

Corporate Governance Report 2009

Corporate Governance Report

Strict principles and control

Responsible Company Management and Control

To ensure sustainable, value-enhancing corporate development the Telekom Austria Group adheres to strict principles and is committed to transparency and a willingness to engage in open dialogue. Areas of competency and responsibility are clearly regulated by law, the Articles of Association of Telekom Austria AG and the Rules of Internal Procedure for the Management Board and the Supervisory Board.

The Management Board defines the strategic thrust of the Group in consultation with the Supervisory Board and provides the latter with regular reports on the company's current situation, including risks. Furthermore, the Supervisory Board is authorized to ask the Management Board at any time for reports on matters concerning the Telekom Austria Group. The Rules of Internal Procedure for the Supervisory Board, the Audit Committee and the Management Board provide the legal framework for the duties and scope of action of both the Supervisory and Management Boards.

Renewed commitment by the Telekom Austria Group

Austrian Corporate Governance Code

Telekom Austria AG shares have been listed on the Vienna Stock Exchange since November 2000. The Austrian Corporate Governance Code enjoys widespread acceptance on this market place. The Code as currently amended can be viewed at www.corporate-governance.at or www.telekomaustria.com. In January 2010, an amended and expanded version of the Code was published and shall apply to all financial years starting after December 31, 2009. The most important changes concern aspects of the variable and share-based remuneration of the Management Board and other executives. Several provisions of the Code were also adjusted to comply with amendments to the Stock Corporation Act 2009. The Telekom Austria Group fulfilled almost all of the extended reporting obligations at an early date and will continue to consistently work on further developing its corporate governance in future.

Sunny with Clear Visibility



As a listed company Telekom Austria AG has a strong commitment to good corporate governance. The most important principles are transparency and clear areas of competency and responsibility. Moreover, the Telekom Austria Group achieved compliance with the extended reporting obligations of the Austrian Corporate Governance Code at an early date.

The Telekom Austria Group committed itself to voluntary compliance with the Code as of 2003. The Group complies with all the legal requirements laid down in 33 "L Rules". The Code also defines 45 "C Rules", where deviations must be explained. The Telekom Austria Group issues the following statement regarding Rule 28 and 28a as amended in January 2010:

Stock option plans and programs for the beneficial transfer of shares including the stipulated long-term exercise hurdles, are decided by the Supervisory Board in order to ensure that they are in line with the business plan. The basis and mode of operation of the stock option program were presented to the Annual General Meeting on June 4, 2003 and May 23, 2006. The Telekom Austria Group intends to start a Performance Share Program in 2010 that will be presented to the Annual General Meeting on May 27, 2010.

In accordance with Rule 62 of the Austrian Corporate Governance Code, Telekom Austria Group's compliance with the provisions of the Code and the correctness of reporting are externally evaluated on a three-year basis. The most recent evaluation, which was carried out by KPMG in early 2008, discovered no facts that conflicted with the declaration made by the Management Board and the Supervisory Board regarding observance and compliance with the provisions of the Austrian Corporate Governance Code.

Members of the Management Board

At year-end 2009, the Management Board of the Telekom Austria Group comprised Hannes Ametsreiter, the Chairman of the Management Board, and Hans Tschuden, the Vice Chairman of the Management Board and Chief Financial Officer. Boris Nemsic resigned from the Management Board as of March 31, 2009.

Hannes Ametsreiter - Chairman of the Management Board since April 1, 2009, appointed until December 31, 2013, CEO of the Fixed Net segment since January 1, 2009

Hannes Ametsreiter was born in 1967. He studied journalism and communication together with sport science in Salzburg. After completing his doctorate, he continued his education with an MBA at Pepperdine University in the U.S.A. He began his professional career as a brand manager with Procter & Gamble, before he joined product management at mobilkom austria in 1996. Since 2001 he has served as Chief Marketing Officer of mobilkom austria and since 2002 he has also been responsible for the company's customer service. From 2005 to 2006 he was assigned the position of CMO of Mobiltel in Bulgaria. On July 1, 2007 Hannes Ametsreiter was appointed Chief Marketing Officer of Telekom Austria TA AG. On January 1, 2009 he also became a member of the Management Board of Telekom Austria AG with responsibility for the Fixed Net segment and was appointed CEO of Telekom Austria TA AG. Since April 1, 2009 Hannes Ametsreiter has served as CEO of Telekom Austria AG and CEO of mobilkom austria AG. Hannes Ametsreiter holds no other positions outside the Group.

Hans Tschuden - Vice Chairman of the Management Board and Chief Financial Officer since April 1, 2007; appointed until March 31, 2012

Hans Tschuden was born in 1958. He graduated from the Vienna University of Economics and Business Administration and the International Executive Program (INSEAD) in Paris. In 1989 Hans Tschuden joined the Wienerberger Group, first in controlling, then from 1993 onward as head of Wienerberger Rohrsysteme GmbH in Vienna. From 1995 he served as Managing Director of Keramo Wienerberger in Belgium before moving to Steinzeug Abwassersysteme in Cologne in 1998. In 1999, he became a member of the Wienerberger Management Committee and in May 2001 he was appointed CFO of Wienerberger AG. Since April 1, 2007 Hans Tschuden has been the Chief Financial Officer of the Telekom Austria Group. On January 1, 2009 he was appointed Vice Chairman of the Management Board of the Telekom Austria Group. Outside the Group, Hans Tschuden is a member of the Supervisory Boards of APK-Pensionskassen AG and HFA Zwei Mittelstandsfinanzierungs-AG. Hans Tschuden holds no other comparable positions outside the Group.

Boris Nemsic - Chairman of the Management Board, until March 31, 2009

Boris Nemsic, born in 1957, served in a variety of areas and capacities at the Telekom Austria Group since joining the company in 1997. In July 2002 he was appointed to the Management Board of the Telekom Austria Group. On May 24, 2006 he became Chairman of the Management Board, a position he held until he left the Telekom Austria Group on March 31, 2009.

Members and Committees of the Supervisory Board

The Supervisory Board of Telekom Austria AG comprises eight members who are elected by the Annual General Meeting, and four members who are delegated by the Works' Council. Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria.

The Supervisory Board has set up three committees to provide effective support by carrying out preparatory work on specific tasks and issues on behalf of the Supervisory Board.

Areas of Responsibility Hannes Ametsreiter

- International Business Development and Group Strategy
- Mobile Communication Segment
- Fixed Net Segment
- General Secretariat and Information Security (Group)
- Communication (Group)
- Human Resources (Group) / Human Resources Department
- Audit (Group)

Areas of Responsibility Hans Tschuden

- Investor Relations
- Treasury (Group)
- Corporate Planning, Controlling & Reporting (Group), Risk Management
- Accounting (Group), ICS Group
- Fiscal (Group)
- Legal / General Counsel

Six members,
five meetings in 2009

The **Audit Committee** is responsible for auditing and preparing the approval of the annual financial statements and for auditing the consolidated financial statements, the proposal for the distribution of profit, the Management Report and the Group Management Report as well as the Corporate Governance Report. High priority is also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. It also prepares the selection of the auditor, monitors the independence of the auditor and the auditor of the consolidated accounts, in particular with regard to the performance of additional services. The members of the Audit Committee are Peter Michaelis, who serves as Chairman, Wilfried Stadler, who acts as the financial expert, Peter Oswald, Rainer Wieltsch, Wilhelm Eidenberger and until his recent retirement Michael Kolek. Markus Hinker joined the Audit Committee on February 18, 2010.

Members:
Peter Michaelis,
Edith Hlawati

Peter Michaelis and Edith Hlawati constitute the **Chairing and Remuneration Committee**. The Chairing Committee confers regularly with the Chairman of the Management Board, prepares the meetings of the Supervisory Board and is authorized to make decisions on matters of urgency. In its capacity as the Remuneration Committee, the Chairing Committee is responsible for concluding contract negotiations with the Management Board and defining the remuneration of the Management Board; it also sets the targets for the calculation of performance-related bonuses and monitors the achievement of goals.

The **Personnel and Nomination Committee** deals with appointments to the Management Board. The Committee comprises Peter Michaelis (the Chairman), Edith Hlawati and until his recent retirement Michael Kolek. Michael Kolek retired from the Committee on February 10, 2010 and was succeeded by Markus Hinker.

High board meeting
frequency in 2009

Supervisory Board Activities in the Year Under Review

During 2009, the Supervisory Board held extensive discussions on the strategic orientation of the Telekom Austria Group, the positioning and development of the Fixed Net and Mobile Communication segments as well as matters relating to the Management Board at seven meetings of the Supervisory Board, one strategy workshop and five meetings of the Audit Committee. Particular mention should be made of Hannes Ametsreiter's appointment as Chairman of the Management Board, the support for the technology and marketing offensive in the Fixed Net segment, the measures to increase operating efficiency in both segments and the intensive work carried out by the Audit Committee in connection with risk management and the internal control system. The focal areas of the Supervisory Board's work are explained in greater detail in the Report by the Supervisory Board on page 45. In the year under review, seven members of the Supervisory Board attended all seven meetings, four members failed to attend one meeting each, one member was unable to attend two meetings. No member of the Supervisory Board attended fewer than 50% of all Supervisory Board's meetings. All members of the Supervisory Board attended the strategy workshop.

Transparent business
relationships

Independence of Supervisory Board Members

The guidelines laid down by the Supervisory Board in 2006 to determine the independence of its members were adjusted to comply with the modified provisions of the Austrian Corporate Governance Code and now conform to Appendix 1 of the Code. Pursuant 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' behavior. The business relationship with the law firm Cerha Hempel Spiegelfeld Hlawati, in which Edith Hlawati is a partner, was authorized by the Supervisory Board in 2006. The hourly rates charged by this firm conform to local practice and are consistent with those billed to third parties. In 2009 the Supervisory Board authorized the framework agreement concluded between Harald Stöber and Telekom Austria TA AG for consultancy services relating to strategic Fixed Net projects. In both cases, the amount of the fees that have been paid are reported on page 97.

Members of the Supervisory Board

| Name (Year of Birth) | Profession | Other Supervisory Board Positions and Comparable Functions | First Appointed | End of Current Term of Office or Date of Retirement | Independent pursuant to Rule 53 and 54 of the Austrian Corporate Governance Code |
|---|---|--|-----------------------|---|--|
| Peter Michaelis Chairman (1946) | CEO of Österreichische Industrieholding Aktiengesellschaft | OMV AG, Österreichische Post AG, APK Pensionskassen AG | June 28, 2001 | 2012 | Independent pursuant to Rule 53, but not Rule 54 |
| Edith Hlawati Vice Chair- woman (1957) | Partner in the Law Firm Cerha Hempel Spiegelfeld Hlawati | Österreichische Post AG | June 28, 2001 | 2012 | yes |
| Henrietta Egerth-Stadl- huber (1971) | Managing Director of the Austrian Research Promotion Agency | | May 20, 2008 | 2012 | yes |
| Stephan Koren (1957) | Deputy Director General of BAWAG PSK Bank für Arbeit und Wirtschaft und Österreichische Postspar- kasse Aktiengesellschaft | BAWAG PSK Versicherungs-AG, Österreichische Kontrollbank AG, Omnimedia Werbegesellschaft mbH, Wiener Stadtwerke Holding AG, BWA Beteiligungs- u. Verwaltungs-AG, Bausparkasse Wüstenrot AG, Austria Wirtschaftsservice GmbH | September 17, 1999 | 2012 | no |
| Peter J. Oswald (1962) | Member of the Boards of Mondi plc (UK) and Mondi Ltd (South Africa), CEO of Mondi AG | Chairman of the Supervisory Board of Mondi Swiecie SA | May 20, 2008 | 2012 | yes |
| Wilfried Stadler (1951) | Business consultant, bank consultant, honorary professor at the Vienna University of Economics and Business | ATP Planungs- u. Beteiligungs AG, Bundestheater-Holding GmbH, East Centro Capital Management AG, Konos Mittelstandsfinan- zierungs AG, Quadriga Capital Management GmbH, Trodat Holding GmbH, Wienstrom GmbH | July 15, 2005 | 2012 | yes |
| Harald Stöber (1952) | Business Consultant | Deutsche Messe AG Hanover, Arcor AG & Co KG, Vodafone D2 GmbH | June 4, 2003 | 2012 | yes |
| Rainer Wieltsch (1944) | Managing Director of Aabar Automotives GmbH, Aabar Europe Holding GmbH, IPIC Ferrostaal Holdings GMBH, PIC Gamma Holdings GmbH and NOVA Chemicals Holding GmbH | OMV AG, Österreichische Post AG | June 12, 2002 | 2012 | yes |

Members of the Supervisory Board Delegated by the Works Council

| | | | | | |
|----------------------------------|--|--|---------------------|--|--|
| Wilhelm Eidenberger (1962) | Chairman of the Personnel Committee Linz of Telekom Austria AG | | April 30, 2001 | | |
| Silvia Bauer (1968) | Member of the Central Works Council of Telekom Austria AG | | January 30, 2009 | | |
| Michael Kolek* (1960) | Chairman of the Central Works Council of Telekom Austria AG | Österreichische Industrieholding AG, APK Pensionskassen AG, Telekom Austria TA AG, Telekom Austria Personal- management GmbH | March 20, 2002 | | |
| Werner Luksch (1967) | Chairman of the Central Works Council of mobilkom austria AG | mobilkom austria AG, Öster- reichische Industrieholding AG | August 3, 2007 | | |
| Markus Hinker** (1959) | Member of the Central Works Council of Telekom Austria AG | Telekom Austria Personal- management GmbH | July 15, 2005 | | |

* Michael Kolek resigned from the Supervisory Board on February 10, 2010.

** Markus Hinker retired from the Supervisory Board as of January 27, 2009 and was reelected to the Supervisory Board on February 18, 2010.

Approval by the Annual
General Meeting

Remuneration of the Members of the Supervisory Board

The Annual General Meeting held on May 20, 2009 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairwoman and EUR 15,000 for all other members for the 2008 financial year. Remuneration for members of the Supervisory Board for the 2008 financial year was paid out following the discharge by the Annual General Meeting in May 2009. Until further notice, the attendance allowance for meetings of the Supervisory Board is set at EUR 300 per member and meeting. In 2009, remuneration amounting to TEUR 173, including expenses (2008: 174 TEUR) was paid to members of the Supervisory Board.

| Name | Remuneration awarded for the 2008 financial year and paid in 2009 in EUR | Meeting attendance allowance in 2009 in EUR |
|-----------------------------|--|---|
| Peter Michaelis | 30,000 | 3,300 |
| Edith Hlawati | 22,500 | 2,100 |
| Henrietta Egerth-Stadlhuber | 9,263 | 2,100 |
| Wilhelm Eidenberger | - | 3,000 |
| Silvia Bauer | - | 2,100 |
| Michael Kolek* | - | 3,300 |
| Stephan Koren | 15,000 | 1,800 |
| Werner Luksch | - | 2,100 |
| Peter J. Oswald | 9,263 | 3,000 |
| Wilfried Stadler | 15,000 | 3,300 |
| Harald Stöber | 15,000 | 2,100 |
| Rainer Wieltsch | 15,000 | 3,600 |
| Hans Haider** | 5,779 | - |
| Wolfgang Berndt** | 5,779 | - |

* retired on February 10, 2010 **retired on May 20, 2008

Transparent reporting
of individual remuneration
packages

Management Board Remuneration Report

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. Besides a basic salary, a variable performance-based component was agreed which is contingent upon the achievement of defined targets. This performance-based salary component is limited to 150% of the basic salary. The targets for the variable salary component are based equally on key financial figures such as Economic Value Added (EVA), free cash flow or earnings per share as well as on strategic objectives. The amount of the variable salary component is calculated on the basis of the annual financial statements approved by the Supervisory Board and the implementation of the strategic projects discussed by the Supervisory Board and authorized by the Remuneration Committee. In 2009, the members of the Management Board were also granted stock options within the framework of the multi-year stock option program ESOP; these options require participants to hold an investment in the company through the purchase of Telekom Austria shares.

Total expenses for the basic salaries of members of the Management Board in 2009 amounted to TEUR 1,002 (2008: TEUR 1,129) with additional performance-based remuneration totaling TEUR 1,318 (2008: TEUR 1,449). Comparability with the previous year's figures is limited due to the resignation of one member of the Management Board during the year. No benefits were derived from the multi-year stock option program in 2009.

Remuneration of the Individual Members of the Management Board 2009

| Management Board's remuneration in TEUR | Basic salary (including remuneration in kind) | Performance-based remuneration | Multi-year stock options | Total remuneration 2009 |
|---|---|--------------------------------|--------------------------|-------------------------|
| Hannes Ametsreiter | 436 | 436 | - | 872 |
| Hans Tschuden | 441 | 441 | - | 882 |
| Boris Nemsic* | 124 | 442 | - | 566 |
| Total | 1,002 | 1,318 | - | 2,320 |

* Chairman of the Management Board until March 31, 2009

Members of the Management Board receive a contribution to a voluntary pension plan amounting to 10% of their fixed gross annual salary. When they leave the company upon termination of contract, the amount of the severance payment is based upon the length of their employment and is limited to one gross annual salary. In the event that a Management Board member's contract is terminated prematurely due to a change of control, the member is entitled to 50% of the contractually agreed benefits and conditions, however, for at least a twelve-month period. A change of control is deemed to have taken place if an investor holds at least 26% of all Telekom Austria AG shares or at least more shares than the ÖIAG.

Clear regulation of severance payment entitlements

Stock Option Program

The Telekom Austria Group established a multi-year Employee Stock Option Program (ESOP) in 2004, in which some 300 employees participate each year. Participants are required to make an investment by purchasing Telekom Austria shares. Furthermore, the options may only be exercised if earnings per share reach the target value defined by the Supervisory Board. The final tranche of the Employee Stock Option Program (ESOP) was issued in 2009. A detailed description of the stock option program can be found on page 120.

Investment in Telekom Austria shares as the prerequisite

In 2009 Hannes Ametsreiter and Hans Tschuden were each granted 120,000 stock options with an exercise price of EUR 11.06 from the tranche ESOP 2009+. This grant was contingent upon the purchase of 4,800 Telekom Austria shares each, which must be held until the option is exercised. The options have an exercise period expiring on May 31, 2013 and their exercise is contingent upon reaching the defined exercise hurdle of earnings per share. This target value was not reached in 2009.

Earnings per share as exercise hurdle

In order to meet the eligibility requirements for the ESOP program, Hans Tschuden and Hannes Ametsreiter held 15,000 and 18,242 Telekom Austria shares respectively as of December 31, 2009. No options were exercised by members of the Management Board in 2009. The Telekom Austria Group intends to introduce a Performance Share Program for the Management Board in 2010 that will be contingent upon the achievement of sustainable, multi-year targets and the purchase of Telekom Austria shares.

Promotion of Female Executives

The percentage of women on the Supervisory Board of Telekom Austria AG has risen steadily in recent years to a current quota of 25%, which is considerably higher than the average female quota of 6% within the ATX Prime Market. Since 2001 the important function of Vice Chair of the Supervisory Board of the Telekom Austria Group has been held by a woman, Edith Hlawati. A further seven Supervisory Board positions within the Telekom Austria Group were held by women in 2009 as were two Management Board and managing director positions. The proportion of women in managerial positions at the Telekom Austria Group in 2009 amounted to roughly 20%.

High percentage of women, also on the Supervisory Board

Directors and Officers (D&O) Insurance

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

Full disclosure of total remuneration

Auditor's Fees

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting pursuant to Article 270 para. 1a of the Austrian Commercial Code. A detailed analysis by the Supervisory Board revealed no legal obstacle to the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. On May 20, 2009 the Annual General Meeting elected KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as auditors of the annual financial statements and consolidated financial statements for the 2009 financial year. The expenses of the Telekom Austria Group for the audit of the 2009 annual financial statements amounted to EUR 1.6 million as in the previous year. Consultancy fees for additional services provided by KPMG in 2009 amounted to EUR 0.1 million as in 2008. Expenses for tax consultancy and other services totaled EUR 0.4 million compared to EUR 0.5 million in 2008.

Risk management, internal control system, Code of Conduct

Other Corporate Governance Instruments

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

The internal control system of the Telekom Austria Group is aimed at safeguarding the effectiveness and profitability of business activities, the integrity and reliability of financial reporting as well as compliance with the relevant laws and regulations. The Code of Conduct, which is binding throughout the Group, is designed to raise awareness among employees with regard to corruption prevention and lawful ethical conduct. A reporting system has been put in place that enables employees to confidentially report legally dubious procedures or violations of this code. The Code of Conduct has been published at www.telekomaustria.com. To prevent the misuse or passing on of confidential information, Group-wide compliance guidelines have been implemented and classified units defined within the company.

Vienna, February 12, 2010

Hannes Ametsreiter, Chairman of the Management Board
Hans Tschuden, Vice Chairman of the Management Board