

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 (January 2015) can be viewed at www.corporate-governance.at or 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 Rules 28, 28a as well as Rule 36 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 optimal alignment with the business plan. The Annual General Meeting on 27 May 2010 introduced a long-term incentive program which replaced the ESOP stock option programme previously in place as of the 2010 financial year. Details can be found in the Consolidated Financial Statements of the Telekom Austria Group.
- ✓ 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.

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 most recent evaluation, carried out by Deloitte Audit Wirtschaftsprüfungs GmbH 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.

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 2015 were Alejandro Plater, Chief Executive Officer (CEO) and Chief Operating Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO). As of 6 March 2015, Alejandro Plater was appointed Chief Operating Officer (COO) of the Telekom Austria Group for three years with an extension option for two additional years, replacing Chief Technology Officer (CTO) Günther Ottendorfer. The contract of CFO Siegfried Mayrhofer was extended by three years with effect from 1 June 2015 with an extension option for two additional years. Hannes Ametsreiter retired from his position as CEO at Telekom Austria AG as of 31 July 2015. In addition to his tasks as COO, Alejandro Plater assumed those of the Chairman of the Management Board (CEO) as of 1 August 2015.

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 does not hold any supervisory board mandates outside the Telekom Austria Group.

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 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 & 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 does not hold any supervisory board mandates outside the Telekom Austria Group.

Hannes Ametsreiter Management Board member from 1 January 2009 to 31 July 2015, Chairman of the Management Board (CEO) from 1 April 2009 to 31 July 2015.

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 AG. After holding various positions within the Group, he became Chief Marketing Officer of mobilkom austria AG in 2001.

Hannes Ametsreiter was the CEO of Telekom Austria AG from 1 April 2009 to 31 July 2015. From 2010 Hannes Ametsreiter was also the CEO of A1 Telekom Austria AG, which was created by the merger of mobilkom austria AG and Telekom Austria TA AG.

Günther Ottendorfer Chief Technology Officer (CTO) from 1 September 2013 to 5 March 2015.

Born in 1968, Günther Ottendorfer can look back on a successful international career in the telecommunications industry going back more than 20 years. From 1987 to 1992 Günther 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 the entire network infrastructure. He also headed the launch of LTE at Optus and initiated several successful efficiency and restructuring programmes.

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 Siegfried Mayrhofer, Hannes Ametsreiter, and Günther Ottendorfer. 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 75% financial figures (return on assets in excess of the costs of capital (weighting 25%), free cash flow (weighting 25%) and a revenue indicator (weighting 25%)), as well as 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 for Siegfried Mayrhofer (beginning with June 2015), Hannes Ametsreiter (until July 2015), and Günther Ottendorfer (until March 2015) an advance in the amount of 60% of the fixed salary is paid in 14 instalments in the current financial year. The remuneration of the Management Board member Alejandro Plater for the reporting year was regulated as follows: For his work as a member of the Management Board, Alejandro Plater received a fixed salary and an annual bonus corresponding to around 40% of the fixed salary that is paid along with the fixed salary. This regulation was for the starting period and the reporting year 2015. For 2016, the regulation is planned to be amended and aligned with the regulation for performance-based remuneration components of the other Board members as stated above. Because Alejandro Plater relocated from Mexico to Austria, he also receives an expense allowance for housing and school fees for his children that is paid on a monthly basis.

In addition, 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 2015 reporting year with the issue of the 2015 tranche. The third tranche of the LTI program (LTI 2012) was paid out in 2015, 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 2012 was 18% and the amount of

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 ⁵⁾)		Variable remuneration		Multi-year share-based remuneration (LTI)		Total remuneration ^{6),7)}	
	2015	2014	2015	2014	2015	2014	2015	2014
	Alejandro Plater ¹⁾	582	–	221	–	–	–	804
Siegfried Mayrhofer ²⁾	465	268	557	–	17	–	1,039	268
Hannes Ametsreiter ³⁾	318	549	512	631	12	43	842	1,224
Günther Ottendorfer ⁴⁾	123	462	405	330	–	–	529	793
Total^{6),7)}	1,489	1,484	1,695	1,374	29	87	3,213	2,944

- 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 also include the variable remuneration for the year 2014 which was paid out in the reporting year 2015.
- 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 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 employment contract, which was to run until 31 August 2016, was terminated early on 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.
- 5) Because Alejandro Plater relocated from Mexico to Austria, he receives an expense allowance for housing and school fees for his children which is reported under the basic remuneration.
- 6) Hans Tschuden's employment contract, which was to run until 31 March 2015, was terminated early on 31 May 2014. The figures for 2015 shown in the table do not include termination benefits paid to Hans Tschuden 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. The figures for 2014 do not include termination benefits of EUR 0.737 mn and severance pay of EUR 0.850 mn as well as benefits from the multi-year share-based remuneration amounting to EUR 0.043 mn; a further EUR 0.213 mn was paid into the pension fund in 2014.
- 7) There are deviations in the totals due to rounding.

the payments to Management Board members came to 8%. 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 2015 amounted to EUR 1.489 mn (2014: EUR 1.484 mn), and variable remuneration amounted to EUR 1.695 mn (2014: EUR 1.374 mn). EUR 0.029 mn was spent on LTI 2012 for Management Board members in the 2015 reporting year (amount spent on LTI 2011 in 2014: EUR 0.087 mn). Termination benefits in connection with the dissolution of the employment contract 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.

the members of the Management Board were provisionally allocated the following number of Telekom Austria shares: 29,300 shares for Alejandro Plater, 48,267 shares for Siegfried Mayrhofer, 11,158 shares for Hannes Ametsreiter, 26,815 shares for Günther Ottendorfer and 4,112 shares for Hans Tschuden. 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 2018, 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 and amounts to 20% of their respective fixed salary (excl. expense allowances) and, for Alejandro Plater, 11% of his basic remuneration (incl. 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.

Assuming 100% attainment of their goals in the context of the new 2015 LTI tranche launched in September 2015,

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 Hannes Ametsreiter and Siegfried Mayrhofer. The Mitarbeiter- und Selbstständigenvorsorgegesetz (BMSVG — Austrian Corporate Employee and Entrepreneur Pension Law) applies to Alejandro Plater and Günther Ottendorfer.

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 included in the D&O insurance policy concluded and paid for by Telekom Austria AG. Moreover, there was also criminal defence insurance for administrative offences or violations of criminal law in 2015.

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 2015. 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 shares. During the program, participants must hold shares in Telekom Austria, 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 a maximum of 350% of the participant's investment for the tranches starting from LTI 2013 with 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 (C Rule 28). 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. Free cash flow (weighting 45%), total shareholder return (weighting 35%) and EBITDA (weighting 20%) were defined as the targets/key performance indicators for the 2012 tranches. The targets for the 2013 and 2014 tranches 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. 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%).

Benefits under the LTI program in the 2015 reporting year

The third LTI tranche (LTI 2012) which had been granted on 1 August 2012 was distributed to the entitled employees of the Group in August 2015 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 18% as determined by the Remuneration Committee of the Supervisory Board at the value of 71,531 bonus shares in total (measured using the average price for the fourth quarter of 2014 of EUR 5.73 and therefore EUR 0.41 mn (2014: EUR 0.75 mn)). Of this total, Siegfried Mayrhofer received 2,970 shares or EUR 0.017 mn, Hannes Ametsreiter received 2,054 shares or EUR 0.012 mn (2014: EUR 0.043 mn) and Hans Tschuden received 2,160 shares or EUR 0.012 mn (2014: EUR 0.043 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 2015, 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 2015

		of which for LTI participation
Alejandro Plater	14,650	14,650
Siegfried Mayrhofer	24,750	24,134

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 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 27 May 2015 saw a change in the Supervisory Board: Rudolf Kemler and Günter Leonhartsberger resigned with effect from 27 May 2015. Karin Exner-Wöhrer and Wolfgang Rutenstorfer were elected as members of the Supervisory Board at the Annual General Meeting on 27 May 2015.

SUPERVISORY BOARD MEMBERS

Name (year of birth)	Profession
Wolfgang Ruttenstorfer, 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
Karin Exner-Wöhrer (1971)	CEO of Salzburger Aluminium AG
Carlos M. Jarque (1954)	CEO of the FCC Group (Fomento de Construcciones y Contratas SA, Spain)
Rudolf Kemler, Chairman until May 2015 (1956)	Senior Partner at Roland Berger Strategy Consultants GmbH Position until May 2015: Management Board member of Österreichische Bundes- und Industriebeteiligungen GmbH ⁴⁾
Reinhard Kraxner (1970)	Assistant General Counsel Treasury/Finance Philip Morris International Inc. (USA)
Günter Leonhartsberger (1968)	Position until May 2015: Director and Head of Investment Management and Privatisation Division, Österreichische Bundes- und Industriebeteiligungen GmbH ⁴⁾
Ronny Pecik (1962)	Businessman
Stefan Pinter (1978)	Member of Management, Philip Morris Austria GmbH/Head of Corporate Affairs
Oscar Von Hauske Solís (1957)	CEO Telmex Internacional (Mexico), Chief Fixed-Line Operations Officer América Móvil, S.A.B. de C.V. (Mexico)

Members of the Supervisory Board delegated by the Staff Council

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 Kehrner (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 2015 financial year (provisionally May 2016).

4) By way of a legislative resolution (ÖBIB Act 2015), Österreichische Industrieholding Aktiengesellschaft changed its legal form to become Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) at the Annual General Meeting on 20 March 2015.

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
CA Immobilien Anlagen AG (Chairman), Flughafen Wien AG, RHI AG, NIS a.d. (Republic of Serbia)	27.05.2010 to 14.08.2014 Reappointed on 27.05.2015	2020 ¹⁾	Yes
Royal KPN N.V. (Netherlands)	14.08.2014	2018 ²⁾	Yes
	14.08.2014	2016 ³⁾	Yes
	29.05.2013	2016 ³⁾	Yes
	27.05.2015	2020 ¹⁾	Yes
Grupo Carso S.A.B. de C.V. (Mexico)	14.08.2014	2018 ²⁾	Yes
Positions until May 2015: Österreichische Post AG (Chairman), OMV AG (Chairman)	01.11.2012	27.05.2015	Yes
	14.08.2014	2016 ³⁾	Yes
Position until May 2015: Österreichische Post AG	14.08.2014	27.05.2015	Yes
	23.05.2012	2018 ²⁾	Yes
	14.08.2014	2016 ³⁾	Yes
Royal KPN N.V. (Netherlands)	23.10.2012	2018 ²⁾	Yes
	30.01.2009 to 03.11.2010 Re-delegated on 26.07.2012		
	Re-delegated on 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.

The shareholder representatives on the Supervisory Board are nominated in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB (formerly ÖIAG). The company's free float has been below 20% since 16 October 2014, hence C Rule 54 is not applicable.

Report on Supervisory Board remuneration

The Annual General Meeting on 27 May 2015 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

REMUNERATION OF SUPERVISORY BOARD MEMBERS

Name	Supervisory Board remuneration awarded for 2014 and paid in 2015 (in EUR)	2015 attendance fees (in EUR)
Wolfgang Ruttendorfer ¹⁾	9,287.67	1,800.00
Carlos García Moreno Elizondo	8,630.14	3,900.00
Alfred Brogyányi ¹⁾	9,287.67	–
Alejandro Cantú Jiménez	5,753.42	1,500.00
Elisabetta Castiglioni	15,000.00	2,700.00
Henrietta Egerth-Stadlhuber ¹⁾	9,287.67	–
Michael Enzinger ¹⁾	13,931.51	–
Karin Exner-Wöhrer	–	900.00
Carlos M. Jarque	5,753.42	2,700.00
Rudolf Kemler ^{2), 3)}	30,000.00	2,100.00
Reinhard Kraxner	5,753.42	1,800.00
Günter Leonhartsberger ^{2), 3)}	5,753.42	1,200.00
Peter J. Oswald ¹⁾	9,287.67	–
Ronny Pecik ⁴⁾	19,643.84	2,700.00
Stefan Pinter	5,753.42	1,800.00
Harald Stöber ⁵⁾	5,301.37	–
Oscar Von Hauske Solís	15,000.00	3,900.00
Walter Hotz	–	3,300.00
Silvia Bauer	–	2,400.00
Werner Luksch	–	2,100.00
Alexander Sollak	–	3,300.00
Gottfried Kehrer	–	1,800.00

Name	Supervisory Board remuneration awarded for 2013 and paid in 2015, pro rata in EUR
Edith Hlawati ⁶⁾	9,184.93
Wilfried Stadler ⁶⁾	6,123.29
Franz Geiger ⁶⁾	6,123.29

1) Left Supervisory Board on 14 August 2014; Supervisory Board remuneration for the work as a member of the Supervisory Board for the period from 1 January 2014 to 14 August 2014.

2) Supervisory Board remuneration and attendance fees were paid to ÖBIB (formerly ÖIAG).

3) Left Supervisory Board on 27 May 2015. The reported remuneration relates to the remuneration awarded for 2014 and paid in 2015.

4) Supervisory Board remuneration for the position of Vice Chairman from 1 January 2014 to 14 August 2014 and remuneration as a member of the Supervisory Board from 15 August 2014 to 31 December 2014.

5) Supervisory Board remuneration for the period from 1 January 2014 to 9 May 2014 (passed away on 9 May 2014).

6) Left Supervisory Board on 29 May 2013; Supervisory Board remuneration for the work as a member of the Supervisory Board for the period from 1 January 2013 to 29 May 2013.

other members for the 2014 financial year. The amount of remuneration was therefore unchanged from the previous year. Remuneration for the Supervisory Board for 2014 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in May 2015. Until further notice the attendance fee for meetings of the Supervisory Board is EUR 300 per member and meeting. Total remuneration including attendance fees of EUR 0.235 mn was paid to members of the Supervisory Board in the 2015 financial year (2014: EUR 0.212 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.

The members of the Supervisory Board are included in the D&O insurance policy taken out and paid for by Telekom Austria AG; there was also criminal defence insurance for administrative offences or violations of criminal law in 2015.

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 2015 the **Remuneration Committee** consisted of Wolfgang Ruttendorfer (Chairman since 27 May

2015; previously Rudolf Kemler, Chairman until 27 May 2015), Carlos García Moreno (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 three committee meetings in 2015.

In line with the statutory provisions, in four committee meetings the **Audit Committee** primarily dealt 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 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 2015 the Audit Committee consisted of Carlos García Moreno as its Chairman, Ronny Pecik as its financial expert, Elisabetta Castiglioni, Carlos Jarque, Wolfgang Ruttendorfer (since 27 May 2015, previously Rudolf Kemler), Oscar Von Hauske Solís and Silvia Bauer, Walter Hotz and Alexander Sollak (latter three as employee representatives).

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, Alejandro Cantú, Carlos García Moreno, Wolfgang Ruttendorfer (since 27 May 2015, previously Rudolf Kemler), Ronny Pecik and Walter Hotz, Werner Luksch and Alexander Sollak. In its three meetings the Staff and Nomination Committee drew up recommendations for the Supervisory Board. These concerned ending the term of office of and employment relationship with Günther Ottendorfer in March 2015 and appointing Alejandro Plater as COO, also in March 2015. In addition, the extension of Siegfried Mayrhofer's contract as CFO was prepared in spring 2015. In July 2015, this committee dealt with ending the term of office of and employment relationship with Hannes Ametsreiter and appointing Alejandro Plater as Chairman of the Management Board (CEO) and COO.

In the 2015 financial year the Supervisory Board dealt in depth with the strategic orientation of the Telekom Austria Group and its business performance in six meetings of the

Supervisory Board and several committee meetings. The main activities of the Supervisory Board in 2015 are compiled in the Supervisory Board's report to the Annual General Meeting, which will be published on the company's website within the required timeline.

Measures to support women

On the Telekom Austria AG Supervisory Board, two 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, five management positions (out of a total of 18) and two 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 2015. As of the end of 2015, the Group-wide ratio of women in management positions was 35%, and the overall ratio of women at the company was 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 ratio of women in management positions in 2016 by pressing ahead with shared leadership and part-time management, increasing the ratio 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 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 27 May 2015 appointed Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as the auditor of the Annual and Consolidated Financial Statements for the 2015 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 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 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 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 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 compli-

ance 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. Since 2005 A1 has been the first network operator in Austria to be certified according to the ISO 27001 standard. It was followed by Vipnet in 2007 and Mobiltel in 2012. The processes stipulated by this standard ensure the highest possible level of data security within the company. Furthermore, since 2014 A1 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. The audit report can be found here: <http://www.telekomaustria.com/en/group/compliance-management>.

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.

Martin Walter, 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 2015 around 1,400 employees and managers were trained in the areas of corruption prevention and integrity, anti-trust law, data protection and capital market compliance in

classroom training sessions, while around 19,900 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 250 questions in 2015.

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 40 tips received in 2015 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.

Vienna, 25 January 2016

The Management Board



Alejandro Plater
CEO and COO



Siegfried Mayrhofer
CFO