

# CONSOLIDATED CORPORATE GOVERNANCE REPORT 2016

## 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 (January 2015) 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 a 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 stock company, 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 Rule 36 and Rule 54 of the ACGC:

- ✓ Due to the open discussion culture within the Supervisory Board, the self-evaluation of the Supervisory Board as stipulated in Rule 36 of the ACGC is performed every two years. The most recent self-evaluation was performed in the 2016 financial year.
- ✓ Ad C Rule 54: Since 22 August 2016, the free float of the company has been 20.58%<sup>1)</sup>. The shareholder representatives on the Supervisory Board are appointed in line

with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB (formerly ÖIAG).

In accordance with Rule 62 of the ACGC, the Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are evaluated externally every three years. The next evaluation, carried out by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., is planned for the first half year 2017.

## COMPOSITION OF EXECUTIVE BODIES OF THE COMPANY AND EXECUTIVE BODY REMUNERATION

### The Management Board

The members of the Management Board of Telekom Austria AG as of the end of 2016 were Alejandro Plater, Chief Executive Officer (CEO) and Chief Operating Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO).

#### Alejandro Plater

Management Board member (Chief Operating Officer, COO) since 6 March 2015, Chairman of the Management Board (Chief Executive Officer, CEO) and COO since 1 August 2015, appointed until 5 March 2018 with an extension option for two additional years.

Alejandro Plater, born in 1967, can look back on a long international career in the telecommunications industry. He started at Ericsson in 1997 as Sales Director for Argentina and shortly thereafter took on the responsibility of Head of Business Development. In 2004, he moved to the group's global headquarters in Stockholm, Sweden, to take up the position of Sales Director for the Latin America region. Two years later, Plater was appointed Sales Director for Mexico and, in the following year, he was appointed Vice-President and Key Account Manager. Alejandro Plater studied Business Administration at the University of Buenos Aires and has completed several post-graduate management studies at Columbia University and Wharton School in the USA and at London Business School in the UK.

Alejandro Plater holds Supervisory Board mandates at the following subsidiaries: A1 Telekom Austria AG (Austria), Mobiltel EAD (Bulgaria), Vipnet d.o.o. (Croatia), Unitary enterprise velcom (Belarus), Si.mobil d.d.<sup>2)</sup> (Slovenia), Vip mobile d.o.o. (Republic of Serbia), one.Vip DOO (Republic of Macedonia). Alejandro Plater does not hold any supervisory board mandates outside the Telekom Austria Group.

1) Including the notification by América Móvil on 22 August 2016.

2) The renaming of Si.mobil d.d. in A1 Slovenija, d.d. in the course of the rebranding became effective in April 2017.

### Siegfried Mayrhofer

Chief Financial Officer (CFO), first appointed as at 1 June 2014, extension in April 2015, appointed until 31 May 2018, with an extension option for two additional years.

Siegfried Mayrhofer, born in 1967, studied industrial and mechanical engineering at the Graz University of Technology.

Siegfried Mayrhofer began his professional career in 1994 at Voest Alpine Eisenbahnsysteme in the international division for the acquisition of investments. From 1998 to 2000, he served as a consultant to Constantia Corporate Finance for mergers and acquisitions in various industries.

Siegfried Mayrhofer joined Telekom Austria AG in March 2000. After holding various management positions (including Head of Corporate Planning and Group Controlling, Fixed-line Controlling, Fixed-line Accounting), he became CFO of Telekom Austria TA AG in July 2009. Siegfried Mayrhofer was the Chief Financial Officer of A1 Telekom Austria AG from 8 July 2010 to 31 May 2015.

Siegfried Mayrhofer holds Supervisory Board mandates at the following subsidiaries: A1 Telekom Austria AG (Austria), Mobiltel EAD (Bulgaria), Vipnet d.o.o. (Croatia), Unitary enterprise velcom (Belarus), Si.mobil d.d. (Slovenia), Vip mobile d.o.o. (Republic of Serbia), one.Vip DOO (Republic of Macedonia). Siegfried Mayrhofer does not hold any supervisory board mandates outside the Telekom Austria Group.

### REPORT ON MANAGEMENT BOARD REMUNERATION

The Remuneration Committee of the Supervisory Board is responsible for structuring Management Board remuneration. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component was agreed with the Management Board members Alejandro Plater and Siegfried Mayrhofer. This performance-based component is contingent upon the achievement of defined targets and is limited to 150% of the basic remuneration. The targets for the reporting year consist of 70% financial figures (revenue (weighting 35%) and EBITDA (weighting 35%)) and 30% strategic objectives. The Remuneration Committee decides about the degree of target achievement and the amount of the variable salary component on the basis of the Consolidated Financial Statements and the implementation of strategy. 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.

Members of the Management Board also participate in the long-term incentive program (LTI). The multi-year share-based incentive program introduced in 2010 continued in the 2016 reporting year with the issue of the 2016 tranche. The fourth tranche of the LTI program (LTI 2013) was paid out in 2016, following the end of the three-year performance period and the determination by the Remuneration Committee of the degree of achievement. The degree of target achievement for LTI 2013 was 54.9%. 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 basic remuneration, including remuneration in kind, of members of the Management Board in 2016 amounted to EUR 1.026 mn (2015: EUR 1.489 mn), and variable remuneration amounted to EUR 1.214 mn (2015: EUR 1.695 mn). EUR 0.263 mn was spent on LTI 2013 for Management Board members in the 2016 reporting year (amount spent on LTI 2012 in 2015: EUR 0.029 mn). Termination benefits in connection with the dissolution of the employment contracts of and severance payments to former members of the Management Board resulted in the following amounts in 2015: Hannes Ametsreiter: EUR 0.290 mn and EUR 1.114 mn respectively; Günther Ottendorfer: EUR 1.630 mn and EUR 0.127 mn as a payment into the pension fund; Hans Tschuden: EUR 0.298 mn and EUR 0.012 mn from benefits for LTI 2012.

Assuming 100% target achievement, the members of the Management Board were provisionally allocated the following numbers of notional bonus shares in the context of the new LTI 2016 tranche issued in September 2016: 67,276 shares for Alejandro Plater, 49,500 shares for Siegfried Mayrhofer, and 12,575 shares for the former Management Board member Günther Ottendorfer. Any actual cash settlement will occur after the end of the three-year performance period, i.e. not before 1 September 2019, commensurate with the level of achievement of objectives as determined by the Remuneration Committee.

In terms of old-age provisions, the Management Board members Alejandro Plater and Siegfried Mayrhofer receive a contribution to their voluntary pension plans, which is paid into a corporate pension fund by the company and amounts to 20% of their respective fixed salary (excl. expense allowances). Members will receive an eventual pay-out from the corporate pension fund only when they are over 55 years of age and no longer in a contractual relationship with the company.

## Remuneration of the individual members of the Management Board

Management Board remuneration in EUR '000	Basic remuneration (fixed salary incl. remuneration in kind and expense allowances <sup>5)</sup> )		Variable remuneration		Multi-year share-based remuneration (LTI)		Total remuneration <sup>6),7)</sup>	
	2016	2015	2016	2015	2016	2015	2016	2015
	Alejandro Plater <sup>1)</sup>	558	582	321	221	-	-	879
Siegfried Mayrhofer <sup>2)</sup>	468	465	685	557	62	17	1,214	1,039
Hannes Ametsreiter <sup>3)</sup>	-	318	208	512	104	12	312	842
Günther Ottendorfer <sup>4)</sup>	-	123	-	405	98	-	98	529
<b>Total<sup>6), 7)</sup></b>	<b>1,026</b>	<b>1,489</b>	<b>1,214</b>	<b>1,695</b>	<b>263</b>	<b>29</b>	<b>2,503</b>	<b>3,213</b>

- 1) Alejandro Plater has been a Management Board member since 6 March 2015 and Chairman of the Management Board (CEO) since 1 August 2015.
- 2) Siegfried Mayrhofer has been a Management Board member since 1 June 2014. The figures for the variable remuneration for 2015 and 2016 respectively also include the variable remuneration for the years 2014 and 2015 which was paid out in the reporting years 2015 and 2016. (Note: The variable remuneration paid to Alejandro Plater in 2015 and 2016 did not include any payments for previous years and hence is lower than the remuneration paid to Siegfried Mayrhofer.)
- 3) Hannes Ametsreiter resigned from his function as Management Board member as of 31 July 2015 and his employment relationship was terminated by mutual agreement as of the same date. The variable remuneration shown in the table in the amount of EUR 0.208 mn contains the proportion of variable remuneration paid to him in 2016 for the period from the start of 2015 until his departure from the company on 31 July 2015. The figures for 2015 shown in the table do not include termination benefits in connection with the dissolution of the employment contract and severance payments amounting to EUR 0.290 mn and EUR 1.114 mn respectively.
- 4) Günther Ottendorfer's contract with a term until 31 August 2016 was prematurely terminated as of 5 March 2015. The figures for 2015 shown in the table do not include termination benefits in connection with the dissolution of the employment contract amounting to EUR 1.630 mn; a further EUR 0.127 mn was paid into the pension fund in 2015.
- 5) Because Alejandro Plater relocated from Mexico to Austria, he received an expense allowance for housing and school fees for his children in the 2015 financial year; this is reported under the basic remuneration for 2015.
- 6) Hans Tschuden's contract with a term until 31 March 2015 was prematurely terminated as of 31 March 2014. The figures for 2016 shown in the table do not include benefits from the multi-year share-based remuneration (LTI 2013) amounting to EUR 0.096 mn. The figures for 2015 do not include termination benefits in connection with the dissolution of the employment contract amounting to EUR 0.298 mn and benefits from the multi-year share-based remuneration (LTI 2012) amounting to EUR 0.012 mn.
- 7) There are deviations in the totals due to rounding.

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 Siegfried Mayrhofer. The Mitarbeiter- und Selbstständigenvorsorgegesetz (BMSVG – Austrian Corporate Employee and Entrepreneur Pension Law) applies to Alejandro Plater.

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 cover for Management Board members. The members of the Management Board are included in the D&O insurance policy entered into and paid for by Telekom Austria AG.

For the companies included in the scope of consolidation, the following applies with regard to the key principles of the remuneration policy: The Chairman of the Supervisory Board of the respective subsidiary is responsible for structuring Management Board remuneration. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component has been agreed with the Management Board members of

the respective consolidated subsidiaries. This performance-based component is contingent upon the achievement of defined targets and is limited to 67% of the basic remuneration. The targets for the reporting year consist of 70% financial figures and 30% strategic objectives. The Chairman of the Supervisory Board of the respective subsidiary decides on the degree of target achievement and the amount of the variable salary component on the basis of the Consolidated Financial Statements, the Annual Financial Statements of the respective company and the implementation of strategy. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved. Members of the Management Board of the key consolidated subsidiaries also participate in the long-term incentive program (LTI).

### Long-term incentive program

The Telekom Austria Group's multi-year share-based long-term incentive program (LTI) introduced in the 2010 financial year continued in 2016. This incentive scheme, designed for Management Board members, executives and selected employees, has a term of three years for each tranche. The LTI is based on the performance-based allocation of notional bonus shares. During the program,

participants must hold shares in Telekom Austria AG, the number of which is determined by the defined number of notional bonus shares for each entitled beneficiary. Any payment is made in cash, not in shares. 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 a maximum of 350% of the participant's investment for the tranches starting from LTI 2013, with a maximum target achievement of 175%.

The Telekom Austria Group's long-term incentive program is consistent with the requirements of the Austrian Corporate Governance Code. The relevant target performance indicators are based 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. The targets and key performance indicators for the 2013 and 2014 tranches were defined as net income (weighting 30%), EBITDA (weighting 35%) and relative total shareholder return, which is assessed by reference to a defined peer group of nine European telecommunication companies (weighting 35%). The following targets were set for the 2015 LTI tranche issued in the 2015 reporting year: EBITDA (weighting 35%), free cash flow (weighting 30%) and a revenue-based indicator (weighting 35%). The following targets were set for the 2016 LTI tranche issued in the 2016 reporting year: return on invested capital (ROIC) of the Telekom Austria Group (weighting 50%) and revenue market share of the Telekom Austria Group (weighting 50%).

#### Benefits under the LTI program in the 2016 reporting year

The fourth LTI tranche (LTI 2013), which had been granted on 1 September 2013, was distributed to the entitled employees of the Group in September 2016 after the end of the three-year performance period and three years after the grant date. The tranche was paid out in line with the target achievement of 54.9% as determined by the Remuneration Committee of the Supervisory Board at the value of 224,676 notional bonus shares in total (measured using the average price for the fourth quarter of 2015 of EUR 5.23, and therefore EUR 1.17 mn (2015: EUR 0.41 mn; 2014: EUR 0.75 mn). Of this total, Siegfried Mayrhofer received 11,779 shares or EUR 0.062 mn (2015: EUR 0.017 mn). The following amounts were paid to former Management Board members: 19,834 shares or EUR 0.104 mn to Hannes Ametsreiter (2015: EUR 0.012 mn), 18,743 shares or EUR 0.098 mn to Günther Ottendorfer, and 18,447 shares or EUR 0.097 mn to Hans Tschuden (2015: EUR 0.012 mn).

A detailed description of the long-term incentive program can be found in the Notes to the Consolidated Financial Statements.

As at 31 December 2016, the members of the Management Board hold the following shares, some of which serve to satisfy LTI program participation requirements:

#### Number of Telekom Austria shares held as at 31 Dec 2016

	shares	of which for LTI participation
Alejandro Plater	39,520	33,638
Siegfried Mayrhofer	24,750	24,750

In accordance with the legal provisions, transactions by managers, Supervisory Board members and their related parties involving Telekom Austria shares are reported to the Austrian Financial Market Authority (see [www.fma.gv.at](http://www.fma.gv.at) under the menu item 'Directors' Dealings').

#### Supervisory Board

The Supervisory Board of the Telekom Austria Group comprises ten members elected by the Annual General Meeting. The Central Works Council of A1 Telekom Austria AG delegates four members and one member is delegated 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.

The Annual General Meeting on 25 May 2016 saw a change in the Supervisory Board: Elisabetta Castiglioni resigned with effect from 25 May 2016. Peter Hagen was elected as a member of the Supervisory Board at the Annual General Meeting on 25 May 2016, while the Supervisory Board mandates of Alejandro Cantú Jiménez, Stefan Pinter and Reinhard Kraxner were extended.

## Supervisory Board members

Name (year of birth)	Profession
Wolfgang Ruttendorfer, Chairman (1950)	
Carlos García Moreno Elizondo, Vice Chairman (1957)	CFO América Móvil, S.A.B. de C.V. (Mexico)
Alejandro Cantú Jiménez (1972)	General Counsel América Móvil, S.A.B. de C.V. (Mexico)
Elisabetta Castiglioni (1964)	Business Consultant <sup>5)</sup>
Karin Exner-Wöhler (1971)	CEO of Salzburger Aluminium AG
Peter Hagen (1959)	Business Consultant
Carlos M. Jarque (1954)	CEO of the FCC Group (Fomento de Construcciones y Contratas SA, Spain)
Reinhard Kraxner (1970)	Assistant General Counsel Treasury/Finance, Philip Morris International Inc. (USA)
Ronny Pecik (1962)	Businessman
Stefan Pinter (1978)	Member of Management, Philip Morris Austria GmbH
Oscar Von Hauske Solís (1957)	CEO Telmex Internacional (Mexico), Chief Fixed-Line Operations Officer América Móvil, S.A.B. de C.V. (Mexico)
<b>Members of the Supervisory Board delegated by the Staff Council</b>	
Silvia Bauer (1968)	Member of the Central Works Council of A1 Telekom Austria AG Member of the European Works Council of the Telekom Austria Group
Walter Hotz (1959)	Chairman of the Central Works Council of A1 Telekom Austria AG Chairman of the European Works Council of the Telekom Austria Group
Werner Luksch (1967)	Vice Chairman of the Central Works Council of A1 Telekom Austria AG Member of the European Works Council of the Telekom Austria Group
Alexander Sollak (1978)	Chairman of the Staff Council Committee of Telekom Austria AG Secretary-General of the European Works Council of the Telekom Austria Group
Gottfried Kehrer (1962)	Member of the Central Works Council of A1 Telekom Austria AG

- 1) Term of office ends at the Annual General Meeting dealing with the 2019 financial year (provisionally May 2020).
- 2) Term of office ends at the Annual General Meeting dealing with the 2017 financial year (provisionally May 2018).
- 3) Term of office ends at the Annual General Meeting dealing with the 2018 financial year (provisionally May 2019).
- 4) Term of office ends at the Annual General Meeting dealing with the 2016 financial year (June 2017).
- 5) CEO A1 Digital International GmbH as of 27 January 2017.

Other Supervisory Board mandates and similar functions at other listed companies (as per the Austrian Corporate Governance Code)	First appointed	End of current term of office on Supervisory Board of Telekom Austria AG or date of departure	Independence as per Rule 53 of the ACGC
Flughafen Wien AG, RHI AG, NIS a.d. (Republic of Serbia) CA Immobilien Anlagen AG (until 1.11.2016)	27.05.2010 to 14.08.2014 Reappointed on 27.05.2015	2020 <sup>1)</sup>	yes
Royal KPN N.V. (Netherlands)	14.08.2014	2018 <sup>2)</sup>	yes
	14.08.2014	2019 <sup>3)</sup>	yes
	29.05.2013	25.05.2016	yes
	27.05.2015	2020 <sup>1)</sup>	yes
VOEST Alpine AG	25.05.2016	2019 <sup>3)</sup>	yes
	14.08.2014	2018 <sup>2)</sup>	yes
	14.08.2014	2017 <sup>4)</sup>	yes
	23.05.2012	2018 <sup>2)</sup>	yes
	14.08.2014	2017 <sup>4)</sup>	yes
	23.10.2012	2018 <sup>2)</sup>	yes
	30.01.2009 to 03.11.2010 Re-delegated on 26.07.2012		
	Re-delegated to 06.05.2011		
	03.08.2007 to 20.10.2010 Re-delegated on 11.01.2011		
	03.11.2010		
	27.10.2010		

### 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 interest and thus influence the members' behaviour.

Since 22 August 2016, the free float of the company has been 20.58%<sup>1)</sup>. The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB (formerly ÖIAG).

### Report on Supervisory Board remuneration

The Annual General Meeting on 25 May 2016 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairman and EUR 15,000 for all other members for the 2015 financial year. The amount of remuneration was therefore unchanged from the previous year. Remuneration for the Supervisory Board for 2015 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in May 2016. Until further notice, the attendance fee for meetings of the Supervisory Board is EUR 300 per member per meeting. Total remuneration, including attendance fees of EUR 0.204 mn, was paid to members of the Supervisory Board in the 2016 financial year (2015: EUR 0.235 mn). 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 2015 and paid in 2016 (in EUR)	2016 attendance fees (in EUR)
Wolfgang Ruttendorfer <sup>2)</sup>	18,000	3,300
Carlos García Moreno Elizondo	22,500	3,000
Alejandro Cantú Jiménez	15,000	1,200
Elisabetta Castiglioni	15,000	1,200
Karin Exner-Wöhler <sup>2)</sup>	9,000	1,500
Peter Hagen	-	1,500
Carlos M. Jarque	15,000	2,400
Rudolf Kemler <sup>3)</sup>	12,082	-
Reinhard Kraxner	15,000	1,200
Günter Leonhartsberger <sup>3)</sup>	6,041	-
Ronny Pecik	15,000	2,100
Stefan Pinter	15,000	1,200
Oscar Von Hauske Solís	15,000	3,300
Walter Hotz	-	2,400
Silvia Bauer	-	2,400
Werner Luksch	-	1,200
Alexander Sollak	-	2,700
Gottfried Kehrer	-	1,200

1) Including the notification by América Móvil on 22 August 2016.

2) Supervisory Board remuneration for the period from 27 May 2015 to 31 December 2015.

3) Supervisory Board remuneration for the period from 1 January 2015 to 27 May 2015.

The members of the Supervisory Board are included in the D&O insurance policy concluded and paid for by Telekom Austria AG.

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

### 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-enhancing corporate development and is committed to the principles of transparency and a policy of open communication. The Group-wide areas of competence and responsibility are clearly regulated by the Articles of Association of Telekom Austria AG and 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 Supervisory Board has set up three committees, which provide effective support by carrying out preparatory work on selected tasks and issues on behalf of the Supervisory Board.

- ✓ As of the end of 2016, the **Remuneration Committee** consisted of Wolfgang Ruttendorfer (Chairman), Carlos García Moreno Elizondo (Vice Chairman) and Oscar Von Hauske Solís. This committee is responsible for regulating relationships between the company and the members of the Management Board, including granting approval for additional occupation. Resolutions concerning the appointment of Management Board members (or revocation thereof) and granting stock options in the company are resolved by the Supervisory Board as a whole. In this context, there were two committee meetings in 2016.
- ✓ In line with the statutory provisions, at four committee meetings the **Audit Committee** dealt primarily with the audit of and preparation for the adoption 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 consolidated 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 2016, the Audit Committee consisted of Carlos García Moreno Elizondo, as its Chairman, Ronny Pecik, as its financial expert, Wolfgang Ruttendorfer, Peter Hagen, Carlos M. Jarque and Oscar Von Hauske Solís, as well as the employee representatives Silvia Bauer, Walter Hotz and Alexander Sollak.

- ✓ The **Staff 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 Oscar Von Hauske Solís (Chairman), Wolfgang Ruttendorfer, Carlos García Moreno Elizondo, Alejandro Cantú Jiménez, Ronny Pecik, Walter Hotz, Werner Luksch and Alexander Sollak. The committee did not meet in the 2016 financial year.

In the 2016 financial year, the Supervisory Board addressed the strategic orientation of the Telekom Austria Group and its business performance in detail at five meetings of the Supervisory Board and several committee meetings. The main activities of the Supervisory Board in 2016 are compiled in the Supervisory Board's report to the Annual General Meeting.

To ensure uniform Group management, the Telekom Austria AG Management Board members Alejandro Plater and Siegfried Mayrhofer also serve as the Chairman or Deputy Chairman of the Supervisory Board of the following key subsidiaries: A1 Telekom Austria AG (Austria), Mobiltel EAD (Bulgaria), Vipnet d.o.o. (Croatia), Unitary enterprise velcom (Belarus), Si.mobil d.d. (Slovenia), Vip mobile d.o.o. (Republic of Serbia) and one.Vip DOO (Republic of Macedonia).

### MEASURES TO SUPPORT WOMEN

On the Telekom Austria AG Supervisory Board, one of the ten shareholder representatives and one of the five members of the Staff Council are women. There are no women on the Management Board of Telekom Austria AG.

At the subsidiaries of the Telekom Austria Group, seven management positions (out of a total of 19) and seven Supervisory Board positions are held by women.

The Telekom Austria Group has made a voluntary commitment to gradually increase the proportion of women in managerial positions to 35% by the end of 2016. This target was already reached in 2015. As of the end of 2016, the Group-wide proportion of women in management positions was 36% (2015: 35%), and the overall proportion of women at the company was 39% (2015: 38%). In order to pursue the objectives of the plan for the advancement of women in a more systematic way, the Group is aiming to increase the proportion of women in management positions to 37% in 2017 by pressing ahead with shared leadership and part-time management on a Group-wide basis, increasing the proportion of women in graduate and talent management programmes, and specifically targeting women in the recruitment process. In addition, the company promotes a good work-life balance throughout the Group by means of flexible working time models, childcare initiatives, paternity leave and a baby month. It also provides an expanded range of information for managers and employees and offers support within its own women's network.

#### **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's Management Board, executives and the members of the Supervisory Board. It also pays the associated costs.

#### **AUDITOR**

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. 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 Business Enterprise Code ('UGB'). A detailed analysis by the Audit Committee revealed no legal obstacle to the appointment of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The Annual General Meeting on 25 May 2016 appointed Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as the auditor of the Annual and Consolidated Financial Statements for the 2016 financial year.

#### **REPORT BY GROUP INTERNAL AUDIT AND RISK MANAGEMENT**

Group Internal Audit is established as a staff unit of the CFO 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 the 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 plan, which is prepared according to risk criteria, and supplemented by ad hoc audit orders as required. After an initial joint evaluation by Group Compliance, reports received via the 'tell.me' whistleblowing system are examined by Group 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 plan in addition to preparing an annual report on the audits performed and its material findings. Furthermore, significant issues as well as whistleblowing information from the 'tell.me' system are reported to the Audit Committee of the Supervisory Board by Group Internal Audit on an intra-year basis where necessary.

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 in addition to strategic and operational objectives. The Audit Committee monitors the functionality and suitability of risk management and 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. In addition, Telekom Austria AG implemented an internal control system in accordance with the US Sarbanes-Oxley Act (SOX) in the 2015 financial year. 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.

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 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. In 2005, A1 Telekom Austria AG became the first network operator in Austria to be certified according to the ISO 27001 standard. It was followed by Vipnet d.o.o. in 2007 and Mobiltel EAD in 2012. The processes stipulated by this standard ensure the highest possible level of data security within the company. Since 2014, A1 Telekom Austria AG has also complied with the ISAE 3402 Type II standard, which attests to an effective internal control system for accounting and IT services.

**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. The compliance management system of the Telekom Austria Group was audited according to the German audit standard IDW PS 980 in 2013. The audit and consulting company PwC issued Telekom Austria AG with a positive audit report with no comments, i.e. no suggestions for improvement. In 2016, essential elements of the Group-wide compliance management system were reviewed for effectiveness by Group Internal Audit and Group Compliance with a successful outcome.

The Management Board is regularly informed about activities in the area of compliance management and, in particular, the measures taken to prevent corruption; the Supervisory Board is informed annually. Moreover, the Supervisory Board is informed annually about the capital market compliance activities.

The Group Compliance Director reports directly to the Management Board and is independent in his work. He is supported by 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 which consists essentially of the core elements of prevention and reaction. The compliance measures necessary for this are firmly established in all divisions of the company.

In 2016, 4,200 employees and managers were trained in the areas of corruption prevention and integrity, antitrust law, data protection and capital market compliance in classroom training sessions, while around 2,600 employees and managers received the same training via e-learning. The compliance helpdesk ‘ask.me’ is available to employees to answer any questions. ‘ask.me’ handled around 300 questions in 2016.

In 2012, the Telekom Austria Group established the whistleblowing platform (‘tell.me’) to enable employees and third parties to inform anonymously about cases of potential misconduct. Around 50% of the approximately 30 tips received in 2016 were substantiated and investigated further. In instances where misconduct was found to have occurred, consequences extended from individual training to the termination of employment, depending on the extent of the transgression.

**CHANGES AFTER THE REPORTING DATE**

No events requiring reporting have occurred since 31 December 2016.

Vienna, 25 January 2017

The Management Board



**Alejandro Plater**  
CEO and COO  
Telekom Austria Group



**Siegfried Mayrhofer**  
CFO  
Telekom Austria Group