

# 2017 Consolidated Corporate Governance Report

## Commitment of the A1 Telekom Austria Group to the 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 2018) can be viewed at [www.corporate-governance.at](http://www.corporate-governance.at) or [www.a1.group](http://www.a1.group).

The Corporate Governance Code pursues the goal of 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 A1 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 A1 Telekom Austria Group has made the following statement regarding Rule 36, Rule 42 and Rule 54 of the ACGC:

- ▶ Ad C Rule 36: 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 for the 2016 financial year.
- ▶ Ad C Rule 42: 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 Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB). The Nomination Committee or the entire Supervisory Board submit nomination proposals to the Annual General Meeting as stipulated by these terms, where required by law.
- ▶ Ad C Rule 54: The free float of the company (including treasury shares) is 20.58%. 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 Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB).

In accordance with Rule 62 of the ACGC, the A1 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 last evaluation was performed in the first half of 2017 by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., which found that the Consolidated Corporate Governance Report of Telekom Austria AG for the 2016 financial year ending 31 December 2016 meets the legal regulations set out in Section 243b UGB and Section 267a UGB in addition to the requirements of the ACGC and the statements made therein.

## 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 2017 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, with a contract term until 5 March 2020.

Alejandro Plater, born in 1967, has had 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 the Wharton School in the USA and at the London Business School in the UK.

Alejandro Plater holds Supervisory Board mandates at the following subsidiaries: A1 Telekom Austria AG (Austria), Mobilitel EAD (Bulgaria), Vipnet d.o.o.

(Croatia), Unitary enterprise velcom (Belarus), A1 Slovenija d.d. (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 A1 Telekom Austria Group.

### **Siegfried Mayrhofer**

Chief Financial Officer (CFO): Management Board member since 1 June 2014, with a contract term until 31 May 2020.

Siegfried Mayrhofer, born in 1967, studied Industrial and Mechanical Engineering at the Graz University of Technology.

He 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), A1 Slovenija 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 A1 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 a maximum of 150% of the basic remuneration. The targets for the reporting year consist of 70% financial figures (revenue (weighting 35%) and operating free cash flow (weighting 35%)) and 30% strategic objectives. The Remuneration Committee decides on 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 over the current financial year.

Members of the Management Board also participate in the long-term incentive programme (LTI). The multi-year share-based incentive programme introduced in 2010 continued in the 2017 reporting year with the issue of the 2017 tranche.

The fifth tranche of the LTI programme (LTI 2014) was paid out in 2017, 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 2014 was 60.2%. 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 2017 amounted to EUR 1.026 mn (2016: EUR 1.026 mn), and variable remuneration amounted to EUR 1.087 mn (2016: EUR 1.214 mn). EUR 0.11 mn was spent on LTI 2014 for Management Board members in the 2017 reporting year (amount spent on LTI 2013 in 2016: EUR 0.263 mn).

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 2017 tranche issued in June 2017: 59,041 shares for Alejandro Plater, 49,500 shares for Siegfried Mayrhofer. Any actual cash settlement will occur after the end of the three-year performance period, i.e. not before 1 June 2020, 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 salaries (excluding expense allowances). Members will receive an eventual payout from the corporate pension fund only when they are over 55 years of age and are 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 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 an average of 60% 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 therefore on 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 participated in the long-term incentive programme (LTI) until the LTI 2016 tranche (issued in the 2016 financial year with a term of 1 January 2016 to 31 December 2018). A new incentive scheme for CEOs of the key consolidated subsidiaries is planned for 2018.

## 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 <sup>1)</sup>		Multi-year share-based remuneration (LTI)		Total remuneration <sup>4), 5)</sup>	
	2017	2016	2017	2016	2017	2016	2017	2016
Alejandro Plater	559	558	591	321	-	-	1,149	879
Siegfried Mayrhofer	468	468	497	685	110	62	1,075	1,214
Hannes Ametsreiter <sup>2)</sup>	-	-	-	208	-	104	-	312
Günther Ottendorfer <sup>3)</sup>	-	-	-	-	-	98	-	98
<b>Total</b>	<b>1,026</b>	<b>1,026</b>	<b>1,087</b>	<b>1,214</b>	<b>110</b>	<b>263</b>	<b>2,224</b>	<b>2,503</b>

- 1) The figures for the variable remuneration for 2016 and 2017 respectively also include the variable remuneration for the years 2015 and 2016, which was paid out in the reporting years 2016 and 2017. (Note: The variable remuneration paid to Alejandro Plater in 2016 did not include any payments for previous years and hence is lower than the remuneration paid to Siegfried Mayrhofer.)
- 2) Hannes Ametsreiter resigned from his function as CEO as of 31 July 2015 and his employment relationship was terminated at the same date by mutual agreement. In the table above, the variable remuneration in 2016 includes the payment of variable remuneration for the year 2015 until the resignation amounting to EUR 208,000 as well as the share-based remuneration for LTI 2013 of EUR 104,000. The share-based remuneration for LTI 2014 of EUR 71,000 paid in 2017 is not included in the table.
- 3) Günther Ottendorfer's contract with a term until 31 August 2016 was prematurely terminated as of 5 March 2015. The share-based remuneration for LTI 2014 of EUR 102,000 paid in 2017 is not included in the table.
- 4) Hans Tschuden's contract with a term until 31 March 2015 was prematurely terminated as of 31 May 2014. The share-based remuneration for LTI 2014 and LTI 2013 of EUR 49,000 and EUR 96,000 respectively paid in 2017 and 2016 is not included in the table.
- 5) There are deviations in the totals due to rounding.

## Long-term incentive programme (LTI)

The A1 Telekom Austria Group's multi-year share-based long-term incentive programme (LTI) introduced in the 2010 financial year continued in 2017, with eligible participants restricted to the company's Management Board. LTI 2017 was issued on 1 June 2017 and has a term of three years.

The LTI is based on the performance-based allocation of notional bonus shares. During the programme, 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, with a maximum target achievement of 175%.

The A1 Telekom Austria Group's long-term incentive programme 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 following targets and key performance indicators were set for the LTI 2015 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 LTI 2016 and LTI 2017 tranches issued in the 2016 and 2017 reporting years: Return on invested capital (ROIC) (weighting 50%) and revenue market share (weighting 50%) of the A1 Telekom Austria Group.

## Benefits under the LTI programme in the 2017 reporting year

The fifth LTI tranche (LTI 2014), which had been granted on 1 July 2014, was paid out to the entitled employees of the Group in July 2017 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 60.2% as determined by the Remuneration Committee of the Supervisory Board at the value of 222,154 notional bonus shares in total (measured using the average price of the company's shares for the fourth quarter of 2016 of EUR 5.23, and therefore EUR 1.16 mn (2016: EUR 1.17 mn)). Of this total, Siegfried Mayrhofer received 21,045 shares or EUR 0.11 mn (2016: EUR 0.062 mn). The following amounts were paid to former Management Board members: 13,604 shares or EUR 0.071 mn to Hannes Ametsreiter (2016: EUR 0.104 mn), 19,510 shares or EUR 0.102 mn to Günther Ottendorfer (2016: EUR 0.098 mn), and 9,348 shares or EUR 0.049 mn to Hans Tschuden (2016: EUR 0.097 mn).

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

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

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

The entry into force of the Market Abuse Regulation on 3 July 2016 means that directors' dealings are no longer disclosed by the Financial Market Authority (FMA) but by the issuer.

Telekom Austria AG operates in accordance with the legal provisions and reports transactions by Management Board and Supervisory Board members and their related parties involving Telekom Austria shares on the company's website.

There were no directors' dealings disclosures in the 2017 reporting year.

## Supervisory Board

The Supervisory Board of Telekom Austria AG 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.

Ronny Pecik resigned from his position on the Supervisory Board of Telekom Austria AG effective from 9 June 2017.

At the Annual General Meeting on 9 June 2017, the Supervisory Board mandates of Reinhard Kraxner and Stefan Pinter were also each extended by one year.

Peter Kollmann was elected to the Supervisory Board at the Extraordinary General Meeting on 20 September 2017.

## 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 free float of the company (including treasury shares) is 20.58%. 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.

## Supervisory Board members

Name (year of birth)	Profession
Wolfgang Rutenstorfer, 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)
Karin Exner-Wöhrer (1971)	CEO Salzburger Aluminium AG
Peter Hagen (1959)	Business Consultant
Carlos M. Jarque (1954)	Executive Director of International Affairs, Government Relations and Corporate Affairs, América Móvil, S.A.B. de C.V. (Mexico)
Peter F. Kollmann (1962)	CFO Verbund AG
Reinhard Kraxner (1970)	Assistant General Counsel Treasury/Finance, Philip Morris International Inc. (USA)
Ronny Pecik (1962)	Businessman
Stefan Pinter (1978)	Member of the Management Board, GlaxoSmithKline Pharma GmbH
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 A1 Telekom Austria Group
Walter Hotz (1959)	Chairman of the Central Works Council of A1 Telekom Austria AG Chairman of the European Works Council of A1 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 A1 Telekom Austria Group
Alexander Sollak (1978)	Chairman of the Staff Council Committee of Telekom Austria AG Secretary-General of the European Works Council of A1 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 (30 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 2020 financial year (provisionally May 2021).

Other Supervisory Board mandates and similar functions at other listed companies (as per the ACGC)	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)	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
	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
	20.09.2017	2021 <sup>4)</sup>	yes
	14.08.2014	2018 <sup>2)</sup>	yes
	14.08.2014	09.06.2017	yes
	14.08.2014	2018 <sup>2)</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 on 06.05.2011		
	03.08.2007 to 20.10.2010, Re-delegated on 11.01.2011		
	03.11.2010		
	27.10.2010		

## Report on Supervisory Board remuneration

The Annual General Meeting on 9 June 2017 resolved to increase Supervisory Board remuneration starting from the 2016 financial year. It approved remuneration of EUR 40,000 for the Chairman of the Supervisory Board, EUR 30,000 for the Deputy Chairman and EUR 20,000 for all other members of the Supervisory Board. Members of a committee are each paid EUR 10,000, and the Chairman of the committee receives EUR 12,000. (Remuneration for committee members is limited to a committee mandate. This stipulates that committee members are each entitled to only one lot of remuneration, even if they sit on more than one committee.) From 1 January 2017, attendance fees were also increased to EUR 400 per meeting.

Remuneration for the Supervisory Board for 2016 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in July 2017. Total remuneration, including attendance fees of EUR 0.358 mn, was paid to members of the Supervisory Board in the 2017 financial year (2016: EUR 0.204 mn). In addition, the members of the Supervisory Board are reimbursed for expenses incurred for travel and accommodation in connection with Supervisory Board meetings.

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

### Remuneration of Supervisory Board members

Name	Supervisory Board remuneration awarded for 2016 and paid in 2017 (in EUR)	2017 attendance fees (in EUR)
Wolfgang Ruttenstorfer	52,000	5,200
Carlos García Moreno Elizondo	42,000	5,200
Alejandro Cantú Jiménez	30,000	2,000
Elisabetta Castiglioni <sup>1)</sup>	11,967	-
Karin Exner-Wöhrer	20,000	2,000
Peter Hagen <sup>2)</sup>	18,115	3,600
Carlos M. Jarque	30,000	4,400
Peter Kollmann <sup>3)</sup>	-	400
Reinhard Kraxner	20,000	2,400
Ronny Pecik <sup>4)</sup>	30,000	2,000
Stefan Pinter	20,000	2,400
Oscar Von Hauske Solís	32,000	4,400
Walter Hotz	-	4,800
Silvia Bauer	-	4,400
Werner Luksch	-	2,000
Alexander Sollak	-	4,800
Gottfried Kehrer	-	2,000

1) Supervisory Board remuneration for the period from 1 January 2016 to 25 May 2016.

2) Supervisory Board remuneration for the period from 25 May 2016 to 31 December 2016.

3) Attendance fee for the period 20 September 2017 to 31 December 2017.

4) Supervisory Board remuneration for 2016 and attendance fee for the period 1 January 2017 to 9 June 2017.

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 A1 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 implementation of the strategy as well as 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 A1 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 2017, the **Remuneration Committee** consisted of Wolfgang Ruttendorfer (Chairman), Carlos García Moreno Elizondo (Deputy 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. There was one such committee meeting during the year.
- ▶ In line with the statutory provisions, at five 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 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, the committee prepared the selection of the auditor and verified 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 2017, the Audit Committee consisted of Carlos García Moreno Elizondo, as its Chairman and financial expert (pursuant to Section 92 (4a) AktG), Wolfgang Ruttendorfer, Oscar Von Hauske Solís, Carlos M. Jarque, Peter Hagen, Peter Kollmann (since 20 September 2017, preceded by Ronny Pecik until 9 June 2017), 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 and Supervisory Board<sup>1)</sup> 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, Carlos M. Jarque, Alejandro Cantú Jiménez, Peter Kollmann (since 20 September 2017, preceded by Ronny Pecik until 9 June 2017), Walter Hotz, Werner Luksch and Alexander Sollak. The Staff and Nomination Committee held one meeting in the 2017 financial year.

In the 2017 financial year, the Supervisory Board addressed the strategic orientation of the A1 Telekom Austria Group and its business performance in detail at six meetings of the Supervisory Board and several committee meetings. The main activities of the Supervisory Board in 2017 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), A1 Slovenija d.d. (Slovenia), Vip mobile d.o.o. (Republic of Serbia) and one.Vip DOO (Republic of Macedonia).

## Diversity within the A1 Telekom Austria Group (diversity concept)

The A1 Telekom Austria Group taps its employees' valuable potential by means of continuous further development in an international working environment. After all, diversity and flexibility are the key to the company's success and also form the basis of the A1 Telekom Austria Group's diversity concept. The guiding principles of the A1 Telekom Austria Group are trust, team spirit and agility.

Targets outlined in the A1 Telekom Austria Group's diversity concept for 2016–2018:

- ▶ 38% women in managerial positions
- ▶ Anchoring of flexible work arrangements
- ▶ Creation of a general framework to promote constant learning

## Appointment of positions on the Management Board and Supervisory Board of the A1 Telekom Austria Group

When selecting and appointing members of the Management Board, the company and the related decision-making criteria of the Supervisory Board place emphasis on candidates having the necessary skills and expertise to manage a telecommunications company.

The decision is also based on other criteria such as educational background and career history, age, gender and general personality traits.

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 Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB)<sup>1)</sup>.

1) See also information on C Rule 42



## 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 is no female representation on the Management Board of Telekom Austria AG.

At the subsidiaries of the A1 Telekom Austria Group, three management positions (out of a total of 12) and four Supervisory Board positions are held by women.

As of the end of 2017, the Group-wide proportion of women in management positions was 36% (2016: 36%), and the overall proportion of women at the company was 38% (2016: 39%).

The A1 Telekom Austria Group has made a voluntary commitment to gradually increase the proportion of women in managerial positions to 38% by the end of 2018.

To achieve this, the company is specifically targeting women in the recruitment process while simultaneously pressing ahead with new organizational models and flexible leadership structures on a Group-wide basis such as part-time management, but also functional management in virtual company-wide projects and programmes to ensure the systematic and sustained advancement of women within the scope of the A1 Telekom Austria Group's diversity concept.

In addition, the company promotes a good work-life balance throughout the Group by means of flexible working environment and working time models and sabbaticals. There are a range of facilities on offer to families, which vary from country to country, including childcare initiatives, paternity leave and a baby month. The company also provides an expanded range of information for managers and employees and a women's network with regular scheduled events in Austria.

## "Directors and Officers" (D&O) insurance

The Telekom Austria Group has taken out 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.

## Certified public accountant

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 (1 a) 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 9 June 2017 appointed Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as the auditor of the Annual and Consolidated Financial Statements for the 2017 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 entire 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 A1 Telekom Austria 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 A1 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 A1 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 (SOX) Act 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 A1 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, Mobiltel EAD in 2012 and One.Vip in 2013. 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 qualified for ISAE 3402 Type II standard certification with its ITO customers, which is especially relevant for performing IT services. The ICT Services division at A1 Telekom Austria AG is also ISO 20000 certified. The effective implementation of IT service management quality standards prescribed by this standard is ensured on an ongoing basis by means of internal and external audits. Since 2016, A1 Marketplace has also been certified in accordance with the special security measures of ISO 27018.

## Certified compliance management system of the A1 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 A1 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 with a successful outcome.

The Management Board is regularly informed about activities in the area of compliance management and, in particular, the compliance risk assessment and measures taken to prevent corruption and the management of other compliance risks; the Supervisory Board is informed annually. Moreover, the Supervisory Board is informed annually about the company's capital market compliance activities and other relevant changes.

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 A1 Telekom Austria Group. The A1 Telekom Austria Group today has a compliance management system that is based on the central elements of prevention and reaction. The compliance measures necessary for this are firmly established in all divisions of the company.

In 2017, approximately 3,500 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 17,200 employees and managers received the same training via e-learning. The compliance helpdesk "ask.me" is available to employees to answer any questions. The "ask.me" helpdesk handled around 450 questions in 2017.

The A1 Telekom Austria Group operates a whistleblowing platform ("tell.me") to enable employees and third parties to inform the company about cases of potential misconduct – anonymously if preferred. Around 40% of the approximately 40 tips received in 2017 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

On 3 January 2018, the Management Board of Telekom Austria AG resolved to cancel the hybrid bond in accordance with Section 5 (3) of the bond terms and conditions with effect from 1 February 2018 (first repayment date) and to repay the bond plus all interest at its nominal value of EUR 600,000,000 (see Note 27).

In January 2018, the A1 Telekom Austria Group entered into credit lines with a total volume of EUR 540,000,000 and a term of up to twelve months, of which EUR 240,000,000 had been utilised as of 30 January 2018.

Vienna, 30 January 2018  
The Management Board



Alejandro Plater, CEO & COO  
A1 Telekom Austria Group



Siegfried Mayrhofer, CFO  
A1 Telekom Austria Group