporate management and control aimed at generating sustainable enterprise value. The Supervisory Board has laid down extensive criteria for determining the independence of its members. All of the shareholder representatives have declared their independence in accordance with Rule 53 of the ÖCGK, while nine of the ten members of the Supervisory Board have declared their independence in accordance with Rule 54 of the ÖCGK. The Supervisory Board also analysed the effectiveness of its activities, organisation and working methods in accordance with Rule 36 of the ÖCGK.

In accordance with Rule 62 of the ÖCGK, Telekom Austria Group's compliance with the provisions of the ÖCGK and the accuracy of its reporting are evaluated externally every three years. The most recent evaluation, which was carried out by KPMG in early 2011, identified no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the 2010 financial year concerning observance and compliance with the "Comply or Explain" rules or the recommendations of the ÖCGK.

In 2012 the Audit Committee of the Supervisory Board dealt with financial reporting as part of the preparation of the annual financial statements and the quarterly reports as well as performing its duties to monitor the effectiveness of the internal control system, risk management and the internal audit system at six meetings. During the audit of the single-entity and consolidated financial statements for 2012, the Audit Committee also received regular reports on the findings of the audit procedure for both reports. Auditors and audit committee were also able to interact without Management Board members being present. As part of its reporting, KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee in accordance with section 270 (1a) of the Austrian Commercial Code. The outcome of the meet-

ings of the Audit Committee was communicated to the Supervisory Board on a regular basis.

The annual financial statements of Telekom Austria AG and the consolidated financial statements for the year ended 31 December 2012 were issued with unqualified audit opinions by KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The Management Report and the Group Management Report are consistent with the annual financial statements and the consolidated financial statements respectively. After prior consultation with the Audit Committee and following an extensive discussion and review, the Supervisory Board approved the annual financial statements for 2012, which have therefore been adopted in accordance with section 96 (4) of the Austrian Stock Corporation Act. After prior consultation with the Audit Committee and following an extensive discussion and review, it also approved the consolidated financial statements prepared in accordance with the IFRSs as prescribed by section 245a of the Austrian Commercial Code, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board's proposal that net profit be appropriated to distribute a dividend of 5 Eurocent per eligible share for the 2012 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the members of the Management Board and all our employees for the commitment they have shown in a challenging 2012 financial year. I would also like to assure Telekom Austria AG's shareholders that the Supervisory Board will continue to actively support and press ahead with the strategic development of the Telekom Austria Group in future.

**Rudolf Kemler**

Chairman of the Supervisory Board

Vienna, February 2013