

# Corporate Governance Report

## Commitment of the Telekom Austria Group to the Austrian Corporate Governance Code

The shares of Telekom Austria AG have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code (ACGC) is generally accepted. The current version of this Code can be viewed at [www.corporate-governance.at](http://www.corporate-governance.at) or [www.telekomaustria.com](http://www.telekomaustria.com).

The Austrian Corporate Governance Code pursues the goal of the responsible management and control of companies geared towards the sustainable and long-term creation of enterprise value. It aims to ensure a high degree of transparency for all stakeholders and to serve as an important guideline for investors. The Code is based on the provisions of Austrian equity, stock exchange and capital market law, EU recommendations and the OECD Principles of Corporate Governance. The Telekom Austria Group has been committed to voluntary compliance with the ACGC since 2003. The Group complies with all the legal requirements set out by the ACGC in what are referred to as the 'L' rules. To explain the deviations from the ACGC's 'C' rules, the Telekom Austria Group has made the following statement regarding Rules 28 and 28a of the ACGC:

✓ Stock option plans and programmes for the beneficial transfer of shares, including the long-term and sustainable exercise criteria, are decided upon by the Supervisory Board to ensure an optimal alignment with the business plan. A long-term incentive programme was introduced at the Annual General Meeting on 27 May 2010,

which replaced the existing ESOP stock option programme as of the 2010 financial year. Details can be found in the consolidated financial statements of the Telekom Austria Group.

In accordance with Rule 62 of the ACGC, the Telekom Austria Group has its compliance with the provisions of the ACGC and the accuracy of its reporting externally evaluated every three years. The most recent evaluation, carried out by Deloitte in early 2014, discovered no facts which conflicted with the declaration made by the Management Board and the Supervisory Board concerning observance of and compliance with the 'C' and 'R' rules of the Austrian Corporate Governance Code for the 2013 financial year.

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

## Composition of executive bodies of the company and executive body remuneration

### The Management Board

As in the previous year, in the reporting year 2013 the Management Board of Telekom Austria AG consisted of Hannes Ametsreiter, the Chairman, and Hans Tschuden, the Vice Chairman and Chief Financial Officer. Günther Ottendorfer has also been appointed as Chief Technology Officer from 1 September 2013.

### Hannes Ametsreiter

Member of the Management Board since 1 January 2009, CEO since 1 April 2009, reappointed/extended as of 1 January 2014 until 31 December 2016 – this appointment will extend until 31 December 2018 if the Supervisory Board does not inform the Member no later than two years after his appointment that his appointment will end after three years.

Hannes Ametsreiter was born in Salzburg in 1967. After studying in Austria and the United States, he began his professional career as a brand manager at the international branded goods company Procter & Gamble. His career in the telecommunications sector began in 1996 at mobilkom austria. After holding various positions within the Group, he became Chief Marketing Officer of mobilkom austria AG in 2001.

Hannes Ametsreiter has been the Chairman of the Management Board and CEO of Telekom Austria AG since 1 April 2009. Since 2010, Hannes Ametsreiter has also been the CEO of A1 Telekom Austria AG, which was created by the merger of mobilkom austria AG and Telekom Austria TA AG. He has held supervisory board functions outside the Group since 2013 for Wind Hellas Telecommunications (Greece).

In 2008 Booz & Company awarded Hannes Ametsreiter the international marketing award 'CMO of the Year'. At the '40th Extel Awards' in 2013, the international news agency Thomson Reuters named him 'CEO of the Year' in Austria. In addition, he was a member of the international board of the GSM Association between 2009 and 2012.

#### Board responsibilities of Hannes Ametsreiter

- ✓ Marketing (Group)
- ✓ Human Resources (Group)/ Personnel Office
- ✓ International Business Development/ Corporate 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, reappointed/extended as of 1 April 2012 until 31 March 2015 – this appointment will extend until 31 March 2017 if the Supervisory Board does not inform the member no later than two years after his appointment that his appointment will end after three years.

Hans Tschuden was born in 1958 and is a graduate of the Vienna University of Economics and the International Executive Program (INSEAD) in Paris. Hans Tschuden joined the Wienerberger Group in 1989, 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 a position as Managing Director and, in 1998, to Steinzeug Abwassersysteme GmbH in Cologne. In 1999 he 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 as 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. Hans Tschuden was named Austria's best CFO in the Thomson Reuters 'Extel Awards' report twice in a row in 2012 and 2013.

#### Board responsibilities of 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

### Günther Ottendorfer

Chief Technology Officer since 1 September 2013, appointed until 31 August 2016 – this appointment will extend until 31 August 2018 if the Supervisory Board does not inform the member no later than two years after his appointment that his appointment will end after three years.

Born in 1968, Günther Ottendorfer can look back on a successful career in the telecommunications industry going back 20 years. From 1987 to 1992, Ottendorfer studied Computer Sciences at the Vienna University of Technology and graduated with honours.

From 1996 Günther Ottendorfer played a key role in the development of the mobile telephony provider max.mobil in Austria. He gathered comprehensive management experience in positions including that of COO and CTO for T-Mobile Österreich, CTO for T-Mobile Deutschland and European Technology Director for T-Mobile International.

In 2011 Günther Ottendorfer was appointed to the Board of Optus Singtel, Australia's second-largest telecommunications provider, where he was responsible for all network infrastructures. He also headed the launch of LTE at Optus and initiated several successful efficiency and restructuring programmes.

Günther Ottendorfer does not hold any Supervisory Board mandates outside the Telekom Austria Group.

#### Board responsibilities of Günther Ottendorfer

- ✓ Access & Transport (Group)
- ✓ Operations (Group)
- ✓ Service Network & IT (Group)
- ✓ Technology Strategy (Group)

## Report on Management Board remuneration

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. In addition to basic remuneration (fixed salary including remuneration in kind), 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 remuneration. The target for the reporting year is divided 50:50 between financial figures (the return on assets in excess of the costs of capital (weighting 15%), operating free cash flow (weighting 15%), net income (weighting 10%) and customer value (weighting 10%)) and strategic objectives. On the basis of the consolidated financial statements and the implementation of strategy, the Remuneration Committee decides on the degree of target achievement and the amount of the variable salary component. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved, while an advance in the amount of 60% of the fixed salary is paid in 14 instalments in the current financial year.

The share-based long-term incentive programme (LTI) introduced in 2010 continued in the reporting year with the issue of the 2013 tranche. The first tranche of the 2010 LTI was paid out in the amount of 41.1% in 2013, following the end of the three-year performance period and the determination by the Remuneration Committee of the degree of achievement. Detailed information about this can be found in the notes to the consolidated financial statements and the section on the remuneration of the individual members of the Management Board.

The total expense for the basic remuneration of members of the Management Board, including remuneration in kind, amounted to EUR 1.118 million in 2013 (2012: EUR 0.959 million), while variable remuneration amounted to EUR 1.349 million (2012: EUR 0.780 million). The expenses for the 2010 LTI amounted to EUR 0.111 million (no expenses in 2012). Comparisons with the previous year are only possible to a limited extent on account of the increased size of the Management Board.

Within the framework of the new LTI tranche launched in September 2013, the members of the Management Board will receive the following number of Telekom Austria shares upon reaching 100% of the targets in 2013: Hannes Ametsreiter 51,348 shares, Hans Tschuden 54,862 shares and Günther Ottendorfer 41,743 shares. Any actual allocation of these shares or cash settlement will occur after the end of the three-year performance period, i.e. not before 1 September 2016, commensurate with the level of achievement of objectives as determined by the Remuneration Committee.

In terms of old-age provisions, the members of the Management Board receive a contribution to their voluntary pension plan, which is paid into a corporate pension fund by the company. For Hannes Ametsreiter this contribution amounts to 10% and for Hans Tschuden and Günther Ottendorfer to approximately 20% of their respective individual fixed salaries. The member will only receive an eventual payout from the corporate pension fund when he is over 55 years of age and no longer in a contractual relationship with the company.

The amount of the severance payment to be paid in the event of the termination of a Board member's appointment is based on the length of their employment and is capped at one year's total remuneration for both Hannes Ametsreiter and Hans Tschuden. The Mitarbeiter- und Selbstständigenvorsorgegesetz (BMSVG – Austrian Corporate Employee and Entrepreneur Pension Law) applies to Günther Ottendorfer.

In the event that a Management Board member's contract is terminated prematurely due to a change of control, the member Hans Tschuden is entitled to 50% of the contractually agreed benefits and conditions, whereby 12 months of benefits form the minimum level and a change of control has to take place 18 months before the end of the contract. A change of control is deemed to have taken place if an investor holds at least 26% of all Telekom Austria AG shares and more shares than Österreichische Industrieholding AG.

Furthermore, the members of the Management Board are entitled to a company car, and casualty insurance provides cover in the event of death or invalidity. There is also supplementary health insurance for Management Board members. The members of the Management Board are also beneficiaries of the D&O insurance policy concluded by Telekom Austria AG. Moreover, there is criminal defence insurance for administrative offences or violations of criminal law.

## Long-term incentive programme

The Telekom Austria Group's share-based long-term incentive programme (LTI) introduced in the 2010 financial year continued in 2013. This incentive scheme, designed for Management Board members, executives and selected employees, has a term of three years for each tranche. Unlike the previous ESOP model, the LTI programme is not based on options but rather

### Remuneration of the individual members of the Management Board

Management Board remuneration in EUR '000	Basic remuneration (fixed salary incl. remuneration in kind)		Variable remuneration		Multi-year stock-based remuneration (LTI)		Total remuneration	
	2013	2012	2013	2012	2013	2012	2013	2012
Hannes Ametsreiter	493	488	495	398	55	–	1,043	886
Hans Tschuden	472	471	474	382	55	–	1,001	853
Günther Ottendorfer*	154	–	380**	–	–	–	534	–
<b>Gesamt</b>	<b>1,118</b>	<b>959</b>	<b>1,349</b>	<b>780</b>	<b>111***</b>	<b>–</b>	<b>2,578</b>	<b>1,739</b>

\* Appointed as at 1 September 2013

\*\* Upon commencing his role on 1 September 2013, Management Board member Günther Ottendorfer received a one-time payment of EUR 290,330 (of which EUR 114,334 were in the form of company shares (equivalent to 20,872 shares) in compensation for relocating from Australia to Austria and for the loss of benefits acquired through his former employment contract). This payment is included in variable remuneration.

\*\*\* Differences in the sums due to rounding

on the performance-based allocation of shares. During the programme, participants must invest in Telekom Austria shares, the number of which is determined by the defined number of potential shares for each entitled beneficiary. Any payments are made in cash. The amount of the payment depends on the achievement of targets in the form of key figures defined by the Supervisory Board within a three-year performance period, ranging from 0% to more than 175% of the participant's investment.

Through the LTI programme, Telekom Austria Group conforms to the requirements of the Austrian Corporate Governance Code (C Rule 28). The relevant target performance indicators focus on the long-term development of the company. The targets and key performance indicators are determined by the Supervisory Board at the beginning of each tranche. Each performance period is three years long. Free cash flow (weighting 45%), total shareholder return (weighting 35%) and EBITDA (weighting 20%) were defined as the targets/key performance indicators for the 2010, 2011 and 2012 tranches. The targets for the 2013 tranche were defined as net income (weighting 30%), EBITDA (weighting 35%) and relative total shareholder return (weighting 35%), which will be assessed versus a defined peer group of nine European telecommunication companies.

Three years after having been granted, the first LTI tranche launched on 1 September 2010 was distributed to the entitled employees of the Group in September 2013 after the end of the three-year performance period. The tranche was paid out in the amount of 41.1% in line with the level of performance determined by the Remuneration Committee of the Supervisory Board, at a value of 178,262 bonus shares in total (measured using the average price for the fourth quarter of 2012 of EUR 5.25 and therefore EUR 0.938 million). Hannes Ametsreiter and Hans Tschuden each received 10,552 shares or an equivalent amount of EUR 0.055 million.

A detailed description of the long-term incentive programme can be found in the notes to the consolidated financial statements.

As of 31 December 2013, the members of the Management Board hold the following shares, some of which serve to satisfy LTI programme participation requirements:

## Number of Telekom Austria shares held as of 31 Dec 2013

		of which for LTI participation
Hannes Ametsreiter	25,674	25,674
Hans Tschuden	40,000	34,000
Günther Ottendorfer	20,872	20,872

As of 31 December 2013, the members of the Management Board hold the following shares, some of which serve to satisfy LTI programme participation requirements:

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)).

## 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 appointed by the Central Works Council of A1 Telekom Austria AG and one member who is appointed by the Staff Council of Telekom Austria AG. Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria.

## Independence of the Supervisory Board

The guidelines set out 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 are consistent with Annex 1 of the current version 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 interests 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 Chairwoman of the Supervisory Board, is a partner, was authorised by the Supervisory Board in 2006. Dr. Hlawati left the Supervisory Board of Telekom Austria AG at the 2013 Annual General Meeting on 29 May 2013. The consulting fees charged up to the point when Dr. Hlawati left the Supervisory Board by the law firm Cerha Hempel Spiegelfeld Hlawati (the hourly rates charged are arm's-length prices consistent with the local market) amounted to EUR 0.159 million for the 2013 financial year (2012: EUR 1.679 million). The law firm CHSH has provided written confirmation that Edith Hlawati did not receive any portion of the income the partnership generated from Telekom Austria Group while she was a member of the Supervisory Board of Telekom Austria AG.

## Report on Supervisory Board remuneration

The Annual General Meeting on 29 May 2013 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairs and EUR 15,000 for all other members, and was therefore unchanged from the previous year. Remuneration for the Supervisory Board for 2012 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in May 2013. Until further notice the attendance fee for meetings of the Supervisory Board is EUR 300 per member and meeting. Total remuneration including attendance allowance of EUR 0.220 million was paid to members of the Supervisory Board in the 2013 financial year (2012: EUR 0.192 million). In addition, the members of the Supervisory Board are reimbursed for expenses actually incurred for travel and accommodation in connection with Supervisory Board meetings. This applies in particular to members of the Supervisory Board travelling from abroad.

### Remuneration of Supervisory Board members

Name	Supervisory Board remuneration awarded for 2012 and paid in 2013 (in EUR)	2013 attendance allowances (in EUR)
Rudolf Kemler*	5,737.70	8,100
Markus Beyrer**	24,262.30	300
Ronny Pecik	13,709.02	4,800
Michael Enzinger	–	2,400
Alfred Brogyanyi	–	2,400
Elisabetta Castiglioni	–	1,500
Henrietta Egerth-Stadlhuber	15,000	2,100
Franz Geiger***	15,000	600
Edith Hlawati***	22,500	3,900
Peter J. Oswald	15,000	2,100
Wolfgang Ruttenstorfer	15,000	4,200
Wilfried Stadler***	15,000	1,800
Harald Stöber	15,000	2,700
Oscar Von Hauske Solís	2,868.85	3,000
Walter Hotz	–	6,900
Silvia Bauer	–	3,900
Werner Luksch	–	3,300
Alexander Sollak	–	4,500
Gottfried Zehetleitner	–	2,400

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

\*\* Left Supervisory Board on 31.10.2012 Supervisory Board remuneration and attendance allowance were paid to ÖIAG. The reported remuneration relates to the remuneration granted for 2012 and paid in the 2013 reporting year.

\*\*\* Left Supervisory Board on 29.05.2013 The reported remuneration relates to the remuneration granted for 2012 and paid in the 2013 reporting year.

## Members of the Supervisory Board

Name (year of birth)	Profession	Other supervisory board mandates and similar functions at other listed companies (as per the ACGC)
Rudolf Kemler, Chairman (1956)	Chairman of Österreichische Industrieholding Aktiengesellschaft	Österreichische Post AG (Chairman), OMV AG (Chairman)
Ronny Pecik, first Vice Chairman (1962)	Businessman	
Michael Enzinger, second Vice Chairman (1959)	Lawyer (law firm Lattenmayer, Luks & Enzinger Rechtsanwälte GmbH)	
Alfred Brogyányi (1948)	Managing Director of OPIKA Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH	
Elisabetta Castiglioni (1964)	Business consultant	
Henrietta Egerth-Stadlhuber (1971)	Managing Director of Österreichische Forschungsförderungsgesellschaft mbH	
Franz Geiger (1950)	CEO of Donau Chemie AG	
Edith Hlawati, second Vice Chairman (1957)	Partner in the law firm Cerha Hempel Spiegelfeld Hlawati	Österreichische Post AG
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	
Wolfgang Ruttenstorfer (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	Österreichische Staatsdruckerei Holding AG
Harald Stöber (1952)	Business consultant	
Oscar Von Hauske Solís (1957)	CEO of Telmex Internacional (Mexico), Chief Fixed-Line Operations Officer at América Móvil, S.A.B. de C.V. (Mexico)	América Móvil S.A. de C.V., Teléfonos de México S.A.B. de C.V., Embratel Participações S.A, Brasil, Telmex Brasil, Telmex Argentina, Telmex Colombia, Telmex Perú, Telmex Ecuador, Telmex USA, KPN (Netherlands), Net Serviços de Comunicação, Brasil, HITS, Mexico (Chairman)

**Members of the Supervisory Board delegated by the Central 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
Werner Luksch (1967)	Vice Chairman of the Central Works Council of A1 Telekom Austria AG
Alexander Sollak (1978)	Chairman of the Staff Council 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 dealing with the 2017 financial year (provisionally May 2018).

Other positions at non-listed companies (voluntary disclosure)	First appointed	End of current term of office on Supervisory Board of Telekom Austria AG or date of departure	Independent pursuant to Rule 53 and 54 of the ACGC
APK Pensionskasse (Chairman), Webster University Vienna (Member of the Supervisory Board), Société Horlogère Reconvilier AG, Switzerland (Member Board of Directors)	1 Nov 2012	2018*	Independent pursuant to Rule 53 but not Rule 54
	23 May 2012	2018*	Yes
C.A.P. Immobilienprojektentwicklungs- und Beteiligungs AG (Chairman), Winfried Kallinger Privatstiftung (Board of Trustees)	29 May 2013	2018*	Yes
Managing Director of and partner in VWT – Vereinigung Österreichischer Wirtschaftstreuhand GesmbH, Chairman of the University Council of the Academy of Fine Arts	29 May 2013	2018*	Yes
	29 May 2013	2018*	Yes
Member of the University Council of the University of Innsbruck	20 May 2008	2018*	Yes
	19 May 2011	29 May 2013	Yes
	28 June 2001	29 May 2013	Yes
	20 May 2008	2018*	Yes
	27 May 2010	2018*	Yes
ATP Planungs- u. Beteiligungs AG, East Centro Capital Management AG, Bankhaus Denzel AG, Wolfgang Denzel AG, Wolfgang Denzel Auto AG, Wolfgang Denzel Holding AG	15 July 2005	29 May 2013	Yes
Vodafone D2 GmbH, Vodafone Holding GmbH, Medfort Sarl, Luxembourg (Chairman), Perseus SA Luxembourg (Chairman), Sirrix AG (Chairman)	4 June 2003	2018*	Yes
	23 Oct 2012	2018*	Independent pursuant to Rule 53 but not Rule 54
	26 July 2012		
Österreichische Industrieholding AG, A1 Telekom Austria AG, Telekom Austria Personalmanagement GmbH, Board of Tele-Post Privatstiftung, APK Pensionskasse AG	Reappointed on 6 May 2011		
Österreichische Industrieholding AG	3 Aug 2007 to 20 Oct 2010, Reappointed on 11 Jan 2011		
	3 Nov 2010		
	27 Oct 2010		



The members of the Supervisory Board are beneficiaries of the D&O insurance policy taken out and paid for by Telekom Austria AG; there is also criminal defence insurance for administrative offences or violations of criminal law.

In the reporting year – with the exception of the person below – no member of the Supervisory Board attended fewer than 50% of the Supervisory Board meetings in person. Mr. Oscar Von Hauske Solís attended by video conference.

## Information concerning the working methods of the Management Board and the Supervisory Board

The Telekom Austria Group complies with established principles to ensure sustainable, value-adding corporate development and is committed to the principles of 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. In addition, the duties, responsibilities and working methods are also described in greater detail in the Rules of 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 demand reports from the Management Board at any time on matters concerning the Telekom Austria Group.

The Management Board of Telekom Austria AG is supported by four Group Chief Officers who are responsible for Human Resources, Technology, Marketing and Finance. A Chief Technology Officer was added to the Management Board of Telekom Austria AG in September 2013.

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.

✓ In line with the statutory provisions, the **Audit Committee** is primarily concerned with the audit of and preparation for the approval of the annual financial statements, the audit of the consolidated financial statements, the proposal for the distribution of profit, the Management Report, the Group Management Report and the Corporate Governance Report. High priority was also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. Furthermore, it prepares the selection of the auditor and checks the independence of the auditor of the annual and consolidated financial statements, particularly with regard to the performance of additional services. As of the end of 2013, the members of the Audit Committee were Rudolf Kemler as Chairman, Alfred Brogyanyi (since 29 May 2013, previously Wilfried Stadler) as financial expert, Oscar von Hauske Solís, Peter Oswald, Ronny Pecik, Wolfgang Rutenstorfer and Silvia Bauer, Walter Hotz and Alexander Sollak (the last three as employee representatives).

✓ The **Chairing Committee** and the **Remuneration Committee** are formed by Rudolf Kemler (Chairman) Ronny Pecik (first Vice Chairman) and Michael Enzinger (second Vice Chairman, since 29 May 2013, previously Edith Hlawati). The Chairing Committee also conferred regularly with the Chairman of the Management Board, prepared the meetings of the Supervisory Board and was authorised to make decisions on matters of urgency in the 2013 financial year. In its capacity as the Remuneration Committee, the Chairing Committee concluded contract negotiations with the Management Board in 2013, defined the remuneration of the Management Board, set the targets for the calculation of performance-based components and determined whether targets were reached.

✓ The **Personnel and Nomination Committee** submits proposals to the Supervisory Board for appointments to positions on the Management Board, which have become vacant and also deals with questions of succession planning. Its members are Rudolf Kemler (Chairman), Michael Enzinger (since 29 May 2013, previously Edith Hlawati), Ronny Pecik, Walter Hotz and Werner Luksch. At the end of 2012/the start of 2013, the Personnel and Nomination Committee discussed in depth the prolonga-

tion of Hannes Ametsreiter's position on the Management Board. In addition, at the end of 2012 the Personnel and Nomination Committee was commissioned by the Supervisory Board to search for candidates for the position of Chief Technology Officer. Following extensive research by the Personnel and Nomination Committee, and the hiring of a well-known headhunter, Günther Ottendorfer was appointed as the third member of the Management Board from 1 September 2013.

✓ The **Frequency Committee**, which was set up for the Austrian frequency auction in the summer of 2013, consisted of Rudolf Kemler (Chairman), Michael Enzinger, Ronny Pecik, Harald Stöber, Walter Hotz and Alexander Sollak. The Frequency Committee prepared the questions arising in connection with applying for and performing the frequency auction in Austria for the Supervisory Board and made the decisions delegated to it.

In the 2013 financial year the Supervisory Board held extensive discussions concerning the strategic orientation of the Telekom Austria Group, its business development and the frequency auction in Austria at seven meetings of the Supervisory Board, one strategy workshop, five meetings of the Audit Committee and four meetings of the Frequency Committee. The main activities of the Supervisory Board in 2013 are compiled in the Supervisory Board's report to the Annual General Meeting, which is also available on the company's website.

## Measures to support women

Two of the ten shareholder representatives on the Supervisory Board of Telekom Austria AG are women. At 20% this proportion of women members is significantly higher than the average for the Austrian stock index ATX. There are no women on the Management Board of Telekom Austria AG, though one of the four Chief Group Officers is female.

At the subsidiaries of Telekom Austria Group there are eight women in Supervisory Board positions and six in Management Board and executive positions.

The Telekom Austria Group is targeting a gradual increase in the proportion of women in managerial positions at all Group subsidiaries to 35% by 2015. This goal is to be achieved through several initiatives and measures such as building and broadening female networks as part of the 'New Manager' programme at A1, as well as mentoring programmes and flexible models for working hours.

## Other disclosures

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

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

### Auditor's fees

Deloitte Audit Wirtschaftsprüfungs GmbH has credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting in accordance with section 270(1a) of the Austrian Commercial Code. A detailed analysis by the Audit Committee revealed no legal obstacle to the appointment of Deloitte Audit Wirtschaftsprüfungs GmbH. The Annual General Meeting on 29 May 2013 appointed Deloitte Audit Wirtschaftsprüfungs GmbH as the auditor of the annual and consolidated financial statements for the 2013 financial year.

The expenses incurred by the Telekom Austria Group for the audit of the annual and consolidated financial statements by the Deloitte network amounted to EUR 1.2 million in the 2013 financial year after EUR 1.5 million in the previous year (KPMG). A further EUR 0.3 million was incurred for other consultancy services by KPMG in the 2013 financial year.

## Report by Internal Audit and risk management

Group Internal Audit is established as a staff unit of the CEO of Telekom Austria AG with a duty to report to the entire Management Board. There are also local Internal Audit units at all material operating subsidiaries of Telekom Austria AG which report to Group Internal Audit.

All companies, divisions and processes fall within the audit purview of Group Internal Audit without restriction. The associated rights and duties, in addition to the regulations for audit activities, are set out in a Group Internal Audit Charter.

Group Internal Audit performs independent and objective audits throughout the entire Group and reports to the Management Board of Telekom Austria AG. Audit subjects are specified as part of an annual audit programme, which is prepared according to risk criteria, and supplemented by ad hoc audit orders as required. After an initial joint evaluation with Group Compliance, reports which arrive via the 'tell.me' whistleblowing system are examined by Internal Audit.

In accordance with C Rule 18 of the Austrian Corporate Governance Code, the head of Group Internal Audit reports to the Audit Committee of the Supervisory Board on the annual audit programme in addition to an annual report about the audits performed and its material findings. Furthermore, significant issues as well as whistleblowing information from the 'tell.me' system are reported by Group Internal Audit intra-year to the Audit Committee of the Supervisory Board.

The Telekom Austria Group's risk management system, which the auditor has reported on to the Audit Committee, enables the Group-wide, structured identification, assessment and processing of risks on the basis of a defined risk policy as well as strategic and operational objectives. Its functionality and suitability according to Rule 83 of the Austrian Corporate Governance Code is also assessed by the external auditor and monitored by the Audit Committee, which also monitors the effectiveness of the internal control system.

The internal control system of the Telekom Austria Group serves to ensure the effectiveness and profitability of business activities, the integrity and reliability of financial reporting and compliance with all relevant laws and regulations. To prevent the passing on or misuse 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.

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 trade secrets. This policy is supplemented by country-specific guidelines at a local level. Information security and data protection managers have been appointed at all Group subsidiaries. Regular internal and external audits in addition to staff training ensure the effective implementation of this corporate policy. From 2005 A1 has been the only network operator in Austria to be certified in accordance with the ISO 27001 standard. It was followed by Vipnet in 2007 and Mobiltel in 2012. The processes implemented in accordance with this standard target the highest possible level of data security within the company.

## Certified compliance management system of the Telekom Austria Group

In recent years the Management Board of Telekom Austria AG has taken numerous measures to comprehensively develop the Group-wide compliance management system and have it certified externally.

The Audit Committee of the Supervisory Board is informed regularly and the Supervisory Board as a whole annually, about the activities in the area of compliance management and, in particular, the measures taken to prevent corruption. Furthermore, the Supervisory Board is informed annually about the activities in capital market compliance.

The appointment of Martin Walter as Group Compliance Officer in November 2011 was the starting signal for the implementation of new compliance management at an international level. Martin Walter reports directly to the Management Board and is independent in his work. He is supported by the experts in the Group Compliance division and the local compliance managers at the subsidiaries of the Telekom Austria Group. The Telekom Austria Group today has a compliance management system that essentially consists of the core elements of prevention and reaction. The compliance measures necessary for this are now firmly established in all divisions of the company.

Instruments such as the Code of Conduct or Group guidelines were updated and extended, and new instruments such as the 'tell.me' platform were set up for anonymous whistleblowing. A Group-wide training programme ensures the effectiveness of these instruments. In 2013, 3,800 employees and managers received classroom training and 5,600 employees and managers took part in e-learning sessions in the areas of corruption prevention and integrity, antitrust law, data protection and IT security as well as capital market compliance. The employees of the 'ask.me' compliance helpdesk are available to answer any questions. In 2013, 'ask.me' handled around 350 questions. The communications activities of the compliance department were awarded the European Change Communication Award in 2012 and the Communication Excellence Award in 2013.

In 2012, the Telekom Austria Group established a new whistleblowing platform ('tell.me') to allow employees and third parties to inform anonymously on cases of potential misconduct. Of the around 30 tips received to date, 85% were substantiated and investigated by Internal Audit. The consequences in cases where employees were found guilty of misconduct extended from appropriate training and warnings to termination.

In 2013, the compliance management system of the Telekom Austria Group was audited according to the German audit standard IDW PS 980. The scope of the audit included Telekom Austria AG and all material operating subsidiaries in Central and Eastern Europe. The concept and implementation of the various compliance measures

were audited. In addition, the effectiveness of the system was evaluated over a six-month audit phase during normal operations in Austria. Specific transactions from different divisions were selected on a random basis and analysed and assessed according to IDW criteria.

The audit and consulting company PwC issued Telekom Austria AG and A1 Telekom Austria AG a positive audit report with no comments, i.e. no suggestions for improvement. The audit report states that the compliance management system was appropriately designed and implemented for the areas of anti-corruption/integrity, capital market compliance and antitrust law in all material aspects, and in compliance with the relevant statutory requirements and the 2009 Business Principles for Countering Bribery of Transparency International. The principles and measures presented are suitable for the timely identification, with sufficient assurance, of risks of material violations, and for their prevention. The subsidiaries in Central and Eastern Europe were also evaluated with positive results.

In future, the compliance management system will focus on the optimisation of normal operations and the further sustainable establishment of the concept of integrity at all business units.

Vienna, 13 February 2014

The Management Board



Hannes Ametsreiter, Chairman  
of the Management Board,  
Telekom Austria Group



Hans Tschuden, Vice Chairman  
of the Management Board, CFO,  
Telekom Austria Group



Günther Ottendorfer, CTO,  
Telekom Austria Group